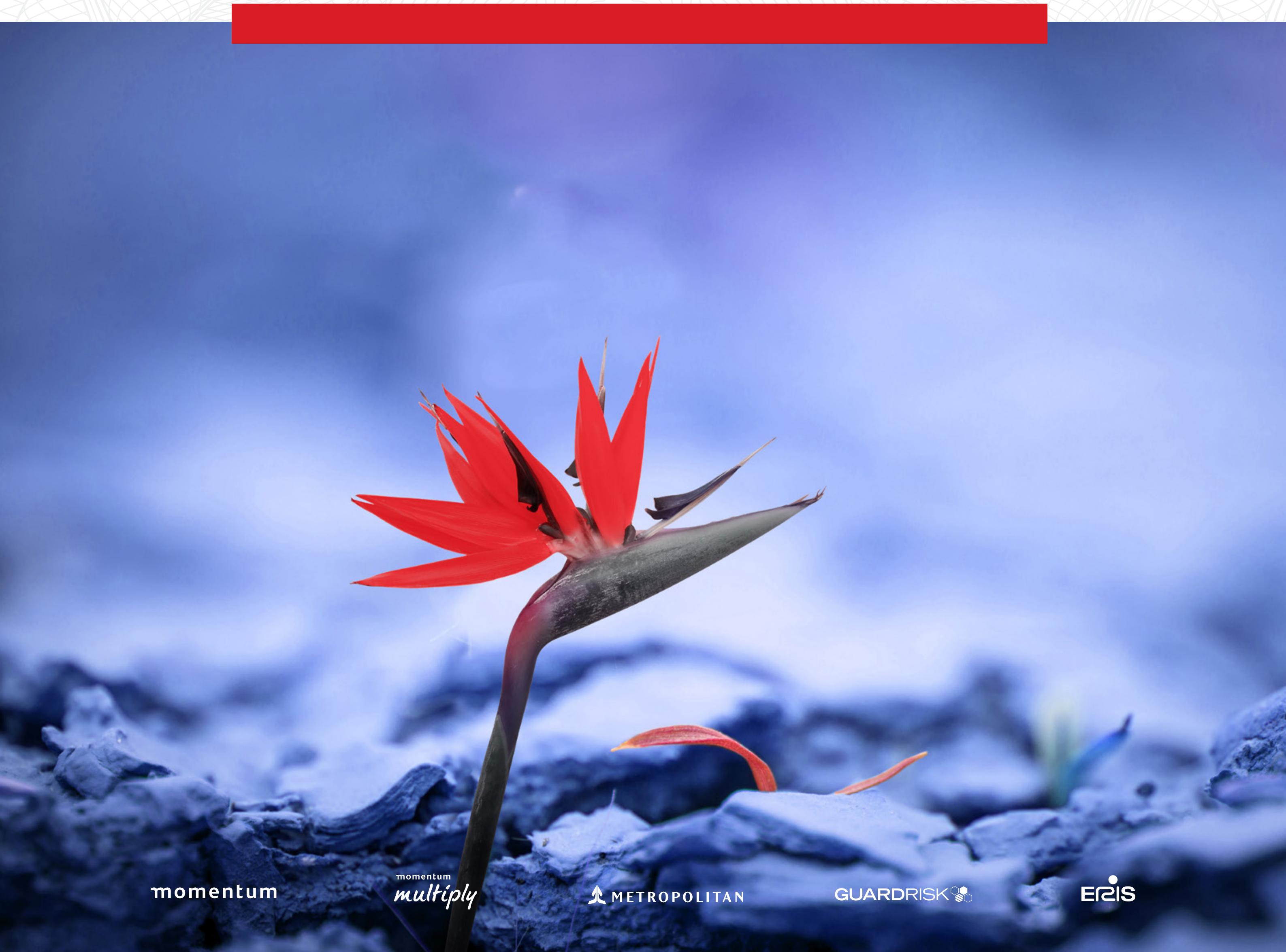
momentum

METROPOLITAN

GROUP ANNUAL FINANCIAL STATEMENTS

Audited results for the twelve months ended

30 June 2020



MOMENTUM METROPOLITAN HOLDINGS LTD
GROUP ANNUAL FINANCIAL STATEMENTS 2020

CONTENTS

The preparation of the Group's audited consolidated results was supervised by the Group Finance Director, Risto Ketola (FIA, FASSA, CFA Charterholder).

OUR REPORTING FOR THE YEAR ENDED 30 JUNE 2020

Our Annual Financial Statements form part of our reporting suite which includes our integrated report and other supplementary reports.

Our Integrated report for the 2020 financial year is available online at

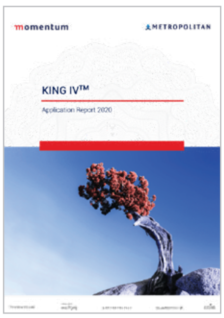
www.momentummetropolitan.co.za/en/investor-relations/financial-results

Our Annual Financial Statements for the 2020 financial year is available online at

www.momentummetropolitan.co.za/en/investor-relations/financial-results

Our financial results announcement is available online at

www.momentummetropolitan.co.za/en/investor-relations/financial-results



King IV™ Application Summary is available online at

www.momentummetropolitan.co.za/en/investor-relations/financial-results

Responsibility for financial statements

The Board takes responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of Momentum Metropolitan Holdings Ltd (MMH or the Company) and its subsidiaries (collectively Momentum Metropolitan or the Group) at the end of the financial year and the profits and losses for the year. The Board is also responsible for the accuracy and consistency of other information included in the financial statements.

To enable the Board to meet these responsibilities:

- The Group and Company financial statements are prepared by management; opinions are obtained from the external auditors of the companies and also from the Heads of Actuarial Function (HAFs) of the insurance companies (life and non-life) regarding the statutory solvency of those entities.
- The Board is advised by the Audit Committee, comprising independent non-executive directors, and the Actuarial Committee. These committees meet regularly with the auditors, the Group HAF and the management of the Group to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and advisory practice notes issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the HAFs of the companies have unrestricted access to these committees or similar committees applicable at subsidiary level.

The Board is comfortable that the internal financial controls are effective and adequate to support the integrity of the preparation and presentation of the Annual Financial Statements (AFS).

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, the Long-term Insurance Act, 52 of 1998, the Short-term Insurance Act, 53 of 1998, and the Insurance Act, 18 of 2017, and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

The Board is satisfied that the Group is a going concern and remains so for the foreseeable future, based on cash forecasts, liquidity, solvency and capital assessments. In light of the Covid-19 pandemic and the resultant uncertain economic environment and financial market volatility caused by it, the Board has paid particular attention to the estimates, judgements and assumptions used in the preparation of these financial statements. Refer to the Critical estimates and judgements note on page 37 for more details.

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of directors and committees of the Board. The independent auditor's report is presented on page 2.

Approval of annual financial statements

The annual financial statements, presented on pages 23 to 216, were approved by the Board of directors on 8 September 2020 and are signed on its behalf by:

JJ Njeke
Group Chairman

Centurion, 8 September 2020

Hillie Meyer
Group Chief Executive Officer

Centurion, 8 September 2020

CERTIFICATE BY THE GROUP COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2020 the companies have lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.

Gcobisa Tyusha
Group Company Secretary

Centurion, 8 September 2020

TO THE SHAREHOLDERS OF MOMENTUM METROPOLITAN HOLDINGS LTD

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Momentum Metropolitan Holdings Limited and its subsidiaries (the Group) and company set out on pages 31 to 211, which comprise of the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and company as at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements of the Group and company and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the Group and company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

The Key Audit Matters apply to the audit of the consolidated and separate financial statements as specified below.

Key Audit Matter	How the matter was addressed in the audit
1. Valuation of life insurance contract liabilities This key audit matter applies to the audit of the consolidated financial statements.	
We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically, we considered the actuarial assumptions and models applied, as these involve complex and significant judgements about future events, both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is conditional upon the accuracy and completeness of the data. The disclosures around the key assumptions and methodologies applied in valuing the insurance contract liabilities are included in note 10; the valuation and movements in the liability is disclosed in note 8. We have split the risks relating to the valuation of insurance contract liabilities into the following components: • actuarial assumptions; • actuarial modelling; and • data.	The specific audit procedures performed to address the various aspects of significant risk are set out in the sections below. In addition to the procedures below, we also performed the following during our audit: • We evaluated management's analysis of movements in insurance contract liabilities and corroborated large or unexpected movements; • We evaluated the adequacy of the disclosures regarding significant judgements and assumptions made by management and the assumptions subject to significant uncertainty.
1.1 Actuarial assumptions Key actuarial assumptions in the valuation of the insurance contract liabilities include both economic and non-economic assumptions as described below. • Economic assumptions are set by management taking into account market conditions as at the valuation date. The economic assumptions applied in determining the valuation rate of interest used to discount insurance contract liabilities is a key assumption within the valuation of insurance contract liabilities. • Non-economic assumptions such as future expenses, mortality, morbidity and persistency are set based on the Group's past experience, market experience, market practice, regulations and expectations about future trends, with specific focus on persistency, mortality and morbidity that we consider to have the most significant impact. • These actuarial assumptions require significant focus annually with the use of internal actuarial specialists to assess the reasonability of assumptions set by management using expert judgment. • In addition, the Covid-19 pandemic is an event which is unprecedented, rapidly evolving and has highly uncertain outcomes management has considered the potential impact of Covid-19 on the Group and, in the absence of credible experience data, have set aside an explicit provision in addition to the base actuarial assumptions and liability to allow for this additional uncertainty. This therefore required specific additional audit effort.	Our audit included the following procedures with the assistance of our internal actuarial specialists: • We assessed the design and operating effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • We assessed the appropriateness of the methodology and assumptions applied based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; • We reviewed the results of management's experience analysis (where available), including base mortality, morbidity and persistency, to assess whether this analysis supports the adopted assumptions; • We evaluated the assumptions applied by management in determining key economic assumptions such as the valuation rate of interest, to assess whether these were reflective of the assets backing insurance contract liabilities; • We evaluated and performed procedures over management's modelling of investment guarantee reserves; • We assessed the expense assumptions adopted by management with reference to the Group's underlying expense base and the relevant functional cost analysis; • We evaluated the use of the chosen longevity improvement model and the parameters used to ensure that it was appropriate relative to the industry; • We agreed the assumptions used in the year end valuation to the approved basis; and • We benchmarked the demographic and economic assumptions against those of other comparable industry participants.

Key Audit Matter continued	**How the matter was addressed in the audit** continued
1.2 Actuarial modelling We consider the integrity and appropriateness of the models used by management to be critical to the overall valuation of insurance contract liabilities. Our audit focused on the insurance contract liabilities which are modelled using the core actuarial systems, as this represents the majority of the liability. However, we also placed attention over the liabilities which are calculated outside the core actuarial systems to address the risk over additional required liabilities which are not reflected in the model and consequently requires significant judgement applied by management. Therefore, we involve our actuarial specialists who assist with assessing for the current period the i) model developments applied to the core actuarial models; and ii) appropriateness of the adjustments that are applied outside of the core actuarial model which require individual assessment.	Our audit included the following procedures with the assistance of our internal actuarial specialists: • We obtained an understanding of management's process for model developments to the core actuarial system and tested the design, implementation and operating effectiveness of key controls over that process; • We obtained an understanding of the governance process around model changes; • We evaluated the integrity of the core actuarial models on a sample basis via tests of a subset of policies across key product types; • We evaluated the model changes made to the core actuarial modelling systems during the year by analysing management's rationale behind these changes, the tests conducted by management to validate the changes and where appropriate, evaluate the impacts of these changes to our own calculations of what we expect the impact to be; • We assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented; and • We stratified the components of reserves modelled outside the core actuarial system and focused our audit procedures on those that presented a higher risk of material misstatement.
1.3 Data The large volume of insurance contract data held on policy administration systems (policyholder data) is a key input to the valuation process. The valuation of insurance contract liabilities is therefore conditional upon the accuracy and completeness of the data extracted from the policy administration systems and converted for use in the valuation process.	Our audit included the following procedures to assess the completeness and accuracy of policyholder data: • We tested the design and operating effectiveness of key controls supporting the maintenance of policyholder data on underlying source systems with the involvement of our internal IT specialists; • We evaluated that the data maintained on these source systems was correctly used as an input to the valuation process by performing audit procedures to evaluate that the extraction scripts had operated as intended or via two-way sample tests of policies, as applicable; • We obtained an understanding of management's process for the collection, extraction and validation of data and tested the design and operating effectiveness of key controls; and • We confirmed the results of the data enrichment and conversion process by assessing the integrity of the rules applied by management and re-performing for a sample of policies.

Key Audit Matter continued | **How the matter was addressed in the audit** continued

2. Valuation of complex and illiquid assets

This key audit matter applies to the audit of the consolidated financial statements.

The extent of judgement applied by management in valuing the Group's financial investments varies with the nature of securities held, the markets in which they are traded, and the valuation methodology applied.

Observable inputs are not readily available for some of the Group's invested assets and a mark-to-model valuation is applied as a result.

The Level 3 assets amount to: R3 360 million of owner-occupied properties as disclosed in note 3.1; R9 009 million of investment properties as disclosed in note 4.1; and R4 002 million of financial assets as disclosed in note 6.7.

Further, judgement is required to be applied by management in the current period due to uncertainty arising as a result of Covid-19 due to less liquidity and greater volatility in financial markets. Determining an appropriate valuation in these circumstances requires expert judgement to be applied by management which may result in subjective fair value movements, particularly where impairment considerations arise.

We consider the valuation of these Level 3 assets to be a key auditing matter given:

i) that the assumptions determined by management are largely based on non-observable inputs and are highly judgemental which required the involvement of our internal valuation experts; and
ii) the extent of effort assessing the completeness and accuracy of data utilised in the valuation models.

Our audit included the following procedures with the assistance of our internal valuation specialists:

- We obtained an understanding of management's process for determining fair value on Level 3 assets and we evaluated the design effectiveness of key controls (including IT general controls) relevant to the valuation of Level 3 assets;
- We assessed the appropriateness of the valuation methodologies applied by management with reference to relevant accounting standards and industry guidance;
- We tested the completeness and accuracy of data inputs used in the valuation model by agreeing them on a sample basis to source (including the underlying contracts) or comparing them to available market benchmarks;
- We evaluated the key assumptions applied in determining fair value by making a comparison to our own understanding of the market, comparable evidence relied upon by management and to industry benchmarks;
- We involved our internal valuation specialist to perform independent valuations on a sample basis and compare the output to the modelled valuations produced by management;
- We considered the completeness and accuracy of valuation adjustments applied by management to exposures of leveraged entities that may be adversely affected by the Covid-19 pandemic in terms of their ability to service interest and capital;
- With the assistance of our internal valuation specialists, we corroborated key inputs to models and validated significant assumptions on a sample basis with reference to relevant industry market valuation considerations, with a particular focus on discount rates and credit risk; and
- We assessed the disclosures provided in relation to Level 3 invested assets in notes 3, 4 and 6 to ensure compliance with the relevant financial reporting requirements, including disclosure of sensitivities of the valuation to alternative assumptions.

Key Audit Matter continued	**How the matter was addressed in the audit** continued
3. Valuation of unlisted investments in subsidiaries This key audit matter applies to the audit of the MMH Company financial statements.	
The Company holds investments in subsidiaries of R25 840 million at cost less impairment as disclosed in note 2 to the company annual financial statements. These investments in subsidiaries are assessed for indicators of impairment at each valuation date. If any such indicators exist, an estimate is made of the recoverable amount using the valuation models developed by management with reference to the embedded value or directors' valuations for covered and non-covered business, respectively. The assessment of whether an impairment is required at each reporting date is subject to significant management judgement which required the involvement of our internal valuation specialists. We consider the impairment assessment of these investments in subsidiaries to be significant to the audit, because of the materiality of these investments in the financial statements of the company and in particular, in the current year, in light of the current macro-economic conditions arising as a result of the Covid-19 pandemic.	Our audit included the following procedures with the assistance of our internal valuation specialists: • We obtained an understanding and evaluated the design effectiveness of controls implemented by management to assess the existence of indicators of impairment and value these investments; • We obtained an understanding of the methodology used by management to assess indicators of impairment, including the sources of information considered by management to this end; • We obtained an understanding of the models and methodologies applied to determine the recoverable amount; • For a sample of the investments in subsidiaries, we tested that the models and methodologies had been applied by management in line with the accounting policy; • With the support of internal actuarial specialists, we tested the veracity of the embedded value applied for a sample of the investments to determine the recoverable amount of covered business; • With the support of our valuation experts, we assessed and tested the appropriateness of the Directors' Valuations applied for a sample of investments to determine the recoverable amount of non-covered business through a combination of independent calculation, benchmarking against comparable market information and sensitivity analysis; and • We assessed the adequacy of the disclosures in the financial statements in note 2 to the company annual financial statements to the applicable IFRS standards, including IAS 36.

Other Matters

The financial statements of Momentum Metropolitan Holdings Limited and its subsidiaries (the Group) and company for the year ended 30 June 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 3 September 2019.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 217-page document titled "Momentum Metropolitan Holdings Limited Group Annual Financial Statements for the year ended 30 June 2020", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the document titled "Momentum Metropolitan Holdings Limited Integrated Report 2020". The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

  We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

  We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

  From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst and Young Inc has been the auditor of Momentum Metropolitan Holdings Limited for 1 year.

Ernst & Young Inc.

Director: J.C. de Villiers
Registered Auditor

8 September 2020
102 Rivonia Road
Sandton
2196

OF MOMENTUM METROPOLITAN HOLDINGS LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF MOMENTUM METROPOLITAN HOLDINGS LIMITED

Introduction

We have reviewed the accompanying Group embedded value report (the Report) of Momentum Metropolitan Holdings Limited for the year ended 30 June 2020, as set out on pages 9 to 22, and the basis of accounting as set out on page 9.

Directors' responsibility

The directors of Momentum Metropolitan Holdings Limited are responsible for the preparation and presentation of the Report in accordance with the basis of accounting set out on page 9, for determining that the basis of accounting is acceptable in the circumstances, and for such internal control as the directors determine is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express a conclusion on the Report. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the Report is not prepared in all material respects in accordance with the basis of accounting as set out on page 9. This standard also requires us to comply with relevant ethical requirements.

A review of financial information in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the Report.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report for the year ended 30 June 2020 is not prepared, in all material respects in accordance with the basis of accounting set out on page 9.

Emphasis of Matter - Basis of accounting

Without modifying our conclusion, we draw attention to page 9 of the Report, which describes the basis of accounting. The Report is prepared to provide additional information in respect of the Group embedded value which is used by management in evaluating the performance of the Group. As a result, the Report may not be suitable for another purpose.

Ernst & Young Inc.

Director: J.C. de Villiers
Registered Auditor

8 September 2020
102 Rivonia Road
Sandton
2196

REPORT ON GROUP EMBEDDED VALUE

At 30 June 2020

The report on Group embedded value sets out the diluted embedded value (EV), taking into account all shares issued by Momentum Metropolitan Holdings Ltd. This report has been prepared in accordance with the EV guidance from the Actuarial Society of South Africa (ASSA) – APN 107.

Momentum Metropolitan Life Ltd required capital

Momentum Metropolitan Life Ltd required capital is derived as the total restricted assets less the IFRS liabilities as per the required capital methodology. Restricted assets were defined in terms of the regulatory balance sheet as the assets allocated to support the policyholder liabilities and internal capital requirements.

Other covered business

A multiple of regulatory capital requirements applicable to those entities has been used.

Assets backing required capital

The assumed composition of the assets backing the required capital has been determined with reference to the shareholder fund mandate.

At 30 June 2020

Embedded value results	2020 Rm	2019 Rm
Covered business		
Equity attributable to owners of the parent	**22 537**	23 020
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(2 739)**	(2 748)
Net assets – non-covered business within life insurance companies	**(4 073)**	(5 011)
Net assets – non-covered business outside life insurance companies	**(4 797)**	(2 914)
Dilutory effect of subsidiaries[1]	**–**	(89)
Value of Momentum Metropolitan Life Ltd preference shares issued	**–**	(500)
Diluted adjusted net worth – covered business	**10 928**	11 758
Net value of in-force business	**19 601**	21 776
Diluted embedded value – covered business	**30 529**	33 534
Non-covered business		
Net assets – non-covered business within life insurance companies	**4 073**	5 011
Net assets – non-covered business outside life insurance companies	**4 797**	2 914
Consolidation adjustments[2]	**(2 429)**	(1 032)
Adjustments for dilution[3]	**650**	639
Diluted adjusted net worth – non-covered business	**7 091**	7 532
Write-up to directors' value	**904**	127
Non-covered business	**3 425**	2 370
Holding company expenses[4]	**(1 398)**	(1 413)
International holding company expenses[4]	**(1 123)**	(830)
Diluted embedded value – non-covered business	**7 995**	7 659
Diluted adjusted net worth	**18 019**	19 290
Net value of in-force business	**19 601**	21 776
Write-up to directors' value	**904**	127
Diluted embedded value	**38 524**	41 193
Required capital – covered business (adjusted for qualifying debt)[5]	**3 995**	2 874
Free surplus – covered business	**6 933**	8 884
Diluted embedded value per share (cents)	**2 570**	2 748
Diluted adjusted net worth per share (cents)	**1 202**	1 287
Diluted number of shares in issue (million)[6]	**1 499**	1 499

1 In the prior period Momentum Metropolitan Holdings Namibia Ltd has been consolidated at 96% in the statement of financial position. For embedded value purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated. The dilutive put option in respect of the Momentum Metropolitan Namibia Group was settled, resulting in the adjustment no longer being required and the shareholding in the Momentum Metropolitan Namibia Group being reduced to 0.7%.

2 Consolidation adjustments include mainly goodwill and intangibles in subsidiaries that are eliminated.

3 Adjustments for dilution are made up as follows:

- Dilutive effect of subsidiaries (note 1): Rnil million (30.06.2019: R125 million)
- Treasury shares held on behalf of contract holders: R396 million (30.06.2019: R260 million)
- Liability – Momentum Metropolitan Holdings Ltd convertible preference shares issued to KTH: R254 million (30.06.2019: R254 million)

4 The holding company expenses reflect the present value of projected recurring head office expenses. The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses.

5 The required capital for in-force covered business amounts to R8 427 million (30.06.2019: R7 305 million) and is adjusted for qualifying debt of R4 432 million (30.06.2019: R4 431 million).

6 The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

Analysis of net value of in-force business	2020 Rm	2019 Rm
Momentum Life	**8 424**	9 530
Gross value of in-force business	**9 297**	10 383
Less cost of required capital	**(873)**	(853)
Momentum Investments[1]	**1 587**	1 455
Gross value of in-force business	**1 805**	1 789
Less cost of required capital	**(218)**	(334)
Metropolitan Life	**4 098**	4 620
Gross value of in-force business	**4 474**	4 822
Less cost of required capital	**(376)**	(202)
Momentum Corporate	**3 150**	4 059
Gross value of in-force business	**4 225**	5 053
Less cost of required capital	**(1 075)**	(994)
Momentum Metropolitan Africa	**2 342**	2 112
Gross value of in-force business	**2 684**	2 413
Less cost of required capital	**(342)**	(301)
Net value of in-force business	**19 601**	21 776

1 Included in covered business is Wealth business not deemed to be long-term insurance business with a value of in-force of R286 million (30.06.2019: R194 million).

Embedded value detail	Adjusted net worth[3] Rm	Net value of in-force Rm	2020 Rm	2019 Rm
Covered business				
Momentum Life	1 659	8 424	**10 083**	11 136
Momentum Investments[1]	1 026	1 587	**2 613**	2 659
Metropolitan Life	1 567	4 098	**5 665**	5 368
Momentum Corporate	3 379	3 150	**6 529**	6 988
Momentum Metropolitan Africa	2 549	2 342	**4 891**	4 553
Shareholders	748	–	**748**	2 830
Other	(3 684)	–	**(3 684)**	(1 601)
Assets backing qualifying debt	4 432	–	**4 432**	4 431
Total covered business	10 928	19 601	**30 529**	33 534

1 Included in covered business is Wealth business not deemed to be long-term insurance business with an adjusted net worth of R527 million (30.06.2019: R485 million) and value of in-force of R286 million (30.06.2019: R194 million).

2 The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses. The holding company expenses reflect the present value of projected recurring head office expenses.

3 Intercompany loans are carried by the units that utilise the funding, aligned with capital management practices.

At 30 June 2020

Embedded value detail	Adjusted net worth[3] Rm	Write-up to directors' value Rm	2020 Rm	2019 Rm
Non-covered business				
Momentum Life	349	(864)	**(515)**	(558)
Momentum Multiply	339	(864)	**(525)**	(574)
Other	10	–	**10**	16
Momentum Investments	1 149	490	**1 639**	2 078
Investment and savings	909	531	**1 440**	1 839
Other	240	(41)	**199**	239
Momentum Corporate	422	479	**901**	1 187
Health	387	479	**866**	1 144
Other	35	–	**35**	43
Non-life Insurance	3 430	2 498	**5 928**	4 153
Non-life insurance	1 316	1 076	**2 392**	428
Cell captives	2 114	1 422	**3 536**	3 725
Momentum Metropolitan Africa	826	(1 030)	**(204)**	268
Life insurance	232	(210)	**22**	223
Health	253	296	**549**	593
Non-life insurance	111	(45)	**66**	50
Other	230	52	**282**	232
International holding company expenses[2]	–	(1 123)	**(1 123)**	(830)
New Initiatives	733	729	**1 462**	1 014
New initiatives India	588	566	**1 154**	801
New initiatives aYo	57	163	**220**	143
Other	88	–	**88**	70
Shareholders	182	(1 398)	**(1 216)**	(483)
Other	182	–	**182**	930
Holding company expenses[2]	–	(1 398)	**(1 398)**	(1 413)
Total non-covered business	7 091	904	**7 995**	7 659
Total embedded value	18 019	20 505	**38 524**	41 193

1 Included in covered business is Wealth business not deemed to be long-term insurance business with an adjusted net worth of R527 million (30.06.2019: R485 million) and value of in-force of R286 million (30.06.2019: R194 million).

2 The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses. The holding company expenses reflect the present value of projected recurring head office expenses.

3 Intercompany loans are carried by the units that utilise the funding, aligned with capital management practices.

Analysis of changes in Group embedded value	Notes	Covered business: Adjusted net worth (ANW) Rm	Covered business: Gross value of in-force (VIF) Rm	Covered business: Cost of required capital Rm	12 mths to 30.06.2020 Total EV Rm	12 mths to 30.06.2019 Total EV Rm
Profit from new business		(927)	1 441	(186)	**328**	611
Embedded value from new business	A	(927)	1 393	(186)	**280**	541
Expected return to end of period	B	–	48	–	**48**	70
Profit from existing business		2 861	(1 429)	313	**1 745**	2 472
Expected return – unwinding of RDR	B	–	2 450	(284)	**2 166**	2 189
Release from the cost of required capital	C	–	–	477	**477**	340
Expected (or actual) net of tax profit transfer to net worth	D	3 426	(3 426)	–	**–**	–
Operating experience variances	E	220	(280)	(14)	**(74)**	417
Development expenses	F	(43)	–	–	**(43)**	(32)
Operating assumption changes	G	(742)	(173)	134	**(781)**	(442)
Embedded value profit/(loss) from operations		1 934	12	127	**2 073**	3 083
Investment return on adjusted net worth	H	257	–	–	**257**	464
Investment variances	I	(745)	(1 607)	(168)	**(2 520)**	(451)
Economic assumption changes	J	(73)	(552)	(134)	**(759)**	270
Exchange rate movements	K	50	37	(10)	**77**	8
Exceptional items	L	(19)	–	–	**(19)**	870
Embedded value profit/(loss) – covered business		1 404	(2 110)	(185)	**(891)**	4 244
Transfer of business to non-covered business	M	(48)	–	–	**(48)**	–
Other capital transfers	N	867	135	(15)	**987**	(2 589)
Dividend (paid)/received		(3 053)	–	–	**(3 053)**	(1 587)
Change in embedded value – covered business		(830)	(1 975)	(200)	**(3 005)**	68
Non-covered business						
Change in directors' valuation and other items					**(368)**	(646)
Change in holding company expenses					**(278)**	(430)
Embedded value loss – non-covered business					**(646)**	(1 076)
Transfer of business from covered business	M				**48**	–
Other capital transfers	N				**(987)**	2 589
Dividend received/(paid)					**1 961**	1 079
Shares repurchased					**–**	(1 031)
Finance costs – preference shares					**(40)**	(37)
Change in embedded value – non-covered business					**336**	1 524
Total change in Group embedded value					**(2 669)**	1 592
Total embedded value (loss)/profit					**(1 537)**	3 168
Return on embedded value (%) – internal rate of return					**(3.7)**	8.0
Return on embedded value excluding Exceptional items (%) – internal rate of return					**(3.7)**	5.8

At 30 June 2020

Analysis of changes in Group embedded value	Adjusted net worth (ANW) Rm	Gross value of in-force (VIF) Rm	Cost of required capital Rm	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm
Momentum Life					
Embedded value from new business	(284)	387	(81)	**22**	101
Expected return – unwinding of RDR	–	964	(79)	**885**	875
Release from the cost of required capital	–	–	205	**205**	96
Expected (or actual) net of tax profit transfer to net worth	1 217	(1 217)	–	**–**	–
Operating experience variances	(174)	(34)	–	**(208)**	323
Development expenses	(13)	–	–	**(13)**	(19)
Operating assumption changes	(241)	(186)	21	**(406)**	(14)
Embedded value profit/(loss) from operations	505	(86)	66	**485**	1 362
Investment return on adjusted net worth	77	–	–	**77**	87
Investment variances	8	(533)	(83)	**(608)**	(384)
Economic assumption changes	(38)	(480)	(2)	**(520)**	241
Exceptional items	–	–	–	**–**	618
Embedded value profit/(loss) – covered business	552	(1 099)	(19)	**(566)**	1 924
Momentum Investments					
Embedded value from new business	(123)	266	(9)	**134**	82
Expected return – unwinding of RDR	–	162	(31)	**131**	169
Release from the cost of required capital	–	–	54	**54**	43
Expected (or actual) net of tax profit transfer to net worth	360	(360)	–	**–**	–
Operating experience variances	215	(14)	(23)	**178**	30
Development expenses	(9)	–	–	**(9)**	(6)
Operating assumption changes	15	43	113	**171**	(107)
Embedded value profit/(loss) from operations	458	97	104	**659**	211
Investment return on adjusted net worth	81	–	–	**81**	49
Investment variances	(287)	(68)	11	**(344)**	(151)
Economic assumption changes	–	1	–	**1**	(27)
Exceptional items	–	–	–	**–**	(181)
Embedded value profit/(loss) – covered business	252	30	115	**397**	(99)
Metropolitan Life					
Embedded value from new business	(226)	370	(34)	**110**	89
Expected return – unwinding of RDR	–	462	(19)	**443**	438
Release from the cost of required capital	–	–	53	**53**	60
Expected (or actual) net of tax profit transfer to net worth	877	(877)	–	**–**	–
Operating experience variances	79	29	–	**108**	42
Development expenses	(5)	–	–	**(5)**	(4)
Operating assumption changes	(137)	8	–	**(129)**	(34)
Embedded value profit/(loss) from operations	588	(8)	–	**580**	591
Investment return on adjusted net worth	36	–	–	**36**	54
Investment variances	(275)	(470)	–	**(745)**	35
Economic assumption changes	–	129	(174)	**(45)**	217
Exceptional items	–	–	–	**–**	387
Embedded value profit/(loss) – covered business	349	(349)	(174)	**(174)**	1 284

Analysis of changes in Group embedded value	Adjusted net worth (ANW) Rm	Gross value of in-force (VIF) Rm	Cost of required capital Rm	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm
Momentum Corporate					
Embedded value from new business	(150)	188	(42)	**(4)**	265
Expected return – unwinding of RDR	–	604	(117)	**487**	533
Release from the cost of required capital	–	–	165	**165**	141
Expected (or actual) net of tax profit transfer to net worth	595	(595)	–	**–**	–
Operating experience variances	158	(255)	9	**(88)**	83
Development expenses	(16)	–	–	**(16)**	(3)
Operating assumption changes	(368)	(181)	–	**(549)**	(611)
Embedded value profit/(loss) from operations	219	(239)	15	**(5)**	408
Investment return on adjusted net worth	141	–	–	**141**	132
Investment variances	(102)	(406)	(96)	**(604)**	41
Economic assumption changes	–	(181)	–	**(181)**	(211)
Exceptional items	–	–	–	**–**	46
Embedded value profit/(loss) – covered business	258	(826)	(81)	**(649)**	416
Momentum Metropolitan Africa					
Embedded value from new business	(144)	182	(20)	**18**	4
Expected return – unwinding of RDR	–	306	(38)	**268**	244
Expected (or actual) net of tax profit transfer to net worth	377	(377)	–	**–**	–
Operating experience variances	52	(6)	–	**46**	22
Operating assumption changes	(11)	143	–	**132**	324
Embedded value profit/(loss) from operations	274	248	(58)	**464**	594
Investment return on adjusted net worth	121	–	–	**121**	114
Investment variances	(89)	(130)	–	**(219)**	8
Economic assumption changes	(35)	(21)	42	**(14)**	50
Exchange rate movements	50	37	(10)	**77**	8
Embedded value profit/(loss) – covered business	321	134	(26)	**429**	774
Shareholders					
Operating experience variances	(110)	–	–	**(110)**	(83)
Embedded value profit/(loss) from operations	(110)	–	–	**(110)**	(83)
Investment return on adjusted net worth	(199)	–	–	**(199)**	28
Exceptional items	(19)	–	–	**(19)**	–
Embedded value profit/(loss) – covered business	(328)	–	–	**(328)**	(55)

A. Value of new business (VNB)

In determining the VNB for retail and traditional corporate business:

- A policy is only taken into account for new business if at least one premium, that has not subsequently been refunded, is recognised in the financial statements.
- Premium increases that have been allowed for in the value of in-force covered business are not included as new business at inception.
- The expected value of future premium increases, resulting from premium indexation on the new recurring premium business written during the financial year under review, is included in the VNB.
- Only client-initiated continuations of individual policies and deferrals of retirement annuity policies after the maturity dates of contracts not previously expected in the present valuation of in-force business, are allowed for.
- For Momentum Life and Momentum Investments business, new business exclude negative alterations after the commission clawback period.
- For employee benefit business, increases in business from new schemes or new benefits on existing schemes are included as new business, but new members or salary-related increases under existing schemes are allowed for in the value of in-force covered business.
- Renewable recurring premiums under existing Group insurance contracts are treated as in-force covered business.

Reconciliation of lump sum inflows	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm
Total lump sum inflows	**32 532**	33 071
Inflows not included in value of new business	**(9 640)**	(7 303)
Wealth off-balance sheet business	**8 803**	6 703
Term extensions on maturing policies	**276**	444
Automatically Continued Policies	**1 233**	1 303
Non-controlling interests and other adjustments	**(15)**	(35)
Single premiums included in value of new business	**33 189**	34 183

A. Value of new business (VNB) continued

Value of new business[1, 2]	Momentum Life Rm	Momentum Investments[3] Rm	Metropolitan Life Rm	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm
12 mths to 30.06.2020						
Value of new business	22	134	110	(4)	18	280
Gross	103	143	144	38	38	466
Less cost of required capital	(81)	(9)	(34)	(42)	(20)	(186)
New business premiums	2 992	26 466	2 256	3 775	1 117	36 606
Recurring premiums	928	121	1 156	796	416	3 417
Protection	430	–	713	347	128	1 618
Long-term savings	498	115	439	446	288	1 786
Annuities and structured products	–	6	4	3	–	13
Single premiums	2 064	26 345	1 100	2 979	701	33 189
Protection	–	–	–	108	129	237
Long-term savings	2 064	23 850	454	2 832	214	29 414
Annuities and structured products	–	2 495	646	39	358	3 538
New business premiums (APE)	1 134	2 756	1 266	1 094	486	6 736
Protection	430	–	713	358	141	1 642
Long-term savings	704	2 500	484	729	309	4 726
Annuities and structured products	–	256	69	7	36	368
New business premiums (PVP)	7 072	26 812	4 701	9 206	2 656	50 447
Profitability of new business as a percentage of APE	1.9	4.9	8.7	(0.4)	3.7	4.2
Profitability of new business as a percentage of PVP	0.3	0.5	2.3	(0.0)	0.7	0.6
12 mths to 30.06.2019						
Value of new business	101	82	89	265	4	541
Gross	192	101	138	349	24	804
Less cost of required capital	(91)	(19)	(49)	(84)	(20)	(263)
New business premiums	3 047	22 620	2 381	9 082	1 005	38 135
Recurring premiums	1 031	186	1 196	1 149	390	3 952
Protection	511	–	757	427	128	1 823
Long-term savings	520	184	436	551	262	1 953
Annuities and structured products	–	2	3	171	–	176
Single premiums	2 016	22 434	1 185	7 933	615	34 183
Protection	–	–	–	4	172	176
Long-term savings	2 016	19 197	488	7 513	212	29 426
Annuities and structured products	–	3 237	697	416	231	4 581
New business premiums (APE)	1 233	2 430	1 315	1 942	451	7 371
Protection	511	–	757	427	145	1 840
Long-term savings	722	2 104	485	1 302	283	4 896
Annuities and structured products	–	326	73	213	23	635
New business premiums (PVP)	8 266	23 145	4 897	16 977	2 498	55 783
Profitability of new business as a percentage of APE	8.2	3.4	6.8	13.6	0.9	7.3
Profitability of new business as a percentage of PVP	1.2	0.4	1.8	1.6	0.2	1.0

1 Value of new business and new business premiums are net of non-controlling interests.

2 The value of new business has been calculated using point of sale demographic and economic assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business; for other business the investment yields at 31 December 2019 have been assumed to be representative of the economic assumptions at point of sale. The Group does not allow for marginal diversification benefits to be allocated to the value of new business for purposes of deriving the cost of required capital.

3 Included in covered business is Wealth business not deemed to be long-term insurance business with value of new business of R43 million (30.06.2019: R24 million).

A. Value of new business (VNB) continued

Changes in bases and assumptions

The Group constantly reviews its EV methodologies to align them with evolving practice and to ensure consistency with current practices.

Assumptions

The main assumptions used in the EV calculations are described below.

Principal assumptions (South Africa)[1, 2]	30.06.2020 %	30.06.2019 %
Pre-tax investment return		
Equities	**14.0**	12.8
Properties	**11.5**	10.3
Government stock	**10.5**	9.3
Other fixed-interest stocks	**11.0**	9.8
Cash	**9.5**	8.3
Risk-free return[3]	**10.5**	9.3
Risk discount rate (RDR)[4]	**12.9**	11.5
Investment return (before tax) – balanced portfolio[3]	**12.7**	11.5
Renewal expense inflation rate[5]	**5.7**	5.8

1 The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.

2 The assumptions quoted in the table are representative rates derived at the 10-year point of the yield curves.

3 Risk-free returns are taken from an appropriate market related, risk-free yield curve as at the valuation date. Appropriate risk premia are added to the risk-free yields in order to derive yields on other asset classes. Expected cash flows at each duration are discounted using yields appropriate to that duration. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

4 The risk discount rate applied for covered business in South Africa is derived based on a weighted average cost or capital approach. As part of the annual review the assumptions with regards the beta assumption used to derive the cost of equity has been increased to 90% (30.06.2019: 85%). The assumptions with regards the equity risk premium as well as relative weighting between debt and equity funding has remained unchanged.

5 For the retail businesses an inflation rate of 5.0% p.a. is used over the planning horizon (three years) where after the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An addition to the expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off. The 5.7% above represents the 10-year point of the yield curves.

Non-economic

The EV calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation (FSV).

The EV of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The VNB excludes premium increases during the current year resulting from premium indexation arrangements in respect of in-force business, but includes the expected value of future premium increases in respect of new policies written during the current financial year.

B. Expected return

The expected return is determined by applying the risk discount rate applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year. The expected return on new business is determined by applying the current risk discount rate to the value of new business from the point of sale to the end of the year.

C. Release from the cost of required capital

The release from the cost of required capital represents the difference between the risk discount rate and the expected after tax investment return on the assets backing the required capital over the year.

D. Expected (or actual) net of tax profit transfer to net worth

The expected profit transfer for covered business from the present value of in-force to the adjusted net worth is calculated on the IFRS basis.

E. Operating experience variances

Operating experience variances	Notes	12 mths to 30.06.2020 ANW Rm	Gross VIF Rm	Cost of required capital Rm	EV Rm	12 mths to 30.06.2019 EV Rm
Momentum Life		**(174)**	**(34)**	**–**	**(208)**	323
Mortality and morbidity	1	(49)	26	–	(23)	152
Terminations, premium cessations and policy alterations	2	(47)	(47)	–	(94)	22
Expense variance	3	60	–	–	60	5
Other	4	(138)	(13)	–	(151)	144
Momentum Investments		**215**	**(14)**	**(23)**	**178**	30
Mortality and morbidity	5	23	(2)	–	21	(3)
Terminations, premium cessations and policy alterations	6	20	17	–	37	(2)
Expense variance	3	48	–	–	48	(17)
Credit risk variance		43	–	–	43	29
Other	7	81	(29)	(23)	29	23
Metropolitan Life		**79**	**29**	**–**	**108**	42
Mortality and morbidity	5	115	13	–	128	89
Terminations, premium cessations and policy alterations	8	(38)	20	–	(18)	(106)
Expense variance	9	(25)	–	–	(25)	14
Credit risk variance		32	–	–	32	25
Other		(5)	(4)	–	(9)	20
Momentum Corporate		**158**	**(255)**	**9**	**(88)**	83
Mortality and morbidity	10	(22)	–	–	(22)	69
Terminations, premium cessations and policy alterations	11	(13)	(252)	–	(265)	5
Expense variance	3	35	–	–	35	(4)
Credit risk variance		11	–	–	11	10
Other	12	147	(3)	9	153	3
Momentum Metropolitan Africa		**52**	**(6)**	**–**	**46**	22
Mortality and morbidity	5	90	8	–	98	66
Terminations, premium cessations and policy alterations		(25)	(8)	–	(33)	(70)
Expense variance		(3)	–	–	(3)	22
Other		(10)	(6)	–	(16)	4
Shareholders		**(110)**	**–**	**–**	**(110)**	(83)
Total operating experience variances		**220**	**(280)**	**(14)**	**(74)**	417

Notes

1. Mortality and morbidity experience for the 12 months were worse compared to what was allowed for in the valuation basis.
2. Negative termination experience was offset to some extent by positive alteration experience due to better than expected take-up of premium increases.
3. Good expense management.
4. Mainly relating to Multiply including the extension of the date to reach the target Multiply grid and discount distribution and larger than expected premium discounts.
5. Mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.
6. Surrender profits, premium reviews and better than expected premium increases.
7. Final settlement on the surrender of a large corporate annuity, the release of contingency reserves that are no longer required and the delayed implementation of pricing changes.
8. Persistency losses mainly on the recurring savings book.
9. Additional costs undergone to cushion the sales force against the impact of Covid-19 offset to some extent with good expense management.
10. Negative disability experience partly offset by mortality profits.
11. Allowance of premium contribution holidays on FundsAtWork due to Covid-19 partially offset with good termination experience for Risk business.
12. Mainly due to higher admin fee loadings on risk products.

F. Development expenses

Business development expenses within segments.

G. Operating assumption changes

		12 mths to 30.06.2020				12 mths to 30.06.2019
Operating assumption changes	Notes	**ANW Rm**	**Gross VIF Rm**	**Cost of required capital Rm**	**EV Rm**	**EV Rm**
Momentum Life		**(241)**	**(186)**	**21**	**(406)**	(14)
Mortality and morbidity assumptions	1	**(201)**	**9**	**–**	**(192)**	223
Termination assumptions	1, 2	**(113)**	**(207)**	**–**	**(320)**	(128)
Renewal expense assumptions	3	**101**	**(10)**	**–**	**91**	1
Modelling, methodology and other changes	4	**(28)**	**22**	**21**	**15**	(110)
Momentum Investments		**15**	**43**	**113**	**171**	(107)
Mortality and morbidity assumptions		**–**	**–**	**–**	**–**	–
Termination assumptions		**(1)**	**–**	**–**	**(1)**	(35)
Renewal expense assumptions	3	**14**	**34**	**–**	**48**	–
Modelling, methodology and other changes	5	**2**	**9**	**113**	**124**	(72)
Metropolitan Life		**(137)**	**8**	**–**	**(129)**	(34)
Mortality and morbidity assumptions	1	**(108)**	**10**	**–**	**(98)**	–
Termination assumptions	1	**(73)**	**2**	**–**	**(71)**	(79)
Renewal expense assumptions	3	**26**	**(20)**	**–**	**6**	(14)
Modelling, methodology and other changes	6	**18**	**16**	**–**	**34**	59
Momentum Corporate		**(368)**	**(181)**	**–**	**(549)**	(611)
Mortality and morbidity assumptions	1	**(289)**	**2**	**–**	**(287)**	(240)
Termination assumptions	2	**(70)**	**(35)**	**–**	**(105)**	(3)
Renewal expense assumptions		**5**	**12**	**–**	**17**	(236)
Modelling, methodology and other changes	7	**(14)**	**(160)**	**–**	**(174)**	(132)
Momentum Metropolitan Africa		**(11)**	**143**	**–**	**132**	324
Mortality and morbidity assumptions	1, 8	**13**	**29**	**–**	**42**	16
Termination assumptions		**(18)**	**(12)**	**–**	**(30)**	13
Renewal expense assumptions	9	**(35)**	**79**	**–**	**44**	(50)
Modelling, methodology and other changes	10	**29**	**47**	**–**	**76**	345
Total operating assumption changes		**(742)**	**(173)**	**134**	**(781)**	(442)

Notes

1. Mainly the set-up of Covid-19 provisions.
2. Strengthening of the basis in line with experience observed in certain product lines.
3. Adjusted the future expense inflation assumption.
4. Various marginal modelling and methodology changes.
5. The cost of capital calculation was adjusted to more accurately reflect future credit spreads.
6. Modelling and methodology changes implemented relate to improving the analysis of earnings attribution.
7. Updating of incurred but not reported (IBNR) reserves and changes to the FundsAtWork VIF model.
8. Mortality basis changes in Namibia to align assumptions closer with experience.
9. Mainly due to a change in expense allocations.
10. Various modelling and methodology changes, including the release of reserves.

H. Investment return on adjusted net worth

Investment return on adjusted net worth	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm
Investment income	**500**	670
Capital appreciation and other[1]	**(209)**	(172)
Preference share dividends paid	**(34)**	(34)
Investment return on adjusted net worth	**257**	464

[1] This includes the revaluation of owner-occupied properties.

I. Investment variances

Investment variances represent the impact of higher/lower than assumed investment returns on current and expected future after tax profits from in-force business.

J. Economic assumption changes

The economic assumption changes include the effect of the change in assumed rate of investment return, expense inflation rate and risk discount rate in respect of local and offshore business.

K. Exchange rate movements

The impact of foreign currency movements on International covered businesses.

L. Impact of change in required capital methodology

Current period item relates to the implementation and adoption of IFRS 16 in the current financial year.

Prior period item relates to the adoption of the new regulatory framework for South African insurers, where the Group's covered businesses elected to adopt the IFRS liabilities as reference for determining the value of in-force business for embedded value purposes. This has resulted in a reallocation of value between the adjusted net worth and value of in-force due to the liability difference between the previous statutory and IFRS liabilities. For purposes of determining the cost of required capital, the capital resources supporting future profits are set equal to the total assets restricted on a regulatory basis in so far as this exceeds IFRS liabilities. This calculation is performed across the projection term and thus may change over time. The total assets restricted on a regulatory basis is the sum of technical provisions, the solvency capital requirement (SCR) as well as an appropriate resilience buffer.

M. Transfer of business from/to non-covered business

Transfer of business between covered and non-covered business.

N. Other capital transfers

Capital transfers include the alignment of the net asset value of subsidiaries between covered and non-covered business and the recapitalisation of some International subsidiaries. In addition, the change in the treatment of intercompany loans to align with capital management practices has been analysed as capital transfers (this represents the bulk of the number).

Sensitivity of the in-force value and the VNB

This section illustrates the effect of different assumptions on the ANW, the value of in-force business, the VNB and the cost of required capital. For each sensitivity illustrated, all other assumptions have been left unchanged and, with the exception of the first two sensitivities and the "1% reduction in gross investment return, inflation rate and RDR" sensitivity, the central RDR has been used.

The table below shows the impact on the EV (ANW, value of in-force and cost of required capital) and VNB (gross and net of the cost of required capital) of a 1% change in the RDR. It also shows the impact of independent changes in a range of other experience assumptions. The effect of an equivalent improvement in these experience assumptions would be to increase the base values by a percentage approximately equal to the reductions shown below.

		In-force business			New business written		
Covered business: sensitivities – 30.06.2020	Adjusted net worth Rm	Net value Rm	Gross value Rm	Cost of required capital[3] Rm	Net value Rm	Gross value Rm	Cost of required capital[3] Rm
Base value	10 928	19 601	22 485	(2 884)	280	466	(186)
1% increase in risk discount rate		17 970	21 254	(3 284)	190	396	(206)
% change		(8)	(5)	14	(32)	(15)	11
1% reduction in risk discount rate		21 395	23 847	(2 452)	416	580	(164)
% change		9	6	(15)	49	24	(12)
10% decrease in future expenses		21 300	24 090	(2 790)	441	620	(179)
% change[1]		9	7	(3)	58	33	(4)
10% decrease in lapse, paid-up and surrender rates		20 170	23 143	(2 973)	443	627	(184)
% change		3	3	3	58	35	(1)
5% decrease in mortality and morbidity for assurance business		22 001	24 864	(2 863)	446	632	(186)
% change		12	11	(1)	59	36	–
5% decrease in mortality for annuity business		19 300	22 171	(2 871)	281	469	(188)
% change		(2)	(1)	–	–	1	1
1% reduction in gross investment return, inflation rate and risk discount rate	10 928	20 275	23 165	(2 890)	350	544	(194)
% change[2]	–	3	3	–	25	17	4
1% reduction in inflation rate		20 564	23 310	(2 746)	374	559	(185)
% change		5	4	(5)	34	20	(1)
10% fall in market value of equities and properties	10 648	18 710	21 478	(2 768)			
% change[2]	(3)	(5)	(4)	(4)			
10% reduction in premium indexation take-up rate		19 152	22 000	(2 848)	252	441	(189)
% change		(2)	(2)	(1)	(10)	(5)	2
10% decrease in non-commission-related acquisition expenses					388	574	(186)
% change					39	23	–
1% increase in equity/property risk premium		20 012	22 943	(2 931)	323	512	(189)
% change		2	2	2	15	10	2

1 No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.

2 Bonus rates are assumed to change commensurately.

3 The change in the value of cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.

The Board is pleased to present the audited financial statements of Momentum Metropolitan Holdings Ltd (MMH or the Company) and its subsidiaries (collectively Momentum Metropolitan Group or the Group) for the year ended 30 June 2020. The Board is of the opinion that the Group is in compliance with the South African Companies Act, 71 of 2008 (the Companies Act) as well as the Company's Memorandum of Incorporation. The material risk factors applicable to the Group can be found in the Integrated Report which is available in print and online in PDF format at https://www.momentummetropolitan.co.za.

Nature of activities

Momentum Metropolitan Group is a South African based financial services group that offers a comprehensive range of products and administration services, including life and short-term insurance, employee benefits, medical scheme and asset management to clients in selected African and other countries. MMH is listed on the Johannesburg Stock Exchange (JSE) and A2X Markets (A2X) in South Africa, and the Namibian Stock Exchange (NSX) in Namibia.

Corporate events

Acquisitions

On 31 January 2020, following the fulfilment of all conditions precedent to the transaction that was announced on 25 July 2019, MMH, through its wholly-owned subsidiary, Momentum Metropolitan Strategic Investments (Pty) Ltd (MMSI), acquired 100% of the shares in Alexander Forbes Insurance Company Ltd, Alexander Forbes Direct (Pty) Ltd and Alexander Forbes Administration Services (Pty) Ltd for R2.04 billion in cash. These three companies together form Alexander Forbes Insurance (AFI). AFI has since been renamed to Momentum Insurance. The strategic acquisition is in line with the Group's overall Reset and Grow strategy and specifically aims to fast track growth of the non-life insurance interests of the Group. Refer to note 29 for more details.

Held for sale

As part of our plan to exit a number of African countries, we classified entities in three of these African countries, as held for sale in the prior year. Two of the three countries have since been exited. Entities in two additional countries have been classified as held for sale in the current year. The remaining entities that the Group plans to exit do not yet meet all the International Financial Reporting Standards (IFRS) criteria to be classified as held for sale. Refer to Annexure H for more details.

Listed debt

On 10 December 2019, Momentum Metropolitan Life Ltd (MML) listed two new subordinated debt instruments to the combined value of R750 million on the JSE. The proceeds of the issuance were used to refinance the subordinated debt instrument, MMIG03, which became callable on 1 June 2020.

A2X listing

MMH was approved for a secondary listing on A2X and trading commenced on 5 August 2020. The listings of MMH on the JSE in South Africa and the NSX in Namibia are not affected. The Group's issued share capital will be unaffected by its secondary listing on A2X. The A2X listing offers lower costs for investors to transact and it complements our primary listing on the JSE.

Presentation of financial statements

The consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with the following:

- IFRS;
- Interpretations by the IFRS Interpretations Committee (IFRIC) issued and effective at the time of preparing these statements;
- The South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides (as issued by the Accounting Practices Committee);
- Financial Pronouncements (as issued by the Financial Reporting Standards Council);
- the JSE Listings Requirements; and
- the Companies Act.

The accounting policies of the Group have been applied consistently to all years presented except specific restatements being listed in Annexure I of the AFS. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the Group's accounting policies. Such judgement, assumptions and estimates are disclosed in the Critical judgements and accounting estimates note on page 37 of the AFS, including changes in estimates that are an integral part of the insurance business.

Solvency assessment and going concern

The Covid-19 pandemic and the resultant uncertain economic environment and financial market volatility caused by it, has created uncertainty in the operating environment of the Group. The Board and its committees received regular reports on the operational, financial, solvency and liquidity related impacts on the Group. An in-depth analysis of these impacts was presented to and discussed by the Board in May 2020. The Board was presented with an action plan and proposed allowance for the Covid-19 pandemic in the F2020 valuation basis. The Board, through its committees, is satisfied of the Group's solvency and its ability to continue as a going concern. Refer to the Critical estimates and judgements note on page 37 as well as the Integrated Report and Operating update (available on the Group's website) for more details.

Corporate governance

The Board has satisfied itself that the Group has applied the principles of corporate governance (King IV™) throughout the year under review. Refer to the Integrated Report and the King IV™ Application Summary available on the Group's website for details of the governance framework and assessment of its application throughout the year.

Contingent liabilities and capital commitments

The Group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The Group is not aware of capital commitments at 30 June 2020 that were not in the ordinary course of business other than what is disclosed in note 31.

Results of operations

The operating results and the financial position of the Group are reflected in the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Group basic earnings and headline earnings attributable to equity holders for the year under review were R178 million (2019: R2 255 million) and R1 036 million (2019: R2 474 million) respectively. Group normalised headline earnings were R1 521 million (2019: R3 074 million) and normalised headline earnings per share 101.5 cents (2019: 202.5 cents). Refer to note 1 for a reconciliation of basic earnings to normalised headline earnings.

Normalised headline earnings adjust the standard JSE definition of headline earnings for the dilutory impact of finance costs related to preference shares that can be converted into ordinary shares of the Group, the impact of treasury shares, the amortisation of intangible assets arising from business combinations and broad-based black economic empowerment (B-BBEE) costs. The adjustment for the impact of treasury shares removes mismatches that might arise from elimination of treasury shares (potential mismatches that are peculiar to financial institutions that invest in their own securities on behalf of clients). The definition of normalised headline earnings remains unchanged. Group normalised headline earnings are reported by segment and disclosed in the segmental report. For the current year and prior year, it is as follows:

	2020		2019	
Analysis of normalised headline earnings	**Rm**	**% of total**	**Rm**	**% of total**
Momentum Life	**416**	**27**	883	29
Momentum Investments	**303**	**20**	512	17
Metropolitan Life	**302**	**20**	610	20
Momentum Corporate	**260**	**17**	601	19
Non-life Insurance	**405**	**26**	164	5
Momentum Metropolitan Africa	**317**	**21**	262	9
New Initiatives	**(509)**	**(33)**	(492)	(16)
Shareholders	**27**	**2**	534	17
Total	**1 521**	**100**	3 074	100

Subsidiaries, associates and joint ventures

Details of significant subsidiary companies are contained in Annexure A. Details of associates are contained in note 5 and Annexure B. Details of joint ventures are contained in note 5.

Share capital

Share issue and repurchase

During the current and prior year, no A3 preference shares were converted into ordinary shares. There were also no share issues or share repurchases in the current year. The Group concluded a share buy-back programme in the prior year. Refer to note 15 for more details.

Share options

The Group has not issued any options on MMH shares. The Group awards units to employees as part of cash-settled share-based schemes. Refer to note 14.1.2 for more details.

MML preference shares

In the prior year, MML had 50 000 non-redeemable, non-cumulative preference shares in issue. These shares were held by MMH. In the current year, MML repurchased these shares. Refer to note 15 for more details.

Shareholder dividend

MMH – ordinary shares

The Group's dividend policy is to declare ordinary dividends within a dividend cover range of 2.0 to 3.0 times normalised headline earnings. As a result of the negative normalised headline earnings during the second half of the year, a final ordinary dividend has not been declared in respect of the 12 months ended 30 June 2020. The Group remains comfortable with its dividend policy and expect that ordinary dividends will be resumed in line with the dividend policy as the normalised headline earnings recover. An interim dividend of 40 cents per share was declared in March 2020. In the prior year, an interim ordinary dividend of 35 cents per share was declared in March 2019 and a final ordinary dividend of 35 cents per share was declared in September 2019 by the Board.

Preference shares

Dividends of R18.5 million (2019: R18.5 million) (132 cents per share p.a.) were declared on the unlisted A3 MMH preference shares as determined by the Company's Memorandum of Incorporation.

MMH convertible redeemable preference shares (issued to Kagiso Tiso Holdings (Pty) Ltd (KTH))

The A3 MMH preference shares are redeemable on 31 December 2020 (after extending it by 18 months in the prior year) at a redemption value of R9.18 per share, unless converted into MMH ordinary shares on a one-for-one basis prior to that date. Refer to note 11.2.4 for more details.

Shareholders

Details of the Group's shareholders are provided in the Shareholder profile note of this report.

Directorate, secretary and auditor

The following represents a list of the new Board appointments and resignations or retirements during the year:

	Appointments	Resignations
CorpStat Governance Services (Pty) Ltd (Interim Group Company Secretary)		1 July 2019
Ms G Tyusha (Group Company Secretary)	1 July 2019	
Prof JD Krige (*retired*)		26 November 2019
Mr PJ Moleketi		26 November 2019
Mr DJ Park	1 December 2019	
Ms KS Legoabe-Kgomari		30 June 2020
Subsequent to year-end		
Mr P Makosholo	1 July 2020	

Detailed information regarding the directors and Group Company Secretary of MMH is provided in the Integrated Report which is available in print and online in PDF format at https://www.momentummetropolitan.co.za.

In June 2017, the Independent Regulatory Board of Auditors published a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation (MAFR), whereby audit firms shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive years, with effect from 1 April 2023.

The Board of MMH, together with its Audit Committee, has resolved to early adopt MAFR. As a consequence, PricewaterhouseCoopers Inc. has rotated off the Group's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019. Ernst & Young Inc. (EY) was appointed as external auditors at the Company's annual general meeting on 26 November 2019.

Directors' interest

Rand Merchant Investment Holdings Ltd (RMI), of which Mr P Cooper is a non-executive director, and Ms L Chiume is a senior investment executive, has a direct holding of 26.8% in the Group.

KTH, of which Mr P Makosholo is an executive director, has a direct holding of 5.4% interest in the Group (28 million MMH preference shares and 53 million listed MMH ordinary shares).

No material contracts involving directors' interests were entered into by Group entities during the year.

Directors' shareholding

The aggregate direct and indirect holdings in MMH of the directors of the Company at 30 June 2020 are set out below:

	Direct Beneficial '000	Indirect Beneficial '000	Total 2020 '000	Total 2019 '000
Listed				
Executive directors	437	390	827	827
Non-executive directors	414	734	1 148	1 668
	851	1 124	1 975	2 495

The above directors' effective MMH shareholding amounts to 0.07% (2019: 0.07%).

Refer to the shareholder profile note for percentage of issued shares held by directors.

All transactions in listed shares of the Company involving directors were disclosed on the Stock Exchange News Service as required.

No changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE is set out in Annexure F.

The aggregate direct and indirect holdings of the directors in Rand Merchant Investment Holdings Ltd (RMI) shares at 30 June 2020 are set out below:

	Direct Beneficial '000	Indirect Beneficial '000	Total 2020 '000	Total 2019 '000
Listed				
Executive directors	26	18	44	44
Non-executive directors	849	3 215	4 064	4 067
	875	3 233	4 108	4 111

Directors' remuneration

The executive directors have standard employment contracts with the Company or its subsidiaries with a minimum of a one month notice period. The aggregate remuneration of the MMH directors for the period ended 30 June 2020 is set out below. The detail in terms of the Listings Requirements of the JSE is set out in Annexure F.

	Fees R'000	Salary R'000	Short-term incentive payments[1] R'000	Retirement fund R'000	Medical aid R'000	Long-term incentive payment R'000	Total 2020 R'000	Total 2019 R'000
Executive	–	14 570	7 213	459	177	2 762	25 181	24 138
Non-executive	18 701	–	–	–	–	–	18 701	16 099
Total	18 701	14 570	7 213	459	177	2 762	43 882	40 237

[1] Bonus payments relate to the 2019 financial year's bonus.

Borrowing powers

In terms of the Company's Memorandum of Incorporation directors have unlimited borrowing powers (subject to section 45 of the Companies Act); however, Financial Sector Conduct Authority (FSCA) approval is required for any borrowings within a life insurance company in the Group.

Events after the reporting period

The Covid-19 pandemic has brought many challenges to the Group's operating environment. The Group will continue to monitor the progression of the pandemic and its impact on the Group.

Momentum Metropolitan considers the alignment of the interests of various stakeholders as the most effective way of achieving meaningful value creation for all stakeholders. We are proposing to establish a broad based employee share ownership scheme, which will acquire 3% of the Group's ordinary share capital. The share ownership scheme proposal is subject to approval from existing shareholders.

The initial administrative penalty awarded to MET Collective Investments (RF) (Pty) Ltd by the FSCA has been reduced to R20 million on appeal.

Following a strategic review, we have made the decision to reduce our shareholding in aYo from 50% to 25%.

Although all efforts were made to finalise the sale of Momentum Mozambique LDA, a condition outside the Group's control could not be met by the agreed deadline (which was subsequent to the Group's year-end). The sale and purchase agreement has therefore expired and the sale will not proceed. The Group remains committed to exit the entity.

Refer to note 33 for more details relating to these events. No other material events occurred between the reporting date and the date of approval of these results.

The Audit Committee (the Committee) of Momentum Metropolitan Group (the Group) has the pleasure in presenting its report for the financial year ended 30 June 2020. The Group consists of Momentum Metropolitan Holdings (the Company) and its subsidiaries, which includes the Momentum Metropolitan Life Group.

The Committee had discharged its responsibilities as mandated by the Board of Momentum Metropolitan Holdings Ltd (the Board), its statutory duties in compliance with the Companies Act 71 of 2008, as amended, and the JSE Listings Requirements and best practices in corporate governance, set out in King IV™.

Function of the Committee

The Committee's oversight responsibilities, delegated to the Committee by the Board include:

- the integrity of financial reporting;
- the internal audit function, including the annual internal audit plan as well as objectivity and performance of the function;
- assessment of the internal control environment;
- combined assurance;
- external audit, including independence and audit quality.

The Committee's terms of reference, which are regularly reviewed and are available on request from the office of the Group Company Secretary, are aligned with the above legislation, regulations and practices.

Committee composition, attendees and meetings

The Committee comprises of three independent non-executive directors. The Chair of the Committee is not the Chair of the Board of the Company.

During the year, Frans Truter stepped down as Chair of the Committee to take over as Chair of the Board Risk, Capital and Compliance Committee and Linda de Beer took over as Chair.

To ensure that the Committee continues discharging its duties and for the purposes of continuity and the benefit of their experience, the Board will recommend that Fatima Daniels and Frans Truter, together with Linda de Beer for reappointment at the annual general meeting. Lisa Chiume, who is not independent, but a non-executive director on the Board, is a permanent invitee to the Committee. A brief profile of each of the members can be viewed on pages 29 to 32 of the F2020 Integrated Report and the Group's website at www.momentummetropolitan.co.za.

The Committee met on five occasions during the year. Member attendance is reflected on page 46 of the F2020 Integrated Report, which is available on the Group's website.

Key members of management attend meetings of the Committee by invitation. Closed sessions for Committee members only, as well as with internal audit, external audit and management are held on a regular basis.

Key items of focus for the year

During the current year, the Committee, in addition to its regular agenda as per its terms of reference, paid specific attention to the following:

- monitoring the Group's readiness for the introduction of IFRS 17 – *Insurance Contracts* which becomes effective for financial periods starting on or after 1 January 2023. This is a standing agenda item for the Committee;
- the transition to Ernst & Young Inc. (EY) as the new external audit firm, from PricewaterhouseCoopers Inc (PwC);
- an ongoing focus on the effectiveness and adequacy of the internal control environment, with specific reference to the businesses outside South Africa;
- addressing changes to the JSE Listings Requirements as well as guidance issued by the JSE in respect of matters relating to the Committee, including assessing the impact of the Covid-19 pandemic on financial reporting, dealt with in more detail below, as well as responding to the JSE's satisfaction to its review of the Company's 2019 results in terms of its pro-active monitoring process.

Confirmations of key functions for the year

On an annual basis the Committee assesses the appropriateness and integrity of the Company's financial reporting practices and processes, combined assurance as well as internal and external audit, in accordance with the JSE Listings Requirements. During the current year, the Committee considered the following key functions, among other matters:

Internal audit

Otsile Sehularo, Chief Audit Executive (CAE) oversees the Group Internal Audit (GIA) and the internal audit co-sourced relationship with KPMG. The Committee annually assesses the performance of the CAE and GIA and remains satisfied that the co-sourced GIA model with KPMG results in the appropriate independence of GIA, access to subject matter assurance expertise and the authority to fulfil its duties as per its mandate, which is outlined in the GIA charter. The charter and the risk-based GIA plan are reviewed annually and approved by the Committee. Progress in terms of the GIA plan is monitored by the Committee.

Combined assurance

Momentum Metropolitan has a well-established combined assurance framework and practices, to enable integrated planning, execution and reporting of the various assurance activities across the business. These assurance activities include both internal assurance functions, including Compliance, Risk, Actuarial and Internal, as well as external assurance providers, most pertinently External Audit. The integrated approach allows for improved understanding and coverage of risks by all relevant Momentum Metropolitan assurance providers.

The Committee has carried out its responsibilities with the support of the Combined Assurance Forums that represent the various operating structures within the Group. The Combined Assurance Forums report to the Committee every quarter.

The Chair of the Committee is a member of the Board's Risk, Capital and Compliance Committee and the chair of the Risk, Capital and Compliance Committee is a member of the Committee. The dual membership ensures that the Committee is appropriately made aware of material matters that may impact the Group's financial reporting procedures.

Details of the Company's combined assurance framework and the results of the assurance work in F2020 is provided on page 3 to 24 of the Integrated Report

Group finance director and finance function

The Committee considered and satisfied itself that Risto Ketola has the appropriate expertise and experience to fulfil the role of Group Finance Director; that the finance function has adequate experience and expertise, and the finance function has established appropriate financial reporting procedures, which are operating effectively.

Financial control and financial reporting

Through feedback from the quarterly Combined Assurance Forums, the Committee was able to assess that the review of the design, implementation and effectiveness of the Group's combined internal controls, with specific focus on internal financial controls was performed in all material segments of the business. Based on the feedback from the Combined Assurance Forums and the assurance provided by GIA, the Committee concluded that internal financial controls are effective and adequate to support the integrity of the preparation and presentation of the Annual Financial Statements (AFS).

Going concern

The Committee considered management's assessment of the ability of the Group to continue as a going concern, including key assumptions, cash forecasts, liquidity, solvency and capital assessments and has made a recommendation to the Board in accordance with this assessment. In doing this, the Committee specifically considered the impact of the Covid-19 pandemic on the Company's ongoing financial stability and sustainability. The Board's statement on the going concern status is included on page 1 of the AFS.

Integrated report

The Committee reviewed the Group's F2020 Integrated Report to satisfy itself as to the integrity thereof, including an appropriate and consistent view of the Group's position and performance relative to operational and financial information known to the Committee.

Impact of the Covid-19 pandemic on financial reporting

Since March 2020, when Covid-19 was declared a pandemic by the World Health Organization, it became a key focus for the Board and its committees, which is dealt with in more detail on page 11 of the Integrated Report. In respect of the financial impact in this regard, the Board received regular reports in this regard and the impact of the pandemic from an operational, solvency and liquidity and financial performance perspective. At a Special Board meeting in May 2020, the Board considered an in-depth analysis of the impact, including an outlook, on the Company's financial stability and sustainability.

The Committee considered the following matters in relation to the impact of the Covid-19 pandemic on the current year's financial reporting:

- An assessment of the Company's ability to deliver the F2020 year-end, financial reporting and audit while working remotely
- Potential delays in the execution of the internal audit plan as a result of remote working
- An assessment of the impact of and response to various guidance notes issued by the FSCA, the JSE and SAICA, satisfying itself that management has adequately considered the impact of Covid-19 in its accounting procedures, as well as financial reporting and disclosures

External audit quality and independence

On the recommendation of the Committee, the Board resolved to early adopt MAFR. Consequently, PwC has rotated off the Company's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019. EY was appointed as external auditors at the Company's annual general meeting on 26 November 2019.

In accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements, the Committee has requested and received the information outlined in paragraph 22.15(h) of the JSE Listings Requirements from EY, in order to assess the internal audit governance processes within the audit firm to support and demonstrate its claim of independence. The Committee assessed and is satisfied with the suitability of EY and the designated auditor, Cornea De Villiers, following inspection of the required reports, in line with the JSE Listings Requirements. Furthermore, in accordance with Section 94(8) of the Companies Act, the Committee was satisfied with the independence and objectivity of EY in carrying out their duties as external auditors.

The Committee has satisfied itself that, EY, with Cornea De Villiers as the designated auditor, satisfactorily fulfilled their responsibilities as the external auditors and designated auditor, respectively, during the financial year.

External audit fees are disclosed on page 108 within note 25 to the AFS. All the non-audit services (disclosed on page 108, note 25 of the AFS) provided by the external auditors were approved by the Committee in accordance with the policy for the provision of non-audit services.

The Committee's response to key audit matters reported by the external auditors

Key audit matters (KAMs) are matters that, in the external auditor's professional judgement, were of most significance in the audit of the AFS for the current financial year. The Committee considers these matters as follows:

Valuation of insurance contract liabilities

The valuation of insurance liabilities is a critical focus area for the Committee. The Committee reviews the key assumptions used and reasons for basis changes and other adjustments to understand the impact it would have on the calculations. The Committee relies on the Momentum Metropolitan Actuarial Committee (the Actuarial Committee) to interrogate the calculations and feedback from the Chair of that committee is received by the Audit Committee. During the current year the assumptions and valuation methodology that were applied to determine the additional provisions against potential adverse claims experience and policyholder behaviour as a result of the Covid-19 pandemic, were assessed by both the Committee and the Actuarial Committee during special meetings early in the financial reporting process. Other basis changes were also assessed. The Committee is satisfied that the KAM has been adequately addressed and disclosed.

Valuation of complex and illiquid financial instruments

The Committee has considered the methodology and consistency thereof, which the Group applies to determine the fair value of its property portfolio, mark-to-model assets and credit instruments. The Committee has interrogated management's assumptions and judgements, with specific consideration to the judgements applied to take account of the economic impact of the Covid-19 pandemic on the property portfolio and credit instruments held. To this end the Committee was comfortable with these valuations and that the related judgements in this regard are appropriate and adequately disclosed.

Valuation of investments in subsidiaries held by Momentum Metropolitan Holdings

The Committee has reviewed the directors' valuations of subsidiaries and also received feedback from the Actuarial Committee on the consistency of the methodology employed. The Committee considered management's assumptions and judgement applied in this regard and is comfortable with the impairment tests performed and that this KAM has been adequately addressed and disclosed.

F2021 objectives

An overview of the Committee's terms of reference, focus areas for the current year and F2021 objectives are included on page 42 of the Group's integrated report.

The key items of focus for the F2021 year are:

- ongoing monitoring of the Group's readiness for the introduction of IFRS 17;
- considering the ability to achieve greater combined assurance and reliance by external audit on the work of internal audit;
- a deeper dive into the strength and capacity of the finance skills at a Group and business unit level;
- continue to monitor the impact of the Covid-19 pandemic on financial reporting.

Linda de Beer
Chair: Audit Committee

8 September 2020

STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	2020 Rm	Restated 2019[1] Rm	Restated 1 July 2018[1] Rm	Notes
Assets				
Intangible assets	**10 339**	9 633	10 484	2
Owner-occupied properties	**3 598**	3 698	2 999	3
Property and equipment	**387**	381	323	
Investment properties	**9 042**	9 034	9 479	4
Properties under development	**118**	192	136	
Investments in associates and joint ventures	**905**	792	636	5
Employee benefit assets	**652**	469	436	
Financial assets at fair value through profit and loss (FVPL)	**426 887**	421 302	409 662	6.1
Financial assets at amortised cost	**9 743**	17 073	5 999	6.2
Reinsurance contract assets	**6 142**	5 912	4 989	7
Deferred income tax	**862**	599	290	13
Insurance and other receivables	**5 371**	5 286	4 983	6.3
Current income tax assets	**371**	184	283	
Assets relating to disposal groups held for sale	**229**	989	–	Annex H
Cash and cash equivalents	**31 747**	27 061	25 801	6.4
Total assets	**506 393**	502 605	476 500	
Equity				
Equity attributable to owners of the parent	**22 537**	23 020	22 288	
Share capital	**13 170**	13 340	13 767	15
Other components of equity	**2 257**	1 721	1 767	16
Retained earnings	**7 110**	7 959	6 754	
Non-controlling interests	**410**	526	462	
Total equity	**22 947**	23 546	22 750	
Liabilities				
Insurance contract liabilities				
Long-term insurance contracts	**114 545**	120 252	114 630	8.1
Non-life insurance contracts	**11 287**	9 603	8 728	8.2
Capitation contracts	**9**	14	9	
Investment contracts	**280 174**	270 610	266 945	
– with discretionary participation features (DPF)	**18 320**	20 573	20 906	9.1
– designated at fair value through profit and loss	**261 854**	250 037	246 039	9.2
Financial liabilities at fair value through profit and loss	**45 946**	42 806	39 667	11.1
Financial liabilities at amortised cost	**4 610**	3 007	3 437	11.2
Reinsurance contract liabilities	**2 277**	1 912	1 685	12
Deferred income tax	**2 926**	3 222	2 868	13
Employee benefit obligations	**1 228**	1 339	1 153	14.1
Other payables	**19 979**	24 976	14 303	11.3
Provisions	**76**	112	73	
Current income tax liabilities	**238**	459	252	
Liabilities relating to disposal groups held for sale	**151**	747	–	Annex H
Total liabilities	**483 446**	479 059	453 750	
Total equity and liabilities	**506 393**	502 605	476 500	

[1] Refer to Annexure I for more information on the restatements.

INCOME STATEMENT

For the year ended 30 June 2020

	2020 Rm	Restated 2019[1] Rm	Notes
Insurance premiums	**49 294**	51 491	
Insurance premiums ceded to reinsurers	**(16 013)**	(14 693)	
Net insurance premiums	**33 281**	36 798	17
Fee income	**8 418**	8 332	18
Contract administration	**2 933**	2 637	
Health administration	**2 028**	1 931	
Trust and fiduciary services	**1 326**	1 417	
Cell captive commission	**1 190**	1 379	
Other fee income	**941**	968	
Investment income	**22 442**	22 088	19
Amortised cost	**1 593**	1 344	
Other investment income	**20 849**	20 744	
Net realised and unrealised fair value (losses)/gains	**(12 711)**	1 570	20
Net income	**51 430**	68 788	
Insurance benefits and claims	**35 357**	34 919	
Insurance claims recovered from reinsurers	**(8 357)**	(7 966)	
Net insurance benefits and claims	**27 000**	26 953	21
Change in actuarial liabilities and related reinsurance	**(9 524)**	5 330	
Change in long-term insurance contract liabilities	**(7 501)**	5 522	
Change in non-life insurance contract liabilities	**(28)**	110	8.2.3
Change in investment contracts with DPF liabilities	**(2 187)**	(171)	
Change in reinsurance assets	**(165)**	(377)	7
Change in reinsurance liabilities	**357**	246	12
Fair value adjustments on investment contract liabilities	**6 442**	9 144	9.2
Fair value adjustments on collective investment scheme (CIS) liabilities	**1 613**	(428)	
Depreciation. amortisation and impairment expenses	**2 125**	1 343	22
Employee benefit expenses	**6 354**	6 168	23
Sales remuneration	**6 634**	6 079	24
Other expenses	**6 856**	7 430	25
Expenses	**47 500**	62 019	
Results of operations	**3 930**	6 769	
Share of loss of associates and joint ventures	**(282)**	(269)	5
Finance costs	**(1 085)**	(1 021)	26
Profit before tax	**2 563**	5 479	
Income tax expense	**(2 277)**	(3 069)	27
Earnings for year	**286**	2 410	
Attributable to:			
Owners of the parent	**178**	2 255	1
Non-controlling interests	**108**	155	
	286	2 410	
Basic earnings per ordinary share (cents)	**12.3**	153.1	1
Diluted earnings per ordinary share (cents)	**12.3**	151.6	1

[1] Refer to Annexure I for more information on the restatements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 Rm	2019 Rm	Notes
Earnings for year	**286**	2 410	
Other comprehensive income/(loss), net of tax[1]	**665**	(57)	
Items that may subsequently be reclassified to income	**411**	28	
Exchange differences on translating foreign operations[2]	**375**	17	16
Share of other comprehensive income of associates	**36**	11	16
Items that will not be reclassified to income	**254**	(85)	
Own credit gains on financial liabilities designated at fair value through profit and loss	**69**	–	11
Land and building revaluation	**31**	(146)	16
Remeasurements of post-employee benefit funds	**163**	1	16
Income tax relating to items that will not be reclassified	**(9)**	60	16
Total comprehensive income for year	**951**	2 353	
Total comprehensive income attributable to:			
Owners of the parent	**836**	2 198	
Non-controlling interests	**115**	155	
	951	2 353	

1 Included within other comprehensive income is R13 million (2019: R6 million) relating to disposal groups held for sale at the end of the respective period.

2 In the current year, R43 million represents the Foreign Currency Translation Reserve (FCTR) reversal on the sale of UBA Metropolitan Life Insurance Ltd (Nigeria) and Financial Partners Ltd, giving rise to a loss of the same extent in the income statement. In the prior year, R1 million represented the FCTR reversal on the sale of Mauritius Life, that gave rise to a loss of the same extent in the income statement.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2018	9	13 758	1 767	6 794	22 328	462	22 790	
IFRS 9 opening adjustment[1]	–	–	–	(40)	(40)	–	(40)	
Adjusted opening balance	9	13 758	1 767	6 754	22 288	462	22 750	
Total comprehensive (loss)/income	–	–	(57)	2 255	2 198	155	2 353	
Income statement	–	–	–	2 255	2 255	155	2 410	
Other comprehensive loss	–	–	(57)	–	(57)	–	(57)	
Dividend paid	–	–	–	(509)	(509)	(90)	(599)	
Share schemes – value of services provided	–	–	24	–	24	–	24	
Decrease in treasury shares held on behalf of contract holders	–	60	–	–	60	–	60	
Increase in treasury shares held by subsidiary for shareholders	–	(487)	–	–	(487)	–	(487)	
Transfer to retained earnings from other reserves	–	–	(22)	22	–	–	–	
Transactions with non-controlling interests	–	–	–	(19)	(19)	(1)	(20)	
Change in non-distributable reserves	–	–	9	–	9	–	9	
Shares repurchased	–	–	–	(544)	(544)	–	(544)	15
Balance at 1 July 2019	**9**	**13 331**	**1 721**	**7 959**	**23 020**	**526**	**23 546**	
IFRS 16 opening adjustment[1]	–	–	–	(19)	(19)	–	(19)	
Adjusted opening balance	9	13 331	1 721	7 940	23 001	526	23 527	
Total comprehensive income	–	–	589	247	836	115	951	
Income statement	–	–	–	178	178	108	286	
Other comprehensive income	–	–	589	69	658	7	665	
Dividend paid	–	–	–	(1 092)	(1 092)	(178)	(1 270)	
Increase in treasury shares held on behalf of contract holders	–	(170)	–	–	(170)	–	(170)	
Transfer to retained earnings from other reserves	–	–	(34)	34	–	–	–	
Transactions with non-controlling interests[2]	–	–	–	(19)	(19)	(33)	(52)	
Sale of subsidiary	–	–	–		–	(20)	(20)	
Change in non-distributable reserves	–	–	(19)	–	(19)		(19)	
Balance at 30 June 2020	**9**	**13 161**	**2 257**	**7 110**	**22 537**	**410**	**22 947**	

[1] The Group adopted IFRS 9 in the prior year and IFRS 16 in the current year. Refer to Annexure G for more detail in respect of IFRS 16.
[2] This mainly relates to the Momentum Metropolitan Namibia Group change in percentage holding from 90.14% to 99.28% in the current year.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	2020 Rm	Restated 2019[1] Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(11 846)**	(14 996)	28.1
Interest received	**15 825**	14 909	
Dividends received	**5 289**	5 679	
Income tax paid	**(3 370)**	(2 664)	28.2
Interest paid	**(1 013)**	(1 000)	28.3
Net cash inflow from operating activities	**4 885**	1 928	
Cash flow from investing activities			
Investment in subsidiaries	**(1 437)**	–	
Proceeds from disposal of subsidiaries	**113**	–	28.5
Investment in associates and joint ventures	**(379)**	(463)	
Loans advanced to related parties	**(49)**	(53)	
Loans repaid by related parties	**70**	126	
Purchase of owner-occupied properties	**(211)**	(80)	
Proceeds from disposal of owner-occupied properties	**7**	22	
Purchase of property and equipment	**(248)**	(288)	
Proceeds from disposal of property and equipment	**63**	33	
Purchase of computer software	**(63)**	(71)	
Proceeds from disposal of computer software	**4**	–	
Dividends from associates	**12**	49	
Net cash outflow from investing activities	**(2 118)**	(725)	
Cash flow from financing activities			
Proceeds from borrowings	**8 737**	7 249	28.4
Repayment of borrowings	**(6 747)**	(5 349)	28.4
Dividends paid to equity holders	**(1 092)**	(509)	
Dividends paid to non-controlling interest shareholders	**(178)**	(90)	
Purchase of treasury shares held on behalf of contract holders	**(531)**	(50)	
Proceeds from disposal of treasury shares held on behalf of contract holders	**361**	112	
Purchase of treasury shares held by subsidiary for shareholders	**–**	(487)	
Shares purchased from non-controlling interest shareholders	**(90)**	(9)	
Payments for purchase of shares to non-controlling interest shareholders	**38**	–	
Other equity transactions	**–**	(2)	
Subordinated call notes issued	**750**	750	28.4
Subordinated call notes repaid	**(750)**	(750)	28.4
Shares repurchased	**–**	(544)	
Net cash inflow from financing activities	**498**	321	
Net cash flow	**3 265**	1 524	
Cash resources and funds on deposit at beginning	**27 325**	25 801	
Foreign currency translation	**1 255**	–	
Cash resources and funds on deposit at end	**31 845**	27 325	
Made up as follows:			
Cash and cash equivalents	**31 747**	27 061	6.4
Assets relating to disposal groups held for sale	**98**	264	Annex H
	31 845	27 325	

[1] Refer to the restatements note for more information on the restatements.

The financial statements, as set out below, have been prepared in accordance with IFRS, IFRIC interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Council), the Listings Requirements of the JSE and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- Owner-occupied and investment properties
- Investments in associates at fair value through profit and loss
- Financial assets at fair value through profit and loss
- Investment contract liabilities designated at fair value through profit and loss and financial liabilities at fair value through profit and loss
- Liabilities for cash-settled share-based payment arrangements

Other measurement basis

- Insurance contracts, investment contracts with DPF and reinsurance contracts valued using the Financial Soundness Valuation (FSV) basis as set out in Standard of Actuarial Practice (SAP) 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- Non-life insurance contracts valued using the Insurance Act, 18 of 2017
- Employee benefit obligations measured using the projected unit credit method
- Investments in associates and joint ventures measured using the equity method of accounting
- Assets and liabilities relating to disposal groups held for sale measured at the lower of carrying value or fair value less cost to sell

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in Annexure D. These policies have been consistently applied to all the years presented except specific restatements being listed in Annexure I of the AFS.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the consolidated financial statements. The use of judgement is especially more complex in the current year due to the Covid-19 pandemic and the resultant current economic environment the Group is currently operating in. These judgements, assumptions and estimates are disclosed in detail in the notes to the AFS and in a summary in the Critical judgements and accounting estimates note.

The preparation of the Group's consolidated results was supervised by the Group Finance Director, Risto Ketola (FIA, FASSA, CFA Charterholder) and have been audited by EY in compliance with the requirements of the Companies Act, 71 of 2008.

Published standards, amendments and interpretations effective for June 2020 financial period

The following published standards are mandatory for the Group's accounting period beginning on or after 1 July 2019 and have been implemented in accordance with the transitional provisions of these standards:

- IFRIC 23 – Uncertainty over income tax treatments
- IFRS 9 (Amendments) – Financial instruments
- IAS 28 (Amendments) – Investments in associates and joint ventures
- IAS 19 (Amendments) – Employee benefits
- IFRS 16 – Leases

Improvements project amendments 2015 – 2017

- IFRS 3 – Business combinations
- IAS 28 – Investments in associates and joint ventures
- IFRS 11 – Joint arrangements
- IAS 12 – Income taxes
- IAS 23 – Borrowing costs

These new and amended standards, other than IFRS 16, had no financial impact on the Group's earnings or net asset value. Refer to Annexure G for more information on IFRS 16.

Preparation of financial statements

The consolidated financial statements are prepared on the going concern basis of accounting. The statement of financial position is presented based on liquidity. The income statement is presented on the nature of expense method; however, sales remuneration is separately disclosed. In the statement of cash flows, the cash flows from operating activities are reported on the indirect method. The consolidated financial statements are presented in South African rand, which is the functional currency of the parent.

Application of accounting policies

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the Group. Management applies judgement in determining best estimates of future experience. Judgements are based on historical experience and management's best-estimate expectations of future events. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying amount of the affected assets and liabilities. The Covid-19 pandemic and resultant significant volatility of markets have created uncertainty in the Group's current and expected future operating environment. This uncertainty has an impact on the judgements and estimates used in preparation of the financial statements. All business across the Group reviewed their bottom-up forecasted cash flows to account for the potential impact of the pandemic on its assumptions including revenue growth, claims experience, expenses and lapse rates *inter alia*. These have been incorporated into the projections which are used as inputs in various valuations models. The critical judgements and estimates made in applying the Group's accounting policies are detailed in the notes to the annual financial statements, as listed below:

- Impairment testing of intangible assets – note 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Valuation of financial assets – note 6
- Assessment of control over collective investment schemes – note 6
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 7, 10 and 12
- Provision for deferred tax – note 13
- Business combination – acquisition of Momentum Insurance – note 29
- Assessment of the principles of IFRS 15 around the timing of revenue recognition – Annexure D23
- Valuation assumptions for financial instruments – Annexure E
- Valuation assumptions for cash-settled arrangements – Annexure F

The Group's reporting view reflects the following segments:

- **Momentum Life:** Momentum Life includes protection, savings and life insurance products focused on the middle and affluent client segments.
- **Momentum Investments:** Momentum Investments consists of the Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments, as well as Eris Properties.
- **Metropolitan Life:** Metropolitan Life focusses on the lower and middle income retail market segment, with a range of protection and savings products.
- **Momentum Corporate:** Momentum Corporate offers group risk, annuities, pension savings and umbrella fund (FundsAtWork) products and includes Momentum Metropolitan's health business.
- **Momentum Metropolitan Africa:** This segment includes the Group's African operations.
- **Non-life Insurance:** Non-life Insurance comprises the retail general insurance offering, Momentum Short-term Insurance, Momentum Insurance, and the cell captive insurer, Guardrisk.
- **New Initiatives:** This includes India, aYo, Multiply Money, Lending, Exponential Ventures and Momentum Consult.
- **Shareholders:** The Shareholders segment reflects investment income on capital held to support South African operations and some costs not allocated to operating segments (eg certain holding company expenses).

Intergroup fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Intergroup charges are eliminated in the 'Reconciling items' column. No individual customer generates more than 10% of revenue for the Group.

The executive committee of the Group assesses the performance of the operating segments based on normalised headline earnings. Normalised headline earnings adjust the standard JSE definition of headline earnings for the dilutive impact of finance costs related to preference shares that can be converted into ordinary shares of the Group, the impact of treasury shares, the amortisation of intangible assets arising from business combinations and B-BBEE costs. It includes basis changes and investment variances. For insurance operating segments (excluding Momentum Metropolitan Africa), normalised headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a Group basis and is therefore included in the Shareholders segment.

A reconciliation of earnings to normalised headline earnings is provided in note 1.

Refer to the EV report for in depth detail on covered business.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The 'Reconciling items' column represents the IFRS accounting reclassifications and adjustments that are required to reconcile management information to the IFRS financial statements. More information has been provided as a footnote.

1 Normalised headline earnings

Group earnings per ordinary share attributable to owners of the parent	Basic earnings 2020	Basic earnings 2019	Diluted earnings[1] 2020	Diluted earnings[1] 2019
Earnings (cents per share)[2]	**12.3**	153.1	**12.3**	151.6
Headline earnings (cents per share)	**71.3**	168.0	**71.3**	166.2
Normalised headline earnings (cents per share)			**101.5**	202.5

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings 2020 Rm	Basic earnings 2019 Rm	Diluted earnings 2020 Rm	Diluted earnings 2019 Rm
Earnings – equity holders of Group	**178**	2 255	**178**	2 255
Finance costs – convertible preference shares[3]			**–**	37
Dilutory effect of subsidiaries[4]			**–**	(17)
Diluted earnings			**178**	2 275
Loss on step-up of joint venture	**8**	–	**8**	–
Intangible asset impairments[5]	**349**	77	**349**	77
Tax on intangible asset impairments	**(34)**	(15)	**(34)**	(15)
Impairment of fixed assets	**–**	22	**–**	22
Gain on sale of subsidiary[6]	**(118)**	(6)	**(118)**	(6)
Impairments relating to held for sale entities	**52**	87	**52**	87
FCTR reversal on sale of foreign subsidiary[6]	**43**	1	**43**	1
Impairment of owner-occupied property below cost[7]	**568**	66	**568**	66
Tax on impairment of owner-occupied property below cost	**(10)**	(13)	**(10)**	(13)
Headline earnings[8]	**1 036**	2 474	**1 036**	2 494
Adjustments for MMH shares held by policyholder funds			**(18)**	35
Amortisation of intangible assets relating to business combinations			**466**	522
B-BBEE cost			**–**	23
Finance costs – convertible preference shares[3]			**37**	–
Normalised headline earnings[9]			**1 521**	3 074

Group earnings per ordinary share attributable to owners of the parent	Basic earnings 2020	Basic earnings 2019	Diluted earnings 2020	Diluted earnings 2019
Weighted average number of ordinary shares in issue (million)	**1 452**	1 473	**1 452**	1 473
Adjustments for				
Assumed conversion of 28 million (2019: 28 million) preference shares (weighted)[1]			**–**	28
Weighted average – earnings and headline earnings (million)			**1 452**	1 501
Assumed conversion of 28 million (2019: 28 million) preference shares (weighted)[1]			**28**	–
Treasury shares held on behalf of contract holders			**19**	17
Weighted average – normalised headline earnings (million)[10]			**1 499**	1 518

1 Diluted earnings per share – This is calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares do not have dilutive potential in the current year. For diluted headline earnings and earnings, these preference shares have therefore been ignored in accordance with IAS 33. Normalised headline earnings treats the preference shares as if they were ordinary equity. This treatment is consistent with how the preference shares were treated in prior years. The preference shares are assumed to have been converted into ordinary shares and normalised headline earnings is adjusted to eliminate the interest expense.

2 Basic earnings per share – In calculating the basic earnings per share, the exclusion from the income statement of the income in respect of treasury shares requires that these shares similarly be excluded from the weighted average number of ordinary shares in issue.

3 The finance costs relating to the KTH preference shares are anti-dilutive in the current year and it will accordingly only be taken into account in the calculation of diluted normalised headline earnings.

4 For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated. The dilutive put option in respect of the Momentum Metropolitan Namibia Group was settled, resulting in the adjustment no longer being required and the shareholding in the Momentum Metropolitan Namibia Group being reduced to 0.7%

5 The June 2020 impairments relate mainly to:

- Goodwill, customer relationships, brands, and broker network in Non-life Insurance due to a lower recoverable amount.
- Computer software in Shareholders, Momentum Life, and Momentum Corporate (Momentum Metropolitan's health business) due to the software no longer being in use.
- Value of in-force business acquired (VOBA) in Shareholders due to a decrease in the asset values that back these liabilities.

The prior year included impairments relating to:

- Customer relationships in Momentum Metropolitan Africa due to a decline in the directors' valuation.
- Goodwill and customer relationships in Momentum Corporate (Momentum Metropolitan's health business) due to a decline in directors' valuation.

6 The current year relates to the sale of UBA Metropolitan Life Insurance Ltd (Nigeria) and Metropolitan Life Swaziland Ltd in the Momentum Metropolitan Africa segment and Financial Partners Ltd in the Momentum Investments segment. The prior year relates to the sale of Mauritius Life in the Momentum Metropolitan Africa segment.

7 The impairment in the current year mainly relates to the impairment of the Marc, Tower 2. The value of the property was previously recorded at the cost of development as it was still under construction. The impairment can largely be attributed to the decline in market rental rates for office property in Sandton in recent years, as well as considering the weak property market outlook as a result of the Covid-19 pandemic.

8 Headline earnings consist of operating profit, investment income, net realised and unrealised fair value gains, investment variances and basis and other changes. The long-term insurance industry exemption which allows that net realised and unrealised fair value gains on investment properties not being excluded from headline earnings has been applied.

9 Normalised headline earnings adjust for gains and losses relating to MMH shares held by policyholder funds, the amortisation of intangible assets relating to business combinations as well as B-BBEE costs. It includes basis changes and investment variances of negative R1 560 million (Restated 30.06.2019: negative R54 million). The Group has aligned the definition of investment variances between EV and published reporting in light of the alignment between the liability basis used. The Group believes this consistency will enhance the readers understanding of the supplementary information disclosed. June 2019 has been restated accordingly.

10 For normalised headline earnings per share, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings per share, treasury shares held on behalf of contract holders are deemed to be cancelled.

1 **Normalised headline earnings** continued

	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm
12 mths to 30.06.2020				
Revenue				
Net insurance premiums	9 466	24 067	7 085	16 197
Recurring premiums	8 896	734	6 025	13 182
Single premiums	570	23 333	1 060	3 015
Fee income	1 316	3 288	116	3 056
Fee income	1 272	2 732	116	2 987
Intergroup fee income	44	556	–	69
Expenses				
Net payments to contract holders				
External payments	9 093	22 658	5 435	15 685
Other expenses[4]	3 368	3 025	2 540	3 481
Sales remuneration	1 277	829	1 075	130
Administration expenses	1 754	1 722	1 419	2 765
Asset management, direct property and other fee expenses	218	360	–	8
Intergroup expenses	119	114	46	578
Income tax	–	91	–	67
Normalised headline earnings	416	303	302	260
Operating profit/(loss)[5]	591	403	422	340
Tax on operating profit/(loss)	(191)	(104)	(120)	(94)
Investment income	22	14	–	25
Tax on investment income	(6)	(3)	–	(7)
Fair value (losses)/gains	–	(11)	–	(5)
Tax on fair value (losses)/gains	–	4	–	1
Covered	469	172	302	115
Non-covered	(53)	131	–	145
	416	303	302	260
Basis changes and investment variances[6]	(271)	(272)	(412)	(470)
Actuarial liabilities	69 850	165 471	33 800	94 022

1 The 'Momentum Metropolitan Africa' column includes amounts received/incurred by companies the Group has decided to exit as at the end of the respective period: Net insurance premiums R567 million; external payments R335 million and administration expenses R272 million.

2 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; direct property (R478 million) and asset management fees for all entities (R459 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business (R1 678 million); the amortisation of intangible assets relating to business combinations (R662 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

3 The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R24 153 million, and the total of such non-current assets located in other countries is R236 million.

4 Other expenses consists of the following line items on the income statement: depreciation, amortisation and impairment expenses, employee benefit expenses, sales remuneration and other expenses.

5 Operating profit is normalised headline earnings less tax, investment income and fair value gains.

6 Basis changes and investment variances are included in normalised headline earnings and are net of tax. The reported numbers represent basis changes on in-force business and investment variances that are aligned with EV reporting.

Non-life Insurance Rm	Momentum Metropolitan Africa[1] Rm	New Initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[2] Rm	IFRS total[3] Rm	Notes
13 527	4 698	–	–	75 040	(41 759)	33 281	1.4
9 745	3 926	–	–	42 508	(12 994)	29 514	
3 782	772	–	–	32 532	(28 765)	3 767	
1 398	314	29	49	9 566	(1 148)	8 418	
1 398	314	25	–	8 844	(426)	8 418	1.3, 1.4
–	–	4	49	722	(722)	–	
4 984	2 518	–	–	60 373	(33 373)	27 000	
4 106	1 861	254	748	19 383	2 586	21 969	
2 611	703	9	–	6 634	–	6 634	
1 368	922	240	1 224	11 414	2 371	13 785	
–	3	–	24	613	937	1 550	
127	233	5	(500)	722	(722)	–	
1 217	65	–	47	1 487	790	2 277	
405	317	(509)	27	1 521	–	1 521	1.1
337	111	(522)	(125)	1 557	–	1 557	
(95)	(25)	7	(185)	(807)	–	(807)	
225	233	7	404	930	–	930	
(63)	17	–	(63)	(125)	–	(125)	
1	(26)	(1)	11	(31)	–	(31)	
–	7	–	(15)	(3)	–	(3)	
–	353	–	187	1 598	–	1 598	1.2
405	(36)	(509)	(160)	(77)	–	(77)	1.2
405	317	(509)	27	1 521	–	1 521	
–	(135)	–	–	(1 560)	–	(1 560)	
29 226	13 646	–	–	406 015	–	406 015	

1 **Normalised headline earnings** continued

Restated	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm
12 mths to 30.06.2019[4]				
Revenue				
Net insurance premiums	9 213	21 039	7 052	20 991
Recurring premiums	8 795	534	5 931	12 601
Single premiums	418	20 505	1 121	8 390
Fee income	1 160	3 345	121	2 842
Fee income	1 126	2 802	121	2 809
Intergroup fee income	34	543	–	33
Expenses				
Net payments to contract holders				
External payments	9 726	26 759	5 804	15 763
Other expenses[5]	3 555	3 094	2 488	3 348
Sales remuneration	1 346	816	984	124
Administration expenses	1 712	1 755	1 463	2 758
Asset management, direct property and other fee expenses	340	335	–	8
Intergroup expenses	157	188	41	458
Income tax	(16)	49	–	33
Normalised headline earnings	883	512	610	601
Operating profit/(loss)[6]	1 224	591	850	813
Tax on operating profit/(loss)	(359)	(119)	(240)	(235)
Investment income	25	38	–	32
Tax on investment income	(7)	(10)	–	(8)
Fair value gains/(losses)	–	16	–	(1)
Tax on fair value gains/(losses)	–	(4)	–	–
Covered	967	355	610	475
Non-covered	(84)	157	–	126
	883	512	610	601
Basis changes and investment variances[7,8]	(99)	(41)	4	22
Actuarial liabilities	73 825	159 236	35 655	96 220

1 The 'Momentum Metropolitan Africa' column includes amounts received/incurred by companies the Group has decided to exit as at the end of the respective period: Net insurance premiums R774 million; external payments R506 million and administration expenses R362 million.

2 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; direct property (R471 million) and asset management fees for all entities (R499 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business (R1 970 million); the amortisation of intangible assets relating to business combinations (R751 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

3 The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 421 million, and the total of such non-current assets located in other countries is R309 million.

4 Refer to Annexure I for more information on the restatements.

5 Other expenses consists of the following line items on the income statement: depreciation, amortisation and impairment expenses, employee benefit expenses, sales remuneration and other expenses.

6 Operating profit is normalised headline earnings less tax, investment income and fair value gains.

7 Basis changes and investment variances are included in normalised headline earnings and are net of tax. The reported numbers represent basis changes on in-force business and investment variances that are aligned with EV reporting.

8 The Group has aligned the definition of investment variances between EV and published reporting in light of the alignment between the liability basis used. The Group believes this consistency will enhance the readers understanding of the supplementary information disclosed. June 2019 has been restated accordingly.

Non-life Insurance Rm	Momentum Metropolitan Africa[1] Rm	New Initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[2] Rm	IFRS total[3] Rm	Notes
10 165	4 692	–	–	73 152	(36 354)	36 798	1.4
8 081	4 139	–	–	40 081	(14 340)	25 741	
2 084	553	–	–	33 071	(22 014)	11 057	
1 528	293	44	77	9 410	(1 078)	8 332	
1 527	293	42	–	8 720	(388)	8 332	1.3, 1.4
1	–	2	77	690	(690)	–	
4 893	2 802	–	–	65 747	(38 794)	26 953	
3 127	1 813	248	290	17 963	3 057	21 020	
2 191	618	–	–	6 079	–	6 079	
838	989	235	730	10 480	2 759	13 239	
–	3	–	28	714	988	1 702	
98	203	13	(468)	690	(690)	–	
1 309	142	–	45	1 562	1 507	3 069	
164	262	(492)	534	3 074	–	3 074	1.1
44	102	(489)	(119)	3 016	–	3 016	
(25)	(53)	(14)	(44)	(1 089)	–	(1 089)	
201	246	13	608	1 163	–	1 163	
(56)	(18)	(2)	(114)	(215)	–	(215)	
–	(9)	–	258	264	–	264	
–	(6)	–	(55)	(65)	–	(65)	
–	304	–	507	3 218	–	3 218	1.2
164	(42)	(492)	27	(144)	–	(144)	1.2
164	262	(492)	534	3 074	–	3 074	
–	60	–	–	(54)	–	(54)	
22 392	13 151	–	–	400 479	–	400 479	

1 Normalised headline earnings continued

1.1 Change in normalised headline earnings

	Change %	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm	Notes
Momentum Life	(53)	416	883	
Momentum Investments	(41)	303	512	
Metropolitan Life	(50)	302	610	
Momentum Corporate	(57)	260	601	
Non-life Insurance	147	405	164	
Momentum Metropolitan Africa	21	317	262	
Normalised headline earnings from operating segments	(34)	2 003	3 032	
New Initiatives	(3)	(509)	(492)	
Shareholders	(95)	27	534	
Total normalised headline earnings	(51)	1 521	3 074	1

1.2 Segmental analysis

Covered definitions

Protection: This includes all life insurance business, generally open to new business. Momentum Life includes the Myriad protection business; Metropolitan Life includes all funeral business and Momentum Corporate includes all risk business.

Long-term savings: This includes all recurring and single premium savings business, generally open to new business.

Annuities and structured products: This includes all guaranteed investment and life annuities as well as guaranteed structured products in Momentum Investments.

Traditional: Includes all older generation products (universal life, conventional with and with-out profit).

Other: Includes all Momentum Metropolitan African covered business, miscellaneous reserves and unallocated sources of revenue and expenses.

1 Normalised headline earnings continued

1.2 Segmental analysis continued

	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Share-holders Rm	Total Rm	Notes
12 mths to 30.06.2020										
Covered										
Protection	338	–	260	(34)	–	–	–	–	564	
Long-term savings	142	97	153	(24)	–	–	–	–	368	
Annuities and structured products	–	74	(124)	180	–	–	–	–	130	
Traditional	(1)	–	57	–	–	–	–	–	56	
Other	(10)	1	(44)	(7)	–	183	–	(117)	6	
Investment income	–	–	–	–	–	170	–	304	474	
Total	469	172	302	115	–	353	–	187	1 598	1
Non-covered										
Investment and savings	–	131	–	–	–	–	–	–	131	1.2.1
Life insurance	–	–	–	–	–	10	–	–	10	
Health	–	–	–	156	–	69	–	–	225	1.2.2
Momentum Multiply	(46)	–	–	–	–	–	–	–	(46)	
Non-life insurance	–	–	–	–	70	16	–	–	86	1.2.3
Cell captives	–	–	–	–	335	–	–	–	335	1.2.3
Unallocated expenses	–	–	–	–	–	–	–	(143)	(143)	
New initiatives India	–	–	–	–	–	–	(290)	–	(290)	1.2.4
New initiatives aYo	–	–	–	–	–	–	(108)	–	(108)	
Other	(7)	–	–	(11)	–	(131)	(111)	(17)	(277)	
Total	(53)	131	–	145	405	(36)	(509)	(160)	(77)	1
Normalised headline earnings	416	303	302	260	405	317	(509)	27	1 521	

1 Normalised headline earnings continued

1.2 Segmental analysis continued

	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Share-holders Rm	Total Rm	Notes
Restated										
12 mths to 30.06.2019[1]										
Covered										
Protection	492	–	305	112	–	–	–	–	909	
Long-term savings	194	112	236	267	–	–	–	–	809	
Annuities and structured products	–	242	149	67	–	–	–	–	458	
Traditional	279	–	(77)	–	–	–	–	–	202	
Other	2	1	(3)	29	–	186	–	(39)	176	
Investment income	–	–	–	–	–	118	–	546	664	
Total	967	355	610	475	–	304	–	507	3 218	1
Non-covered										
Investment and savings	–	157	–	–	–	–	–	–	157	1.2.1
Life insurance	–	–	–	–	–	(43)	–	–	(43)	
Health	–	–	–	166	–	75	–	–	241	1.2.2
Momentum Multiply	(82)	–	–	–	–	–	–	–	(82)	
Non-life insurance	–	–	–	–	(43)	27	–	–	(16)	1.2.3
Cell captives	–	–	–	–	207	–	–	–	207	1.2.3
Unallocated expenses	–	–	–	–	–	–	–	(117)	(117)	
New initiatives India	–	–	–	–	–	–	(287)	–	(287)	1.2.4
New initiatives aYo	–	–	–	–	–	–	(89)	–	(89)	
Other	(2)	–	–	(40)	–	(101)	(116)	144	(115)	
Total	(84)	157	–	126	164	(42)	(492)	27	(144)	1
Normalised headline earnings	883	512	610	601	164	262	(492)	534	3 074	

[1] The Group has paired the releases of distinct discretionary margins with the most relevant product to more accurately reflect the net impact of the releases with the performance of the products. June 2019 has been restated accordingly.

1 Normalised headline earnings continued

1.2 Segmental analysis continued

1.2.1 Momentum Investments – non-covered business

	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm	Notes
Revenue	**1 657**	1 713	
Fee income	**1 614**	1 630	
Performance fees	**1**	5	
Investment income	**47**	69	
Fair value gains	**(5)**	9	
Expenses and finance costs	**(1 466)**	(1 523)	
Other expenses	**(1 424)**	(1 476)	
Finance costs	**(42)**	(47)	
Share of profit of associates	**3**	–	
Profit before tax	**194**	190	
Income tax expense	**(64)**	(20)	
Non-controlling interest	**1**	(13)	
Normalised headline earnings	**131**	157	
Operating profit before tax	**186**	151	
Tax on operating profit	**(57)**	(10)	
Investment income	**10**	23	
Tax on investment income	**(3)**	(6)	
Fair value losses	**(6)**	(1)	
Tax on fair value losses	**1**	–	
Normalised headline earnings	**131**	157	1.2
Assets under management at year-end	**436 283**	446 804	

1 Normalised headline earnings continued

1.2 Segmental analysis continued

1.2.2 Health – non-covered business

	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm	Notes
12 mnths to 30.06.2020				
Revenue	2 930	834	3 764	
Net insurance premiums	857	585	1 442	
Fee income	2 036	213	2 249	
Investment income	35	36	71	
Intergroup fees	2	–	2	
Expenses and finance costs	(2 616)	(682)	(3 298)	
Net payments to contract holders	(602)	(389)	(991)	
Change in actuarial liabilities	(8)	–	(8)	
Other expenses	(2 000)	(290)	(2 290)	
Finance costs	(6)	(3)	(9)	
Share of profit of associates	4	–	4	
Profit before tax	318	152	470	
Income tax expense	(79)	(51)	(130)	
Non-controlling interest	(83)	(32)	(115)	
Normalised headline earnings	156	69	225	1.2
Operating profit before tax	190	72	262	
Tax on operating profit	(46)	(34)	(80)	
Investment income	23	30	53	
Tax on investment income	(7)	–	(7)	
Fair value (losses)/gains	(5)	1	(4)	
Tax on fair value (losses)/gains	1	–	1	
Normalised headline earnings	156	69	225	
Closed schemes	73	69	142	
Open scheme	60	–	60	
Other	23	–	23	
	156	69	225	

	Principal members	Lives
Momentum Corporate principal members	1 108 442	
Momentum Metropolitan Africa lives		427 531

1 Normalised headline earnings continued

1.2 Segmental analysis continued

1.2.2 Health – non-covered business continued

Restated	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm	Notes
12 mths to 30.06.2019[1]				
Revenue	2 769	828	3 597	
Net insurance premiums	785	598	1 383	
Fee income	1 939	202	2 141	
Investment income	40	28	68	
Intergroup fees	5	–	5	
Expenses and finance costs	(2 450)	(671)	(3 121)	
Net payments to contract holders	(555)	(394)	(949)	
Other expenses	(1 892)	(277)	(2 169)	
Finance costs	(3)	–	(3)	
Profit before tax	319	157	476	
Income tax expense	(79)	(46)	(125)	
Non-controlling interests	(74)	(36)	(110)	
Normalised headline earnings	166	75	241	
Operating profit before tax	195	84	279	
Tax on operating profit	(51)	(32)	(83)	
Investment income	31	33	64	
Tax on investment income	(8)	–	(8)	
Fair value losses	(1)	(10)	(11)	
Normalised headline earnings	166	75	241	1.2
Closed schemes	36	75	111	
Open scheme	71	–	71	
Other	59	–	59	
	166	75	241	

1 The restatement relates to the reclassification of intercompany fee income of R40 million to intercompany expense recoveries.

	Principal members	Lives
Momentum Corporate principal members	1 090 634	
Momentum Metropolitan Africa lives		430 222

1 Normalised headline earnings continued

1.2 Segmental analysis continued

1.2.3 Non-life Insurance

	Non-life business Rm	Cell captive business Rm	Momentum Metropolitan Africa Rm	Total Rm	Notes
12 mths to 30.06.2020					
Net insurance premiums	1 320	–	218	1 538	
Fee income	8	774	34	816	
Management fees	–	407	–	407	
Investment fees	–	111	–	111	
Underwriting fees	–	247	–	247	
Other fee income	8	9	34	51	
Investment income	86	179	40	305	
Total income	1 414	953	292	2 659	
Expenses and finance costs	(1 304)	(500)	(273)	(2 077)	
Net payments to contract holders	(660)	–	(114)	(774)	
Acquisition costs[1]	(137)	–	(42)	(179)	
Other expenses	(507)	(481)	(117)	(1 105)	
Finance costs	–	(19)	–	(19)	
Profit before tax	110	453	19	582	
Income tax expense	(40)	(118)	(1)	(159)	
Non-controlling interest	–	–	(2)	(2)	
Normalised headline earnings	70	335	16	421	
Operating profit/(loss) before tax	49	292	(20)	321	
Tax on operating profit/(loss)	(26)	(73)	(1)	(100)	
Investment income	62	163	34	259	
Tax on investment income	(15)	(46)	–	(61)	
Fair value (losses)/gains	–	(1)	3	2	
Normalised headline earnings	70	335	16	421	1.2
Momentum Short-term Insurance (including Admin)	(18)	–	–	(18)	
Momentum Insurance	88	–	–	88	
Guardrisk Group	–	335	–	335	
Swaziland	–	–	2	2	
Tanzania	–	–	4	4	
Momentum Short-term Insurance (Namibia)	–	–	–	–	
Cannon Short-term	–	–	10	10	
	70	335	16	421	

[1] The acquisition costs relating to the cell captive business are included in underwriting profit.

1 Normalised headline earnings continued

1.2 Segmental analysis continued

1.2.3 *Non-life Insurance* continued

	Non-life business Rm	Cell captive business Rm	Momentum Metropolitan Africa Rm	Total Rm	Notes
12 mths to 30.06.2019					
Net insurance premiums	868	–	189	1 057	
Fee income	2	578	38	618	
Management fees	–	296	–	296	
Investment fees	–	94	–	94	
Underwriting fees	–	179	–	179	
Other fee income	2	9	38	49	
Investment income	64	168	48	280	
Total income	934	746	275	1 955	
Expenses and finance costs	(972)	(462)	(253)	(1 687)	
Net payments to contract holders	(554)	–	(96)	(650)	
Change in actuarial liabilities	–	–	(10)	(10)	
Acquisition costs[1]	(121)	–	(37)	(158)	
Other expenses	(297)	(447)	(110)	(854)	
Finance costs	–	(15)	–	(15)	
(Loss)/profit before tax	(38)	284	22	268	
Income tax expense	(5)	(77)	9	(73)	
Non-controlling interest	–	–	(4)	(4)	
Normalised headline earnings	(43)	207	27	191	1.2
Operating (loss)/profit before tax	(87)	133	(27)	19	
Tax on operating (loss)/profit	9	(34)	9	(16)	
Investment income	49	152	27	228	
Tax on investment income	(14)	(44)	–	(58)	
Fair value gains	–	–	18	18	
Normalised headline earnings	(43)	207	27	191	
Momentum Short-term Insurance (including Admin)	(43)	–	–	(43)	
Guardrisk Group	–	207	–	207	
Swaziland	–	–	1	1	
Tanzania	–	–	1	1	
Momentum Short-term Insurance (Namibia)	–	–	7	7	
Cannon Short-term	–	–	18	18	
	(43)	207	27	191	

[1] The acquisition costs relating to the cell captive business are included in underwriting profit.

1 **Normalised headline earnings** continued

1.2 **Segmental analysis** continued

1.2.4 India – non-covered business[1]

	12 mths to 30.06.2020 Rm	12 mths to 30.06.2019 Rm	Notes
Gross written premiums	**1 900**	996	
Net earned premiums	**1 275**	698	
Fee income	**19**	18	
Net incurred claims	**(625)**	(409)	
Total management expenses	**(1 205)**	(784)	
Net commission expenses	**(101)**	(95)	
Underwriting loss	**(637)**	(572)	
Investment income	**91**	37	
Operating loss	**(546)**	(535)	
Investment income on excess	**15**	16	
Loss before and after tax	**(531)**	(519)	
MMH share of results (49%)	**(260)**	(254)	
Group support costs	**(30)**	(33)	
Normalised headline earnings	**(290)**	(287)	1.2
Number of lives	**8 348 644**	2 314 566	

[1] The India results have been reported with a three month lag.

1.3 **Segment IFRS 15 – Revenue from contracts with customers**

	Total revenue in scope of IFRS 15						
	Contract admini-stration Rm	Trust and fiduciary services Rm	Health admini-stration Rm	Cell captive commission Rm	Other fee income Rm	Total fee income Rm	Notes
12 mths to 30.06.2020							
Momentum Life	**886**	**11**	**–**	**–**	**375**	**1 272**	
Momentum Investments	**1 370**	**1 258**	**–**	**–**	**104**	**2 732**	
Metropolitan Life	**54**	**–**	**–**	**–**	**62**	**116**	
Momentum Corporate	**436**	**463**	**2 018**	**–**	**70**	**2 987**	
Non-life Insurance	**154**	**–**	**–**	**1 190**	**54**	**1 398**	
Momentum Metropolitan Africa	**33**	**25**	**10**	**–**	**246**	**314**	
New Initiatives	**–**	**–**	**–**	**–**	**25**	**25**	
Segmental total	**2 933**	**1 757**	**2 028**	**1 190**	**936**	**8 844**	
Reconciling items	**–**	**(431)**	**–**	**–**	**5**	**(426)**	
IFRS total	**2 933**	**1 326**	**2 028**	**1 190**	**941**	**8 418**	1
Restated							
12 mths to 30.06.2019[1]							
Momentum Life	675	13	–	–	438	1 126	
Momentum Investments	1 390	1 336	–	–	76	2 802	
Metropolitan Life	46	–	–	–	75	121	
Momentum Corporate	396	437	1 919	–	57	2 809	
Non-life Insurance	108	–	–	1 379	40	1 527	
Momentum Metropolitan Africa	22	15	12	–	244	293	
New Initiatives	–	8	–	–	34	42	
Segmental total	2 637	1 809	1 931	1 379	964	8 720	
Reconciling items	–	(392)	–	–	4	(388)	
IFRS total	2 637	1 417	1 931	1 379	968	8 332	1

[1] Refer to Annexure I for more information on the restatements.

1 Normalised headline earnings continued

1.4 Segment revenue per geographical basis

	SA Rm	Non-SA Rm	Total revenue Rm	Notes
12 mths to 30.06.2020				
Momentum Life	**10 738**	**–**	**10 738**	
Momentum Investments	**26 202**	**597**	**26 799**	
Metropolitan Life	**7 201**	**–**	**7 201**	
Momentum Corporate	**19 184**	**–**	**19 184**	
Non-life Insurance	**13 522**	**1 403**	**14 925**	
Momentum Metropolitan Africa	**–**	**5 012**	**5 012**	
New Initiatives	**25**	**–**	**25**	
Segmental total	**76 872**	**7 012**	**83 884**	
Reconciling items	**(40 238)**	**(1 947)**	**(42 185)**	
IFRS total	**36 634**	**5 065**	**41 699**	1
Restated				
12 mths to 30.06.2019				
Momentum Life	10 339	–	10 339	
Momentum Investments	23 269	572	23 841	
Metropolitan Life	7 173	–	7 173	
Momentum Corporate	23 800	–	23 800	
Non-life Insurance	10 200	1 492	11 692	
Momentum Metropolitan Africa	–	4 985	4 985	
New Initiatives	42	–	42	
Segmental total	74 823	7 049	81 872	
Reconciling items	(34 931)	(1 808)	(36 739)	
IFRS total	39 892	5 241	45 133	1

2 Intangible assets

Refer to Annexure D para 4 for the accounting policies relating to this note.

		2020 Rm	Restated 2019[1] Rm
2.1	**Goodwill**	**2 288**	1 105
2.2	**Value of in-force business acquired**	**3 663**	3 961
2.3	**Customer relationships**	**791**	942
2.4	**Brands**	**673**	688
2.5	**Broker network**	**376**	281
2.7	**Deferred acquisition costs on long-term investment business**	**2 042**	2 078
2.8	**Computer software**	**334**	430
	Deferred acquisition costs on short-term insurance business	**172**	148
		10 339	9 633

[1] Refer to Annexure I for more information on the restatements.

		2020 Rm	2019 Rm
2.1	**Goodwill**		
	Cost	**2 764**	1 377
	Accumulated impairment	**(476)**	(272)
	Carrying amount	**2 288**	1 105
	Carrying amount at beginning	**1 105**	1 124
	Business combinations (refer to note 29)	**1 392**	–
	Impairment charges	**(209)**	(19)
	Carrying amount at end	**2 288**	1 105
	Cash-generating units (CGUs)		
	Momentum Insurance – Non-life Insurance	**1 185**	–
	Guardrisk – Non-life Insurance	**604**	604
	Eris Property Group – Momentum Investments	**191**	191
	Ex-Metropolitan Group – Metropolitan Life (Metropolitan/Momentum merger)	**170**	170
	Momentum Metropolitan's health business – Momentum Corporate	**125**	127
	Other	**13**	13
		2 288	1 105

Critical accounting estimates and judgements

Goodwill is allocated to CGUs and impairment testing is performed at the level of individual CGUs.

The recoverable value of these CGUs is determined based on value-in-use calculations with reference to directors' valuations. The value-in-use calculations use risk-adjusted cash flow projections which include projected new business based on financial forecasts approved by management covering a five-year period. These cash flow projections take account of entity specific risks and are subject to a revenue ceiling and an expense floor to ensure that the earnings projections lie within boundaries that are deemed appropriate. Appropriate allowance is also made for terminations risk where a CGU has concentrated exposure to large clients. Due to the uncertainty in the current economic environment as a result of the Covid-19 pandemic, management have assessed and adjusted the cash flows to account for this. This assessment has included reviewing the revenue, claim experience, expenses, lapse rates and all other variances which in the current environment are difficult to predict. In addition, additional sensitivities have been performed (refer to note 2.6).

The other assumption which is subject to significant judgement is the determination of an appropriate discount rate. The approach to setting the discount rate uses a central rate per geographical area and is then adjusted on account of management's assessment of the risk and uncertainty in the financial projection of each entity (classified according to a few broad risk categories). The assessment of the risk discount rate takes into account the risk adjustments already made in the cash flow projection, as explained in the previous paragraph.

For the 2020 financial year, the central risk discount rate assumption for South Africa has been derived as follows:

Risk-free rate (long-term)	**10.5%**
Equity risk premium	**3.5%**
Risk premium applied to unlisted equity investments	**2.0%**
Total (central rate)	**16.0%**

The long-term rate is set with reference to the 10 year bond yield.

For CGUs where the range of possible outcomes remains wide, the risk discount rate is adjusted to allow for the risk characteristics of the entity under consideration. For entities with risk characteristics above the norm, additions of 2% – 4% to the central rate are made, based on the maturity of the CGU under consideration, as well as the perceived degree of certainty in the cash flow projections.

2 Intangible assets continued

2.1 Goodwill continued

	2020		2019	
	RDR %	Growth rate %	RDR %	Growth rate %
Assumptions				
Momentum Insurance	**18**	**6**	–	–
Guardrisk	**16**	**6**	15	6
Eris Property Group	**16**	**6**	15	6
Ex-Metropolitan Group	**13**	**6**	12	6
Momentum Metropolitan's health business	**16**	**6**	15	6

Guardrisk, Eris Property Group and Momentum Metropolitan's Health businesses have a history of sustainable profits and with the inclusion of limits to revenue and margin growth have relatively less uncertainty associated with their cash flows. As such, the central rate is deemed appropriate.

The discount rate for the ex-Metropolitan Group is based on run-off of in-force insurance liabilities and thus its valuation employed a lower risk discount rate, in line with the discount rate used for "covered business" in the Group EV calculation.

During the current year, the Group acquired the AFI business which has since been renamed to Momentum Insurance (refer to note 29). As such, a higher degree of uncertainty around their cash flows exist and its discount rate was higher than the central rate. Through the acquisition of Momentum Insurance, the Group has recognised R1.39 billion of goodwill and other intangible assets. The Group is in the process of integrating Momentum Insurance and Momentum Short-term Insurance (MSTI), which is expected to be complete within the next 18 months. As at 30 June 2020 these entities are separate CGUs. Both entities are expected to benefit from the intangible assets recognised, and the intangible assets have proportionately been allocated to both these businesses.

The projected cash flows for MSTI have deteriorated including lower growth than anticipated as a result of the Covid-19 pandemic. The valuation of MSTI is lower than the associated net asset value, resulting in the need to write-off the full R244 million of intangible assets that were allocated to MSTI. The MSTI CGU has a recoverable amount of R760 million as at 30 June 2020. Momentum Insurance is currently expected to perform in line with expectations and none of the intangibles assets allocated to Momentum Insurance require impairment.

In the prior year, goodwill relating to Momentum TYB (previously Providence Health) in Momentum Corporate was impaired due to a decline in the directors' valuation.

2.2 Value of in-force (VIF) business acquired

		2020 Rm	2019 Rm
Value of in-force (VIF) business acquired			
Acquisition of insurance and investment contracts with DPF			
Cost		**6 731**	6 782
Accumulated amortisation		**(3 043)**	(2 821)
Accumulated impairment		**(25)**	–
Carrying amount		**3 663**	3 961
Carrying amount at beginning		**3 961**	4 236
Amortisation charges		**(269)**	(275)
Impairment charges		**(25)**	–
Transfer to assets relating to disposal groups held for sale		**(4)**	–
Carrying amount at end		**3 663**	3 961
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan/Momentum merger			
Metropolitan Life	2037	**2 382**	2 527
Momentum Corporate	2037	**488**	518
Momentum Metropolitan Africa	2021 – 2023	**86**	120
Sage – Shareholders	2032	**487**	553
Momentum Namibia – Momentum Metropolitan Africa	2037	**176**	189
Guardrisk – Non-life Insurance	2029	**44**	54
		3 663	3 961

As a result of certain insurance contract acquisitions, the Group carries intangible assets representing the VIF acquired.

Critical accounting estimates and judgements

The VIF business acquired is reviewed for impairment through a discounted cash flow (DCF) valuation. This valuation method references the results of the EV calculations for the relevant products. This methodology uses a number of assumptions relating to future cash flows which is aligned to the Group's valuation data and models and these are all subjected to the Group's governance structures and review. For this year end, particular focus was placed on the extent to which the Covid-19 may affect assumptions on future mortality, morbidity and persistency. To review the potential impact of the uncertainty which the Covid-19 pandemic introduces, the Group performed additional sensitivity analysis on all its intangibles which are disclosed in note 2.6.

VIF business acquired relating to the Sage acquisition (Shareholders) was impaired during the current year. The projected revenue linked to the return on policyholder funds related to the Sage acquisition decreased. The extent to which this resulted in a decrease to future profits meant that the value of in-force business acquired had to be impaired. Please see note 2.6 for further details on the sensitivity of this impairment amount.

2 Intangible assets continued

		2020 Rm	2019 Rm
2.3 Customer relationships			
Cost		**3 784**	4 455
Accumulated amortisation		**(2 952)**	(3 379)
Accumulated impairment		**(41)**	(134)
Carrying amount		**791**	942
Carrying amount at beginning		**942**	1 349
Business combinations (refer to note 29)		**151**	–
Amortisation charges		**(277)**	(354)
Impairment charges		**(26)**	(52)
Exchange differences		**1**	(1)
Carrying amount at end		**791**	942
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan/Momentum merger			
Investment contracts – Momentum Corporate	2030	**412**	457
Employee benefits business – Momentum Corporate	2021	**62**	210
Guardrisk – Non-life Insurance	2024	**156**	206
Momentum Insurance – Non-life Insurance	2030	**123**	–
Providence – Momentum Metropolitan's health business (Momentum Corporate)	2023	**13**	32
Other		**25**	37
		791	942

Customer relationships represent the fair value of customer relationships in place immediately before a business combination took place. The recoverable value is determined based on directors' valuations and value-in-use calculations with reference to value of in-force business which is set out in notes 2.1 and 2.2 respectively.

Customer relationships relating to MSTI (Non-life Insurance segment) were impaired by R21 million during the current year due to a lower recoverable amount, as discussed in note 2.1. In the prior year customer relationships relating to the Cannon (Momentum Metropolitan Africa segment) and Providence (Momentum Corporate segment) acquisitions were impaired due to a decline in the directors' valuations (R24 million and R28 million, respectively).

To review the potential impact of the uncertainty which the Covid-19 pandemic introduces, the Group performed additional sensitivity analysis on all its intangibles which are disclosed in note 2.6.

		2020 Rm	2019 Rm
2.4 Brands			
Cost		**1 238**	1 208
Accumulated amortisation		**(557)**	(502)
Accumulated impairment		**(8)**	(18)
Carrying amount		**673**	688
Carrying amount at beginning		**688**	746
Business combinations (refer to note 29)		**54**	–
Amortisation charges		**(61)**	(58)
Impairment charges		**(8)**	–
Carrying amount at end		**673**	688
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan brand – Metropolitan Life (Metropolitan/Momentum merger)	2031	**561**	616
Momentum Insurance – Non-life Insurance	2035	**45**	–
Guardrisk brand – Non-life Insurance	2034	**54**	58
Momentum Namibia brand – Momentum Metropolitan Africa	2027	**13**	14
		673	688

Brands represent the fair value of Brands acquired as part of various acquisitions of the Group. The recoverable value is determined based on directors' valuations and value-in-use calculations with reference to VIF business which is set out in notes 2.1 and 2.2 respectively.

To review the potential impact of the uncertainty which the Covid-19 pandemic introduces, the Group performed additional sensitivity analysis on all its intangibles which are disclosed in note 2.6.

		2020 Rm	2019 Rm
2.5 Broker network			
Cost		**726**	563
Accumulated amortisation		**(325)**	(280)
Accumulated impairment		**(25)**	(2)
Carrying amount		**376**	281
Carrying amount at beginning		**281**	319
Business combinations (refer to note 29)		**163**	–
Amortisation charges		**(45)**	(38)
Impairment charges		**(23)**	–
Carrying amount at end		**376**	281
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Guardrisk (non-life) – Non-life Insurance	2029	**158**	176
Momentum Insurance – Non-life Insurance	2030	**133**	–
Guardrisk (life) – Non-life Insurance	2029	**53**	59
Momentum Short-term Insurance (Namibia) – Momentum Metropolitan Africa	2023	**32**	46
		376	281

2 Intangible assets continued

2.5 Broker network continued

Broker network represent the fair value of Broker network acquired as part of various acquisitions of the Group. The recoverable value is determined based on directors' valuations which is disclosed in note 2.1.

To review the potential impact of the uncertainty which the Covid-19 pandemic introduces, the Group performed additional sensitivity analysis on all its intangibles which are disclosed in note 2.6.

Broker network relating to MSTI (Non-life Insurance segment) was impaired during the year due to a decline in the recoverable amount (R23 million).

2.6 Sensitivity analysis of intangible assets acquired in business combinations

Management has performed additional sensitivity analysis on intangible assets acquired as part of business combinations to assess how sensitive these assets are to changes in the recoverable amounts ie how much headroom exists in these recoverability tests. The significant items are discussed below:

The Group currently recognises goodwill, VIF business acquired, customer relationships and brands relating to the Metropolitan/Momentum merger. The current recoverable amount of these assets is R1 782 million higher than the carrying value and has 30% headroom available before the Group would need to consider impairing any of the associated goodwill.

The combination of the net asset value and the intangible assets recognised on the acquisition of Momentum Insurance is currently close to the recoverable amount with only 7% headroom available. The goodwill balance of R1 186 million is thus subject to risk as there is currently significant uncertainty inherent in determining the cash flows and consequently the valuation. Management is comfortable that this uncertainty will diminish as the business is integrated into the Group over the next few months and the business is currently performing in line with expectations.

Following the acquisition of Guardrisk, the Group currently recognises goodwill and VIF business acquired, customer relationships and brands on the balance sheet. The current recoverable amount of these assets is currently R1 026 million higher than the carrying value and has 30% headroom available before the Group would need to consider impairing any of the associated goodwill.

During the current year, the VIF business acquired relating to Sage was impaired to its recoverable amount (R488 million). Any further reduction in the recoverable amount will result in an additional impairment.

In aggregate, if the recoverable amounts of all the CGUs under consideration were to decrease by 10%, it would result in an impairment of intangible assets of R110 million. Should the recoverable amounts decrease by 20%, an impairment of R375 million will be required, with R260 million of this relating to the Momentum Insurance goodwill and R97 million relating to the VIF business acquired from Sage.

	2020 Rm	Restated 2019[1] Rm
2.7 Deferred acquisition costs on long-term insurance business		
Carrying amount at beginning	**2 078**	2 125
Additions	**364**	374
Amortisation charges	**(401)**	(423)
Transfer to assets relating to disposal groups held for sale	**(4)**	–
Exchange differences	**5**	–
Other	**–**	2
Carrying amount at end	**2 042**	2 078

[1] Refer to Annexure I for more information on the restatements.

Critical accounting estimates and judgements

An impairment test is conducted annually at reporting date on the Deferred Acquisition Costs (DAC) balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contract. DAC is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary. Refer to assumptions in note 10.

2 Intangible assets continued

	2020 Rm	2019 Rm
2.8 Computer software		
Cost	**1 186**	1 439
Accumulated amortisation	**(468)**	(622)
Accumulated impairment	**(384)**	(387)
Carrying amount	**334**	430
Carrying amount at beginning	**430**	497
Additions	**63**	71
Business combinations (refer to note 29)	**12**	–
Amortisation charges	**(111)**	(133)
Impairment charges	**(58)**	(6)
Transfer to assets relating to disposal groups held for sale	**(2)**	–
Exchange differences	**–**	1
Carrying amount at end	**334**	430

Computer software relating to Momentum Metropolitan's health business (Momentum Corporate segment) was impaired by R22 million due to constant technology changes which made the software obsolete. Computer software relating to Momentum Multiply (Momentum Life segment) was impaired by R12 million due to a system rebuild as well as a system migration. Computer software relating to Momentum Metropolitan Life (Shareholder segment) was impaired by R12 million due to a write off relating to residual Khula costs.

Internally developed software

Included in computer software is a carrying amount of R24 million (2019: R109 million) representing Internally developed software. The decrease in Internally developed software relates to R55 million amortisation charges in the current year and R47 million impairment (impairment explained above).

Material computer software

The Non-life Insurance segment has computer software of R117 million (2019: R111 million) relating to Momentum Short-term Insurance's line of business system which will be fully amortised by 2027. For impairment testing purposes, a RDR of 13% (2019: 14%) was used to present value the future economic benefits of the software. No impairment was required.

Momentum Multiply (Momentum Life) has computer software of R62 million (2019: R89 million) relating to the wellness and rewards platform which will be fully amortised by 2026. For valuation purposes a RDR of 13% (2019: 12%) was used.

Guardrisk (Non-life Insurance) has computer software of R30 million (2019: R36 million) relating to cell captive and product administration systems which will be fully amortised by 2024. For valuation purposes a RDR of 16% (2019: 15%) and a growth rate of 6% (2019: 6%) was used. No impairment was required.

3 Owner-occupied properties

Refer to Annexure D para 5 and 15 for the accounting policies relating to this note.

		2020 Rm	Restated 2019[1] Rm
3.1	**Owned owner-occupied properties**	**3 360**	3 698
3.2	**Right-of-use assets**	**238**	–
		3 598	3 698
	Owned owner-occupied properties		
	Owner-occupied properties – at fair value	**3 360**	3 698
	Historical carrying amount – cost model	**2 937**	3 275
	Fair value at beginning	**3 698**	2 999
	Additions	**211**	80
	Disposals	**(7)**	(22)
	Business combinations (refer to note 29)	**12**	–
	Revaluations	**5**	(185)
	Depreciation charges	**(44)**	(37)
	Impairment charges	**(568)**	(66)
	Transfer from investment properties	**52**	930
	Transfer to assets relating to disposal groups held for sale	**(1)**	–
	Exchange differences	**2**	(1)
	Fair value at end	**3 360**	3 698

1 Refer to Annexure I for more information on the restatements

Borrowing costs of R147 million (2019: R76 million) were capitalised in the current year. The borrowing costs relate to the Marc, Tower 2.

The impairment in the current year mainly relates to the impairment of the Marc, Tower 2 of R550 million (Shareholders segment). The value of the property was previously recorded at the cost of development as it was still under construction. The impairment can largely be attributed to the decline in market rental rates for office property in Sandton in recent years, as well as considering the weak property market outlook as a result of the Covid-19 pandemic. The valuation further took the expected vacancy into account.

The impairment in the prior year relates to a decrease in the property valuation of certain buildings where the valuation is below cost.

A register of owner-occupied properties is available for inspection at the Company's registered office.

Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements

All properties are valued using a DCF method or the income capitalisation approach based on the aggregate contractual or market-related rent receivable less associated costs. The DCF takes projected cash flows and discounts them at a rate which is consistent with comparable market transactions. Any gains or losses arising from changes in fair value are included in other comprehensive income for the year. All owner-occupied properties were valued internally by Eris at the end of the current and prior year. Valuations are performed semi-annually.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
2020				
Capitalisation rate	**9.0% – 10.0%**	**10%**	**116**	**(95)**
Discount rate	**14.0% – 15.0%**	**10%**	**75**	**(99)**
2019				
Capitalisation rate	8.0% – 10.0%	10%	106	(87)
Discount rate	13.0% – 15.0%	10%	69	(134)

Capitalisation and discount rates are based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. The current response to the Covid-19 pandemic means an unprecedented set of circumstances are faced on which to base a judgement. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building and any rental deferments agreed with tenants as a result of the Covid-19 pandemic were included in the calculations.

In determining the property values regard was had for the fact that, due to the current Covid-19 pandemic, market activity is being impacted in many sectors. A conservative take up of the vacant space has been assumed, as well as a loss related to three months' rent deduction on high risk tenants. Market rental growth has been adjusted downward from an industry average of 5% to 3%.

Given the unknown future impact that the Covid-19 pandemic might have on the real estate market and the difficulty in differentiating between short-term impacts and long-term structural changes, the Group will keep the valuations under frequent review.

3 Owner-occupied properties continued

		2020 Rm	2019 Rm
3.2	**Right-of-use assets**		
	Carrying amount at beginning	–	–
	Recognised on 1 July 2019 on adoption of IFRS 16	313	–
	Additions	53	–
	Disposals	(34)	–
	Depreciation charges	(99)	–
	Exchange differences	5	–
	Carrying amount at end	238	–

4 Investment properties

Refer to Annexure D para 6 and 15 for the accounting policies relating to this note.

		2020 Rm	Restated 2019 Rm
4.1	**Owned investment properties**	9 009	9 034
4.2	**Right-of-use assets**	33	–
		9 042	9 034
4.1	**Owned investment properties**		
	At 30 June, investment properties comprised the following property types:		
	Shopping malls	3 978	3 875
	Office buildings	4 181	4 401
	Industrial	548	511
	Hotels	262	267
	Vacant land	123	63
	Other	257	212
	Property at valuation	9 349	9 329
	Accelerated rental income (refer to note 6.3)	(340)	(295)
		9 009	9 034
	Investment properties under development		
	Fair value at beginning	192	2 063
	Capitalised development expenditure	219	384
	Transfer from owner-occupied properties	–	297
	Transfer to completed properties[1]	(141)	(2 552)
	Fair value at end	270	192
	Completed properties		
	Fair value at beginning	8 842	7 416
	Capitalised subsequent expenditure	151	473
	Additions	154	60
	Disposals	(126)	(742)
	Revaluations	(350)	350
	Change in accelerated rental income	(45)	(43)
	Transfer to owner-occupied properties[2]	(52)	(1 227)
	Transfer from investment properties under development[1]	141	2 552
	Exchange differences	24	3
	Fair value at end	8 739	8 842

[1] The current year relates to Units on Park Street and prior year relates to the Marc, Tower 1 and 2.

[2] The current year relates to 102 Rivonia and prior year relates to the Marc, Tower 2, as employees will be occupying a significant portion of the building.

A register of investment properties is available for inspection at the Company's registered office.

Investment properties are classified as level 3.

4 Investment properties continued

4.1 Owned investment properties continued

Critical accounting estimates and judgements

All properties were internally or externally valued using a DCF method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2020, amounting to 47% (2019: 24%) of the portfolio for the Group. Eris is responsible for the majority of the internal valuations of the Group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

The valuators input is focused on "headline" assumptions including capital and discount rates however the underlying cashflow is heavily based on the budgets prepared by the property and asset managers. Each valuation is carried out in isolation, the potential effect of the current Covid-19 pandemic was considered and tested in each individual case by looking at factors including current tenant retention, potential market rentals and potential of increased long term vacancies as well as necessary changes in the capital and discount rates. The valuators carried out extensive market research and also collaborated with the Group's professional peers.

Assumptions	Base assumption	Change in assumption	Change in fair value: Decrease in assumption Rm	Change in fair value: Increase in assumption Rm
2020				
Capitalisation rate	**7.0% – 11.0%**	**10%**	**780**	**(366)**
Discount rate	**9.0% – 15.0%**	**10%**	**260**	**(78)**
2019				
Capitalisation rate	8.0% – 10.0%	10%	106	(87)
Discount rate	13.0% – 15.0%	10%	69	(134)

Capitalisation and discount rates are based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. Refer to note 3 for more information on the Covid-19 pandemic impact on the valuations of these properties.

	2020 Rm	**2019 Rm**
4.2 Right-of-use assets		
Carrying amount at beginning	**–**	–
Recognised on 1 July 2019 on adoption of IFRS 16	**20**	–
Additions	**16**	–
Revaluations	**(3)**	–
Carrying amount at end	**33**	–

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5 Investments in associates and joint ventures

Refer to Annexure D para 2.2 and 2.3 for the accounting policies relating to this note.

	2020 Rm	2019 Rm
Carrying amount at beginning	**792**	636
Additions	**379**	463
Loss on step-up of joint venture	**(8)**	–
Share of loss	**(282)**	(269)
Dividends paid	**(12)**	(49)
Exchange differences	**36**	11
Carrying amount at end – non-current	**905**	792

Equity-accounted associates and joint ventures*	%**	Carrying amount Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
2020						
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	**49%**	**589**	**2 444**	**(1 768)**	**1 296**	**(260)**
Rand Merchant Investment Holdings Ltd (RMI)	**49%**	**146**	**403**	**(101)**	**6**	**(4)**
Aluwani Capital Partners (Pty) Ltd (Aluwani)	**40%**	**66**	**49**	**(35)**	**129**	**4**
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	**27%**	**2**	**88**	**(63)**	**1**	**(3)**
Other		**43**	***	***	***	**7**
		846				**(256)**
Joint ventures						
aYo Holdings Ltd (aYo)	**50%**	**59**	**269**	**(67)**	**102**	**(26)**
		59				**(26)**
2019						
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	461	1 351	(982)	716	(255)
Rand Merchant Investment Holdings Ltd (RMI)	49%	139	405	(116)	7	(9)
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	51	63	(50)	130	4
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	5	89	(54)	2	17
Other		41	***	***	***	1
		697				(242)
Joint ventures						
aYo	50%	86	243	(3)	2	(27)
MMI Lending	50%	9	88	(77)	27	–
		95				(27)

* All entities' principal place of business is in South Africa unless otherwise stated.

** Effective group percentage held.

*** This amount consists of various associates' financial information.

\# This represents the actual assets, liabilities and revenue of the associate or joint venture at the end of the financial year.

The prior year assets, liabilities and revenue of the joint ventures have been updated to reflect the actual assets, liabilities and revenue of the joint ventures instead of the Group's effective percentage held.

5 Investments in associates and joint ventures continued

- ABHIL is a health insurance business and was formed by MMSI, which holds 49% of ordinary shares, and Aditya Birla Financial Services Ltd (incorporated in India), which holds 51% of ordinary shares. Voting rights are proportional to ordinary shareholding, with Aditya Birla Financial Services Ltd directing the relevant activities of the business. MMSI does not have control over this entity. The carrying amount of the associate includes further capital injections advanced to the Company in addition to the capital acquired. The total assets consist of R326 million current assets and R2 118 million non-current assets. The total liabilities consist of R893 million current liabilities and R875 million non-current liabilities. The principal place of business is in India.
- RMI is an investment company that invests in asset management business held by MMSI. MMSI does not have control over this entity, as the relevant activities of the entity is not under the direction of MMSI.
- Aluwani is an asset management services company that is 40% held by MMSI in the Momentum Investments segment.
- EPF CV (Shareholders segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The Group also owns 31.67% of the preference shares in EPF. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- aYo is a joint venture between MMSI and MTN (Dubai). aYo is a micro insurer for the African market.
- Lending was a joint venture between MMSI and African Bank. The Group purchased the remaining 50% shareholding in Lending from African Bank in the current year

6 Financial assets

Refer to Annexure D para 7, 8, 9 and 10 for the accounting policies relating to this note.

The Group classifies its financial assets into the following categories:

- Financial assets at fair value through profit and loss
- Financial assets at amortised cost

The classification is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). Management determines the classification of its financial assets at initial recognition.

Above classification is not applied to insurance and other receivables as classification is dependent on the nature of the risk transferred.

Critical judgements and estimates

Management applies judgement to the valuation of certain level 2 and level 3 financial assets, which include the Group's venture capital investments, where the market is inactive. Refer to Annexure E for more information.

The assessment of significant increase in credit risk to calculate the expected credit loss for assets carried at amortised cost is performed by determining the risk of default over the expected lifetime of an instrument. Management applies judgement to the probability of default and loss given default. Refer to note 6.6 for more information.

As a result of the adoption of IFRS 10 the Group considers control over the fund manager to be a key aspect in determining whether a collective investment scheme is controlled by the Group or not. Where the funds are managed by Group owned fund managers and the Group holds 20% or more in these funds it is viewed to have control of the fund. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.

		2020 Rm	Restated[1] 2019 Rm
	The Group's financial assets are summarised below:		
6.1	**Financial assets at fair value through profit and loss**	**426 887**	421 302
6.2	**Financial assets at amortised cost**	**9 743**	17 073
6.3	**Insurance and other receivables (excluding accelerated rental income and prepayments)**	**4 783**	4 991
6.4	**Cash and cash equivalents**	**31 747**	27 061
	Total financial assets	**473 160**	470 427
6.1	**Financial assets at fair value through profit and loss**		
	Unit-linked investments	**159 953**	164 905
	Debt securities	**144 553**	127 662
	Equity securities	**91 498**	97 686
	Funds on deposit and other money market instruments	**27 585**	28 600
	Derivative financial assets	**3 298**	2 449
		426 887	421 302
	Open-ended	**247 070**	260 718
	Current	**52 948**	46 764
	Non-current	**126 869**	113 820
	1 to 5 years	**55 868**	50 474
	5 to 10 years	**18 815**	20 124
	> 10 years	**52 186**	43 222
		428 887	421 302

[1] Refer to Annexure I for more information on the restatements.

6 Financial assets continued

6.1 Financial assets at fair value through profit and loss continued

General

The open-ended maturity category includes investment assets such as listed and unlisted equities, unit-linked investments and other non-term instruments. For these instruments, management is unable to provide a reliable estimate of maturity, given factors such as the volatility of the respective markets and policyholder behaviour.

A schedule of equity securities is available for inspection at the Company's registered office.

	2020		2019	
Derivative financial instruments	**Assets Rm**	**Liabilities Rm**	**Assets Rm**	**Liabilities Rm**
Held for trading	**3 298**	**5 463**	2 449	2 318

As part of its asset and liability management, the Group purchases derivative financial instruments to reduce the exposure of policyholder and shareholder assets to market risks and to match the liabilities arising on insurance contracts.

Under no circumstances are derivative contracts entered into for speculative purposes.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:

- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

6 **Financial assets** continued

6.1 **Financial assets at fair value through profit and loss** continued

	2020			2019		
	Effective exposure Rm	**Assets Rm**	**Liabilities Rm**	**Effective exposure Rm**	**Assets Rm**	**Liabilities Rm**
Derivatives held for trading						
Equity derivatives		**390**	**1 728**		20	22
Options, OTC	**(8 411)**	**89**	**1 692**	–	1	–
Options, exchange traded	**(128)**	**21**	**–**	(917)	7	–
Futures, OTC	**–**	**2**	**35**	(27)	–	–
Futures, exchange traded	**26 243**	**1**	**1**	1 322	3	–
Swaps, OTC	**110**	**277**	**–**	(13)	9	22
Interest rate derivatives		**2 688**	**2 557**		2 088	1 227
Options, OTC	**–**	**3**	**–**	(310)	13	–
Swaps, OTC	**122**	**2 656**	**2 525**	900	2 074	1 222
Forward rate agreement, OTC	**(3)**	**29**	**32**	(4)	1	5
Bonds		**61**	**79**		55	9
Options, exchange traded	**44**	**–**	**–**	1	–	–
Futures, OTC	**(20)**	**60**	**79**	4 580	55	9
Futures, exchange traded	**599**	**1**	**–**	1 705	–	–
Credit derivatives		**33**	**–**		12	–
Swaps, OTC	**33**	**33**	**–**	12	12	–
Currency derivatives		**126**	**1 099**		274	1 060
Options, OTC	**174**	**116**	**188**	(4 660)	250	163
Futures, OTC	**454**	**10**	**1**	1 126	22	–
Futures, exchange traded	**29**	**–**	**–**	36	–	–
Swaps, OTC	**(859)**	**–**	**910**	(896)	2	897
Total derivative financial instruments		**3 298**	**5 463**		2 449	2 318

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter (OTC) derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Offsetting

The following financial instruments are subject to offsetting, enforceable master netting arrangements and similar agreements:

	2020 Rm	**2019 Rm**
Derivative financial assets		
Gross amounts of recognised financial assets[1]	**3 298**	2 449
Related amounts not set off in the statement of financial position		
Financial instruments	**(2 170)**	(1 139)
Net amount	**1 128**	1 310
Derivative financial liabilities		
Gross amounts of recognised financial liabilities[1]	**5 463**	2 318
Related amounts not set off in the statement of financial position		
Financial instruments	**(2 003)**	(1 139)
Net amount	**3 460**	1 179

[1] No offsetting in current and prior year.

6 Financial assets continued

6.2 Financial assets at amortised cost

	2020 Rm	Restated 2019[1] Rm
Unsettled trades	**4 182**	11 565
Accounts receivable	**2 701**	2 559
Less: provision for impairment	**(182)**	(122)
Debt securities	**479**	387
Funds on deposit and other money market instruments	**161**	78
Loans	**2 402**	2 606
Related party loans		
Empowerment partners	**262**	263
Loans due from associates	**65**	87
Preference shares	**78**	83
Staff loans	**51**	59
Other related party loans	**194**	147
Less: provision for impairment	**(6)**	(14)
Other loans		
Policy loans	**1 125**	1 269
Due from agents, brokers and intermediaries	**365**	413
Less: provision for impairment	**(75)**	(108)
Other	**343**	407
Total financial assets at amortised cost	**9 743**	17 073
Current	**8 438**	16 546
Non-current	**1 305**	527
	9 743	17 073

Unsettled trades result from transactions that Portfolios Managers enter into on behalf of the various subsidiaries in the Group in accordance with discretionary portfolio management agreements. The Group's accounting policy is to recognise purchases and sales of financial assets on the trade date, ie the date on which the Group commits to purchase or sell the financial asset. All trade transactions that the Group enters into before the last day of the reporting period, ie 30 June, but where the settlement will only occur after the reporting period, are reported as unsettled trades. This is applied to both purchases and sales across all entities in the Group. As a result of the nature of these type of transactions, the unsettled trades balances can fluctuate significantly year-on-year. Where applicable, the offsetting criteria in IAS 32 has been applied.

The prior year included multiple trades with different counterparties entered into over a three-day period before 30 June. These trades were part of the normal operating activities of these subsidiaries.

Reconciliation of expected credit losses	Accounts receivable Rm	Related party loans Rm	Due from agents, brokers and inter-mediaries Rm	Total Rm
2020				
Balance at beginning	**(122)**	**(14)**	**(108)**	**(244)**
Additional provision	**(94)**	**(1)**	**–**	**(95)**
Reversed to the income statement	**21**	**9**	**33**	**63**
Bad debts written off	**13**	**–**	**–**	**13**
Balance at end	**(182)**	**(6)**	**(75)**	**(263)**
Restated 2019[1]				
Balance at beginning	(82)	(12)	(127)	(221)
IFRS 9 opening retained earnings adjustment	(23)	(1)	(22)	(46)
Adjusted opening balance	(105)	(13)	(149)	(267)
Additional provision	(37)	(1)	(35)	(73)
Reversed to the income statement	7	–	76	83
Bad debts written off	13	–	–	13
Balance at end	(122)	(14)	(108)	(244)

[1] Refer to Annexure I for more information on the restatements.

6 Financial assets continued

6.2 Financial assets at amortised cost continued

Terms and conditions of material loans

- The R262 million (2019: R263 million) loan to empowerment partners relates to A3 preference shares acquired on 2 December 2011 in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the Company that the Group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 - Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 31 December 2020. In the prior year, MMH subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd which is linked to the A3 preference shares acquired in 2011.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 8% (2019: 11%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Refer to note 6.6 for the split of the credit risk and expected credit loss allowances into stages.

		2020 Rm	Restated 2019[1] Rm
6.3	**Insurance and other receivables**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 727**	4 923
	Insurance contract holders	**2 320**	2 441
	Cell captives	**1 312**	1 300
	Due from reinsurers	**1 156**	1 215
	Investment contract holders with DPF	**41**	78
	Less: provision for impairment	**(102)**	(111)
	Other	**56**	68
	Total included in financial assets	**4 783**	4 991
	Accelerated rental income	**340**	295
	Prepayments	**248**	–
	Total insurance and other receivables	**5 371**	5 286
	Current	**4 972**	5 116
	Non-current	**399**	170
		5 371	5 286
	Impairment of receivables arising from insurance contracts and investment contracts with DPF		
	Impairment is mainly due to expected payment defaults.		
6.4	**Cash and cash equivalents**		
	Bank and other cash balances	**15 070**	14 127
	Funds on deposit and other money market instruments – maturity < 90 days	**16 677**	12 934
		31 747	27 061

Expected credit loss on cash and cash equivalents is immaterial.

[1] Refer to Annexure I for more information on the restatements.

6 **Financial assets** continued

6.5 Financial assets measurement

Financial assets summarised by measurement category in terms of IFRS 9	Fair value through profit and loss Mandatorily Rm	Designated[1] Rm	Total fair value Rm	Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
2020						
Unit-linked investments	**159 953**	**–**	**159 953**	**–**	**–**	**159 953**
Debt securities	**40 473**	**104 080**	**144 553**	**479**	**–**	**145 032**
Equity securities[2]	**91 498**	**–**	**91 498**	**–**	**–**	**91 498**
Funds on deposit and other money market instruments	**11 851**	**15 734**	**27 585**	**161**	**–**	**27 746**
Derivative financial assets	**3 298**	**–**	**3 298**	**–**	**–**	**3 298**
Financial assets at amortised cost	**–**	**–**	**–**	**9 103**	**–**	**9 103**
Insurance and other receivables (excluding accelerated rental and prepayments)	**–**	**–**	**–**	**–**	**4 783**	**4 783**
Cash and cash equivalents	**–**	**–**	**–**	**31 747**	**–**	**31 747**
Total financial assets	**307 073**	**119 814**	**426 887**	**41 490**	**4 783**	**473 160**
Restated 2019[3]						
Unit-linked investments	164 905	–	164 905	–	–	164 905
Debt securities	32 804	94 858	127 662	387	–	128 049
Equity securities[2]	97 686	–	97 686	–	–	97 686
Funds on deposit and other money market instruments	13 168	15 432	28 600	78	–	28 678
Derivative financial assets	2 449	–	2 449	–	–	2 449
Financial assets at amortised cost	–	–	–	16 608	–	16 608
Insurance and other receivables (excluding accelerated rental and prepayments)	–	–	–	–	4 991	4 991
Cash and cash equivalents	–	–	–	27 061	–	27 061
Total financial assets	311 012	110 290	421 302	44 134	4 991	470 427

1 Assets designated at fair value mainly consists of policyholder assets which back policyholder liabilities which are carried at fair value through profit and loss. The amount of change, during the period and cumulatively, in the fair value of financial assets designated at fair value through profit and loss that is attributable to changes in the credit risk of the financial asset is determined as the change triggered by factors other than changes in the benchmark rate. The impact of the changes in credit risk for the current and prior year was immaterial.

2 Equity securities are classified as fair value through profit and loss at inception.

3 Refer to Annexure I for more information on the restatements.

6 **Financial assets** continued

6.5 **Financial assets measurement** continued

Business model assessment

The Group's financial asset classification is determined based on the contractual cash flows characteristics and models through which financial instruments are managed (business model). The Group has a number of subsidiaries which range from life companies, non-life companies and collective investment schemes which are consolidated. The level at which the business model assessment is done is determined by Group and is on a portfolio level.

Life insurance companies

Financial assets mandatorily at fair value through profit and loss

All shareholder assets are managed to maximise shareholder value creation on a long-term sustainable basis through the optimised taking or minimising of market risk borne by shareholders, across the Group. Shareholder value creation is measured on a basis that is risk adjusted, ie returns achieved must fully compensate their associated risk profile, taking into account the earnings at risk, economic value at risk and solvency at risk perspectives. These assets are managed on a fair value basis and are classified mandatorily at fair value through profit and loss.

Financial assets designated at fair value through profit and loss

Debt securities and funds on deposit and other money market instruments that back policyholder liabilities are designated at fair value through profit and loss to eliminate or reduce accounting mismatch.

- Certain policyholder fixed income assets follow an enhanced immunisation strategy which implies that while the inherent risk is well managed the cash flows would not be strictly matched. The strategy therefore involves buying and selling securities to keep the risks within risk limits and to meet contractual liability flows.
- Other policyholder fixed income assets are managed in accordance with an Investment Management Agreement that does not allow fund managers to enter into activities which are deemed to be speculative or profit-taking in nature. These fixed income instruments are purchased with the intent of achieving stated investment return objectives through capital return and interest income. Portfolio managers sell these assets from time to time to honour contractual liabilities or to manage inherent market risk factors.

Other companies

The rest of the Group's operating activities include non-life, health and asset management services. The business model assessments on the financial assets were done within the individual entities, using Group methodology.

Consolidated collective investment schemes

A number of collective investments schemes are consolidated into the Group. Refer to Annexure A for a list of significant schemes. The majority of these funds are held with an objective of capital growth. For those funds not held for capital growth, a look-through basis is applied to determine the business model. The majority of the underlying assets are sold before maturity and the fund's performance and management fee is based on the fair value of the underlying assets and therefore have been classified mandatorily at fair value through profit and loss.

Impairment

The impairment of financial assets is based on assumptions about risk of default and expected loss rates, which include the estimation of future cash flows and the significant increase in credit risk. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculations, based on the Group's history, existing market conditions, as well as forward-looking estimates at the end of each reporting period. Refer to note 6.2 for more detail.

6 **Financial assets** continued

6.6 Credit risk

Refer to note 39 for detail on the credit risk management.

Credit risk exposure

The Group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying amounts:

	2020 Rm	Restated 2019[1] Rm
Financial assets at fair value through profit and loss		
Debt securities	**144 553**	127 662
Stock and loans to government and other public bodies	**66 843**	58 480
Other debt instruments	**77 710**	69 182
Funds on deposit and other money market instruments	**27 585**	28 600
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	**28 495**	23 872
Collective investment schemes	**27 066**	22 658
Other unit-linked investments	**1 429**	1 214
Derivative financial assets – Held for trading	**3 298**	2 449
Financial assets at amortised cost	**9 743**	17 073
Unsettled trades	**4 182**	11 565
Accounts receivable	**2 519**	2 437
Debt securities	**479**	387
Funds on deposit and other money market instruments	**161**	78
Loans	**2 402**	2 606
Insurance and other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 727**	4 923
Cash and cash equivalents	**31 747**	27 061
Assets relating to disposal groups held for sale	**139**	662
Total assets bearing credit risk	**250 287**	232 302

[1] Refer to Annexure I for more information on the restatements.

Credit risk balances – expected credit loss	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
2020				
Financial assets at amortised cost				
Unsettled trades	**4 182**	**–**	**–**	**4 182**
Accounts receivable	**2 272**	**231**	**198**	**2 701**
Provision for impairment	**(4)**	**(61)**	**(117)**	**(182)**
Debt securities	**479**	**–**	**–**	**479**
Funds on deposit and other money market instruments	**161**	**–**	**–**	**161**
Policy loans	**1 125**	**–**	**–**	**1 125**
Due from agents, brokers and intermediaries	**139**	**33**	**193**	**365**
Provision for impairment	**–**	**(4)**	**(71)**	**(75)**
Other	**908**	**1**	**84**	**993**
Provision for impairment	**–**	**–**	**(6)**	**(6)**
	9 262	**200**	**281**	**9 743**
Restated 2019[1]				
Financial assets at amortised cost				
Unsettled trades	11 565	–	–	11 565
Accounts receivable	2 286	93	180	2 559
Provision for impairment	(6)	(2)	(114)	(122)
Debt securities	387	–	–	387
Funds on deposit and other money market instruments	78	–	–	78
Policy loans	1 269	–	–	1 269
Due from agents, brokers and intermediaries	239	83	91	413
Provision for impairment	–	(28)	(80)	(108)
Other	1 017	2	27	1 046
Provision for impairment	–	–	(14)	(14)
	16 835	148	90	17 073

[1] Refer to Annexure I for more information on the restatements.

6 **Financial assets** continued

6.6 **Credit risk** continued

Reconciliation of expected credit losses	12 month expected credit losses (Stage 1) Rm	Lifetime expected credit losses (Stage 2 and 3) Rm	Total Rm
2020			
Accounts receivable			
Opening balance	**(10)**	**(112)**	**(122)**
Movement recognised in the income statement	**6**	**(79)**	**(73)**
Bad debts written off	**–**	**13**	**13**
Closing balance	**(4)**	**(178)**	**(182)**
Related party loans			
Opening balance	**(9)**	**(5)**	**(14)**
Movement recognised in the income statement	**9**	**(1)**	**8**
Closing balance	**–**	**(6)**	**(6)**
Due from agents, brokers and intermediaries			
Opening balance	**–**	**(108)**	**(108)**
Movement recognised in the income statement	**–**	**33**	**33**
Closing balance	**–**	**(75)**	**(75)**
Restated			
2019			
Accounts receivable			
Adjusted opening balance	(10)	(95)	(105)
Movement recognised in the income statement	–	(30)	(30)
Bad debts written off	–	13	13
Closing balance	(10)	(112)	(122)
Related party loans			
Adjusted opening balance	(8)	(5)	(13)
Movement recognised in the income statement	(1)	–	(1)
Closing balance	(9)	(5)	(14)
Due from agents, brokers and intermediaries			
Adjusted opening balance	–	(149)	(149)
Movement recognised in the income statement	–	41	41
Closing balance	–	(108)	(108)

The changes in the expected credit loss allowances due to significant increases in credit risk was not considered to be significant in the current or prior year.

6 Financial assets continued

6.6 Credit risk continued

	Staging definitions				
Stage	**Unsettled trades and accounts receivable**	**Debt securities and funds on deposit and other money market instruments**	**Loans**	**Due from agents, brokers and intermediaries**	**Basis for recognition of expected credit loss provision**
Stage 1	• Low risk of default Strong capability to meet contractual payments	• Low risk of default • Strong capability to meet contractual payments	• Loans are recoverable • Low risk of default • Strong capability to meet contractual payments • Repayment of interest and capital payments in line with terms of agreements • No restructuring of the loan has occurred	• Low risk of default • Strong ability to meet contractual payments	12 months expected losses
Stage 2	• Significant increase in credit risk • Repayments are more than 30 days and less than 90 days past due	• Financial assets move to stage 2 if the instruments investment grade falls with two rating grades	• Loans are recoverable • Repayment of interest and capital significantly in line with the terms of agreements, ie not more than 30 days past due • Some loans may be restructured based on operational needs, but with no effect on interest and capital repayment ability, ie credit quality has deteriorated based on the need for restructure, but adequate repayment plans in place. • Significant deterioration of credit quality	• Significant increase in credit risk • Repayments are more than 30 days and less than 90 days past due	Lifetime expected losses
Stage 3	• Significant increase in credit risk • Repayments are more than 90 days past due	• Financial assets move to stage 3 if the instruments investment grade falls an additional two rating grades since classified as stage 2	• Loans are partially recoverable • Repayment of interest and capital payments not in line with terms of agreement • Significant deterioration in credit quality • Loans restructured	• Broker balances are more than 90 days past due or where legal action has been taken • Out-of-service brokers and financial planners	Lifetime expected losses
Written off	Long outstanding amounts due are evaluated on a case by case basis and would generally be written off when there is no alternative for the debtor to return to solvency and/or legal action taken was unsuccessful.				

6 Financial assets continued

6.6 Credit risk continued

Significant increase in credit risk	Criteria
Unsettled trades, accounts receivable, due from agents, broker and intermediaries and loans	To determine a significant change in credit risk both historical data and forward looking information is taken into account. This includes existing or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, a breach of contract, significant changes in the value of any collateral supporting the obligation and reductions in financial support from a parent entity.
Debt securities and funds on deposit and other money market instruments	Significant increase in credit risk means that the credit rating of the instrument has dropped by two ratings.

Financial asset	Impairment information
Unsettled trades and accounts receivable	Impairment of accounts receivable is based on the recoverability of balances grouped together based on shared credit risk characteristics, eg instrument type. Balances generally relate to amounts where the timing of settlement is within one month. Historic payments as well as forward looking information is also taken into account.
Debt securities and funds on deposit and other money market instruments	The expected credit loss is calculated using information extracted from the reports published by the rating agencies annually.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held.
Due from agents, brokers and intermediaries	Impairment of amounts due from agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.

Sensitivities	
Accounts receivable and due from agents brokers and intermediaries	As most of the balances in stage 1 are short-term in nature and majority of the balance in stage 3 has been provided for, the impairment amount for stages 1 and 3 are not considered to be sensitive to changes in the forward looking information. A deterioration of the forward looking information for balances in stage 2 is also not expected to be material as the gross amounts are not material.
Debt securities and funds on deposit and other money market instruments	Considered to have low credit risk and therefore the expected credit loss is not considered to be sensitive.
Loans	Most of the loan balances outstanding are considered to have low credit risk as the borrower has a strong capacity to meet its obligations and has a low risk of default. The expected credit loss is therefore not considered to be sensitive to changes in forward looking information.

Credit quality

The assets in the Group's maximum exposure table above are analysed in the on the following page, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Moody's, Standard & Poor's (S&P) and Global Credit Rating (GCR). Refer to Annexure C for the definitions used in this section.

6 Financial assets continued

6.6 Credit risk continued

	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC Rm	Unrated Rm	Total Rm
2020									
Financial assets at fair value through profit and loss									
Debt securities									
Stock and loans to government and other public bodies	54 278	6 985	3 083	1 877	119	232	–	269	66 843
Other debt instruments	15 344	47 163	9 696	1 514	707	340	1	2 945	77 710
Derivative financial assets	1 314	1 727	10	–	–	–	–	247	3 298
Debt securities and funds on deposit and money market instruments at amortised cost	–	–	–	–	–	618	–	22	640
Cash and cash equivalents and funds on deposit and money market instruments	10 083	39 074	5 346	1 496	1 231	54	–	2 048	59 332
Assets relating to disposal groups held for sale	19	1	–	–	–	–	–	119	139
Other unrated instruments									
Other financial assets at amortised cost	–	–	–	–	–	–	–	9 103	9 103
Insurance and other receivables	–	–	–	–	–	–	–	4 727	4 727
Unit-linked investments[1]	–	–	–		––	–	–	28 495	28 495
	81 038	94 950	18 135	4 887	2 057	1 244	1	47 975	250 287
Restated									
2019[2]									
Financial assets at fair value through profit and loss									
Debt securities									
Stock and loans to government and other public bodies	46 338	10 532	710	364	–	31	81	424	58 480
Other debt instruments	16 151	41 494	8 101	735	39	252	404	2 006	69 182
Derivative financial assets	1 165	1 225	18	–	–	–	–	41	2 449
Debt securities and funds on deposit and money market instruments at amortised cost	–	–	–	–	–	465	–	–	465
Cash and cash equivalents and funds on deposit and money market instruments	6 386	42 978	3 240	2 157	650	1	–	249	55 661
Assets relating to disposal groups held for sale	–	89	–	55	366	–	–	152	662
Other unrated instruments									
Other financial assets at amortised cost	–	–	–	–	–	–	–	16 608	16 608
Insurance and other receivables	–	–	–	–	–	–	–	4 923	4 923
Unit-linked investments[1]	–	–	–	–	–	–	–	23 872	23 872
	70 040	96 318	12 069	3 311	1 055	749	485	48 275	232 302

[1] Refer to Annexure B for detail on unit-linked investments and note 39 for credit risk management relating to unit-linked investments.

[2] Refer to Annexure I for more information on the restatements.

6 Financial assets continued

6.6 Credit risk continued

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the Group has reinsured of R1 156 million (2019: R1 215 million) (included in note 6.3) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

	2020		2019	
Reinsurer	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	28%	AA-	28%	AA-
General Cologne Re	22%	AA+	24%	AA+
Hannover Re	4%	AA-	4%	A-
RGA Re	15%	AA-	15%	AA-
Munich Re	26%	AA-	26%	A-
Other	5%	A	3%	A
	100%		100%	

The following tables analyse the age of financial assets that are past due as at the reporting date but not impaired:

	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
2020					
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	1 042	77	103	10	1 232
2019					
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	660	127	105	10	902

6 Financial assets continued

6.7 Financial assets hierarchy

Refer to Annexure E for the valuation techniques relating to this note.

The following table provides an analysis of the assets at fair value into the various levels:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2020				
Securities at fair value through profit and loss	285 068	137 817	4 002	426 887
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	101 356	648	–	102 004
Foreign unlisted or listed quoted	43 832	208	231	44 271
Foreign unlisted unquoted	–	1 179	425	1 604
Other unit-linked investments				
Local unlisted or listed quoted	1 892	63	–	1 955
Local unlisted unquoted	–	8 010	1 766	9 776
Foreign unlisted or listed quoted	20	8	29	57
Foreign unlisted unquoted	–	70	216	286
Debt securities				
Stock and loans to government and other public bodies				
Local listed	46 575	12 596	–	59 171
Foreign listed	55	3 134	3	3 192
Unlisted	–	3 927	553	4 480
Other debt instruments				
Local listed	208	38 848	22	39 078
Foreign listed	314	2 707	–	3 021
Unlisted	–	35 155	456	35 611
Equity securities				
Local listed	59 000	4	1	59 005
Foreign listed	31 626	568	172	32 366
Unlisted	–	4	123	127
Funds on deposit and other money market instruments	–	27 580	5	27 585
Derivative financial assets – Held for trading	190	3 108	–	3 298
	285 068	137 817	4 002	426 887

1 Collective investment schemes are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

2 R745 million level 2 local unlisted or listed quoted other unit-linked instruments were reclassified to level 2 local unlisted unquoted other unit-linked instrument in the current year as through further interrogation it was deemed more appropriate.

3 There were no significant transfers in and out of level 1 and 2 respectively in the current year.

6 Financial assets continued

6.7 Financial assets hierarchy continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Restated 2019[1]				
Securities at fair value through profit and loss	289 411	128 048	3 843	421 302
Unit-linked investments				
Collective investment schemes[2]				
Local unlisted or listed quoted	101 792	586	–	102 378
Foreign unlisted or listed quoted	49 513	123	79	49 715
Foreign unlisted unquoted	–	914	477	1 391
Other unit-linked investments				
Local unlisted or listed quoted[3]	2 051	1 428	3	3 482
Local unlisted unquoted	–	6 234	1 523	7 757
Foreign unlisted or listed quoted	6	–	40	46
Foreign unlisted unquoted	–	–	136	136
Debt securities				
Stock and loans to government and other public bodies				
Local listed	37 598	11 820	–	49 418
Foreign listed	1 559	2 726	2	4 287
Unlisted	–	4 237	538	4 775
Other debt instruments				
Local listed	–	34 883	3	34 886
Foreign listed	165	2 396	60	2 621
Unlisted	–	31 062	613	31 675
Equity securities				
Local listed	75 153	2	1	75 156
Foreign listed	21 564	643	186	22 393
Unlisted	–	3	134	137
Funds on deposit and other money market instruments	–	28 552	48	28 600
Derivative financial assets – Held for trading	10	2 439	–	2 449
	289 411	128 048	3 843	421 302

1 Refer to Annexure I for more information on the restatements.

2 Collective investment schemes are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

3 R1.3 billion local unlisted or listed quoted other unit-linked instruments were transferred from level 2 to level 1 in the prior year as through further interrogation it was deemed more appropriate to disclose as level 1.

6 Financial assets continued

6.7 Financial assets hierarchy continued

The following table provides a reconciliation of the fair value of the level 3 assets:

	At fair value through profit and loss				
	Unit-linked investments Rm	Debt securities Rm	Equity securities Rm	Funds on deposit and other money market instruments Rm	Total Rm
2020					
Opening balance	**2 258**	**1 216**	**321**	**48**	**3 843**
Transfer to assets relating to disposal groups held for sale	**(7)**	**–**	**–**	**–**	**(7)**
Transfer from other assets classes	**–**	**(21)**	**–**	**–**	**(21)**
Total gains/(losses) in net realised and unrealised fair value gains in the income statement					
Realised gains/(losses)	**3 044**	**60**	**(63)**	**–**	**3 041**
Unrealised (losses)/gains	**(401)**	**(35)**	**69**	**(2)**	**(369)**
Accrued interest in investment income in the income statement	**–**	**4**	**–**	**–**	**4**
Purchases	**4 489**	**681**	**7**	**–**	**5 177**
Sales	**(6 745)**	**(863)**	**(44)**	**0**	**(7 652)**
Settlements	**–**	**(37)**	**–**	**–**	**(37)**
Transfers into level 3[1]	**29**	**89**	**99**	**–**	**217**
Transfers out to level 2[2]	**–**	**(60)**	**(93)**	**(41)**	**(194)**
Closing balance	**2 667**	**1 034**	**296**	**5**	**4 002**
Restated 2019[3]					
Opening balance	1 731	1 808	238	–	3 777
Transfer to assets relating to disposal groups held for sale	(44)	–	–	–	(44)
Total (losses)/gains in net realised and unrealised fair value gains in the income statement					
Realised gains/(losses)	123	(11)	(32)	–	80
Unrealised (losses)/gains	(130)	48	91	–	9
Accrued interest in investment income in the income statement	–	49	–	–	49
Purchases	2 951	554	94	40	3 639
Sales	(2 590)	(765)	(158)	(20)	(3 533)
Settlements	–	(536)	–	–	(536)
Transfers into level 3[1]	302	76	205	28	611
Transfers out to level 1[4]	(85)	–	(1)	–	(86)
Transfers out to level 2[2]	–	(7)	(116)	–	(123)
Closing balance	2 258	1 216	321	48	3 843

1 Transfers into level 3 equity securities and unit linked investments relate mainly to assets with stale prices in the current and prior year. Debt securities relate mainly to a change in observability of inputs.

2 Transfers out to level 2 relate mainly to assets with inputs to valuation techniques that are no longer stale.

3 Refer to Annexure I for more information on the restatements.

4 Transfers out to level 1 relate mainly to a reassessment performed on assets and it was deemed more appropriate to disclose as level 1.

The amount of total gains and losses for the year included in net realised and unrealised fair value gains in the income statement for assets held at the end of the year is R369 million (2019: R9 million) for the Group.

Transfers in and out of level 3 are deemed to have occurred at inception of the reporting period at fair value.

6 Financial assets continued

6.7 Financial assets hierarchy continued

Sensitivity of significant level 3 financial assets measured at fair value to changes in key assumptions:

	At fair value through profit and loss	
	Unit-linked investments Rm	**Debt securities Rm**
2020		
Carrying amount	**2 667**	**1 034**
Assumption change	**10% increase/ (decrease) in unit price**	**1% increase/ (decrease) in discount rates**
Effect of increase in assumption	**267**	**466**
Effect of decrease in assumption	**(267)**	**498**
Restated 2019[1]		
Carrying amount	2 258	1 216
Assumption change	10% increase/ (decrease) in unit price	1% increase/ (decrease) in discount rates
Effect of increase in assumption	226	(6)
Effect of decrease in assumption	(226)	8

[1] Refer to Annexure I for more information on the restatements.

The following table provides an analysis of the fair value of financial assets not carried at fair value in the statement of financial position:

	2020		Restated 2019[1]	
	Carrying amount Rm	**Fair value Rm**	**Carrying amount Rm**	**Fair value Rm**
Financial assets at amortised cost	**9 743**	**9 743**	17 073	17 073
Unsettled trades	**4 182**	**4 182**	11 565	11 565
Accounts receivable	**2 519**	**2 519**	2 437	2 437
Debt securities	**479**	**479**	387	387
Funds on deposit and other money market instruments	**161**	**161**	78	78
Loans	**2 402**	**2 402**	2 606	2 606
Insurance and other receivables (excluding accelerated rental income and prepayments)	**4 783**	**4 783**	4 991	4 991
Cash and cash equivalents	**31 747**	**31 747**	27 061	27 061
	46 273	**46 273**	49 125	49 125

[1] Refer to Annexure I for more information on the restatements.

Calculation of fair value

- For unsettled trades, accounts receivables, debt securities, funds on deposit and other money market instruments, insurance and other receivables and cash and cash equivalents, the carrying amount approximates fair value due to their short-term nature.
- The fair value of the loan to empowerment partners of R262 million (2019: R263 million) equals the carrying amount as it is expected to be repaid by 31 December 2020. For 2021, the expected cash flows were discounted at 8.2%.
- For policy loans, the fair value of R1 103 million (2019: R1 300 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 10.6% (2019: 9.3%).
- For the remainder of the loans, the carrying amount approximates fair value due to their short-term nature.
- The fair values in the above table are level 2.

7 Reinsurance contract assets

Refer to Annexure D para 10 for the accounting policies relating to this note.

	2020 Rm	2019 Rm
Reinsurance asset relating to cell captive business	**2 990**	2 709
Reinsurance asset relating to long-term insurance	**2 251**	2 355
Prepaid reinsurance	**901**	848
	6 142	5 912
Balance at beginning	**5 912**	4 989
Movement charged to income statement	**165**	377
Attributable to non-cell captive business	**47**	226
Attributable to cell captive business	**118**	151
Cell captive premiums	**(12)**	17
First-party cell captives	**384**	447
Third-party cell captives	**(391)**	38
Transfer to assets relating to disposal groups held for sale	**(18)**	(21)
Other	**60**	63
Exchange differences	**42**	2
Balance at end	**6 142**	5 912
Current	**4 931**	4 880
Non-current	**1 211**	1 032
	6 142	5 912

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

Amounts due from reinsurers in respect of claims incurred by the Group on contracts that are reinsured are included in insurance and other receivables. Refer to note 6.3.

8 Insurance contracts

Refer to Annexure D para 10 for the accounting policies relating to this note.

		2020 Rm	Restated 2019[1] Rm
8.1	**Long-term insurance contracts**		
8.1.1	***Long-term insurance contract liabilities***	**112 697**	118 851
8.1.2	***Liabilities to third-party cell captive owners***	**1 848**	1 401
		114 545	120 252
	Current	**35 556**	37 442
	Non-current	**78 989**	82 810
		114 545	120 252
	Movement in long-term insurance contracts		
8.1.1	***Long-term insurance contract liabilities***		
	Balance at beginning	**118 851**	113 185
	Transfer to policyholder liabilities under insurance contracts	**(6 466)**	6 148
	Increase in retrospective liabilities	**(2 274)**	23
	Unwind of discount rate	**3 883**	4 263
	Expected release of margins	**(3 822)**	(3 238)
	Expected cash flows	**(4 559)**	(3 731)
	Change in economic assumptions	**(1 183)**	(191)
	Change in non-economic assumptions	**802**	260
	New business	**3 257**	8 044
	Experience variances	**(2 555)**	887
	Other	**(15)**	(169)
	Revaluation liability	**17**	11
	Transfer to liabilities relating to disposal groups held for sale	**(30)**	(508)
	Other	**(2)**	11
	Exchange differences	**327**	4
	Balance at end	**112 697**	118 851
8.1.2	***Liabilities to third-party cell captive owners***		
	Balance at beginning	**1 401**	1 445
	Charge to the income statement	**(983)**	(626)
	Net cash flows	**5 357**	4 725
	Changes in share capital, dividends and other items relating to cell captives[2]	**(3 927)**	(4 143)
	Balance at end	**1 848**	1 401

[1] Refer to Annexure I for more information on the restatements.

[2] Relates mainly to cell captive expenses like binder fees, administration fees and commission as well as dividends paid to cell owners.

8 Insurance contracts continued

		2020 Rm	Restated 2019[1] Rm
8.2	**Non-life insurance contracts**		
8.2.1	***Unearned premium provision***	**5 236**	4 261
8.2.2	***Outstanding claims***	**3 495**	2 777
8.2.3	***Liabilities to third-party cell captive owners***	**2 556**	2 565
	Total	**11 287**	9 603
	Current	**8 814**	7 272
	Non-current	**2 473**	2 331
		11 287	9 603
	Movement in non-life insurance contracts		
8.2.1	***Unearned premium provision***		
	Balance at beginning	**4 261**	4 079
	Business combinations (refer to note 29)	**32**	–
	Movement in unearned premium provision		
	Premium income received	**4 800**	3 863
	Recognition of premium income	**(3 875)**	(3 690)
	Transfer to liabilities relating to disposal groups held for sale	**(2)**	–
	Other	**(9)**	–
	Exchange differences	**29**	9
	Balance at end	**5 236**	4 261
8.2.2	***Outstanding claims***		
	Balance at beginning	**2 777**	2 200
	Business combinations (refer to note 29)	**302**	–
	Increase in outstanding claims	**437**	580
	Transfer to liabilities relating to disposal groups held for sale	**(33)**	–
	Other	**(44)**	(8)
	Exchange differences	**56**	5
	Balance at end	**3 495**	2 777
8.2.3	***Liabilities to third-party cell captive owners***		
	Balance at beginning	**2 565**	2 449
	Charge to the income statement	**(28)**	117
	Cell tax	**(357)**	(269)
	Net fair value gains on assets at fair value through profit and loss	**329**	386
	Cell captive income	**975**	1 123
	Net cash flows	**80**	157
	Dividends paid	**(1 082)**	(1 291)
	Exchange differences	**46**	10
	Balance at end	**2 556**	2 565

Refer to note 10 for the assumptions and estimates used.

[1] Refer to Annexure I for more information on the restatements.

9 Investment contracts

Refer to Annexure D para 10 for the accounting policies relating to this note.

		2020 Rm	Restated 2019[1] Rm
9.1	**Investment contracts with DPF**	**18 320**	20 573
9.2	**Investment contracts designated at fair value through profit and loss**	**261 854**	250 037
9.2.1	***Investment contract liabilities designated at fair value through profit and loss***	**251 983**	240 495
9.2.2	***Liabilities to first-party cell captive owners***	**9 871**	9 542
	Total investment contract liability	**280 174**	270 610
	Movement in investment contracts with DPF		
9.1	**Investment contracts with DPF**		
	Balance at beginning	**20 573**	20 906
	Transfer to policyholder liabilities under investment contracts with DPF	**(2 260)**	(171)
	Decrease in retrospective liabilities	**(2 345)**	(757)
	Unwind of discount rate	**11**	6
	Expected release of margins	**(41)**	(42)
	Expected cash flows	**43**	36
	Change in economic assumptions	**–**	(2)
	Change in non-economic assumptions	**128**	158
	New business	**7**	306
	Experience variances	**(63)**	124
	Transfer to liabilities relating to disposal groups held for sale	**–**	(173)
	Other	**2**	10
	Exchange differences	**5**	1
	Balance at end	**18 320**	20 573
	Current	**16 892**	18 988
	Non-current	**1 428**	1 585
		18 320	20 573
	Movement in investment contracts designated at fair value through profit and loss		
9.2	**Investment contracts designated at fair value through profit and loss**		
9.2.1	***Investment contract liabilities designated at fair value through profit and loss***		
	Balance at beginning	**240 495**	236 932
	Contract holder movements	**11 160**	3 747
	Deposits received	**39 798**	34 855
	Contract benefit payments	**(32 004)**	(37 551)
	Fees on investment contracts	**(2 730)**	(2 484)
	Fair value adjustment to policyholder liabilities under investment contracts	**6 290**	8 993
	Changes in share capital, dividends and other items relating to cell captives	**(194)**	(66)
	Transfer to liabilities relating to disposal groups held for sale	**–**	(224)
	Exchange differences	**328**	40
	Balance at end	**251 983**	240 495

[1] Refer to Annexure I for more information on the restatements.

9 Investment contracts continued

9.2 Investment contracts designated at fair value through profit and loss continued

9.2.2 Liabilities to first-party cell captive owners

	2020 Rm	2019 Rm
Balance at beginning	**9 542**	9 107
Contract holder movements	**(323)**	430
Deposits received	**1 897**	1 720
Contract benefit payments	**(1 413)**	(1 444)
Fees on investment contracts	**(97)**	(81)
Fair value adjustment to policyholder liabilities under investment contracts	**152**	151
Cell captive income	**(329)**	(162)
Changes in share capital, dividends and other items relating to cell captives	**(533)**	246
Exchange differences	**652**	5
Balance at end	**9 871**	9 542

	2020 Rm	Restated 2019[1] Rm
Current	**142 095**	134 575
Non-current	**119 759**	115 462
	261 854	250 037

[1] Refer to Annexure I for more information on the restatements.

The instruments in note 9.2 would have been classified as financial liabilities at amortised cost under IFRS 9 had they not been designated at fair value through profit and loss.

For the IFRS 7 disclosures relating to investment contracts, refer to note 11.4.

Refer to note 10 for the assumptions and estimates used.

10 Contract holder liabilities – assumptions and estimates

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the FSV method as described in the actuarial guidance note SAP 104 of ASSA – Calculation of the value of the assets, liabilities and solvency capital requirement of long-term insurers. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies in Annexure D para 10.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by SAP 104.
- Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty or for the prudent release of profit.

The liabilities at 30 June 2020 would have been R8 567 million (2019: R9 680 million) higher for the Group without the discretionary margins. This impact is shown gross of transfer tax.

10 Contract holder liabilities – assumptions and estimates continued

The process used to decide on best-estimate assumptions is described below:

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are monitored annually, with the most recent investigation being in respect of the period ended December 2018 for Metropolitan Life and December 2019 for Momentum Life and Investment business.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period ended December 2019 for MML retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2011 to 2016 for Metropolitan Life business.
- Annuity business: Mortality assumptions for Metropolitan Life annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2018. The Momentum Investments annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was in respect of the period to December 2019. Mortality assumptions for employee benefits contracts within the Momentum Corporate segment are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2019. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations on retail contracts are done regularly, the most recent being in respect of the period ended December 2019 for Momentum Life. For Metropolitan Life exposure is extremely low and morbidity rates are derived through collaboration with reinsurers.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the Momentum Corporate segment, disability claim recovery probabilities are modelled using the Group Long-term Disability Table (GLTD) developed in the United States of America. The table details recovery rates for given ages, elimination periods and durations since disability. These recovery rates are then adjusted for the Group's own experience. The most recent investigation was in respect of the period ended October 2019.

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MML retail business, the most recent being in respect of the period ended November 2019 for Metropolitan Life business and December 2019 for Momentum Life and Investments business.
- Surrender investigations are performed at least annually for MML retail business, the most recent being in respect of the period ended February 2020 for Metropolitan Life business and December 2019 for Momentum Life and Investments business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

Expenses are allocated into three major categories, namely new business, maintenance and development and project expenses. Expenses are allocated into these categories, as well as per segment and product, using a variety of methods. These methods include direct allocations according to function and/or operational structure, functional cost analyses as well as pre-defined cost allocation models.

- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2021 financial year and allows for escalation at the assumed expense inflation rate.
- Asset management expenses are expressed as an annual percentage of assets under management.

10 Contract holder liabilities – assumptions and estimates continued

Investment returns and inflation

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate +3.5% (2019: +3.5%)
  - Property rate: gilt rate +1.0% (2019: +1.0%)
  - Corporate bonds: gilt rate +0.5% (2019: +0.5%)
  - Cash rate: gilt rate -1.0% (2019: -1.0%)
- An inflation rate of 5.0% p.a. for ZAR-denominated retail business is used to project future renewal expenses over the planning horizon (three years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. The 5.7% in the table below represents the 10-year point of the yield curves. An addition to the expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off. For Momentum Corporate a fixed real return of 4.5% is projected.
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2020	2019
RDR	12.9%	11.5%
Gilt rate – risk-free investment return	10.5%	9.3%
Assumed investment return for individual smoothed bonus business	12.7%	11.5%
Renewal expense inflation rate	5.7%	5.8%

Future bonuses

- Contract holders' reasonable benefit expectations are allowed for by assuming bonus rates supported by the market value of the underlying assets and the assumed future investment return.
- For smoothed bonus business, where bonus stabilisation accounts (BSAs) are negative, liabilities are reduced by an amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years. These amounts are determined by projecting BSAs three years into the future using assumed investment returns as per the valuation basis, net of applicable taxes and charges, as well as assumed bonus rates that are lower than those supported by the assumed investment return but nevertheless consistent with the bonus philosophies of the relevant funds. The assumed bonus rates are communicated to, and accepted by, both management and the respective boards of directors.
- For conventional with-profit business, all future bonuses are provided for at bonus rates supported by the market value of the underlying assets and the assumed future investment return. Any resulting reduction in future bonus rates used in the valuation assumptions, relative to those most recently declared, is communicated to, and accepted by, both management and the respective boards of directors at each annual bonus declaration.

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2020. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

The following table discloses specific points on the zero coupon yield curve used in the projection of the assets as at 30 June:

Year	1	2	3	4	5	10	15	20	25	30	35	40
2020	3.8	4.6	5.5	6.3	7.2	10.7	13.2	14.6	15.4	15.9	16.2	16.2
2019	6.3	6.7	7.0	7.4	7.8	9.3	10.4	10.9	11.0	11.0	10.8	10.6

10 Contract holder liabilities – assumptions and estimates continued

Investment guarantees (APN 110) continued

The following instruments have been valued by the model:

Instrument	2020 Price (% of nominal)	2020 Volatility	2019 Price (% of nominal)	2019 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**8.9%**	**23.6%**	5.1%	16.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a 0.8 of spot	**2.9%**	**28.3%**	1.0%	21.2%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0025 (2019: 1.0294)	**9.1%**	**23.5%**	6.3%	16.2%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**8.5%**	**22.4%**	5.3%	18.3%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**15.4%**	**21.2%**	10.9%	17.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.2437 (2019: 1.2837)	**16.4%**	**21.1%**	13.2%	16.9%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**0.3%**	**26.7%**	0.6%	22.0%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**1.6%**	**26.4%**	4.3%	21.6%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 9.3413 (2019: 4.8887)	**27.3%**	**26.5%**	22.9%	21.5%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	**7.5%**	**13.1%**	4.9%	11.0%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.2%**	**N/A**	0.3%	N/A

Tax

- Future tax on investment returns is allowed for, according to current five-fund tax legislation, by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

Provisions for Covid-19

The Group has considered the possible impact of the Covid-19 pandemic and the related decline in economic conditions and outlook on expected policyholder behaviour around lapses, surrenders, and withdrawals. It has reviewed recent claims experience and publicly available models that project infection and mortality rates of Covid-19 and has also observed the outcomes from premium relief options that clients have exercised in the last three months of the financial year. The modelling suggests that the bulk of the impact of the Covid-19 pandemic will be observed in F2021 and F2022.

The expected impact of these items has led to changes in the applicable mortality, disability, and termination assumptions for F2021 and F2022 that are used in the valuation basis of the life insurance operations of the Group. The impact of claims on non-life insurance business in Guardrisk has also been considered.

The overall impact is a reduction in the Group's normalised headline earnings for the year of R983 million. There is an additional impact on the value of in-force business of R398 million, which resulted in a total reduction in EV of R1 381 million.

10 Contract holder liabilities – assumptions and estimates continued

Provisions for Covid-19 continued

The overall impact is a reduction in the Group's normalised headline earnings for the year of R983 million. There is an additional impact on the value of in-force business of R398 million, which resulted in a total reduction in EV of R1 381 million.

The impacts by business unit are shown in the table below:

	Impact of provisions for Covid-19 on:						
	Normalised headline earnings					Value of in-force business	
	Mortality Rm	Morbidity Rm	Non-life insurance claims Rm	Termina-tions Rm	Total Rm	Termina-tions Rm	Embedded value Total Rm
2020							
Momentum Life	316	–	–	50	366	114	480
Metropolitan Life	108	–	–	72	180	–	180
Momentum Corporate	275	72	–	–	347	284	631
Momentum Metropolitan Africa	52	–	–	–	52	–	52
Non-life Insurance	–	–	38	–	38	–	38
Total	751	72	38	122	983	398	1 381

The assumptions applied in the establishment of the Covid-19 provisions were determined by taking various modelled scenarios into account. The specific circumstances that affect the clients of each segment were considered in the modelling and the resultant assumptions may thus differ somewhat between segments. As trends in Covid-19 related claims experience and policyholder behaviour continue to evolve, the Group will continue to evaluate and assess the assumptions used in the valuation basis.

The valuation basis was determined as follows for each factor:

Mortality

As at 30 June 2020, South Africa reported 151 290 confirmed Covid-19 cases and recorded 2 657 deaths. By 7 September, confirmed cases in South Africa has increased to 639 362 and recorded 15 004 deaths. Excess deaths are significantly higher than the confirmed Covid-19 number of deaths.

As a result of the increase in excess deaths, the Group anticipates a rise in mortality claims in the near term, linked to the spread of Covid-19. The mortality provision was determined by referencing several international studies on attack rates, infection and case fatality rates and applying these assumed age-based infection and fatality rates to the sum at risk of the various books of business. The infection and mortality rates were further adjusted to allow for the assumed differences in experiences of the different socio-economic classes as well as actual claims experience up to the end of July 2020. The final modelling assumed ultimate attack rates ranging from 40% to 60% of the population.

Momentum Life and Momentum Corporate have allowed for similar infection rates. The lower income retail client segment is expected to be more vulnerable to infections and to have more limited ability to isolate and shelter. The mortality and infection rates in Metropolitan Life are therefore expected to be significantly higher than the modelled experience in Momentum Life and Momentum Corporate. Reinsurance recoveries have been allowed for in line with conditions of the relevant agreements.

Momentum Metropolitan Africa included a R52 million allowance for adverse experience.

Longevity

The Group anticipates that increased mortality of annuitants as well as income protection claimants will result in a higher than expected release of reserves held for these benefits. However, no offsetting credit has been taken for this in the Covid-19 provision.

Morbidity

The Group expects an increase in income protection claimants that are unable to return to work due to the economic environment. In Momentum Corporate, a 20% reduction in return-to-work rates for a 24-month period was allowed for.

10 Contract holder liabilities – assumptions and estimates continued

Provisions for Covid-19 continued

Terminations

In March 2020, the Group offered various relief measures in the form of premium holidays, premium rebates, premium pause options, and grace periods for premium payment to ease financial pressure for clients. Given the hardship caused by the economic crisis, the Group expects that some of the clients who elected to make use of these relief options are at risk of terminating their policies in the near term. For these policies, Momentum Life and Momentum Corporate have considered actual policyholder behaviour over the last three months and have assumed that 50% of policyholders who exercised premium holidays and pause options would terminate their policies immediately upon expiry of the grace period.

Metropolitan Life already offered a premium skip facility before the pandemic and the valuation assumptions therefore already had an allowance for policies in a 'premium skip' state. No additional allowance was therefore made. Metropolitan Life's earnings are more exposed to terminations on its funeral book than is the case for Momentum Life on its protection business, and a termination provision equal to 10% of negative rand reserves has been allowed for to reflect the potential short-term deterioration in lapses on Metropolitan Life's funeral book due to the economic lookout.

Retrenchment risk

Momentum Metropolitan Life has limited exposure to retrenchment risk as it has generally been averse to this risk type in the past. Consequently, no explicit liability was deemed necessary.

Guardrisk does have exposure to retrenchment risk in several of its cells, but these cells are still sufficiently profitable and well capitalised to avoid the need to hold any additional shareholder provisions related to these cells. The reserving in the cells has been strengthened in anticipation of increased retrenchment risk.

Non-life insurance claims

Guardrisk has made an adjustment to its outstanding claims reserves for a potential increase in claims related to business interruption cover that is offered as an extension on some of its policies. The outbreak of the Covid-19 pandemic has sparked public debate between policyholders, insurers, reinsurers, and regulators on the interpretation of policy wordings that offer business interruption cover, and specifically in relation to any extensions for infectious or contagious diseases.

Although a legal process is still ongoing, Guardrisk is providing relief to policyholders in the hospitality industry by offering a settlement in terms of the policy to affected policyholders. The settlement offer triggers cover under quota share and non-proportional (excess-of-loss) reinsurance agreements. It is estimated that Guardrisk's total exposure to business interruption cover is approximately R600 million. After taking reinsurance recoveries into account, a net of tax provision of R38 million has been created.

Expenses

Across the Group, an amount of R71 million (before tax) has been expensed in the current year, related to support and financial relief provided to the Group's various distribution forces, to help weather the impact of reduced income during the hard lockdown period when financial advice was not deemed an essential service by government regulations.

The Group has also incurred R26 million in operational expenses which is directly attributable to the Covid-19 pandemic. The expenses include data and technology-related costs and other remote working enablement costs, as well costs related to the structural changes needed to ensure social distancing between workstations for essential office-based staff, hand sanitiser and deep-cleansing of offices.

These costs were fully expensed through operational expenses in the current year and are not reported as part of the provision for Covid-19. The lockdown restrictions have also delivered expense savings, for example on travel and entertainment, offsetting some of the impact of the Covid-19 related costs. Development and implementation costs that were incurred from accelerated projects to, for example, improve digital engagement tools, are not deemed to be directly related to the pandemic.

10 Contract holder liabilities – assumptions and estimates continued

Basis and other changes

Assumptions and methodologies used in the FSV basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur. An exception to this is the impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business, which is treated in accordance with the stabilisation policy as described in the accounting policies in Annexure D para 10.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2020 by R807 million (2019: R155 million) for the Group. The major contributors to this change were as follows:
  - Actuarial methodology changes and corrections (other changes) – positive R69 million (2019: negative R110 million).
  - Experience basis changes - negative R809 million (2019: negative R124 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions. The significant portion of the current year changes relates to the Covid-19 provision of R983 million which was nil in the prior year.
  - Economic assumption changes – negative R67 million (2019: positive R79 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, the specified assumption changes while all the other assumptions remain constant.

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions by the specified amount in all future years.

	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinu-ance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
2020						
Insurance business						
Retail insurance business (excluding annuities)	**60 935**	**59 375**	**59 845**	**61 258**	**57 851**	**61 645**
Annuities (retail and employee benefits)	**49 484**	**49 314**	**49 350**	**49 484**	**49 952**	**51 553**
Employee benefits business (excluding annuities)	**2 605**	**2 602**	**2 602**	**2 610**	**2 610**	**2 684**
Investment with DPF business	**18 320**	**18 301**	**18 311**	**18 319**	**18 320**	**18 529**
Investment business	**244 336**	**244 314**	**244 327**	**244 343**	**244 340**	**245 287**
Subtotal	**375 680**	**373 906**	**374 435**	**376 014**	**373 073**	**379 698**
Cell captive and non-life business	**30 335**					
Total	**406 015**	**373 906**	**374 435**	**376 014**	**373 073**	**379 698**
Restated 2019[1]						
Insurance business						
Retail insurance business (excluding annuities)	66 563	65 094	65 534	67 051	63 552	67 721
Annuities (retail and employee benefits)	49 853	49 681	49 710	49 850	50 425	52 459
Employee benefits business (excluding annuities)	2 837	2 827	2 836	2 837	2 835	2 935
Investment with DPF business	20 574	20 562	20 566	20 570	20 519	20 727
Investment business	237 193	237 176	237 187	237 197	237 196	239 553
Subtotal	377 020	375 340	375 833	377 505	374 527	383 395
Cell captive and non-life business	23 459					
Total	400 479	375 340	375 833	377 505	374 527	383 395

[1] Refer to Annexure I for more information on the restatements.

The impact of the reduction in the assumed investment return includes the consequent change in projected bonus rates, discount rates and the assumed level of renewal expense inflation.

10 Contract holder liabilities – assumptions and estimates continued

Sensitivity analysis continued

The sensitivities were chosen because they represent the main assumptions regarding future experience that the Group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in the Group's published EV report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities; for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table on the previous page shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2019: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R127 million (2019: R124 million) in the before-tax earnings of the Group.

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances on the Group's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities following a change in long-term interest rates will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

11 Financial liabilities

Refer to Annexure D para 11, 15 and 22 for the accounting policies relating to this note.

The Group classifies its financial liabilities into the following categories:

- Financial liabilities at fair value through profit and loss
- Financial liabilities at amortised cost

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

		2020 Rm	Restated 2019[1] Rm
	The Group's financial liabilities are summarised below:		
11.1	**Financial liabilities at fair value through profit and loss**	**45 946**	42 806
11.2	**Financial liabilities at amortised cost**	**4 610**	3 007
11.3	**Other payables (excluding premiums paid in advance and deferred revenue liability (DRL))**	**18 266**	23 399
		68 822	69 212
11.1	**Financial liabilities at fair value through profit and loss**		
	Collective investment scheme liabilities	**28 467**	29 331
	Subordinated call notes	**4 431**	4 431
	Carry positions	**7 444**	6 613
	Derivative financial liabilities (refer to note 6.1)	**5 463**	2 318
	Other borrowings	**141**	113
		45 946	42 806
	Current	**38 599**	37 330
	Non-current	**7 347**	5 476
		45 946	42 806

[1] Refer to Annexure I for more information on the restatements.

11 Financial liabilities continued

- Change in the fair value of financial liabilities designated at fair value through profit and loss due to own credit risk was R69 million for the current year and immaterial for the prior year. The difference between the financial liability's fair value and the contractually amount required to pay at maturity is R181 million.
- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the Group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) - the Financial Sector Conduct Authority (FSCA) granted approval for MML to raise debt issuances. MML has sufficient cash to cover the debt. During the current year, R69 million fair value gains was recognised on the subordinated call notes which has been accounted for in other comprehensive income. These fair value gains were offset by other market factors. Refer to note 35 for more detail. *(cash flow interest rate risk)*
- Carry positions (secured) – this relates to a carry position reported by the Group that represents a sale and repurchase of assets in specific group annuity portfolios. These carry positions are secured by government stock with a value of R8 579 million (2019: R6 676 million). Offsetting has not been applied. *(fair value interest rate risk)*
- Other borrowings – non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to EV. In terms of IFRS, the Group has recognised a financial liability of R108 million (2019: R86 million), being the present value of the estimated purchase price, for exercising this option. The Group has consolidated 96% of the subsidiaries' results. *(no interest rate risk)*
- These instruments, excluding 'Other borrowings', would have been disclosed as at amortised cost under IFRS 9 had they not been designated at fair value through profit and loss.

11.2 Financial liabilities at amortised cost

	2020 Rm	**2019 Rm**
Property development loans	**1 326**	1 322
Cumulative redeemable preference shares	**2 025**	1 017
Lease liabilities	**318**	–
Cumulative redeemable convertible preference shares	**254**	254
Other	**687**	414
	4 610	3 007
Current	**738**	202
Non-current	**3 872**	2 805
	4 610	3 007

11.2.1 Property development loans

Included in property development loans are:

- A R882 million (2019: R811 million) loan from Standard Bank Ltd in order to develop property held by a subsidiary, 129 Rivonia Road (Pty) Ltd. Interest on the loan is levied at three-month Johannesburg Interbank Average Rate (JIBAR) plus 2.10%. The loan is secured by the underlying property *(cash flow interest rate risk).*
- A R257 million (2019: R267 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia Road (Pty) Ltd. Interest on the loan is levied at 11%. The loan is secured by the underlying property *(no interest rate risk).*
- A R185 million (2019: R191 million) loan from Standard Bank Ltd in order to develop property held by a subsidiary, Momentum Metropolitan Umhlanga (Pty) Ltd. Interest on the loan is levied at JIBAR plus 1.90%. The loan is secured by the underlying property *(cash flow interest rate risk).*

11.2.2 Cumulative redeemable preference shares

On 26 June 2014, MMSI issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd. The declaration of preference dividends is calculated at 72% of JIBAR plus 180 basis points. During the current year 300 redeemable preference shares were redeemed, the remaining 700 redeemable preference shares has a redemption date of 30 June 2023 (after extending it under the same terms by 36 months in the current year). Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date. (cash flow interest rate risk)

On 29 January 2020, MMSI issued 1 000 Class B cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd. The declaration of preference dividends is calculated at 72% of three-month JIBAR plus 200 basis points with a redemption date of 28 January 2025. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date. (cash flow interest rate risk)

On 28 April 2020, MMSI issued 300 cumulative redeemable preference shares at R1 million per share to Sanlam Alternative Income Fund. The declaration of preference dividends is calculated at 72% of three-month JIBAR plus 165 basis points with a redemption date of 28 April 2023. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares. (cash flow interest rate risk)

11 **Financial liabilities** continued

11.2 **Financial liabilities at amortised cost** continued

11.2.3 Lease liabilities

	2020 Rm	2019 Rm
Carrying amount at beginning	–	–
Recognised on 1 July 2019 on adoption of IFRS 16	361	–
Additions	20	
Interest expense	31	–
Payments	(113)	–
Business combinations (refer to note 29)	16	–
Exchange differences	3	–
Carrying amount at end	318	–

11.2.4 Cumulative redeemable convertible preference shares

MMH had 28 060 898 A3 cumulative convertible redeemable preference shares in issue (to KTH, the Group's strategic B-BBEE partner) at the beginning of the year. Dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redemption date of 31 December 2020 (after extending it by 18 months in the prior year). The shares were originally issued at a price of R10.18 per share. Dividends are payable on the remaining preference shares at 132 cents per annum. During the prior year, MMH subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) which is linked to the A3 preference shares acquired in 2011. The dividends on the Off The Shelf Investments preference share aligns the A3 preference share dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payments B-BBEE expense of R23 million was recognised. The extension was treated as a renegotiation of the original contract. The change in the liability to the present value of the additional cash flow resulting from the extension was not considered material. *(no interest rate risk)*

The equity component of the preference shares is included in note 16.6.

11.3 Other payables

	2020 Rm	Restated 2019[1] Rm
Payables arising from insurance contracts and investment contracts with DPF	5 615	5 987
Claims in process of settlement		
Insurance contracts	3 526	3 816
Investment contracts with DPF	1 084	1 104
Due to reinsurers	1 005	1 067
Payables arising from investment contracts	1 125	877
Financial instruments	11 526	16 535
Unsettled trades	5 077	11 119
Commission creditors	930	958
Health saver liability	288	265
Other payables	5 231	4 193
Total included in financial liabilities	18 266	23 399
Premiums paid in advance	1 130	1 048
Deferred revenue liability	583	529
Total other payables	19 979	24 976
Current	18 830	23 670
Non-current	1 149	1 306
	19 979	24 976

[1] Refer to Annexure I for more information on the restatements.

11 Financial liabilities continued

11.3 Other payables continued

	2020 Rm	2019 Rm
Reconciliation of deferred revenue liability		
Balance at beginning of year	529	481
Deferred income relating to new business	113	57
Amount recognised in income statement	(59)	(9)
Balance at end of year	583	529
Current	314	309
Non-current	269	220
1 to 5 years	116	63
5 to 10 years	118	118
> 10 years	35	39
	583	529

Refer to Annexure D para 23.1 for the accounting policies relating to deferred revenue liability.

11.4 Financial liabilities measurement

Financial liabilities summarised by measurement category in terms of IFRS 9	Fair value through profit and loss: Mandatorily Rm	Fair value through profit and loss: Designated Rm	Fair value through profit and loss: Total fair value Rm	Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
2020						
Investment contracts with DPF	–	–	–	–	18 320	18 320
Investment contracts designated at fair value through profit and loss	–	261 854	261 854	–	–	261 854
Collective investment scheme liabilities	–	28 467	28 467	–	–	28 467
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	7 444	7 444	–	–	7 444
Derivative financial liabilities	5 463	–	5 463	–	–	5 463
Other borrowings	115	26	141		–	141
Financial liabilities at amortised cost	–	–	–	4 292	318	4 610
Other payables (excluding premiums in advance and deferred revenue liability)	–	–	–	12 651	5 615	18 266
Total financial liabilities	5 578	302 222	307 800	16 943	24 253	348 996
Restated 2019[1]						
Investment contracts with DPF	–	–	–	–	20 573	20 573
Investment contracts designated at fair value through profit and loss	–	250 037	250 037	–	–	250 037
Collective investment scheme liabilities	–	29 331	29 331	–	–	29 331
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	6 613	6 613	–	–	6 613
Derivative financial liabilities	2 318	–	2 318	–	–	2 318
Other borrowings	108	5	113	–	–	113
Financial liabilities at amortised cost	–	–	–	3 007	–	3 007
Other payables (excluding premiums in advance and deferred revenue liability)	–	–	–	17 412	5 987	23 399
Total financial liabilities	2 426	290 417	292 843	20 419	26 560	339 822

[1] Refer to Annexure I for more information on the restatements.

11 **Financial liabilities** continued

11.5 Financial liabilities hierarchy

Refer to Annexure E for the valuation techniques relating to this note.

The following liabilities are carried at fair value and have been split into a fair value hierarchy:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2020				
Investment contracts designated at fair value through profit and loss	**–**	**261 828**	**26**	**261 854**
Financial liabilities at fair value through profit and loss	**26 019**	**19 795**	**132**	**45 946**
Collective investment scheme liabilities	**26 019**	**2 426**	**22**	**28 467**
Subordinated call notes	**–**	**4 431**	**–**	**4 431**
Carry positions	**–**	**7 444**	**–**	**7 444**
Derivative financial liabilities – held for trading	**–**	**5 463**	**–**	**5 463**
Other borrowings	**–**	**31**	**110**	**141**
	26 019	**281 623**	**158**	**307 800**
Restated 2019[1]				
Investment contracts designated at fair value through profit and loss	–	250 008	29	250 037
Financial liabilities at fair value through profit and loss	29 268	13 367	171	42 806
Collective investment scheme liabilities	29 268	–	63	29 331
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	6 613	–	6 613
Derivative financial liabilities – held for trading	–	2 318	–	2 318
Other borrowings	–	5	108	113
	29 268	263 375	200	292 843

1 Refer to Annexure I for more information on the restatements.

2 There were no significant transfers between level 1 and level 2 liabilities for both the current and prior years.

11 Financial liabilities continued

11.5 Financial liabilities hierarchy continued

A reconciliation of the level 3 liabilities has been provided below:

	At fair value through profit and loss			
	Investment contracts designated at fair value through profit and loss Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
2020				
Opening balance	**29**	**63**	**108**	**200**
Total losses/(gains) in net realised and unrealised fair value gains in the income statement				
Realised losses/(gains)	**1**	**(4)**	**(5)**	**(8)**
Unrealised (gains)/losses	**–**	**(16)**	**22**	**6**
Total gains in other comprehensive income	**–**	**(5)**	**(3)**	**(8)**
Sales	**–**	**(4)**	**–**	**(4)**
Settlements	**–**	**(12)**	**(5)**	**(17)**
Contract holder movements				
Benefits paid	**(5)**	**–**	**(7)**	**(12)**
Investment return	**1**	**–**	**–**	**1**
Closing balance	**26**	**22**	**110**	**158**
2019				
Opening balance	25	86	110	221
Total losses/(gains) in net realised and unrealised fair value gains in the income statement				
Realised gains	–	(6)	–	(6)
Unrealised losses	3	2	15	20
Issues	–	19	–	19
Sales	–	(26)	–	(26)
Settlements	–	(12)	(17)	(29)
Contract holder movements				
Investment return	1	–	–	1
Closing balance	29	63	108	200

Sensitivity: Increasing/decreasing the underlying entity by 10% would decrease/increase the carrying amount of level 3 other borrowings by R4 million and R4 million (2019: R4 million and R4 million), respectively.

11 Financial liabilities continued

11.5 Financial liabilities hierarchy continued

The following table provides an analysis of the fair value of financial liabilities not carried at fair value in the statement of financial position:

	2020		Restated 2019[1]	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Investment contracts with DPF	**18 320**	**18 320**	20 573	20 573
Financial liabilities at amortised cost	**4 610**	**4 976**	3 007	3 301
Cumulative redeemable preference shares	**2 025**	**2 025**	1 017	1 017
Cumulative redeemable convertible preference shares	**254**	**620**	254	548
Lease liabilities	**318**	**318**		
Other	**2 013**	**2 013**	1 736	1 736
Other payables (excluding premiums in advance and deferred revenue liability)	**18 266**	**18 266**	23 399	23 399
Payables arising from investment contracts	**1 125**	**1 125**	877	877
Other	**17 141**	**17 141**	22 522	22 522
	41 196	**41 562**	46 979	47 273

[1] Refer to Annexure I for more information on the restatements.

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which has been used as an approximation for the fair value of this financial liability, as the fair value cannot be measured reliably. There is no intention to dispose of these financial instruments.
- The estimated fair value of the cumulative redeemable preference shares is determined by referencing similar preference shares that could be obtained with the same maturity profile and an interest rate linked to a 72% three-month JIBAR. The carrying amount approximates fair value due to new preference shares being issued during the current financial year and the repricing of the original preference shares *(level 2)*.
- The estimated fair value of the cumulative redeemable convertible preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2020, the expected cash flows were discounted at a current market rate of 13% (2019: 12%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder *(level 2)*.
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying amount approximates fair value due to their short-term nature.

12 Reinsurance contract liabilities

Refer to Annexure D para 10 for the accounting policies relating to this note.

	2020 Rm	2019 Rm
Balance at beginning	**1 912**	1 685
Business combinations (refer to note 29)	**24**	–
Change in liabilities under reinsurance agreements	**357**	246
New financial reinsurance agreements	**514**	543
Repayments	**(157)**	(274)
Change in estimates	**–**	(23)
Reinsurance ceded	**(5)**	(19)
Transfer to liabilities relating to disposal groups held for sale	**(11)**	–
Balance at end	**2 277**	1 912
Current	**278**	301
Non-current	**1 999**	1 611
	2 277	1 912

The reinsurance liability relates to a financial reinsurance agreement with registered reinsurers, whereby the reinsurer provided upfront funding to cells within Guardrisk. The cells then repay this funding over an agreed term. The liability associated with this repayment is disclosed above.

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

13 Deferred income tax

Refer to Annexure D para 12 for the accounting policies relating to this note.

	2020 Rm	2019 Rm
Deferred tax asset	**862**	599
Deferred tax liability	**(2 926)**	(3 222)
	(2 064)	(2 623)
Deferred tax is made up as follows:		
Accruals and provisions	**105**	132
Accelerated wear and tear	**(133)**	(117)
Revaluations	**(676)**	(590)
Deferred tax on intangible assets as a result of past business combinations	**(1 536)**	(1 662)
Deferred revenue liability	**20**	13
Difference between published and statutory policyholder liabilities	**2**	3
Tax losses	**749**	374
Negative rand reserves	**(527)**	(658)
Deferred acquisition costs	**(21)**	(18)
Other	**(47)**	(100)
	(2 064)	(2 623)
Current	**477**	71
Non-current	**(2 541)**	(2 694)
	(2 064)	(2 623)
Movement in deferred tax		
Balance at beginning	**(2 623)**	(2 584)
Recognised on 1 July 2019 on adoption of IFRS 16	**3**	
Business combinations (refer to note 29)	**(86)**	–
Charge to the income statement	**659**	(3)
Accruals and provisions	**(27)**	46
Accelerated wear and tear	**(16)**	(18)
Revaluations	**52**	(11)
Deferred tax movement on intangible assets as a result of past business combinations	**211**	257
Deferred revenue liability	**7**	(144)
Difference between published and statutory policyholder liabilities	**(1)**	(958)
Tax losses	**375**	(248)
Negative rand reserves	**131**	333
Deferred acquisition costs	**2**	579
Other	**(75)**	161
Charge to other comprehensive income (refer to note 16)	**(9)**	60
Transfer to assets relating to disposal groups held for sale	**(9)**	–
Other	**–**	(96)
Exchange differences	**1**	–
Balance at end	**(2 064)**	(2 623)
Deferred tax asset on available tax losses and credits not provided for	**900**	794

13 Deferred income tax continued

Creation of deferred tax assets and recognition of deferred tax liabilities

Tax losses have been provided for as deferred tax assets where at year-end their recoverability was probable.

Included in the deferred tax asset of R749 million (2019: R374 million) raised due to tax losses, is a deferred tax asset of R157 million (2019: R44 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the Group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R1 195 million (2019: R1 381 million) relating to the unremitted earnings of international subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements

The Group is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made. Future taxable profits, on which the recognition of deferred tax assets are based, have been updated to consider the impact of Covid-19 pandemic. All business across the Group reviewed their bottom-up forecasted cash flows to account for the potential impact of the pandemic on its assumptions including revenue growth, claims experience, expenses, lapse rates *inter alia*.

14 Employee benefit obligations

Refer to Annexure D para 18 for the accounting policies relating to this note.

		2020 Rm	2019 Rm
14.1	**Employee benefit obligations**		
14.1.1	***Post-retirement medical benefits***	**124**	164
14.1.2	***Cash-settled arrangements***	**404**	358
	Other employee benefit obligations	**700**	817
	Total employee benefit obligations	**1 228**	1 339
	Current	**932**	982
	Non-current	**296**	357
		1 228	1 339
	Employee benefit expenses are included in the income statement. Refer to note 23.		
14.1.1	***Post-retirement medical benefits***		
	Balance at beginning – unfunded	**164**	169
	Business combinations (refer to note 29)	**4**	–
	Current service costs	**6**	1
	Past service cost	**2**	–
	Interest expense	**10**	15
	Actuarial gains – other comprehensive income	**(34)**	(14)
	Settlements	**(21)**	–
	Benefits paid and transferred	**(7)**	(7)
	Balance at end – unfunded	**124**	164
	Current	**11**	13
	Non-current	**113**	151
		124	164

Valuation methodology

Liabilities for qualifying employees and current retirees are taken as the actuarial present value of all future medical contribution subsidies, using the long-term valuation assumptions. The current medical scheme contribution rates are projected into the future using the long-term healthcare inflation rate, while the value of the portion subsidised by the employer after retirement is discounted back to the valuation date using the valuation rate of interest. The projected unit credit method is used to calculate the liabilities.

14 Employee benefit obligations continued

14.1 Employee benefit obligations continued

14.1.1 Post-retirement medical benefits continued

The key valuation assumptions are:

Assumptions	Base assumption	Change in significant assumption	Change in value of liability: Decrease in significant assumption Rm	Change in value of liability: Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	7% (2019: 7%)	3%	(10)	12
Valuation rate of interest/discount rate	10% (2019: 9%)			
Administration fee inflation	6% (2019: 6%)			
Normal retirement age	60 – 62 years			
Mortality				
Pre-retirement	SA 72 – 77 ultimate, with female rates equal to 70% of male rates			
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years			

The weighted average duration of the post-retirement medical benefits obligation is 9.6 years (2019: 11.0 years).

	2020 Rm	2019 Rm
14.1.2 Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	358	333
Additional provisions	224	122
Benefits paid	(180)	(97)
Exchange differences	2	–
Balance at end	404	358
Current	284	197
Non-current	120	161
	404	358

14 Employee benefit obligations continued

14.1 Employee benefit obligations continued

14.1.2 Cash-settled arrangements continued

MMH share schemes

Subsequent to the merger, the Group started share schemes linked to MMH shares.

MMH Long-term Incentive Plan (MMH LTIP)

Certain key senior staff members were identified as vital to the future success of the Group and its ability to compete in an ever-changing environment. The purpose of the MMH LTIP is to incentivise and retain these key senior staff members. The MMH LTIP comprises three separate long-term incentives, the first being an award of performance units, the second being a grant of retention units, and the third being a grant of deferred bonus units.

The performance units have performance criteria based on minimum hurdles related to the return on EV of the Group. The units will therefore vest after a period of three years, and the Group's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMH share (average of 20 trading days before the settlement date).

The deferred bonus units represent the deferred portion of short-term incentives above a threshold. These units vest subject to the employee remaining in the employ of the Group on the vesting date, and not being subject to disciplinary action during the period between the award date and the vesting date.

When the retention units, performance units and deferred bonus units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMH share (average of 20 trading days before the settlement date).

Momentum Sales Phantom Shares (MSPS)

In November 2013, Momentum Sales issued phantom shares to sales staff. Allocations made will vest in three equal tranches on the third, fourth and fifth anniversary after the grant date. When the shares vest, the Group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the Group and therefore the scheme is cash-settled.

MMH Outperformance Plan (MMH OP)

The purpose of the plan is to motivate, reward and retain a small group of senior executives on a basis which aligns their interests with the Group's targeted Return on Embedded Value (ROEV) of Nominal GDP +6%. Participants are primarily awarded performance units (vesting subject to certain group and individual performance criteria being met), while participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

The plan is a phantom incentive plan in that a participant shall not be entitled to MMH shares but rather to a cash sum from the employer calculated on the basis of the number of units which vest at the fair value market price of a MMH share (weighted average of 20 trading days before vesting date). Vesting of the performance units is dependent on the achievement of a minimum ROEV of Nominal GDP +3% per annum over the vesting period, with 100% vesting achieved if the ROEV meets or exceeds Nominal GDP +6% per annum. The scheme matured in 2019. The units which matured in October 2019 were forfeited as the threshold vesting criterion was not met.

Momentum Metropolitan Share Appreciation Rights Scheme (MMH SAR)

The MMH SAR commenced in October 2018, and is a performance-based cash-settled option scheme in terms of which certain executives are allocated Share Appreciation Rights (SARs) in MMH shares. The SARs simulate "at-the-money" call options on MMH shares, meaning that the growth in the share price between the allocation date and the vesting date will accrue to the participant at the vesting date. Vesting takes place after the performance period of three years, and payment of the vested amount will take place in equal thirds after three, four and five years, at the ruling MMH share price based on the 20 day volume weighted average price (VWAP) price up to payment date.

14 Employee benefit obligations continued

14.1 Employee benefit obligations continued

14.1.2 Cash-settled arrangements continued

	MMH LTIP				MMH OP		
	Retention units '000	**Performance units '000**	**Deferred bonus units '000**	**MSPS '000**	**Retention units '000**	**Performance units '000**	**MMH SAR '000**
Units in force at 1 July 2018	25 763	31 864	–	5 549	225	7 098	–
Units granted during year	624	690	9 751	708	5	36	25 773
Units exercised/released during year	(5 762)	–	(92)	(1 447)	–	–	–
Units cancelled/lapsed during year	(2 632)	(11 483)	(656)	(414)	–	(5 498)	(2 799)
Units in force at 1 July 2019	**17 993**	**21 071**	**9 003**	**4 396**	**230**	**1 636**	**22 974**
Units granted during year	**669**	**12 606**	**8 467**	**661**	**4**	**–**	**–**
Units exercised/released during year	**(6 699)**	**–**	**(3 159)**	**(1 769)**	**(234)**	**–**	**–**
Units cancelled/lapsed during year	**(980)**	**(8 804)**	**(748)**	**(387)**	**–**	**(1 636)**	**(817)**
Units in force at 30 June 2020	**10 983**	**24 873**	**13 563**	**2 901**	**–**	**–**	**22 157**

Market value of range at date of exercise/release	**2020 Cents**	**2019 Cents**
MMH LTIP		
Retention units	**1 604 – 2 160**	1 602 – 1 810
Deferred bonus units	**1 604 – 2 093**	1 700 – 1 810
MSPS	**1 822 – 1 991**	1 602 – 1 769

Units outstanding (by expiry date) for the MMH LTIP, MSPS, MMH OP and MMH SAR at 30 June 2020 are as follows:

	MMH LTIP				
	Retention units '000	**Performance units '000**	**Deferred bonus units '000**	**MSPS '000**	**MMH SAR '000**
2020					
Financial year 2020/2021	**10 765**	**12 047**	**5 488**	**816**	**–**
Financial year 2021/2022	**218**	**664**	**5 488**	**803**	**–**
Financial year 2022/2023	**–**	**4 203**	**2 587**	**683**	**7 386**
Financial year 2023/2024	**–**	**4 201**	**–**	**402**	**7 386**
Financial year 2024/2025	**–**	**3 758**	**–**	**197**	**7 385**
Total outstanding shares	**10 983**	**24 873**	**13 563**	**2 901**	**22 157**

Refer to Annexure F for the valuation assumptions relating to these schemes.

15 Share capital and share premium

Refer to Annexure D para 20 for the accounting policies relating to this note.

In December 2010, Metropolitan Holdings Ltd, now Momentum Metropolitan Holdings Ltd (MMH), became the legal parent company of Momentum Group Ltd, now Momentum Metropolitan Life Ltd (MML), by acquiring all the shares in MML from FirstRand Ltd. As this was accounted for as a reverse acquisition under IFRS 3 – Business combinations (revised) – the share capital and share premium of the Group in the consolidated financial statements were based on the value of those of MML at the time of the merger. The equity structure in terms of the number of authorised and issued shares in the consolidated financial statements reflects the equity structure of MMH.

Authorised share capital of MMH

- 2 billion ordinary shares of 0.0001 cents each.
- 129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Issued share capital

The issued share capital of the Group reflects the issued share capital of MMH.

	2020 Rm	2019 Rm
Balance at beginning	**13 340**	13 767
(Increase)/decrease in treasury shares held on behalf of contract holders	**(170)**	60
Increase in treasury shares held by subsidiary for shareholders	**–**	(487)
	13 170	13 340
Share capital	**9**	9
Share premium	**13 161**	13 331
	13 170	13 340

MMH ordinary shares	2020 Million	2019 Million
Total ordinary shares in issue	**1 498**	1 498
Treasury shares held on behalf of contract holders	**(23)**	(14)
Treasury shares held by subsidiary for shareholders	**(27)**	(27)
Basic number of shares in issue	**1 448**	1 457
Convertible redeemable preference shares	**–**	28
Diluted number of shares in issue	**1 448**	1 485
Convertible redeemable preference shares	**28**	–
Treasury shares held on behalf of contract holders	**23**	14
Diluted number of shares in issue for normalised headline earnings purposes	**1 499**	1 499

MML had 190 million ordinary shares in issue at 30 June 2020 (2019: 190 million).

Preference shares

MMH had 28 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 16 and the debt component is disclosed under note 11.2. Refer to note 11.2 for more details.

In the prior year, MML had 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares were held by MMH and were therefore eliminated at a Group level. In the current year, MML repurchased these shares for R381 million. The difference between the carrying value and the consideration paid was recognised directly in retained earnings.

Share buy-back programme

The Group concluded its share buy-back programme on 29 November 2018. 106 million shares (R2 000 million excluding transaction costs) were bought back. 27 million shares (R487 million) are held by a subsidiary of the Group which has been adjusted for in share premium. The shares were cancelled and reverted back to authorised but unissued status.

		2020 Rm	2019 Rm
16	**Other components of equity**		
16.1	**Land and building revaluation reserve**	**619**	619
16.2	**Foreign currency translation reserve**	**337**	(67)
16.3	**Non-distributable reserve**	**68**	76
16.4	**Employee benefit revaluation reserve**	**263**	100
16.5	**Fair value adjustment for preference shares issued by MMH**	**940**	940
16.6	**Equity-settled share-based payment arrangements**	**30**	53
		2 257	1 721
	Movements in other reserves		
16.1	**Land and building revaluation reserve**		
	Refer to Annexure D para 5		
	Balance at beginning	**619**	732
	Earnings directly attributable to other components of equity	**22**	(86)
	Revaluation	**31**	(146)
	Deferred tax on revaluation	**(9)**	60
	Transfer to retained earnings	**(22)**	(27)
	Balance at end	**619**	619
16.2	**Foreign currency translation reserve**		
	Refer to Annexure D para 3		
	Balance at beginning	**(67)**	(97)
	Currency translation differences	**404**	30
	Balance at end	**337**	(67)
16.3	**Non-distributable reserve**		
	Balance at beginning	**76**	57
	Transfer from retained earnings	**11**	10
	Other[1]	**(19)**	9
	Balance at end	**68**	76
	[1] These balances relate to statutory reserves relating to certain African subsidiaries.		
16.4	**Employee benefit revaluation reserve**		
	Refer to Annexure D para 18		
	Balance at beginning	**100**	102
	Remeasurement of post-employment benefit obligations	**163**	1
	Other	**–**	(3)
	Balance at end	**263**	100
16.5	**Fair value adjustment for preference shares issued by MMH**		
	Equity component of preference shares issued This represents the write-up of the carrying amount of the preference shares issued by MMH to KTH to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.	**940**	940
16.6	**Equity-settled share-based payment arrangements**		
	B-BBEE share-based payment		
	Balance at beginning	**53**	33
	Transfer to retained earnings	**(23)**	(5)
	Share schemes – value of services provided	**–**	25
	Balance at end	**30**	53

The Company issued A3 preference shares to Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) in 2011. The redemption date was extended by 18 months to 31 December 2020 in the prior year.

Also during the prior year, the Company subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd which is linked to the A3 preference shares acquired in 2011. The dividends on the Off The Shelf Investments preference share aligns the A3 preference shares dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payments B-BBEE expense of R23 million was recognised.

		2020 Rm	Restated 2019[1] Rm
17	**Net insurance premiums**		
	Refer to Annexure D para 10 for the accounting policies relating to this note.		
	Premiums received	**49 294**	51 491
	Long-term insurance contracts	**32 906**	35 948
	Non-life insurance contracts	**13 117**	12 072
	Investment contracts with DPF	**2 120**	2 267
	Health premiums	**1 151**	1 204
	Premiums received ceded to reinsurers	**(16 013)**	(14 693)
		33 281	36 798
	Included in the above is the following relating to cell captives:		
	Premiums received	**18 972**	18 020
	Non-life insurance contracts	**11 053**	10 852
	Long-term insurance contracts	**7 919**	7 168
	Premiums received ceded to reinsurers	**(12 809)**	(12 110)
		6 163	5 910
18	**Fee income**		
	Refer to Annexure D para 23 for the accounting policies relating to this note.		
	Contract administration	**2 933**	2 637
	Investment contract administration	**2 828**	2 566
	Release of deferred front-end fees	**105**	71
	Health administration	**2 028**	1 931
	Trust and fiduciary services	**1 326**	1 417
	Asset management	**821**	882
	Retirement fund administration	**477**	449
	Asset administration	**28**	86
	Cell captive commission	**1 190**	1 379
	Other fee income	**941**	968
	Momentum Multiply fee income	**329**	385
	Administration fees received	**182**	171
	Other	**430**	412
		8 418	8 332

[1] Refer to Annexure I for more information on the restatements.

Revenue disaggregation

Revenue from contracts with customers is disaggregated by type of revenue and also split per the Group's reporting segments. This most accurately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

		2020 Rm	Restated 2019[1] Rm
19	**Investment income**		
	Refer to Annexure D para 23 for the accounting policies relating to this note.		
	Interest income	**15 882**	14 978
	At fair value through profit and loss	**14 289**	13 634
	At amortised cost using the effective interest rate method		
	Cash and cash equivalents	**1 356**	1 019
	Financial assets at amortised cost	**229**	240
	Funds on deposit and other money market instruments	**6**	84
	Debt securities	**2**	1
	At fair value through profit and loss		
	Dividend income – listed	**2 725**	4 188
	Dividend income – unlisted	**2 517**	1 564
	Rental income	**1 278**	1 281
	Investment properties	**1 265**	1 269
	Owner-occupied properties	**13**	12
	Other income	**40**	77
		22 442	22 088
20	**Net realised and unrealised fair value gains**		
	Refer to Annexure D para 6, 7 and 11 for the accounting policies relating to this note.		
	Financial assets	**(12 319)**	1 156
	Designated at fair value through profit and loss	**(9 488)**	2 916
	Mandatorily at fair value through profit and loss	**828**	(2 266)
	Derivative financial instruments – (losses)/income	**(3 724)**	503
	Net realised and unrealised foreign exchange differences on financial instruments not at fair value through profit and loss	**65**	3
	Investment property	**(397)**	336
	Valuation (losses)/gains	**(350)**	331
	Change in accelerated rental income	**(47)**	5
	Financial liabilities	**(87)**	(69)
	Designated at fair value through profit and loss	**(87)**	(69)
	Other investments[2]	**92**	147
		(12 711)	1 570

1 Refer to Annexure I for more information on the restatements.

2 Includes the profit on sale of subsidiaries and loss on step up of joint venture.

		2020 Rm	Restated 2019[1] Rm
21	**Net insurance benefits and claims**		
	Refer to Annexure D para 10 for the accounting policies relating to this note.		
	Long-term insurance contracts	**24 171**	23 886
	Death and disability claims	**11 839**	11 269
	Maturity claims	**4 480**	4 948
	Annuities	**4 675**	4 341
	Surrenders	**2 400**	2 681
	Terminations, disinvestments and withdrawal benefits	**777**	647
	Non-life insurance benefits incurred	**6 382**	6 635
	Investment contracts with DPF	**3 492**	2 894
	Terminations, disinvestments and withdrawal benefits	**1 669**	1 875
	Maturity claims	**510**	453
	Surrenders	**1 118**	334
	Annuities	**89**	143
	Death and disability claims	**106**	89
	Health and capitation benefits incurred	**897**	948
	Non-life insurance change in provision for outstanding claims	**415**	556
		35 357	34 919
	Amounts recovered from reinsurers	**(8 357)**	(7 966)
		27 000	26 953

1 Refer to Annexure I for more information on the restatements.

Included in the above is R8 084 million (Restated 2019: R8 245 million) claims and R5 807 million (Restated 2019: R5 427 million) reinsurance relating to cell captives.

		2020 Rm	Restated 2019[1] Rm
22	**Depreciation, amortisation and impairment expenses**		
	Refer to Annexure D para 4, 5 and 7 for the accounting policies relating to this note.		
	Depreciation	**328**	202
	Owner-occupied properties (refer to note 3.1)	**44**	37
	Equipment	**185**	165
	Right-of-use assets (refer to note 3.2)	**99**	–
	Amortisation (refer to note 2)	**763**	858
	Value of in-force business acquired	**269**	275
	Customer relationships	**277**	354
	Brands	**61**	58
	Broker network	**45**	38
	Computer software	**111**	133
	Impairment of intangible assets (refer to note 2)	**349**	77
	Goodwill	**209**	19
	Customer relationships	**26**	52
	Computer software	**58**	6
	Value of in-force business acquired	**25**	–
	Brands	**8**	–
	Broker network	**23**	–
	Impairment of owner-occupied properties (refer note 3.1)	**568**	66
	Impairment of financial assets (refer to note 6.2)	**65**	31
	Financial assets at amortised cost	**65**	31
	Impairment of assets relating to disposal groups held for sale (refer to Annexure H)	**52**	87
	Impairment of other assets	**–**	22
		2 125	1 343

1 Refer to Annexure I for more information on the restatements.

	2020 Rm	2019 Rm
23 Employee benefit expenses		
Refer to Annexure D para 18 for the accounting policies relating to this note.		
Salaries	**5 416**	5 339
Defined contribution retirement fund	**363**	344
Contributions to medical aid funds	**218**	207
Share-based payment expenses – Cash-settled arrangements (refer to note 14.1.2)	**224**	122
Training costs	**97**	94
Retirement fund assets	**(54)**	(46)
Post-retirement medical benefits	**18**	12
Defined benefit retirement fund	**1**	3
Other	**71**	93
	6 354	6 168

For detail of directors' and prescribed officers' remuneration, refer to Annexure F.

	2020 Rm	Restated 2019[1] Rm
24 Sales remuneration		
Refer to Annexure D para 10 for the accounting policies relating to this note.		
Commission incurred for the acquisition of insurance contracts	**5 350**	4 713
Commission incurred for the acquisition of investment contracts	**919**	1 039
Amortisation of deferred acquisition costs (long-term)	**401**	423
Net movement in deferred acquisition costs (short-term)	**(3)**	(55)
Impairment of amounts due from agents, brokers and intermediaries (refer to note 6.2)	**(33)**	(41)
	6 634	6 079
25 Other expenses		
Refer to Annexure D para 24 for the accounting policies relating to this note.		
Asset management fees	**2 542**	2 849
Consulting fees	**723**	690
Information technology expenses	**659**	589
Direct property operating expenses on investment property	**540**	500
Office costs	**467**	499
Marketing costs	**415**	391
Other indirect taxes	**311**	364
Momentum Multiply benefit payments	**218**	340
Travel expenses	**167**	249
Auditors' remuneration	**106**	109
Audit fees	**99**	94
Fees for other services	**7**	15
Bank charges	**98**	104
Bad debts written off	**21**	77
Lease charges[2]	**85**	190
Policy services	**54**	64
Other expenses	**450**	415
	6 856	7 430

1 Refer to Annexure I for more information on the restatements.

2 Included in Lease charges are R62 million relating to short-term leases, R8 million relating to lease of low-value assets, and R12 million relating to variable lease payments in the current year.

		2020 Rm	2019 Rm
26	## Finance costs		
	Refer to Annexure D para 24 for the accounting policies relating to this note.		
	Interest expense on financial liabilities		
	Unsecured subordinated call notes	**440**	418
	Cost of carry positions	**288**	286
	Redeemable preference shares	**130**	106
	Lease liabilities	**31**	–
	Other	**196**	211
		1 085	1 021
	Designated at fair value through profit and loss	**728**	704
	Amortised cost	**357**	317
		1 085	1 021
27	## Income tax expense		
	Refer to Annexure D para 13 for the accounting policies relating to this note.		
	Income tax expenses/(credits)		
	Current taxation	**2 936**	3 066
	Shareholder tax		
	South African normal tax – current year	**916**	921
	South African normal tax – prior year	**3**	7
	Foreign countries – normal tax	**147**	108
	Foreign withholding tax	**61**	107
	Contract holder tax		
	Tax on contract holder funds – current year	**473**	544
	Tax attributable to cell captive owners	**1 336**	1 379
	Deferred tax	**(659)**	3
	Shareholder tax		
	South African normal tax – current year	**(514)**	72
	South African normal tax – prior year	**–**	(16)
	Foreign countries – normal tax	**(2)**	(1)
	Foreign withholding tax	**3**	–
	Contract holder tax		
	Tax on contract holder funds – current year	**(163)**	(61)
	Tax attributable to cell captive owners	**17**	9
		2 277	3 069

Tax rate reconciliation	2020 %	2019 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Capital gains tax	**(0.3)**	0.3
Prior year adjustments	**0.4**	0.2
Taxation on contract holder funds	**13.5**	16.3
Foreign tax differential	**(3.5)**	(0.9)
Non-taxable income[1]	**(5.1)**	(5.4)
Non-deductible expenses[2]	**15.6**	7.1
Tax losses for which no deferred tax asset was recognised	**9.6**	0.6
Cell captive tax – to be recovered from cell owners	**30.6**	10.2
Other	**–**	(0.4)
Effective rate	**88.8**	56.0

1 Non-taxable income mainly comprises dividend income which is not taxable.

2 Non-deductible expenses comprises Shareholders expenses which are not directly attributable to an income generating unit (including depreciation and impairments) and are thus not deductible for tax purposes.

		2020 Rm	Restated 2019[1] Rm
28	**Cash flow from operating activities**		
28.1	**Cash utilised in operations**		
	Profit before tax	**2 563**	5 479
	Adjusted for		
	Items disclosed in other notes		
	Dividends received	**(5 242)**	(5 752)
	Interest received	**(15 882)**	(14 977)
	Finance costs	**1 085**	1 021
	Adjustments to reconcile profit before tax to net cash flows		
	Share of losses of associates	**282**	269
	Net realised and unrealised fair value losses/(gains)	**12 711**	(1 405)
	Fair value adjustments on investment contract liabilities	**6 442**	9 107
	Fair value adjustments on collective investment scheme liabilities	**1 613**	(492)
	Depreciation and amortisation expenses	**1 091**	1 060
	Impairment charges and bad debt written off	**1 006**	395
	Deferred acquisition costs amortisation	**398**	367
	Share-based payments and other employee benefit expenses	**863**	807
	Provisions	**4**	39
	Changes in actuarial liabilities and related insurance	**(9 524)**	5 673
	Deferred revenue liability movements	**(59)**	(9)
	Cash flow from operating assets and liabilities		
	Net insurance and investment liabilities	**7 300**	(3 996)
	Deferred acquisition costs	**(384)**	(377)
	Investment properties	**(398)**	(175)
	Properties under development	**74**	(56)
	Financial assets and liabilities	**(17 146)**	(9 897)
	Financial assets at amortised cost	**7 435**	(11 188)
	Insurance and other receivables	**(66)**	(271)
	Employee benefit assets and obligations	**(1 023)**	(680)
	Reinsurance assets and liabilities	**39**	(699)
	Other operating liabilities	**(5 028)**	10 761
	Cash utilised in operations	**(11 846)**	(14 996)
28.2	**Income tax paid**		
	Due at beginning	**(275)**	31
	Charged to income statement	**(2 936)**	(2 975)
	Business combinations (refer to note 29)	**(26)**	–
	Other	**–**	5
	Due at end	**(133)**	275
		(3 370)	(2 664)

[1] Refer to Annexure I for more information on the restatements.

		2020 Rm	2019 Rm
28.3	**Interest paid**		
	Redeemable preference shares	**(130)**	(106)
	Unsecured subordinated call notes	**(440)**	(418)
	Cost of carry positions	**(288)**	(286)
	Other	**(155)**	(190)
		(1 013)	(1 000)
28.4	**Liabilities arising from financing activities**		
	Due at beginning	**14 157**	12 185
	Lease liabilities recognised on 1 July 2019 on adoption of IFRS 16	**361**	–
	Repayment of borrowings	**(6 747)**	(5 349)
	Proceeds from borrowings	**8 737**	7 249
	Subordinated call notes issued	**750**	750
	Subordinated call notes repaid	**(750)**	(750)
	Accrued interest	**1 085**	1 000
	Interest paid	**(1 013)**	(1 000)
	Fair value movement	**18**	72
	Purchase of subsidiary	**16**	–
	Other	**15**	–
	Exchange differences	**(3)**	–
	Due at end	**16 626**	14 157

		2020 Rm	2019 Rm
28	**Cash flow from operating activities** continued		
28.5	**Disposal of subsidiary recon**		
	Assets/(liabilities) disposed of:		
	Financial assets at fair value through profit and loss	**744**	–
	Cash and cash equivalents	**177**	–
	Other assets	**94**	256
	Long-term insurance contracts	**(219)**	(238)
	Investment contracts with DPF	**(244)**	–
	Investment contracts designated at fair value through profit and loss	**(227)**	–
	Other liabilities	**(133)**	(24)
	Net assets sold	**192**	(6)
	Non-controlling interests disposed of	**(20)**	–
	Profit on sale of subsidiary	**118**	6
	Cash flow from sale of subsidiary	**290**	–

29 Business combinations

Business combinations for the year ended 30 June 2020

Alexander Forbes Short-term Insurance

On 31 January 2020, MMH, through its wholly-owned subsidiary, MMSI, acquired the Alexander Forbes Short-term Insurance (AFI) business for R2.04 billion in cash. AFI has since been renamed to Momentum Insurance.

The assets purchased include:

- 100% of the shares in Alexander Forbes Administration Services (Pty) Ltd, Alexander Forbes Direct (Pty) Ltd and Alexander Forbes Insurance Company Ltd;
- The information technology software which supports AFI; and
- The trademarks specific to AFI.

The strategic acquisition is in line with the Group's overall Reset and Grow strategy and specifically aims to fast track growth of the non-life insurance interests of the Group.

The purchase price consideration, the net assets acquired and any relevant goodwill relating to the above transaction are as follows:

	Rm
Purchase consideration in total	**2 038**
Fair value of net assets	
Intangible assets	**380**
Tangible assets	**18**
Financial instrument assets	**8**
Insurance and other receivables	**289**
Cash and cash equivalents	**611**
Other assets	**11**
Insurance contract liabilities	**(358)**
Financial instrument liabilities	**(16)**
Other liabilities	**(297)**
Net identifiable assets acquired	**646**
Goodwill recognised	**1 392**
Purchase consideration in cash	**2 038**
Revenue	**384**
Earnings	**88**

The transaction resulted in R1.39 billion goodwill being recognised attributable to certain anticipated operating synergies. The goodwill is not deductible for tax purposes. If the subsidiary was purchased on 1 July 2019, additional revenue of R354 million and profit after tax of R103 million would have been recognised.

29 Business combinations continued

Critical accounting estimates and judgements

As part of and as a result of the acquisition, various intangible assets were purchased, and goodwill was recognised. The review of these intangible assets required significant judgements to be made by management.

The first one was the determination of the CGUs. Various options were considered by management and it was decided that the Group's short-term businesses (MSTI and Momentum Insurance) will continue to operate as two separate entities until all systems have been integrated and all clients and employees have moved over to Momentum Metropolitan. Their cash flows will therefore be independent until a certain point of the integration process has been reached. During this initial period, the Group Executive Committee will also consider the management reports of these entities separately in order to make decisions regarding the business. As a result, management concluded that the most appropriate view for the current year would be to treat MSTI and Momentum Insurance as two CGUs.

The identification of CGUs is based on which CGUs in the Group's short-term business are expected to benefit from the synergies of the business combination as well as management's view of how the Group's short-term businesses will continue to operate in the future.

The second area of judgement was the allocation of the goodwill and other intangible assets to the two CGUs. As the goodwill is recognised due to the expected future benefits of the acquisition, an allocation proportional to DVs was deemed appropriate. This is because DVs represent the Group's current best-estimate view of future financial benefits to be derived from each entity. The same was applied to all other intangible assets, with the exception of computer software purchased which will only be used by Momentum Insurance.

All the intangible assets allocated to MSTI were written off in the current year. Refer to note 2 for more details.

Business combinations for the year ended 30 June 2019

There were no significant business combinations in the prior year.

30 Related party transactions

30.1 Major shareholders and group companies

MMH is the ultimate holding company in the Group. By virtue of its shareholding of 26.8% in MMH, RMI has significant influence over the Group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile.

KTH is also considered to be a related party by virtue of its role as the Group's B-BBEE partner.

Apart from the shareholders' roles as related parties discussed above, no other MMH shareholders have a significant influence and thus no other shareholder is a related party.

Significant subsidiaries of the Group are listed in Annexure A. Details of the associates of the Group are contained in note 5 and Annexure B. Details of the joint ventures of the Group are contained in note 5.

Various collective investment schemes in which the Group invests are defined as subsidiaries as the Group controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the Group has significant influence but not control are classified as investments in associates carried at fair value included as part of Financial assets at fair value through profit and loss; details are included in Annexure B.

Other related parties include directors, key management personnel and their families. Key management personnel for the Group are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and the separate entities that they influence or control. To the extent that specific transactions have occurred between the Group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management, where full details of all relationships and terms of the transactions are provided.

30 Related party transactions continued

30.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the Group, as well as to non-executive directors (in the form of fees). Remuneration paid to directors is disclosed in Annexure F.

The aggregate compensation paid by the Group or on behalf of the Group to key management for services rendered to the Group is:

	2020 Rm	2019 Rm
Salaries and other short-term employee benefits	**25**	24
Share-based payments	**3**	3
Directors' fees	**19**	16
	47	43

The Group's executive directors are members of the staff pension schemes.

The executive directors participate in the Group's long-term retention schemes, the details of which are in note 14.1.2.

Aggregate details of insurance and investment transactions between MMH (including any subsidiary) and key management personnel and their families are as follows:

	2020		2019	
	Insurance Rm	Investment Rm	Insurance Rm	Investment Rm
Fund value	**1**	**149**	5	214
Aggregate life and disability cover	**44**	**N/A**	687	N/A
Deposits/premiums for the year	**2**	**9**	2	7
Withdrawals/claims for the year	**(4)**	**(7)**	–	(1)

In aggregate, the Group earned fees and charges totalling R3.8 million (2019: R0.3 million) on the insurance and investment products set out above.

30.3 B-BBEE partner

The Group's B-BBEE partner, KTH, has an interest of 5.4% (2019: 7.6%) in MMH. The Group has entered into the following transactions with KTH:

- MMH issued preference shares to KTH and subscribed to a preference share in KTH as disclosed in note 11.2.4.
- KTH has certain strategic empowerment holdings in the Group. Refer to the directors' report for more details.
- Dividends of R38 million (2019: R38 million) were paid to KTH on the A3 MMH preference shares.

30.4 Contract administration

Certain companies in the Group carry out third-party contract and other administration activities for other related companies in the Group. These transactions are entered into at market-related rates. These fees are eliminated on consolidation.

30.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 6.2).

30.6 Transactions with significant shareholders

MMH dividend declarations:

R140 million of the ordinary dividends declared by MMH in September 2019 and R160 million of the ordinary dividends declared in March 2020 (R140 million of the ordinary dividends declared in March 2019) were attributable to RMI.

30.7 Post-employment benefit plans

Refer to note 14 for details of the Group's employee benefit plans.

	2020 Rm	2019 Rm
31 Capital and lease commitments		
Capital commitments		
Authorised but not contracted	**544**	655
Authorised and contracted	**366**	35
	910	690
The above commitments, which are in respect of computer software, building refurbishments, and new business opportunities, will be financed from internal sources. The Group has also made capital commitments of R512 million for 2022 for the India, aYo and other new initiatives, and R92 million for 2020 for Momentum Insurance to maintain its desired solvency coverage at 1.6x SCR.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	**14**	138
Between 1 and 5 years	**–**	252
More than 5 years	**–**	14
	14	404
Management has reassessed the 2019 lease commitments and changed the value that was previously reported from R281 million to R404 million.		
The 2019 amount relates to IAS 17 future operating lease commitments. The current year amount relates to short-term leases, low-value asset leases as well as variable lease payments.		
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	**357**	384
Between 1 and 5 years	**800**	985
More than 5 years	**1 000**	1 138
	2 157	2 507

32 Contingent liabilities

Refer to Annexure D para 17 for the accounting policies relating to this note.

The Group is party to legal proceedings in the normal course of business and appropriate provisions are made when losses are expected to materialise.

33 Events after the reporting period

The Covid-19 pandemic has brought many challenges to the Group's operating environment and impacted its stakeholders from a health perspective, financially through the severe volatility in investment markets and lower interest rates, and within their daily movements due to restrictions that were implemented by governments in response to the pandemic. These effects are continuing and the Group is expecting to be impacted by worsening claims experience, lower new business volumes, increased risk of policy lapses or exits, lower investment return and additional expenses related to operational and risk management initiatives to effectively deal with the pandemic. The Group took these effects into consideration in its forecasts and in making estimates and judgements as at 30 June 2020 as disclosed in the Critical judgements and accounting estimates note. The Group will continue to monitor the progression of the pandemic and its impact on the Group and will consider these on significant estimates and judgements going forward.

Momentum Metropolitan is committed to social and economic inclusivity. Momentum Metropolitan considers the alignment of the interests of various stakeholders as the most effective way of achieving meaningful value creation for all stakeholders. The Group is proposing the establishment of a broad-based employee share ownership scheme, which will acquire 3% of the Group's ordinary share capital. The share ownership scheme proposal is subject to approval from existing shareholders. The share ownership scheme is structured as a trust to the benefit all the Group's South African based employees. The scheme aspires to realise broad-based black socio-economic transformation, through the empowerment of employees to participate as shareholders in the business.

The initial administrative penalty awarded to MET Collective Investments (RF) (Pty) Ltd by the FSCA has been reduced to R20 million on appeal. The verdict was received on 29 July 2020 and the entity has been given until 29 September 2020 to pay the penalty plus interest.

Following a strategic review, the Group has made the decision to reduce shareholding in aYo from 50% to 25%. A non-binding term sheet which details the terms on which the shareholders of aYo propose to effect the change of shareholding has been signed. The transaction is subject to the final agreed terms of the legally binding definitive transaction agreements, which are currently being negotiated and settled between the parties. The agreements will be subject to certain conditions precedent, including any required regulatory approvals.

As part of the Group's strategy to exit certain African markets, the Group has entered into a sale and purchase agreement for the sale of Momentum Mozambique. As at 30 June 2020 the sale and purchase agreement was still in place, subject to suspensive conditions. Although all efforts were made to finalise the transaction, a condition outside the Group's control could not be met by the agreed deadline (which was subsequent to the Group's year-end). The sale and purchase agreement has therefore expired and the sale will not proceed. Momentum Mozambique LDA is therefore classified as held for sale as at 30 June 2020. The Group remains committed to exit the entity.

No other material events occurred between the reporting date and the date of approval of these results.

34 Financial risk management

The risk philosophy, structures and management processes of the Group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavours and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the Group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The material risk factors applicable to the Group can be found in the Integrated Report which is available in print and online in PDF format at https://www.momentummetropolitan.co.za. The Group is currently exposed to the following financial risks:

Long-term insurance risk: Long-term insurance risk is the risk of loss or adverse change in the value of long-term (life) insurance contracts resulting from changes in current or expected future risk claims or policyholder persistency. This can be through the realisation of an operating experience loss or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. It therefore relates to risk exposures across mortality, morbidity/disability, retrenchment, longevity, life catastrophes, lapse and persistency. The Group also has exposure to health insurance risk in India and its African subsidiaries outside of South Africa.

Non-life insurance risk: Non-life insurance risk is the risk of unexpected underwriting losses in respect of existing non-life insurance business as well as the new business expected to be written over the next 12 months. Underwriting losses could result from adverse claims, increased expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines. It covers premium, reserve, lapse and catastrophe risk exposures. The Guardrisk business is exposed to insurance risk. Underwriting limits are in place to enforce appropriate risk selection criteria.

Liquidity risk: Liquidity risk is the risk that the Group, though solvent, has inadequate liquid financial resources to meet its financial obligations as and when they fall due, or where these resources can only be secured at excessive cost. The Group differentiates between funding liquidity risk (the risk of losses arising from difficulty in raising funding to meet obligations when they become due or the funding can only be raised at excessive cost) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth and/or breadth or a market disruption).

Market risk: Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held. This includes exposure to equities, interest rates, credit spreads, property, price inflation and currencies.

Credit risk: Credit risk is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment and non-investment activities, such as reinsurance credit risk, amounts due from intermediaries and policy loans.

The sections that follow provide information on the processes in place to manage and mitigate the financial and insurance risks inherent in the contracts issued by the Group.

35 Capital management

35.1 Capital management objectives

The Board has the ultimate responsibility for the efficient management of capital within the Group. The Balance Sheet Management function is responsible for the day-to-day activities relating to capital management and to make timely, prudent recommendations to the relevant governance committee.

The key objectives of the Group's capital management programme are optimisation of the capital structure and performance in order to create value within the business. Optimisation of the capital structure will ultimately result in the optimal cost of capital whilst optimising performance will ultimately lead to an optimal return on equity. When these activities are combined, capital management drives value creation within the Group. The capital management programme is underpinned by appropriate links to the Group's risk appetite framework and governance processes whilst focusing on effective implementation and execution of the principles.

35.2 Capital management framework

The Group’s capital management framework rests on the following key principles:

- **Capital requirements and definition of capital**
  The risks inherent in the business activities of the Group drive the need to hold sufficient capital reserves to protect the business against the adverse impacts of unexpected risk events. This is the primary aim for holding capital on the balance sheet. In addition to this, holding capital on the balance sheet enables the Group to support its business strategy.

  Within the Group, capital is measured and monitored on both an IFRS and regulatory basis. On an IFRS basis, capital is defined as the total equity plus subordinated debt. From a regulatory perspective, capital is defined as the total eligible own funds calculated per the Prudential Standards.

35 Capital management continued

35.2 Capital management framework continued

- **Own Funds and Solvency Capital Requirements**
  The regulatory capital coverage is determined as the ratio of own funds to the solvency capital requirement (SCR). The calculation of the own funds and SCR are in accordance with the technical specifications of the Prudential Standards applicable to all of the Group's local insurance entities.

- **Capital coverage**
  The Group specifies capital coverage ratios and ranges for the Group and its regulated insurance entities, which are defined under its risk appetite framework.

- **Capital allocation**
  As a general principle, subsidiaries are capitalised to ensure medium-term regulatory solvency while additional capital is held centrally to support the long-term regulatory solvency of the entities. MML is capitalised in excess of what its own covered business requires.

- **Investment of assets backing shareholder capital**
  Shareholder capital portfolios are investible financial assets that are in excess of the assets required to meet policyholder obligations and are directly attributable to the Group's shareholders. MML invests the assets backing its shareholder capital portfolios in line with its approved risk appetite and mandates.

- **Capital planning process**
  The Group's capital planning process facilitates value creation by aligning corporate strategy, capital allocation and performance measurement. The Group's capital planning process is conducted on a forward looking basis through regular solvency and liquidity projections that take into account capital sourcing requirements, strategic capital deployment and subsidiary capital requirements.

- **Dividends**
  The Group's dividend policy is to grow dividends in line with normalised headline earnings growth. The Group targets a 2.5x normalised headline earnings dividend cover with a 2.0x to 3.0x target coverage range. This implies a pay-out ratio of c.40% to c.50% of normalised headline earnings per annum.

- **Alignment of capital with subsidiaries**
  The Group provides the over-arching guiding principles regarding capital management for all subsidiaries as it is the main provider of capital to these subsidiaries.

35.3 Overview of capital management developments

35.3.1 Regulatory capital developments

The Financial Sector Regulation Act of 2017 became effective on 1 April 2018, introducing the Twin Peaks model of regulating financial institutions. The Twin Peaks model established the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB), and the Financial Sector Conduct Authority (FSCA). The new regulatory bodies effectively replaced the functions previously performed by the Financial Services Board (FSB). The prudential supervision of insurers was therefore effective from 1 April 2018, performed within the PA.

The Insurance Act took effect on 1 July 2018. The PA has confirmed the conversion of MML's registration in terms of item 6(2) of Schedule 3 to the Insurance Act, 18 of 2017. The capital management information in this report now reflects the requirements of the new Prudential Standards.

35.3.2 Changes in capital structure

MML preference share buy-back

MML had 50 000 non-redeemable, non-cumulative, non-participating preference shares issued to MMH. On 24 February 2020, MML repurchased all of the outstanding preference shares from MMH.

Subordinated debt raising

On 10 December 2019, MML listed two new subordinated debt instruments, MML01 and MML02, to the combined value of R750 million on the JSE. The proceeds of the issuance were used to refinance the subordinated debt instrument, MMIG03, which became callable on 1 June 2020.

35 Capital management continued

35.3 Overview of capital management developments continued

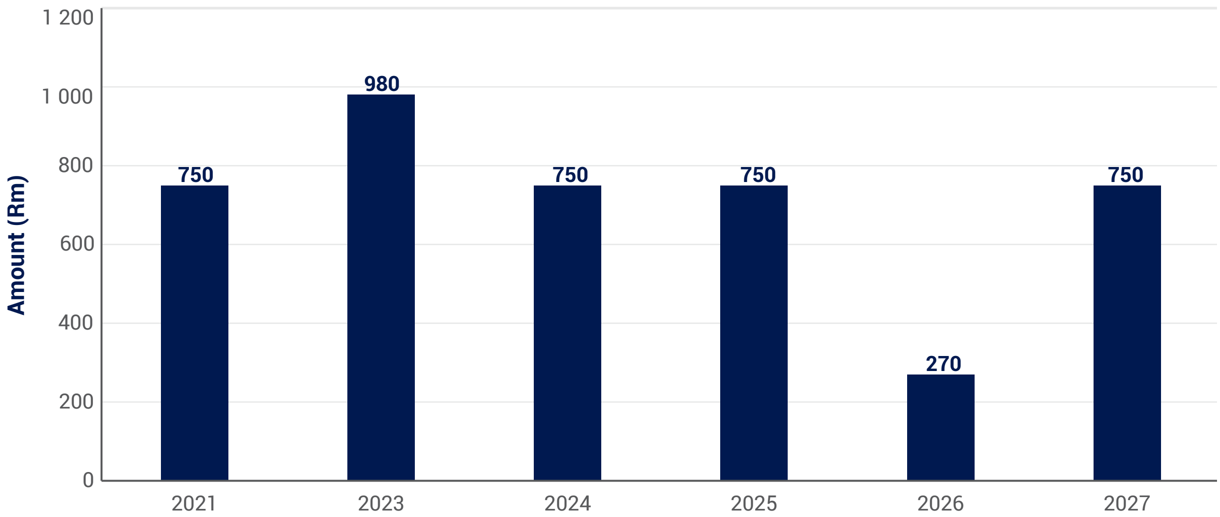
35.3.3 Subordinated debt profile

The table below shows a summary of the MML subordinated debt profile, which relates to unsecured callable notes currently in issue at 30 June 2020:

Instrument code	Amount issued (Rm)	Coupon rate	Tenor	Date issued	Interest rate
MMIG02	750	10.07%	7.0	Mar 14	Fixed
MMIG04	270	11.30%	10.0	Aug 15	Fixed
MMIG05	980	10.86%	7.0	Aug 15	Fixed
MMIG06	750	JIB03 + 220 bps	6.0	Oct 17	Floating
MMIG07	750	JIB03 + 175 bps	5.5	Mar 19	Floating
MML01	290	JIB03 +175 bps	7.0	Dec 19	Floating
MML02	460	9.29%	7.0	Dec 19	Fixed

The Group believes that the current capital mix is adequate, but will continue to pursue strategies to optimise the capital mix within the Prudential Standards.

The graph below shows the maturity profile of MML's subordinated debt at 30 June 2020:



35 Capital management continued

35.4 Capital coverage

MML has adopted a target range for regulatory solvency cover of 1.70 to 2.10 times the SCR. This makes allowance for the capital required to support the covered business against a range of severe but plausible scenarios, as well as the wider strategic investments.

It is currently expected that the Group will be designated as an insurance group by the PA. Until the Group designation process is complete, the solvency position of the Group is reported in line with the provisions of the Comprehensive Parallel Run. Certain methodologies that have been applied in the solvency assessments are subject to approval from the PA, and will be addressed as part of the Group designation process. The Group's solvency position is determined by aggregating the results under the regulatory framework of all the underlying entities, after elimination of intra-group arrangements. The Group targets an SCR cover range of 1.45 to 1.75 times SCR.

35.5 Credit ratings

On 1 April 2020, Moody's amended MML and Guardrisk's credit ratings, maintaining a negative outlook on the ratings. The change in the credit ratings follows the downgrade of the sovereign credit rating from Baa3 (BBB-) to Ba1 (BB+) on 27 March 2020. The table below shows a comparison of the relevant Momentum Metropolitan entity credit ratings as at 30 June 2020 and 31 December 2019.

		National scale		Global scale		
Entity	**Type**	**31 December 2019**	**30 June 2020**	**31 December 2019**	**30 June 2020**	**Outlook**
Momentum Metropolitan Life						
Momentum Metropolitan Life	Insurer Financial Strength	Aaa.za (AAA)	**Aaa.za (AAA)**	Baa2 (BBB)	**Baa3 (BBB-)**	**Negative**
Momentum Metropolitan Life	Issuer rating	Aaa.za (AAA)	**Aa1.za (AA+)**	Baa3 (BBB-)	**Ba1 (BB+)**	**Negative**
Subordinated debt	N/A	Aa2.za (AA)	**Aa3.za (AA-)**	Ba1 (BB+)	**Ba2 (BB)**	**Negative**
Guardrisk						
Guardrisk Insurance Company	Insurer Financial Strength	Aaa.za (AAA)	**Aaa.za (AAA)**	Baa3 (BBB-)	**Ba1 (BB+)**	**Negative**
Guardrisk Life Insurance Company	Insurer Financial Strength	Aaa.za (AAA)	**Aaa.za (AAA)**	Baa3 (BBB-)	**Ba1 (BB+)**	**Negative**
Guardrisk International PCC	Insurer Financial Strength	N/a	**N/a**	Baa3 (BBB-)	**Ba1 (BB+)**	**Negative**

The above amendments reflect the changes to the Global scale Insurer Financial Strength (IFS) ratings of both MML and Guardrisk in line with the sovereign rating downgrade. The above also reflects the resulting impact on the Issuer and subordinated debt ratings for MML for the same reason.

On MML, Moody's commented that "Momentum Metropolitan Life Limited's Baa3 global scale, and Aaa.za national scale, Insurance Financial Strength (IFS) ratings reflect the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the Group from stress related to credit pressures at the sovereign level. The Group's capital has strengthened over the past 18 months, benefiting from higher retained earnings given its more conservative dividend policy and improving profitability. These strengths are partially offset by the Group's exposure to South Africa, both in the form of its invested assets and revenues, which are susceptible to the pressure on the domestic economy, along with weakening economy and expected effects of coronavirus which will make it more challenging for the Group to meet its profitability targets under its "Reset and Grow" strategy."

On Guardrisk, Moody's commented that "The Ba1 global scale Insurer Financial Strength (IFS) ratings assigned to entities in the Guardrisk group - as well as the Aaa.za national scale IFS ratings assigned to the South African entities - reflect (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong profitability. These strengths are partially offset by (i) its investment portfolio's concentrated exposure to the South African economy and banking system, which is somewhat correlated with the credit risk of cell owners and (ii) lower regulatory capital buffer above the new Solvency Assessment and Management (SAM) capital requirements due to non-recognition of surplus capital in cells for regulatory capital purposes. Guardrisk is also exposed to corporate credit risk through its reliance on cell-owners to recapitalise cells in the event needed. Deterioration in the local economy, exacerbated by the economic effects of coronavirus, will lead to rising corporate credit risk."

36 Insurance and investment business

The table below reconciles the contract holder liabilities for each category to the total liability in the statement of financial position. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
2020				
Individual contracts with market exposure	**53 429**	**2 658**	**158 653**	**214 740**
Market-related business	**17 297**	**959**	**156 200**	**174 456**
Smoothed bonus business	**26 692**	**769**	**813**	**28 274**
Smoothed bonus – fully vesting	**–**	**930**	**1 640**	**2 570**
Conventional with-profit business	**9 440**	**–**	**–**	**9 440**
Group contracts with market exposure	**12 618**	**15 478**	**75 292**	**103 388**
Market-related business	**(28)**	**–**	**75 244**	**75 216**
Smoothed bonus business	**(46)**	**14 866**	**–**	**14 820**
Smoothed bonus – fully vesting	**–**	**584**	**–**	**584**
Conventional with-profit business	**12 692**	**28**	**48**	**12 768**
Other business	**46 977**	**184**	**10 391**	**57 552**
Non-profit annuity business	**36 791**	**–**	**1 827**	**38 618**
Guaranteed endowments	**12**	**–**	**8 564**	**8 576**
Other non-profit business	**10 174**	**184**	**–**	**10 358**
Subtotal	**113 024**	**18 320**	**244 336**	**375 680**
Liabilities in cell captive and non-life business	**12 817**	**–**	**17 518**	**30 335**
Total contract holder liabilities	**125 841**	**18 320**	**261 854**	**406 015**
Restated 2019[1]				
Individual contracts with market exposure	58 241	2 723	150 940	211 904
Market-related business	19 567	1 012	148 389	168 968
Smoothed bonus business	28 837	819	804	30 460
Smoothed bonus – fully vesting	–	892	1 747	2 639
Conventional with-profit business	9 837	–	–	9 837
Group contracts with market exposure	14 016	17 670	74 817	106 503
Market-related business	(11)	–	74 604	74 593
Smoothed bonus business	62	16 910	714	17 686
Smoothed bonus – fully vesting	–	722	–	722
Conventional with-profit business	13 965	38	(501)	13 502
Other business	46 997	180	11 436	58 613
Non-profit annuity business	36 236	–	2 083	38 319
Guaranteed endowments	20	–	9 353	9 373
Other non-profit business	10 741	180	–	10 921
Subtotal	119 254	20 573	237 193	377 020
Liabilities in cell captive and non-life business	12 201	–	11 258	23 459
Total contract holder liabilities	131 455	20 573	248 451	400 479

[1] Refer to Annexure I for more information on the restatements.

36 Insurance and investment business continued

36.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Individual and Group contracts with market exposure: Market-related business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts that also provide cover on death or disability.

- The Group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the Group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the Group's investment managers, which is supported by technical as well as fundamental analysis.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.
- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Individual and Group contracts with market exposure: Discretionary participation business

Discretionary participation business includes traditional smoothed bonus business, conventional with-profit business and group with profit annuities. These may be insurance contracts or investment with DPF contracts, and include universal life contracts that also provide cover on death or disability.

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business, declared bonuses are fully vesting or fully non-vesting.
- Bonuses are subject to approval by the MMH Actuarial Committee which performs an oversight and approval role on behalf of the boards of the life insurers.
- All long-term insurers that write discretionary participation business are required to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MML has issued PPFM for all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the Fair Practices Committee (a sub-committee of the MMH board) on an annual basis regarding compliance with the PPFM.
- BSAs are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for conventional with-profit and with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the board is satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The Group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the discretionary participation portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

36 Insurance and investment business continued

36.1 Classes of long-term insurance and investment business continued

- The major classes of smoothed bonus business are:
  - Metropolitan Life individual smoothed bonus business (open to new business).
  - Momentum Corporate smoothed bonus business (open to new business).
  - Momentum Corporate with-profit annuity business (open to new business).
  - Momentum Life traditional smoothed bonus business sold on an individual life basis as part of the universal life investment option, with annual bonuses declared in arrears (closed to new business).
  - Momentum Life traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
  - Momentum Life fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).

Non-profit annuity business

- Benefit payments on non-profit annuities are generally fixed in nominal or inflation-adjusted terms and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Guaranteed endowments (insurance and financial instrument business)

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.
- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, they will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Other non-profit business

- These include long-term regular premium insurance contracts of varying duration.
- The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual discretionary participation business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all discretionary participation business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in professional guidance note APN 110 – Allowance for Embedded Investment Derivatives. Refer to note 10.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

36 Insurance and investment business continued

36.2 Long-term insurance risk

Long-term insurance risk is the risk of loss or adverse change in the value of long-term (life) insurance contracts resulting from changes in current or expected future risk claims or policyholder persistency. This can be through the realisation of an operating experience, loss or the change in insurance liabilities. The value of insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

Long-term insurance risk management

The HAFs have a duty under the Insurance Act, 18 of 2017 and its associated prudential guidelines to evaluate and provide advice to the Board of directors and management on the financial soundness of the insurer. This includes the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the insurer's technical provisions and calculation of the insurer's capital requirements. The HAFs report on these matters to the Board, Audit Committee and the PA. The Actuarial Committee supports the HAFs in their responsibility for the oversight of insurance risk. The Actuarial Committee has been appointed by the Board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, retrenchment rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In adverse circumstances, actual claims and benefits may exceed the liabilities held. The financial risk is partially mitigated through the addition of margins, especially where there is evidence of moderate or extreme variation in experience.

Reinsurance agreements are used as a primary risk mitigation tool, particularly in terms of insurance risks that are not well understood or fall outside the Group's risk appetite.

The main insurance risks, as well as the Group's approach to the management of these risks, are set out below.

36.2.1 Demographic risks

The risk of adverse change in the value of insurance contracts arising from changes in the level, trend, or volatility of demographic rates in respect of insurance obligations where a change in demographic rates lead to an increase in the value of insurance liabilities or claims. Underwriting processes are in place to manage exposure to these risks. The most significant measures are:

- The HAFs are required to evaluate and provide advice to the Board on the actuarial soundness of the terms and conditions of insurance contracts (Insurance Act, 18 of 2017, GOI 3).
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk from any individual contract or aggregation of contracts.

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below.

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting demographic risks for individual insurance business:
  - The most significant factors that could substantially change the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating), resulting in more or earlier claims.
  - Economic conditions can potentially affect retrenchment claims as well as morbidity claims where benefits are determined in terms of the ability to perform an occupation.
  - Medical advances can potentially affect the size and severity of medical claims (including critical illness claims).
  - Anti-selection, such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
  - The effect of selective terminations, which means policyholders are less likely to terminate voluntarily if the cover is more likely to be needed in the foreseeable future.
  - Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

36 Insurance and investment business continued

36.2 Long-term insurance risk continued

36.2.1 Demographic risks continued

- Demographic risks are managed as follows:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the Group to adjust these charges so that on average they reflect actual mortality experience reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures and client expectation management.
  - To reduce cross-subsidisation of risks and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the Group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
  - All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
  - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
  - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.
  - Momentum Life and Investments typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.
  - Metropolitan Life has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place on existing business for fully underwritten and limited underwriting products, but only fully underwritten new business is reinsured and there is no reinsurance in place for funeral products.
  - Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MML's catastrophe reinsurance cover for the current financial year is R750 million (2019: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The table below shows the concentration of individual insurance contract benefits (gross and net of reinsurance) by sums insured at risk:

	2020			2019		
Sum insured per benefit (Rands)	**Number of benefits**	**Amount (gross) Rm**	**Amount (net) Rm**	**Number of benefits**	**Amount (gross) Rm**	**Amount (net) Rm**
0 – 20 000	**3 069 099**	**25 144**	**23 203**	3 067 828	25 985	24 760
20 001 – 50 000	**945 945**	**37 923**	**36 821**	1 018 703	39 598	38 301
50 001 – 100 000	**361 899**	**31 539**	**28 582**	360 804	29 697	26 762
100 001 – 200 000	**126 392**	**20 814**	**15 120**	132 681	22 060	16 108
200 001– 500 000	**209 395**	**78 584**	**48 659**	215 458	79 573	50 978
500 001 – 1 000 000	**225 125**	**118 905**	**87 983**	222 738	122 859	90 174
> 1 000 000	**494 400**	**1 028 457**	**576 382**	476 494	996 782	557 422
Subtotal	**5 432 255**	**1 341 366**	**816 750**	5 494 706	1 316 554	804 505
Cell captive business	**7 629 253**	**547 794**	**207 466**	6 478 056	451 133	117 690
Total	**13 061 508**	**1 889 160**	**1 024 216**	11 972 762	1 767 687	922 195

36 Insurance and investment business continued

36.2 Long-term insurance risk continued

36.2.1 Demographic risks continued

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - Life insurance (mostly lump sum, but including some children and spouse's annuities)
  - Disability insurance (lump sum and income protection)
  - Dread disease cover
  - Continuation of insurance option.
- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk exists.
  - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the Group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to limit anti-selection.
  - Groups are priced using standard mortality and morbidity tables. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 400 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an "actively at work" clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the Group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced.
  - There is a standard reinsurance treaty in place covering group business. Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured. There are some facultative arrangements in place on some schemes where a special structure is required, eg a very high free cover limit or high benefit levels. In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

The table below shows the concentration of group schemes by scheme size (as determined by the number of lives covered):

Lives covered by scheme	2020	2019
0 – 1 000	**7 973**	8 920
1 001 – 5 000	**264**	287
> 5 000	**150**	135
Subtotal	**8 387**	9 342
Cell captive business	**96**	88
Total	**8 483**	9 430

36 Insurance and investment business continued

36.2 Long-term insurance risk continued

36.2.1 Demographic risks continued

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. With-profit annuities are also offered whereby the policyholder shares in the experience of a pre-defined group of policyholders. The longevity risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
  - Increased longevity due to medical advances and improvement in social conditions.
  - Selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - Annuity products are sometimes sold in combination with whole life cover, which provides a natural hedge against longevity and mortality risk.
  - Premium rates differentiate on the basis of age and sex.

The following table shows the distribution of number of annuitants by total amount per year:

Annuity amount per annum (Rands)	2020 Number of annuitants	2020 Total amount per annum Rm	2019 Number of annuitants	2019 Total amount per annum Rm
0 – 10 000	**65 036**	**285**	68 174	297
10 001 – 50 000	**44 259**	**1 051**	44 800	1 056
50 001 – 100 000	**11 604**	**818**	11 518	808
100 001 – 200 000	**6 846**	**947**	6 355	877
> 200 000	**4 454**	**1 708**	3 993	1 515
Subtotal	**132 199**		134 840	
Cell captive business	**1 520**	**106**	1 535	98
Total	**133 719**		136 375	

Permanent health insurance business

The Group also pays permanent health insurance (PHI) income to disabled employees, the bulk of which is from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is, therefore, the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims are reviewed at inception to determine eligibility. Ongoing claims in payment are also reviewed regularly to ensure claimants still qualify and rehabilitation is managed and encouraged.

36.2.2 Contract persistency risk

- Persistency risk is the risk of adverse change in the value of insurance contracts due to adverse lapse, surrender and paid-up experience, or to a change in the expected exercise rates of such policyholder options.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, any amount payable on withdrawal normally makes provision for recouping outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which is usually the case for risk policies and normally happens early on in the term of recurring premium savings policies, or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, eg contract holders whose health have deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits. Also, for these types of policies, the risk at later durations is that terminations are less than assumed when pricing and valuing policies because upfront costs have largely been recouped and a termination at that stage releases a liability.

Factors affecting the risk:

- Economic conditions – economic hardship can cause an increase in terminations due to a reduced ability to afford premiums or a need for funds.

36 Insurance and investment business continued

36.2 Long-term insurance risk continued

36.2.2 Contract persistency risk continued

How risks are managed:

- In addition to setting realistic assumptions with regard to termination rates (rates of lapse, surrender and paid up experience) based on the Group's actual experience, capital is set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, customer retention programmes are in place to actively retain customers at risk of departure due to a lapse, surrender or maturity.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

36.2.3 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance contracts, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. The Group has some exposure to retrenchment risk and will consider future opportunities which provide adequate risk-adjusted return and can be appropriately mitigated. The risk is seen as an enabler to get more exposure to other risks to which the Group has a risk seeking attitude. When writing retrenchment risk, the Group carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

36.2.4 Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Budget controls are in place to mitigate this risk. The Group performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience and budgets, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of certain books that are closed to new business.

36.2.5 Business volume risk

There is a risk that the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs is variable and relates directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes, but this will happen over a period of time. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are used to distribute a range of product lines within the Group, such as health insurance and non-life insurance.

36.3 Non-life insurance risk

Non-life insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines.

Guardrisk transacts in all classes of non-life insurance business. Insurance is provided to corporate clients (through first-party cells and contingency policies) and to the general public (through third-party cell owners). Insurance contracts are issued for monthly, annual and multi-year periods and include the following classes of risk: motor, property, agriculture, engineering, marine, aviation, transport, rail, legal expense, liability, consumer credit, trade credit, guarantee, accident and health, travel, miscellaneous and reinsurance. Premiums charged for risks are regularly monitored by the underwriting and actuarial teams and, where necessary, adjustments are made to the office premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

36 Insurance and investment business continued

36.3 Non-life insurance risk continued

- Guardrisk transacts in all classes of non-life insurance business, primarily as a cell captive and alternative risk transfer insurer, focusing on both the corporate and retail market.
- There are currently two distinct types of cell captive arrangements, which are described in detail within Annexure C:
- All agreements for services provided in respect of third-party arrangements are transacted between Guardrisk and the third party. All transactions with third parties and policyholders are recorded in the income statement, with the third-party cell owner being a reinsurer of the net result. The impact of this application on the Group's financial statements is that the results of the cell captive arrangements have no direct impact on the Group's earnings, except for fee income earned by the promoter cell.
- In a limited number of cases, the promoter cell retains a portion of a cell's risk and therefore acts as reinsurer for certain cells. In such cases the remaining risk in the cell could be further reinsured to external reinsurers. In addition to the fee income earned from the cell, the promoter cell also earns underwriting profits on the risk retained for these cells. Guardrisk also underwrites specific niche corporate and commercial business for its own account. Risk retention is managed with appropriate reinsurance.
- The Group's income statement includes several income and expense items related to insurance business written through cell arrangements. In particular all transactions relating to third-party cell arrangements are recorded. However, these transactions are transferred back to the third-party cell owner and therefore the net impact on the Group's earnings is limited to the net result of transactions relating to the promoter cell only. Assets and liabilities from cell captive arrangements are recognised in the statement of financial position. Except for the impact of contingency policies, as well as the fees earned by the promoter cell and income on the promoter cell's own assets, cell arrangements have no impact on the Group's earnings.

36.3.1 Non-life insurance risk management

The Group has similar governance structures in place for non-life insurance as those that are in place for long-term insurance. This includes a HAF who follows the reporting structure and support process as explained in note 36.2.

The Group has developed an Enterprise Risk Management (ERM) framework in respect of the non-life business to provide reasonable assurance that the Group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles from Corporate Governance and Risk Management standards. The ERM framework outlines the key risks facing the business and how these risks are managed, monitored and reported on.

Risks are rated individually by programmes loaded onto the underwriting system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative reinsurance cover being arranged. No claims bonus, which rewards clients for not claiming, and safety bonuses, which reward clients for adhering to, monitoring and reporting certain safety criteria, also form part of the Group's non-life business underwriting strategy. Multi-claimants are monitored and managed by tightening conditions of cover or ultimately cancelling cover.

Guardrisk has an Audit and Risk Committee and an Investment Committee. These Board sub-committees oversee the risk universe from general operations and investments respectively. Operational management of risk is delegated to the Guardrisk Executive Committee with operational committees tasked in specific areas. New and existing product development initiatives are considered by the Product Management Committees for appropriateness and viability that conforms to regulatory, legal, tax and accounting requirements.

36 Insurance and investment business continued

36.3 Non-life insurance risk continued

36.3.1 Non-life insurance risk management continued

For each cell or policy accepted by Guardrisk, a business take-on process is followed that utilises multi-disciplinary teams to determine major exposures to insurance risk. This take-on process varies in extent and detail depending on the significance of the new cell facility. Where the business take-on process identifies significant down-side risk, measures are put in place to manage the residual retained risks to remain within risk appetite.

Premiums charged for risks are regularly monitored by the underwriting and actuarial teams and, where necessary, adjustments are made to the office premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

The definitions of the risks that compromise non-life insurance risk are presented below:

- **Premium risk:** the risk of financial loss arising from fluctuations in timing, frequency and severity of insured events for business to be written in the next 12 months and unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or the need to increase these provisions.
- **Reserve risk:** the risk of adverse change in the value of insurance obligations arising from fluctuations in timing and amounts of claim settlements.
- **Lapse risk:** the risk of financial loss, or of adverse change in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- **Catastrophe risk:** the risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a financial loss, or of an adverse change in the value of insurance liabilities. Catastrophe losses are the losses that arise from catastrophe risk and these include:
  - Natural catastrophes which include anything which is caused by a natural process, including earthquakes and hail storms.
  - Man-made catastrophes which are events that arise as a consequence of actions by humans.

The Group conducts business in different classes of non-life insurance and writes these either as personal or commercial contracts. The following types of traditional contracts are written:

- **Motor:** Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs.
- **Property:** Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property.
- **Accident and Health:** Provides policy benefits if a disability event, health event or death event occurs.
- **Liability:** Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- **Transportation:** Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed.
- **Miscellaneous:** Provides policy benefits relating to any matter not otherwise provided for. This type of contract typically includes inter alia legal expense insurance.

Premiums and claims relating to non-life insurance for the Group are as follows:

	2020 Rm	2019 Rm
Premiums	**13 117**	12 072
Claims	**6 797**	7 191

Cell captive arrangements

The cell owner shareholders' agreements protect the Group from losses arising from business conducted in cells due to the rights and obligations of both parties set out in the various cell owner shareholders agreements. Individual cells not meeting capital requirements pose a solvency risk that is monitored on a monthly basis and, if required, additional capital is requested from such cell owners. The Group's exposure to risk on this business is a credit risk of the cell owner, if a cell owner does not meet its contractual solvency obligations set out in the cell owner shareholders agreement, with respect to third-party cell arrangements. Based on current economic conditions, and reviewing specific facilities, a probability of default is applied to cells in deficit.

The Group's underwriting strategy is directed at a portfolio of underwritten risks that are well diversified in terms of risk, industry and geography. In addition, reinsurance agreements are concluded to minimise the solvency risk (refer to Reinsurance section on the following page).

36 Insurance and investment business continued

36.3 Non-life insurance risk continued

36.3.1 Non-life insurance risk management continued

Contingency policy business

This business is usually written for a one-year period with the policies covering multiple risks. The risks underwritten are those of a corporate entity (ie first-party business) and are generally either in respect of primary layers of the corporate's insurance programme or for risks that are difficult to insure in a traditional insurance product. The corporate insured in a contingency policy is entitled to a share in the underwriting result if there is favourable claims experience.

Subject matter experts in the business provide input to develop suitable policy and cover limits as well as retention limits for reinsurance where applicable. Reinsurance is generally structured above the layer provided by the contingency policy.

There is an aggregate excess of loss treaty in place for all contingency policies. This reinsurance treaty is currently arranged for a limit of R15 million each and every loss in excess of R1 million each and every loss up to R5 million in the annual aggregate.

Risk participation with cell shareholders

Guardrisk, through the promoter cell, shares in the emerging underwriting experience of selected cell arrangements. Before entering into new risk sharing agreements with cell owners, internal processes covering all disciplines are executed with a recommendation to the Guardrisk Product Management Committee for decision making if within delegated mandate, otherwise the decision is escalated to the Guardrisk Board.

Reinsurance

The Group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the Group to losses arising from insurance contracts and in order to protect the profitability of the Group and its capital. A suite of treaties is purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the Board of directors. The Group only enters into reinsurance agreements with reinsurers which have adequate credit ratings, as prescribed by the Group's Reinsurance Risk Policy.

The key objective when placing reinsurance is to optimise capital requirements and protection of the retained lines of both Guardrisk and the cell owners. The reinsurers selected are in accordance with Guardrisk's reinsurance vetting procedures. These are presented to and approved by the Guardrisk board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

Other than sourcing capacity for both first and third-party business, reinsurance is arranged to protect the net retention of the promoter on both a proportional and non-proportional basis. The net retention of both Guardrisk and the cells will determine the non-proportional programmes whereas estimated premium income and loss ratios determine retention on proportional programmes. The non-proportional reinsurance arrangements include per risk and/or per event excess-of-loss coverage. Proportional reinsurance arrangements are predominantly quota share treaties with limited use of surplus treaties.

Concentrations of insurance risk

The Group is exposed to a concentration of insurance risk in the Gauteng province of South Africa. In order to manage this concentration of insurance risk, the Group has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Group to predetermined levels following the occurrence of a localised catastrophe in this area.

Risks relating to the cell captive business are adequately spread across the major classes of insurance risk and is spread geographically.

Exposure to catastrophes and policies mitigating this risk

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day.

Catastrophe limits are set to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of the Group's exposure with the balance of their exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

37 Liquidity risk

Liquidity risk is the risk that the Group, although solvent, has inadequate cash resources to meet its financial obligations when due, or can only secure these resources at excessive cost. The Group differentiates between funding liquidity risk (the risk of losses arising from difficulty in raising funding to meet obligations when they become due) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth or market disruptions).

Liquidity risk governance

Liquidity risk for the Group is managed in terms of the Group liquidity risk management policy, which is a policy of the Group ERM function.

The Momentum Metropolitan Capital and Investment Committee (CIC) is responsible for the Group's liquidity and funding risk management with the Board Risk Capital and Compliance Committee providing oversight for funding and liquidity risk assumed in the Group's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities and shareholder portfolios.

Liquidity risk management

The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 84% (2019: 84%) of the liabilities of the Group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed endowment and structured product benefits

Guaranteed endowments and structured products have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when the liabilities become payable.

Non-profit annuity policyholder benefits

These contracts provide guaranteed annuity benefits and all liquidity risks arising from these contracts are borne by the shareholders. The expected liability outflow is matched as closely as possible with assets of an appropriate nature and term in order to match the duration and convexity of the portfolio and thus mitigate the interest rate risk exposure. The liquidity risk is mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term. The asset portfolio is a diversified portfolio of liquid cash and fixed-interest instruments (government bonds, corporate bonds, interest rate swaps and promissory notes) that closely matches the liquidity profile of the liability cash flow.

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon a contractual claim, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Maturity dates are normally known in advance and contractual claims are projected. Cash flow projections are performed to aid in portfolio and cash flow management. Where the product design allows for the payment of an early termination value (ie a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the Group's discretion (subject to certain minima prescribed by legislation). This limits the loss on early termination. If underlying assets are illiquid, the terms of the policy contracts normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is shrinking (ie outflows exceed inflows), care is taken to ensure that the investment strategy and unit pricing structure of the fund are appropriate to meet liquidity requirements (as determined by cash flow projections). In practice, such a fund is often merged with cash flow positive funds to avoid unnecessary constraints on investment freedom.

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the Group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

37 **Liquidity risk** continued

Liquidity risk management continued

Policyholder liabilities continued

Other policyholder benefits

The liquidity risk arising from the liabilities in respect of embedded investment guarantees is managed by backing these liabilities with sufficiently liquid financial instruments.

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liquidity risks compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows from which claims can be paid. Accrued liabilities are matched by liquid assets to meet cash outflows in excess of expected inflows.

On certain large corporate policy contracts, the terms of each individual policy contract take into account the relevant liquidity requirements. Examples of such contractual provisions include the payment of benefits *in specie*, or a provision for sufficient lag times between the termination notification and the payment of benefits.

For these contracts providing guaranteed annuity benefits all the liquidity risk that arises is borne by the shareholders. The liquidity risk is mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term.

Shareholder funds

The significant shareholder liabilities of the Group are the cumulative convertible redeemable preference shares issued by the Company, the carry positions, the subordinated call notes issued by MML and the cumulative redeemable preference shares issued by MMSI.

The Group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and/or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restrict exposure to high-quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the CIC. The regular reports take the expected shareholder cash flows (eg committed mergers and acquisition activity and liquidity needs of related entities) into account in order to identify material funding liquidity gaps early. By determining the potential liquidity gaps, the funding liquidity and market liquidity risks of the shareholder portfolios are mitigated.

Liquidity profile of assets

The following table illustrates that the Group's assets are fairly liquid in order to meet the liquidity needs of obligations if the Group should be required to settle earlier than expected:

	2020		Restated 2019[1]	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[2]	**68**	**344 771**	69	345 255
Medium[3]	**27**	**135 150**	26	131 268
Low/illiquid[4]	**5**	**24 389**	5	23 730
Other assets not included above				
– employee benefit assets		**652**		469
– accelerated rental income		**340**		295
– deferred income tax		**862**		599
– assets relating to disposal groups held for sale		**229**		989
Total assets		**506 393**		502 605

1 Refer to Annexure I for more information on the restatements.

2 Highly liquid assets are those that are considered to be realisable within one month (eg level 1 financial assets at fair value, including funds on deposit and other money market instruments > 90 days, cash and cash equivalents), the current values of which might not be realised if a substantial short-term liquidation were to occur due to demand-supply principles.

3 Medium liquid assets are those that are considered to be realisable within six months (eg level 2 and level 3 financial assets at fair value, except for funds on deposit and other money market instruments > 90 days, loans at amortised cost, insurance receivables, reinsurance contracts).

4 Low/illiquid assets are those that are considered to be realisable in excess of six months (eg intangible assets, investment and owner-occupied properties, property and equipment, equity-accounted associates).

37 Liquidity risk continued

Maturity profile of liabilities

The cash flows (either expected or contractual) for these liabilities are disclosed in the maturity analysis below:

2020 Rm	Carrying amount	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)[2]	113 024	113 024	20 228	13 806	29 486	21 502	28 002
Linked (market-related) business							
Individual	17 296	17 296	2 153	1 354	4 182	4 270	5 337
Employee benefits	(28)	(28)	(4)	(2)	(9)	(13)	–
Smoothed bonus business							
Individual	26 721	26 721	858	3 476	9 021	5 948	7 418
Employee benefits	(46)	(46)	(46)	–	–	–	–
Conventional with-profit business	9 440	9 440	5 776	303	483	181	2 697
Guaranteed endowments	11	11	–	9	2	–	–
Non-profit business							
Individual	7 454	7 454	2 510	1 201	1 227	616	1 900
Employee benefits	2 692	2 692	244	1 816	237	130	265
Annuity business	49 484	49 484	8 737	5 649	14 343	10 370	10 385
Investment contracts with DPF (DCFs)[2]	18 320	18 320	16 602	290	693	316	419
Linked (market-related) business							
Individual	958	958	5	185	337	188	243
Smoothed bonus business							
Individual	765	765	–	105	356	128	176
Employee benefits	14 871	14 871	14 871	–	–	–	–
Smoothed bonus – fully vesting							
Individual	930	930	930	–	–	–	–
Employee benefits	584	584	584	–	–	–	–
Non-profit business							
Individual	1	1	1	–	–	–	–
Employee benefits	183	183	183	–	–	–	–
Annuity business	28	28	28	–	–	–	–
Investment contracts (undiscounted cash flows)	244 336	245 167	115 914	8 663	12 233	16 986	91 371
Linked (market-related) business							
Individual	156 200	156 200	39 667	4 737	4 937	16 848	90 011
Employee benefits	75 244	75 244	73 804	16	75	127	1 222
Smoothed bonus business							
Individual	813	813	800	–	1	2	10
Smoothed bonus – fully vesting							
Individual	1 640	1 640	1 378	9	10	38	205
Guaranteed endowments	8 564	9 256	200	3 224	5 832	–	–
Annuity business	1 875	2 014	65	677	1 378	(29)	(77)

37 Liquidity risk continued

Maturity profile of liabilities continued

2020 Rm	Carrying amount	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Subtotal policyholder liabilities under insurance and investment contracts	375 680	376 511	152 744	22 759	42 412	38 804	119 792
Cell captive and non-life business	30 335						
Total policyholder liabilities under insurance and investment contracts	406 015	376 511	152 744	22 759	42 412	38 804	119 792
Financial liabilities at fair value through profit and loss	45 946	41 614	28 467	8 660	3 345	1 142	–
Collective investment scheme liabilities	28 467	28 467	28 467	–	–	–	–
Subordinated call notes	4 431	5 563	–	1 106	3 315	1 142	–
Carry positions	7 444	7 444	–	7 444	–	–	–
Derivative financial liabilities[3]	5 463	–	–	–	–	–	–
Other borrowings	141	140	–	110	30	–	–
Financial liabilities at amortised cost	4 610	5 825	–	949	3 489	1 223	164
Cumulative redeemable preference shares	2 025	2 107	–	53	2 025	12	17
Cumulative redeemable convertible preference shares	254	254	–	254	–	–	–
Lease liabilities	318	497	–	138	195	17	147
Other	687	695	–	357	188	150	–
Property development loans	1 326	2 272	–	147	1 081	1 044	–
Other payables[4]	18 266	18 266	97	17 755	414	–	–
Reinsurance contract liabilities	2 277	2 277	–	300	1 064	817	96
Other liabilities[5]	6 332						
Total liabilities	483 446	444 493	181 308	50 423	50 724	41 986	120 052

1 Open-ended liabilities are defined as:
- policies where the policyholder is entitled to the benefit at any future point (benefits are contractually available on demand); or
- where policies do not have a specified contract term.

2 The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted expected cash flows. All other values are based on contractual undiscounted cash flows.

3 Cash flows for derivative financial instruments have been disclosed on a net basis below.

4 Other payables exclude premiums paid in advance and deferred revenue liabilities.

5 Other liabilities are considered to be excluded from the scope of IFRS 9 and IFRS 7; therefore no cash flows are provided for those liabilities.

37 **Liquidity risk** continued

Maturity profile of liabilities continued

Cash flows relating to policyholder liabilities under insurance and investment contracts (current in-force book) have been apportioned between future time periods in the following manner:

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through profit and loss.
- Expected DCFs, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 10.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities at fair value through profit and loss:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the Group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MML. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.

Financial liabilities carried at amortised cost:

- The cumulative redeemable preference shares are redeemable at the option of the issuer on any dividend payment date. During the current year 300 redeemable preference shares were redeemed and the remaining 700 redeemable preference shares have a redemption date of 30 June 2023 (after extending it under the same terms by 36 months in the current year). It is expected that the preference shares will only be redeemed on the ultimate redemption date. On 29 January 2020, MMSI issued 1 000 Class B cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd with a redemption date of 28 January 2025. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date. Additionally, on 28 April 2020, MMSI issued 300 cumulative redeemable preference shares at R1 million per share to Sanlam Alternative Income Fund with a redemption date of 28 April 2023. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares.
- Cumulative redeemable convertible preference shares: It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 31 December 2020 (extended by 18 months in the prior year), is assumed. The Group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- Included in other financial liabilities at amortised cost is a loan from FirstRand Bank Ltd of R257 million (2019: R267 million) with interest levied at 11% (2019: 11%). The interest is repaid monthly with the capital balance payable in December 2025. Also included is a loan from Standard Bank Ltd of R882 million (2019: R811 million) with interest levied at three-month JIBAR plus 2.10% (2019: JIBAR plus 2.10%). The interest on the loan is capitalised against the loan balance until 1 November 2019. Thereafter the interest will be repaid quarterly with the capital balance also being amortised quarterly and the balance payable in November 2026. Both loans are secured by underlying property.

37 **Liquidity risk** continued

Maturity profile of liabilities continued

Restated 2019[1] Rm	**Carrying amount**	**Total**	**Open-ended**	**0 to 1 year**	**1 to 5 years**	**5 to 10 years**	**> 10 years**
Insurance contracts (DCFs)	119 254	119 254	23 235	13 128	28 644	22 286	31 961
Linked (market-related) business							
Individual	19 589	19 589	4 662	1 804	3 663	3 764	5 696
Employee benefits	(11)	(11)	–	(1)	(5)	(5)	–
Smoothed bonus business							
Individual	28 790	28 790	1 336	3 953	9 105	6 639	7 757
Employee benefits	65	65	65	–	–	–	–
Smoothed bonus business – fully vesting	(3)	(3)	–	(3)	–	–	–
Conventional with-profit business	9 837	9 837	5 954	276	500	211	2 896
Guaranteed endowments	17	17	–	7	10	–	–
Non-profit business							
Individual	8 007	8 007	2 371	560	1 299	787	2 990
Employee benefits	2 784	2 784	74	1 510	426	252	522
Annuity business	50 179	50 179	8 773	5 022	13 646	10 638	12 100
Investment contracts with DPF (DCFs)	20 573	20 573	18 749	271	768	351	434
Linked (market-related) business							
Individual	1 012	1 012	6	110	446	199	251
Smoothed bonus business							
Individual	818	818	–	161	322	152	183
Employee benefits	16 910	16 910	16 910	–	–	–	–
Smoothed bonus business – fully vesting							
Individual	892	892	892	–	–	–	–
Employee benefits	722	722	722	–	–	–	–
Non-profit business							
Individual	1	1	1	–	–	–	–
Employee benefits	180	180	180	–	–	–	–
Annuity business	38	38	38	–	–	–	–
Investment contracts (undiscounted cash flows)	237 193	239 149	115 559	6 998	16 505	13 447	86 640
Linked (market-related) business							
Individual	148 440	148 440	39 826	4 525	5 530	13 293	85 266
Employee benefits	74 715	74 715	73 298	16	75	125	1 201
Smoothed bonus business							
Individual	804	805	790	1	1	2	11
Smoothed bonus business – fully vesting							
Individual	1 747	1 747	1 450	12	15	35	235
Guaranteed endowments	9 354	11 009	144	1 726	9 138	1	–
Annuity business	2 133	2 433	51	718	1 746	(9)	(73)
Subtotal policyholder liabilities under insurance and investment contracts	377 020	378 976	157 543	20 397	45 917	36 084	119 035
Cell captive and non-life business	23 459						
Total policyholder liabilities under insurance and investment contracts	400 479	378 976	157 543	20 397	45 917	36 084	119 035
Financial liabilities at fair value through profit and loss	42 806	41 755	29 331	7 865	3 470	1 084	5
Collective investment scheme liabilities	29 331	29 331	29 331	–	–	–	–
Subordinated call notes	4 431	5 698	–	1 162	3 452	1 084	–
Carry positions	6 613	6 613	–	6 613	–	–	–
Derivative financial liabilities	2 318	–	–	–	–	–	–
Other borrowings	113	113	–	90	18	–	5
Financial liabilities at amortised cost	3 007	3 904	–	1 198	1 167	1 239	300
Cumulative redeemable preference shares	1 017	1 068	–	1 068	–	–	–
Cumulative redeemable convertible preference shares	254	291	–	–	291	–	–
Other	1 736	2 545	–	130	876	1 239	300
Other payables	23 399	23 399	106	22 962	331	–	–
Reinsurance contract liabilities	1 912	1 912	–	301	1 113	346	152
Other liabilities	7 456						
Total liabilities	479 059	449 946	186 980	52 723	51 998	38 753	119 492

[1] Refer to Annexure I for more information on the restatements.

37 Liquidity risk continued

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated statement of financial position. The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

2020 **Rm**	**Carrying amount**	**Total**	**0 to 1 year**	**1 to 5 years**	**> 5 years**
Derivatives held for trading					
Equity derivatives	**(1 338)**	**(822)**	**(749)**	**(73)**	**–**
Interest rate derivatives	**131**	**(544)**	**1 095**	**(708)**	**(931)**
Bond derivatives	**(18)**	**(105)**	**(105)**	**–**	**–**
Credit derivatives	**33**	**33**	**11**	**28**	**(6)**
Currency derivatives	**(973)**	**(663)**	**(97)**	**21**	**(587)**
Total net undiscounted cash flow projections	**(2 165)**	**(2 101)**	**155**	**(732)**	**(1 524)**
Derivative financial instruments					
Assets	**3 298**				
Liabilities	**(5 463)**				
	(2 165)				
2019 **Rm**					
Derivatives held for trading					
Equity derivatives	(2)	(12)	1	(13)	–
Interest rate derivatives	861	250	(14)	1 743	(1 479)
Bond derivatives	46	16 686	–	(3 839)	20 525
Credit derivatives	12	13	–	8	5
Currency derivatives	(786)	(485)	108	(249)	(344)
Total net undiscounted cash flow projections	131	16 452	95	(2 350)	18 707
Derivative financial instruments					
Assets	2 449				
Liabilities	(2 318)				
	131				

38 Market risk

Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held. This includes exposure to equities, interest rates, credit spreads, property, price inflation and currencies.

Financial instruments held by the Group are subject to the components of market risk as follows:

	Carrying amount				
	2020 Rm	Restated 2019[1] Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value through profit and loss					
Unit-linked investments	**159 953**	164 905	✓✓	✓	✓
Debt securities	**144 553**	127 662	✓	✓✓	✓
Equity securities	**91 498**	97 686	✓✓		✓
Funds on deposit and other money market instruments	**27 585**	28 600	✓	✓✓	✓
Derivative financial assets	**3 298**	2 449	✓✓	✓✓	✓
Carried at amortised cost					
Unsettled trades	**4 182**	11 565			✓
Accounts receivable	**2 519**	2 437		✓	✓
Debt securities	**479**	387		✓✓	✓✓
Funds on deposit and other money market instruments	**161**	78		✓✓	✓✓
Loans	**2 402**	2 606		✓✓	✓
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 727**	4 923		✓	✓
Cash and cash equivalents	**31 747**	27 061		✓✓	✓
Other non-financial assets	**33 289**	32 246	N/A	N/A	N/A
Total assets	**506 393**	502 605			
Liabilities					
Carried at fair value through profit and loss					
Investment contracts					
Designated at fair value through profit and loss	**261 854**	250 037	✓✓	✓✓	✓
Collective investment scheme liabilities	**28 467**	29 331	✓✓	✓	✓
Subordinated call notes	**4 431**	4 431	✓	✓✓	
Carry positions	**7 444**	6 613	✓	✓✓	
Derivative financial liabilities	**5 463**	2 318	✓✓	✓✓	✓
Other borrowings	**141**	113		✓	✓
Carried at amortised cost					
Cumulative redeemable preference shares	**2 025**	1 017		✓✓	
Cumulative redeemable convertible preference shares	**254**	254		✓✓	
Lease liabilities	**318**	–		✓✓	✓
Other	**2 013**	1 736		✓	
Other payables (excluding premiums received in advance and deferred revenue liabilities)					
Payables arising from insurance contracts and investment contracts with DPF	**5 615**	5 987			✓
Payables arising from investment contracts	**1 125**	877			✓
Unsettled trades	**5 077**	11 119			✓
Commission creditors	**930**	958		✓	✓
Other	**5 519**	4 458		✓	✓
Insurance contract liabilities	**125 841**	129 869	*	*	*
Investment contracts with DPF liabilities	**18 320**	20 573	✓✓	✓✓	✓✓
Other non-financial liabilities	**8 609**	9 368	N/A	N/A	N/A
Total liabilities	**483 446**	479 059			

[1] Refer to Annexure I for more information on the restatements.

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 36.

38 Market risk continued

For discretionary participation business, market-related contracts or unit-linked contracts:

- the policyholder carries the majority of the market risk; while
- the Group carries the risk of investment guarantees provided and of a reduced income from fees where these are based on investment returns or the underlying fund value or where investment conditions affect its ability to recoup expenses incurred.

Furthermore, the Group is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

For non-profit business (including annuities) and in respect of the net asset value, shareholders carry the market risk.

Market risk governance

Shareholder market risk is managed according to the Momentum Metropolitan Shareholder Market Risk Policy while the Client Investment Policy governs the management of policyholder market risk.

The Momentum Metropolitan CIC is also responsible for the Group's market risk management, with the Board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

The Momentum Metropolitan Product Management Committee provides oversight over the management of policyholder market risk. Policyholder market risk is managed through various management-level governance committees established for this purpose. These committees monitor the performance of investment portfolios against client outcome requirements. This includes consideration of the appropriateness of the matching of assets and liabilities of the various policyholder portfolios where policyholder benefits are impacted by investment returns.

For contract holder liabilities, the financial instruments backing each major line of business are segregated to ensure that they are used exclusively to provide benefits for the relevant contract holders. The valuation of these financial instruments is subject to various market risks, particularly interest rate and price risk. Each portfolio consists of an asset mix deemed appropriate for the specific product. These risks and the Group’s exposure to equity, interest rate, currency and property price risks are discussed and disclosed in this note.

Market risk management per product

Individual and group contracts with DPF

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager’s best investment view. Separate investment portfolios are managed for each product.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, reasonable policyholder expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a BSA for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, there are the following options:

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the Group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging or other partial derisking strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

38 Market risk continued

Market risk management per product continued

Individual and group contracts with DPF and continuous guarantees

Certain portfolios provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but for group contracts, allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Derivative instruments are used to minimise downside market risk in these portfolios.

Market-related/unit-linked business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk; however, the Group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the Group's investment managers.

Individual contracts offering investment guarantees

The Group has books of universal life business that offer minimum maturity values, based on a specified rate of investment return. These guaranteed rates range from 0% to 4.5% p.a. for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios (the latter mostly closed to new business). On some smoothed bonus portfolios, there is also a guarantee to policyholders that the average annual bonus rate, measured over the lifetime of the contract, will not be less than a contractual minimum (around 4.5% p.a.). There is also a portion of universal smoothed bonus fund values that is deemed vested and thereby constitutes an additional form of investment guarantee in certain circumstances. Similarly, on reversionary bonus business, an investment guarantee in the form of sum assured and declared reversionary bonuses is given.

The Group also carries conventional business that offers minimum guarantees on maturity, surrender and death, with different forms of guarantees that apply in each event.

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge for these policies is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only to specific terms.

On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms. The minimum increase represents an inflation-related embedded financial guarantee.

The risk of being unable to meet guarantees is managed by holding a specific liability, as well as additional statutory capital, for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, in accordance with actuarial guidance (APN 110). Stochastic modelling is used to quantify the reserves and capital required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The stochastic model is calibrated to market data. The shareholders' exposure to fluctuations in this liability is mitigated by the use of hedging strategies, subject to available instruments and the overall risk profile of the business.

38 Market risk continued

Market risk management per product continued

Non-profit annuity business

An annuity policy pays an income to the annuitant in return for a lump sum consideration paid on origination of the annuity policy. Income payments may be subject to a minimum period. The income may be fixed or increase at a fixed rate or in line with inflation.

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the Group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds or bank-issued matching structures. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R24 million (2019: R14 million) for MML.

The liability valuation calculation for MML annuities is based on the risk-free yield curve. The average rate that produces the same result is 12.3% (2019: 11.2%).

Guaranteed endowments and structured products

The Group issues guaranteed endowment policies. The majority of these contracts are five-year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The interest rate exposure on these policies is hedged through appropriate interest sensitive instruments.

A variation on guaranteed endowment policies is contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets including equity-linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the Group's reinsurance policies.

Other non-profit business

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be different to that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through appropriate interest rate instruments as well as contractual rights to review regular premium rates charged to clients.

Shareholder cash flows in respect of individual contracts with investment components

The expected future charges, expense outgo and risk benefit payments (including margins) on individual contracts with investment components are capitalised using long-term interest rates. The resultant discounted value is added to liabilities (an offset to liabilities when negative). The Group is therefore subject to interest rate risk as any changes in long-term interest rates will result in a change in the value of liabilities. This risk is mitigated through hedging as well as diversification against other interest rate risks.

38 Market risk continued

38.1 Market risk management per risk factor

Equity risk

Equity risk is the risk of financial loss as a result of adverse movements in the market value of equities, implied volatility and/or income from equities.

Equities (listed and unlisted) are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systemic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systemic risk cannot.

The Group manages its listed equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the Momentum Metropolitan Private Equity Investments Committee, represented by specialist investment professionals and independent Momentum Metropolitan representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to the sensitivity analysis in note 38.5.

38.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the Group's investment portfolios are subject to changes in prevailing market interest rates. The table overleaf provides a split of interest-bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments. Financial assets at amortised cost with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

38 Market risk continued

38.2 Interest rate risk continued

Instrument class	Carrying amount Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
2020					
At fair value through profit and loss					
Debt securities	**144 554**	**57 709**	**84 900**	**1 945**	**7.0**
Funds on deposit and other money market instruments	**27 585**	**16 239**	**11 344**	**2**	**5.7**
Derivative financial assets	**3 298**	**–**	**3 298**	**–**	**N/A**
Derivative financial liabilities	**(5 463)**	**–**	**(5 463)**	**–**	**N/A**
At amortised cost					
Debt securities	**479**	**22**	**–**	**457**	**13.4**
Funds on deposit and other money market instruments	**161**	**–**	**–**	**161**	**4.3**
Loans and receivables at amortised cost	**9 104**	**1 525**	**–**	**7 579**	**6.9**
Cash and cash equivalents	**31 747**	**27 871**	**–**	**3 876**	**3.3**
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 727**	**–**	**298**	**4 429**	**–**
	216 192	**103 366**	**94 377**	**18 449**	
Restated 2019[1]					
At fair value through profit and loss					
Debt securities	127 662	49 359	76 251	2 052	7.9
Funds on deposit and other money market instruments	28 600	17 960	10 635	5	7.3
Derivative financial assets	2 449	–	2 449	–	N/A
Derivative financial liabilities	(2 318)	–	(2 318)	–	N/A
At amortised cost					
Debt securities	387	1	–	386	14.9
Funds on deposit and other money market instruments	78	15	–	63	1.9
Loans and receivables at amortised cost	16 608	1 626	–	14 982	8.0
Cash and cash equivalents	27 061	24 274	–	2 787	4.5
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 923	1	16	4 906	N/A
	205 450	93 236	87 033	25 181	

[1] Refer to Annexure I for more information on the restatements.

Liability exposure to interest rates is reflected in note 11.

38.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the Group's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the SARB.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table on the following page as the look-through principle was not applied.

38 **Market risk** continued

38.3 **Currency risk** continued

Assets and liabilities denominated in Namibian dollar, Lesotho maloti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not represent significant currency risk for the Group. The geographical area of Africa includes Botswana, Ghana, Kenya, Mauritius, Nigeria, Tanzania, Uganda, Mozambique and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the Group, are included in the Group's statement of financial position at 30 June:

2020	**Africa Rm**	**UK £ Rm**	**US $ Rm**	**Euro Rm**	**Asian Pacific Rm**	**Other Rm**	**Total Rm**
Closing exchange rate		***21.4519***	***17.3610***	***19.5045***			
Investment securities							
At fair value through profit and loss							
Unit-linked investments	**–**	**5 499**	**31 620**	**828**	**129**	**52**	**38 128**
Equity securities	**364**	**1 906**	**18 735**	**3 433**	**4 780**	**2 418**	**31 636**
Debt securities	**744**	**200**	**2 365**	**931**	**11**	**380**	**4 631**
Funds on deposit and other money market instruments	**672**	**–**	**22**	**–**	**–**	**–**	**694**
Derivative financial assets	**–**	**9**	**19**	**2**	**–**	**–**	**30**
At amortised cost							
Debt securities	**455**	**–**	**–**	**–**	**–**	**2**	**457**
Funds on deposit and other money market instruments	**137**	**–**	**–**	**–**	**–**	**23**	**160**
Loans and accounts receivable	**(9)**	**90**	**139**	**36**	**14**	**24**	**294**
Cash and cash equivalents	**290**	**359**	**5 880**	**764**	**163**	**199**	**7 655**
Insurance and other receivables	**15**	**–**	**243**	**–**	**–**	**38**	**296**
	2 668	**8 063**	**59 023**	**5 994**	**5 097**	**3 136**	**83 981**
Restated 2019[1]							
Closing exchange rate		*18.1159*	*13.7088*	*16.0000*			
Investment securities							
At fair value through profit and loss							
Unit-linked investments	–	4 878	36 480	939	19	95	42 411
Equity securities	370	1 773	12 490	2 574	2 642	1 687	21 536
Debt securities	680	182	3 907	884	–	337	5 990
Funds on deposit and other money market instruments	270	–	92	–	–	11	373
Derivative financial assets	–	–	(5)	1	–	–	(4)
At amortised cost							
Debt securities	318	–	–	–	–	1	319
Funds on deposit and other money market instruments	50	–	–	–	–	13	63
Loans and accounts receivable	17	37	121	34	48	145	402
Cash and cash equivalents	281	214	3 840	819	37	303	5 494
Insurance and other receivables	96	–	372	–	–	275	743
	2 082	7 084	57 297	5 251	2 746	2 867	77 327

[1] Refer to Annexure I for more information on the restatements.

The assets above generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

African exchange rates representing material balances above are:

Closing exchange rate	**Botswana**	**Ghana**	**Kenya**	**Nigeria**
2020	**1.4687**	**2.9843**	**0.1629**	**0.0419**
2019	1.3290	2.5818	0.1382	0.0392

38 Market risk continued

38.4 Property risk

Property risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

The Group's exposure to property holdings at 30 June is as follows:

	2020 Rm	Restated 2019[1] Rm
Investment properties	**9 042**	9 034
Owner-occupied properties	**3 598**	3 698
Properties under development	**118**	192
Collective investment schemes > 55% property exposure (refer to Annexure B)	**4 584**	5 836
	17 342	18 760
Percentage of total assets	**3.4%**	3.7%

[1] Refer to Annexure I for more information on the restatements.

Refer to note 4 for the concentration risk regarding types of properties relating to investment properties. Owner-occupied properties mainly comprise office buildings.

The Group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2020. The carrying amount of unlet and vacant investment property as at 30 June 2020 was R835 million (2019: R636 million). The year-on-year increase is predominantly as a result of the completion of the Marc, Tower 1 in the current financial year and the building is wholly unlet and vacant.

39.5 Sensitivity to market risk

The Group's earnings and net asset value are exposed to market risks. The Group has identified that changes in equity prices and interest rates are the market risk elements with the most significant effect on earnings and equity. The table below provides the sensitivity to a change in equity prices by 10% and a change to long-term interest rates by 100 basis points:

	Equity prices		Interest rates	
	Increase by 10% Rm	Decrease by 10% Rm	Increase by 100 bps Rm	Decrease by 100 bps Rm
2020				
Increase/(decrease) in earnings and equity	**360**	**(531)**	**(209)**	**(156)**
2019				
Increase/(decrease) in earnings and equity	256	(283)	55	(92)

38 Market risk continued

38.5 Sensitivity to market risk continued

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with the Group's current practice and accounting policy, the investment variances from insurance contracts were stabilised. As at 30 June 2020, the Group's investment stabilisation reserve had a balance of nil (2019: R713 million).
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Hedging strategies using derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched within approved risk limits and tolerances and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the Group is not considered to be material. Refer to note 38.3 for more details on the Group's currency exposure.

39 Credit risk

This is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment and non-investment activities, such as reinsurance credit risk, amounts due from intermediaries and policy loans.

Credit risk could also arise from the decrease in value of an asset because of a deterioration of creditworthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, reinsurance debtors, loans to policy holders and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk. Where instruments are held in cell captive arrangements, where the cell owner takes the risk, the credit risk is also transferred.

39 Credit risk continued

Credit risk governance

The governance of credit risk is comprehensively set out in the CIC charter. The primary responsibility of the CIC is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the Group in respect of shareholders. The CIC charter forms part of the overall ERM framework. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of directors. The operational responsibility has been delegated to the CIC, executive management and the credit risk management function. The product management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

The CIC is a sub-committee of the Group Executive Committee. This committee reports to the Group's Executive Committee on the effectiveness of credit risk management and provides an overview of the Group's shareholder credit portfolio. The CIC and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the Group credit exposure. This includes the monitoring of the following:

- Quality of the credit portfolio
- Stress quantification
- Credit defaults against expected losses
- Credit concentration risk
- Appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Board Risk, Capital and Compliance committee.

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the Group's credit risk appetite.

The approval framework for new credits consists of two committees, namely an Executive Credit Committee and the BSM Credit Committee. The BSM Credit Committee consists of senior credit executives and independent senior management executives. The Executive Credit Committee consists of Group Executive Committee members and senior management executives. The Executive Credit Committee approves credits in excess of the mandate and limits of the BSM Credit Committee.

The following are taken into account in the approval process:

- The underlying nature of the instrument and credit strength of the counterparty.
- The credit rating of the issuer, either internally generated or external from Moody's, S&P or GCR.
- Current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which includes:

- The use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof.
- Preparing credit applications and performing annual reviews.

Regular risk management reporting to the CIC includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

39 **Credit risk** continued

Impact of the Covid-19 pandemic

The high quality credit investment portfolio continues to perform well. In the Group's shareholder portfolio it has minimal exposure to those sectors hardest hit by Covid-19 like airlines, hospitality, tourism and consumer finance. In 2020, the Group had no defaults due to Covid-19. The Group continues to update and re-assess the risk of Covid-19 on its portfolio and for each counterparty as new information becomes available.

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the CIC) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The Group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the Group invests. The Group's exposure to these funds is classified at fund level (refer to Annexure B for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The Group enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the Group's credit risk exposure policy. For OTC interest rate swaps, the Group enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending

The Group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stocks to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

Scrip lending agreements are governed by Global Master Securities Lending Agreement (GMSLA). The main risk in scrip lending activities is the risk of default by the borrower of securities, ie the borrower fails to return the borrowed securities. Borrower default risk is mitigated by either requiring borrowers to post adequate levels of high-quality collateral and/or by the use of indemnity guarantees from the borrowers.

Where collateral is received, the Group monitors collateral levels on a daily basis and the status of collateral coverage is reported to the executive BSM on a quarterly basis. This collateral serves as security for the scrip lending arrangements in the event of default by the borrower. Where the borrower default risk is mitigated by means other than collateral, the Group monitors the counterparty credit exposure to be within approved limits and the Group ensures that the credit risk capital is held against counterparty credit exposure.

39 Credit risk continued

Financial assets at amortised cost

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the Group's new business premiums arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

Refer to note 6.6 for impairment details.

Policy loans

The Group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy.

Policy loans are secured by policies issued by the Group. In terms of the regulations applicable to the Group, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the Group owns.

Reinsurance

The Group only enters into reinsurance treaties with reinsurers registered with the PA. The credit rating of the Company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

For the Group's maximum exposure to credit risk refer to note 6.6.

Financial assets and liabilities designated at fair value through profit and loss

The current fair value movements, on financial liabilities that would have otherwise been classified as at amortised cost or fair value through other comprehensive income under IFRS 9, but which have been designated at fair value through profit and loss, include R69 million gain attributable to change in own credit risk.

On 01 April 2020, Moody's changed MML's insurer financial strength ratings from Baa2 to Baa3 on an international scale and maintained a national scale rating of Aaa.za. In addition, Moody's changed Guardrisk's insurer financial strength ratings from Baa3 to Ba1 on an international scale and maintained a national scale rating of Aaa.za. Moody's maintained a negative outlook on the ratings. The changes in the credit ratings follows the downgrade of the sovereign credit rating from Baa3 (BBB-) to Ba1 (BB+) on 27 March 2020.

Security and credit enhancements

In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments

For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the Group's credit risk exposure policy described in this note.

39 **Credit risk** continued

Security and credit enhancements continued

Linked notes

The Group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying amount of these investments included in other debt securities at fair value through profit and loss was R375 million at 30 June 2020 (2019: R437 million).

Transfers of financial costs

The Group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements. Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

The carrying value of scrip on loan in the current year was R2 610 million and consisted of local listed equity securities. There is collateral of R3 135 million on the scrip lent. There was no scrip lending in the prior year.

Financial assets at amortised cost

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Policy loans of R1 125 million (2019: R1 269 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 6.2. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

40 Financial risk inherent in consolidated collective investment schemes and other investment products

The Group consolidates a number of collective investment schemes and other investment products. Refer to Annexure A for information on the schemes consolidated.

As a result of exercising control over these schemes and other investment products, the Group's risk management framework is applicable to the risk management of these portfolios.

Because of the specific nature of this type of business, the risk management principles may be applied differently to managing the risks relevant to them. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolio risk appetites over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the chief risk officer of the management company.

When considering any new investment for a portfolio, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio level. The portfolio's mandate is also assessed.

A portfolio's market risk appetite is measured as a function of current market conditions and its investment objective and mandate in conjunction with its relevant benchmark.

Credit and liquidity risk are mitigated through diversification of issuers in line with credit policy. All amounts disclosed include amounts attributable to the consolidated collective investment portfolios.

The collective investment schemes and other investment products not consolidated are included in Annexure B as Collective investment schemes and Investments in associates. These are designated at fair value through profit and loss.

CONTENTS

STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	2020 Rm	2019 Rm	Notes
Assets			
Interest in subsidiary companies	**26 149**	24 792	2
Financial instruments	**753**	1 160	
Financial assets at fair value through profit or loss	**20**	4	3
Financial assets at amortised cost	**733**	1 156	4
Cash and cash equivalents	**211**	45	5
Total assets	**27 113**	25 997	
Equity attributable to owners of the company			
Share capital and share premium	**17 601**	17 601	6
Other components of equity	**78**	78	
Retained earnings	**9 010**	6 938	
Total equity	**26 689**	24 617	
Liabilities			
Financial instruments	**395**	254	
Financial liabilities at amortised cost	**254**	254	7.1
Financial guarantee contracts	**141**	–	7.2
Other payables	**28**	1 125	9
Current income tax liability	**1**	1	10.1
Total liabilities	**424**	1 380	
Total equity and liabilities	**27 113**	25 997	

INCOME STATEMENT

For the year ended 30 June 2020

	2020 Rm	2019 Rm	Notes
Investment income	**3 087**	1 732	11
Investment income – amortised cost	**70**	67	
Investment income – other	**3 017**	1 665	
Net realised and unrealised fair value gains	**2**	–	12
Net income	**3 089**	1 732	
(Reversal of)/impairment of loans to subsidiary companies	**(193)**	7	
Impairment expense of investment in subsidiaries	**17**	171	
Other expenses	**22**	41	13
(Income)/expenses	**(154)**	219	
Results of operations	**3 243**	1 513	
Finance costs	**(40)**	(37)	14
Profit before tax	**3 203**	1 476	
Income tax	**(9)**	(4)	10.2
Earnings for year attributable to owners of the Company	**3 194**	1 472	

GROUP REPORTS

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

MOMENTUM METROPOLITAN HOLDINGS LTD ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 Rm	2019 Rm
Earnings for year	**3 194**	1 472
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the company	**3 194**	1 472

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the Company Rm
Balance at 1 July 2018	17 601	6 540	55	24 196
IFRS 9 opening adjustment[1]	–	(7)	–	(7)
Restated opening balance	17 601	6 533	55	24 189
Total comprehensive income	–	1 472	–	1 472
Share scheme – value of services provided	–	–	23	23
Shares repurchased	–	(544)	–	(544)
Dividend paid	–	(523)	–	(523)
Balance at 1 July 2019	**17 601**	**6 938**	**78**	**24 617**
Total comprehensive income	**–**	**3 194**	**–**	**3 194**
Dividend paid	**–**	**(1 122)**	**–**	**(1 122)**
Balance at 30 June 2020	**17 601**	**9 010**	**78**	**26 689**

1 The Company adopted IFRS 9 in the prior year.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	2020 Rm	2019 Rm	Notes
Cash flow from operating activities			
Cash (utilised in)/generated by operations	**(119)**	1 134	15.1
Dividends received	**2 395**	1 664	11
Interest received	**70**	67	11
Income tax paid	**–**	(4)	15.2
Interest paid	**(40)**	(37)	15.3
Net cash inflow from operating activities	**2 306**	2 824	
Cash flow from investing activities			
Investment in subsidiary companies	**(1 931)**	(1 939)	
Investment in financial assets	**(14)**	–	
Loans advanced to related parties	**–**	(88)	
Loans repaid by related parties	**927**	289	
Net cash outflow from investing activities	**(1 018)**	(1 738)	
Cash flow from financing activities			
Shares repurchased and cancelled	**–**	(544)	
Dividends paid	**(1 122)**	(523)	
Net cash outflow from financing activities	**(1 122)**	(1 067)	
Net cash flow	**166**	19	
Cash and cash equivalents at beginning	**45**	26	
Cash and cash equivalents at end	**211**	45	5

1 Basis of preparation and accounting policies

The basis of preparation and accounting policies of the Company are the same as that of the Group, as set out in the Group financial statements. These financial statements should be read in conjunction with the Group financial statements.

2 Interest in subsidiary companies

	2020 Rm	2019 Rm
Cost less impairment	**25 840**	24 172
Loans to subsidiary companies (Annexure A)	**324**	620
Less: provision for impairment on loans to subsidiaries	**(15)**	–
	26 149	24 792
Opening balance	**24 792**	22 862
Cost of interest in subsidiaries acquired	**2 066**	2 139
Less: disposals	**(381)**	–
Movements in loans to subsidiary companies	**(296)**	(39)
Less: impairment charge	**(32)**	(171)
Closing balance	**26 149**	24 792

General

Details of interests in subsidiary companies are disclosed in Annexure A.

Loans to subsidiary companies

The loans to subsidiary companies are not of a commercial nature and are therefore interest-free, with no fixed repayment terms. These loans are intended to provide the subsidiaries with a long-term source of additional capital and are disclosed as part of the investment in subsidiary. The company can recall these loans when cash is required. The additional loans to subsidiaries that are of an operational nature are disclosed as loans to subsidiaries at amortised cost. Refer to note 4 for disclosure of loans to subsidiary companies.

Additions to the cost of subsidiaries and other movements

MMSI: The Company acquired additional shares in MMSI for R1 806 million during the current year (2019: R1 528 million). Included in the additions is a financial guarantee of R142 million issued by Momentum Metropolitan Holdings Limited (MMH) on behalf of MMSI. On initial recognition of the financial guarantee, the interest in subsidiary is increased with the fair value of the guarantee. Further details of the guarantee have been disclosed in note 7.2.

Metropolitan International Holdings (Pty) Ltd (MIH): The Company acquired additional shares in MIH for R117 million during the current year (2019: R191 million).

Metropolitan Health Holdings (Pty) Ltd (MHH): The Company acquired R1 million additional shares during the current year.

In the prior period the Company acquired R151 million and R68 million in Momentum Metropolitan Infrastructure and Operations (Pty) Limited (MMI&O)and Momentum Trust (Pty) Limited, respectively. The Company capitalised R201 million of its loan to MM I&O in the prior year.

Disposals

During the year MML bought back its own preference shares held by MMH. The purchase was completed through the intercompany loan between MML and MMH and was therefore a non-cash transaction. MMH originally purchased the preference shares from FirstRand Limited for R388 million and considered these to be part of the investment in subsidiary. At the time of repurchase by MML, the shares had a fair value of R381 million, leading to an impairment prior to disposal.

Impairment

Management assessed all subsidiaries for impairment indicators with reference to the EV as published in the “Report on group embedded value” in the Group financial statements, and the directors valuations. No impairment indicators were noted for the insurance subsidiaries. Where the directors valuations were used, the valuations used cash flow projections which are based on financial budgets approved by management and the Board covering a five-year period. In 2020, the expected cash flows were discounted at a risk discount rate of 16.25% (2019: 15%).

The Company impaired the investment in Metropolitan Collective Investments (Pty) Ltd by R2.1 million in the current year (2019 : R8 million) , Momentum Trust (Pty) Ltd by R8.1 million (2019: R51 million) and MML R6.6 million.

The Company impaired intercompany loans with MIH by R12 million and MMH by R3 million.

3 Financial assets at fair value through profit and loss

	2020 Rm	2019 Rm
Equity securities	**20**	4
	20	4

A schedule of equity securities is available for inspection at the Company's registered office.

4 Financial assets at amortised cost

	2020 Rm	2019 Rm
Accounts receivable	**9**	7
Less: provision for impairment	**(7)**	(7)
Loans to related parties	**730**	1 155
Loans to subsidiary companies (Annexure A)	**548**	1 184
Less: provision for impairment on loans to subsidiary companies	**(109)**	(317)
Loans to associates	**1**	1
Preference shares	**27**	24
Empowerment partners	**263**	263
Strategic unsecured loans	**1**	1
Total financial assets at amortised cost	**733**	1 156
Current	**443**	1 132
Non-current	**290**	24
	733	1 156

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. When the subsidiary is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- Preference shares:
  - MMH acquired preference shares in Eris for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R3 million (2019: R4 million). The preference shares mature in 2020 (extended from 2019 in the prior year). The carrying value approximates fair value.
- Loans to empowerment partners:
  - The loans to empowerment partners is R263 million (2019: R263 million) at 30 June 2020, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the Company that the Group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments - and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 31 December 2020 (after extending it under the same terms by 18 months in the prior year).

The fair value of loans to empowerment partners at 30 June 2020 approximates the carrying value as the repayment date is within one year.

Impairment

There was an impairment reversal of R193 million on loans to subsidiaries in the current year (2019: R7 million impairment expense).

Impairment of loans to subsidiaries are impaired if the borrowing company does not have sufficient accessible highly liquid assets available at reporting date. The expected credit loss is calculated by considering the means of the loan recovery, the quality of the subsidiary's underlying investments, as well as profitability expectations.

To determine a significant increase in credit risk, the following factors are considered: changes in the net asset value of the borrower, changes in management and organisational structure during the year, stability of industry and resilience to volatility and regulatory changes, the type of funding provided to the entity and the repayment behaviour of the borrower.

Loans with repayment terms considers the net asset value, frequency in management changes, subordination of the loan and sufficiency of liquid assets of the borrower as well as the remaining repayment term to determine a probability of default.

Loans without repayment terms consider whether the borrower has sufficient accessible highly liquid assets available to determine a probability of default.

The probabilities of default is extracted from a report issued by S&P. Loss given default rates applied are extracted from SAM loss-given (LGD) tables prescribed for insurers and adjusted accordingly by management to incorporate forward-looking information.

4 Financial assets at amortised cost continued

4.1 Credit risk balances – expected credit loss

	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
2020				
Assets				
Accounts receivable	–	–	9	9
Less: provision for impairment	–	–	(7)	(7)
Loans to related parties	730	–	–	730
Loans to subsidiary companies (Annexure A)	548	–	–	548
Less: provision for impairment on loans to subsidiary companies	(109)	–	–	(109)
Empowerment partners	263	–	–	263
Preference shares	27	–	–	27
Loans to associates	1	–	–	1
Strategic unsecured loans	1	–	–	1
Total financial assets at amortised cost	731	–	2	733
2019				
Assets				
Accounts receivable	–	–	7	7
Less: provision for impairment	–	–	(7)	(7)
Loans to related parties	706	–	449	1 155
Loans to subsidiary companies (Annexure A)	418	–	766	1 184
Less: provision for impairment on loans to subsidiary companies	–	–	(317)	(317)
Empowerment partners	263	–	–	263
Preference shares	24	–	–	24
Loans to associates	1	–	–	1
Strategic unsecured loans	1	–	–	1
Total financial assets at amortised cost	707	–	449	1 156

4 Financial assets at amortised cost continued

4.2 Reconciliation of expected credit losses

	Accounts receivable Rm	Related party loans Rm	Total Rm
2020			
Balance at beginning	**(7)**	**(317)**	**(324)**
Reversed	**–**	**193**	**193**
Balance at end	**(7)**	**(124)**	**(131)**
2019			
Balance at beginning	–	(310)	(310)
IFRS 9 opening retained earnings adjustment	(7)	–	(7)
Adjusted opening balance	(7)	(310)	(317)
Additional provision	–	(7)	(7)
Balance at end	(7)	(317)	(324)

Reconciliation of expected credit losses	12 month expected credit losses (Stage 1) Rm	Lifetime expected credit losses (Stage 2 and 3) Rm	Total Rm
2020			
Accounts receivable			
Opening balance	**–**	**(7)**	**(7)**
Movement recognised in the income statement	**–**	**–**	**–**
Closing balance	**–**	**(7)**	**(7)**
Related party loans			
Opening balance	**(310)**	**(7)**	**(317)**
Movement recognised in the income statement	**193**	**–**	**193**
Closing balance	**(117)**	**(7)**	**(124)**
2019			
Accounts receivable			
Opening balance	–	(7)	(7)
Movement recognised in the income statement	–	–	–
Closing balance	–	(7)	(7)
Related party loans			
Opening balance	–	(310)	(310)
Movement recognised in the income statement	–	(7)	(7)
Closing balance	–	(317)	(317)

4 FINANCIAL ASSETS AT AMORTISED COST continued

4.2 Reconciliation of expected credit losses continued

The changes in the expected credit loss allowances due to significant increases in credit risk was not considered to be significant in the current or prior year.

Staging definitions	Staging definitions		Basis for recognition of expected credit loss provision
Stage	**Accounts receivable**	**Loans**	
Stage 1	• Low risk of default • Strong capability to meet contractual payments	• Loans are recoverable • Low risk of default • Strong capability to meet contractual payments • Repayment of interest and capital payments in line with terms of agreements • No restructuring of the loan has occurred	12 months expected losses
Stage 2	• Significant increase in credit risk • Repayments are more than 30 days and less than 90 days past due	• Loans are recoverable • Repayment of interest and capital significantly in line with the terms of agreements i.e.: not more than 30 days past due • Some loans may be restructured based on operational needs, but with no effect on interest and capital repayment ability i.e.: credit quality has deteriorated based on the need for restructure, but adequate repayment plans in place • Significant deterioration of credit quality	Lifetime expected losses
Stage 3	• Significant increase in credit risk • Repayments are more than 90 days past due	• Loans are partially recoverable • Repayment of interest and capital payments not in line with terms of agreement • Significant deterioration in credit quality • Loans restructured	Lifetime expected losses
Written off	Long outstanding amounts due are evaluated on a case by case basis and would generally be written off when there is no alternative for the debtor to return to solvency and/or legal action taken was unsuccessful.		

Significant increase in credit risk	Criteria
Accounts receivable and loans	To determine a significant change in credit risk both historical data and forward looking information is taken into account. This includes existing or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, a breach of contract, significant changes in the value of any collateral supporting the obligation and reductions in financial support from a parent entity.

Financial asset	Impairment information
Accounts receivable	Impairment of accounts receivable is based on the recoverability of balances grouped together based on shared credit risk characteristics, eg instrument type. Balances generally relate to amounts where the timing of settlement is within one month. Historic payments as well as forward looking information is also taken into account.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held.

Sensitivities	
Accounts receivable	As most of the balances in stage 1 are short-term in nature and majority of the balance in stage 3 has been provided for, the impairment amount for stages 1 and 3 are not considered to be sensitive to changes in the forward looking information.
Loans	Most of the loan balances outstanding are considered to have low credit risk as the borrower has a strong capacity to meet its obligations and has a low risk of default. The expected credit loss is therefore not considered to be sensitive to changes in forward looking information.

	2020 Rm	2019 Rm
5 Cash and cash equivalents		
Bank and other cash balances	**211**	45

Expected credit loss on cash and cash equivalents is immaterial.

The carrying value approximates fair value due to its short-term nature.

6 Share capital and share premium

Authorised share capital of Momentum Metropolitan Holdings Ltd
2 billion ordinary shares of 0.0001 cents each.

129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Issued share capital of Momentum Metropolitan Holdings Ltd
1.5 billion ordinary shares of 0.0001 cents each

28 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue

Number of shares in issue (million)	2020	2019
Opening balance	**1 498**	1 529
Share buy-back	**–**	(31)
Closing balance	**1 498**	1 498

Share capital and share premium	2020 Rm	2019 Rm
Opening balance	**17 601**	17 601
Closing balance	**17 601**	17 601

Further details of the preference shares and the share buy back are disclosed in note 11.2 and note 15 respectively of the Group financial statements.

	2020 Rm	2019 Rm
7 Financial liabilities		
7.1 Financial liabilities at amortised cost		
Cumulative redeemable convertible preference shares – current	**254**	254
Due at the beginning	**254**	254
Accrued interest	**37**	37
Interest paid	**(37)**	(37)
Due at the end	**254**	254

Details of the cumulative redeemable convertible preference shares are disclosed in note 11.2 of the Group financial statements.

The estimated fair value of the A3 cumulative redeemable preference shares is R509 million (2019: R548 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2020, the expected cash flows were discounted at a current market rate of 13% (2019: 12%) (level 2). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. In the prior year, the compulsory redemption date was extended by 18 months to 31 December 2020 under the same terms. During the prior year, the Company subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) which is linked to the A3 preference shares. The dividends on the Off The Shelf Investment preference share aligns the A3 preference share dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payment B-BBEE expense of R23 million has been recognised.

		2020 Rm	2019 Rm
7	**Financial liabilities** continued		
7.2	**Financial guarantee contracts**	**141**	–
	Due at the beginning	**–**	–
	New guarantees entered into	**142**	–
	Net amortisation	**(1)**	–
	Due at the end	**141**	–

Financial guarantees have been issued to RMB and Sanlam Alternative Income Fund on behalf MMSI. The agreements guarantee repayment of preference shares issued to them in the event that MMSI is unable to meet its commitment. Upon initial recognition, the financial guarantees are carried fair value through profit or loss.

The fair value of a financial guarantee contract is the present value of the difference between the net contractual cash flows required under a debt instrument, and the net contractual cash flows that would have been required without the guarantee. On initial recognition of the guarantee, the investment in subsidiary is debited with the fair value of the guarantee.

Subsequently at the end of each reporting period, the guarantees will be measured at the higher of the amount of the expected credit loss and the amount initially recognised less the cumulative amortisation, where appropriate.

		2020 Rm	2019 Rm
8	**Deferred income tax**		
	Deferred tax asset	**–**	3
	Tax losses and credits	**–**	3
		–	
	Deferred tax liability	**–**	(3)
	Revaluations	**–**	(3)
		–	–
	Movement in deferred tax		
	Balance at beginning	**–**	–
	Charge to income statement	**–**	–
	Revaluations	**–**	15
	Tax losses and credits	**–**	(15)
	Balance at end	**–**	–

Creation of deferred tax asset

Tax losses were provided for in the previous year as a deferred tax asset, where there was certainty as to their recoverability. The deferred tax asset of R3 million relating to a capital loss was not recognised in the current year as the possibility of recovery was considered not probable.

9 Other payables

	2020 Rm	2019 Rm
Other payables	25	23
Loans from subsidiary companies (Annexure A)	3	1 102
	28	1 125
Current	28	1 125

For accounts payable, the carrying value approximates fair value due to its short-term nature.

The loans from subsidiary companies are interest-free, unsecured and payable on demand. The carrying value therefore approximates fair value.

10 Income tax

10.1 Current income tax liability

	2020 Rm	2019 Rm
Movement in liability		
Balance at beginning	1	1
Charged to income statement	3	4
Paid during year	(3)	(4)
Balance at end	1	1

Tax paid during 2020 by a subsidiary on behalf of the company using loan account facility

10.2 Income tax expense

	2020 Rm	2019 Rm
Current taxation		
Current year		
South African normal tax	3	2
Foreign countries – withholding tax	6	2
	9	4

	2020 %	2019 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Foreign tax	0.2	0.2
Non-taxable income[1]	(28.5)	(32.8)
Non-deductible expenses[2]	0.5	4.9
Effective rate	0.2	0.3

1 The company receives only exempt dividends and passive income in the form of interest; its expenses are therefore not in the production of income and therefore non-deductible.

2 Non-deductible expenses comprise of operating expenses incurred in the ordinary course of business.

		2020 Rm	2019 Rm
11	**Investment income**		
	Dividends received – subsidiary companies[1]	**3 017**	1 644
	Interest income	**70**	67
	Financial assets at amortised cost	**61**	61
	Cash and cash equivalents	**9**	6
	Other income	**–**	21
		3 087	1 732

[1] Included in dividends received in the current year is a dividend *in specie* of R616 million received from Momentum Metropolitan Life Limited in the form of a loan repayment.

		2020 Rm	2019 Rm
12	**Net realised and unrealised fair value gains**		
	Financial instruments mandatorily at fair value through profit or loss	**2**	–
13	**Other expenses**		
	Consulting fees	**1**	–
	Employee benefit expense	**–**	23
	Other expenses	**–**	1
	Directors' remuneration	**16**	15
	Auditors' remuneration	**3**	–
	Other indirect taxes	**2**	2
		22	41
14	**Finance costs**		
	Interest expense on financial liabilities at amortised cost		
	Redeemable preference shares	**37**	37
	Interest on bank overdraft	**3**	–
		40	37
15	**Cash flow from operating activities**		
15.1	**Cash (utilised in)/generated by operations**		
	Profit before tax	**3 203**	1 475
	Adjusted for		
	Items disclosed elsewhere		
	Dividends received	**(3 017)**	(1 664)
	Interest received	**(70)**	(67)
	Finance costs	**40**	37
	Non-cash-flow items		
	Impairment (reversals) charges	**(176)**	178
	Share-based payments and other employee benefit expenses	**–**	23
	Changes in operating assets and liabilities		
	Financial liabilities at amortised cost	**(1)**	55
	Financial assets and liabilities at fair value through profit and loss	**(2)**	(4)
	Other operating liabilities	**(96)**	1 101
		(119)	1 134
15.2	**Income tax paid**		
	Due at beginning	**–**	1
	Charged to income statement	**3**	(4)
	Paid by subsidiary on behalf of the company	**(3)**	–
	Due at end	**–**	(1)
		–	(4)
15.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(19)**	(19)
	Paid 31 March	**(19)**	(18)
	Bank overdraft interest	**(2)**	–
		(40)	(37)

16 RELATED PARTY TRANSACTIONS

16.1 Holding company

Shares in MMH, the ultimate holding company in the Group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 128 of the Integrated Report. Significant subsidiary companies are listed in Annexure A. Other related parties include RMI (by virtue of its shareholding of 27.3% in MMH, directors, key personnel and close members of their families. Refer to note 30.1 in the Group financial statements for more details.

16.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the Company. The remuneration, shares held and transactions of the Group executive committee members are disclosed in note 30.2 and Annexure F of the Group financial statements.

16.3 Transactions with related parties

Loans are advanced between MMH and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates are included in note 4.

Details of other transactions with related parties included in the financial statements are listed below.

	2020 Rm	2019 Rm
Dividends from subsidiaries – Momentum Metropolitan Life Ltd	**2 908**	1 536
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	**39**	–
Dividends from subsidiaries – Metropolitan Lesotho Ltd	**50**	25
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	**18**	22
Dividends from subsidiaries – Momentum Metropolitan Finance Company (Pty) Ltd	**2**	6
Dividends from subsidiaries – Metropolitan Health Holdings (Pty) Ltd	**–**	55
Interest received – Momentum Metropolitan Life Ltd	**34**	34
Interest received – Eris Property Fund (Pty) Ltd	**3**	4
Interest received – Off the Shelf Investments (Pty) Ltd	**23**	23
Finance costs – KTH	**37**	37

Refer to note 4 for loans and receivables with related parties.

Refer to note 30 of the Group financial statements for further details on related party transactions with directors and key management personnel.

17 Contingent liabilities

The Company is party to legal proceedings in the ordinary course of business and appropriate provisions are made when losses are expected to materialise.

18 Capital commitments

The Company has given a guarantee in favour of RMB and Sanlam Alternative Income Fund that MMSI will repay its obligations due to them. The details of this guarantee have been disclosed in note 7.2.

19 Risk management policies

Details of financial instruments and risk management strategies are disclosed in note 6 and 34 of the Group financial statements. The more important financial risks to which the company is exposed are credit risk and interest rate risk.

The Company's capital is managed with that of the Group. The capital management of the Group is discussed in note 35 of the Group financial statements.

19 Risk management policies continued

19.1 Classes of financial assets and liabilities

The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates.

	2020 Rm	2019 Rm
Assets		
Carried at fair value through profit or loss	**20**	4
Equity securities		
Unlisted	**20**	4
Carried at amortised cost	**733**	1 156
Loans	**731**	1 156
Accounts receivable	**2**	–
Cash and cash equivalents	**211**	45
Other non-financial	**26 149**	24 792
Total assets	**27 113**	25 997
Liabilities		
Carried at amortised cost	**254**	254
Cumulative redeemable preference shares	**254**	254
Other payables	**28**	1 125
Loans from subsidiary companies	**3**	1 102
Other payables	**25**	23
Financial guarantee liabilities	**141**	–
Other liabilities	**1**	1
Total liabilities	**424**	1 380

The definitions of classes of financial assets and liabilities are disclosed in Annexure D of the Group financial statements.

19.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The credit risk of the Company is managed similarly to that of the Group as disclosed in note 39 in the Group financial statements.

The Company's maximum exposure to credit risk is through the following classes of assets:

	2020 Rm	2019 Rm
Financial assets at amortised cost	**733**	1 156
Loans	**731**	1 156
Accounts receivable	**2**	–
Cash and cash equivalents	**211**	45
Total assets bearing credit risk	**944**	1 201

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the Group's credit risk exposure policy described in the Group financial statements.
- Security held on loans is disclosed in note 4.

Using S&P ratings (or the equivalent thereof when S&P ratings are not available), cash and cash equivalents have an AA (2019: AA) credit rating. Financial assets at amortised cost consist mainly of loans to related parties and are unrated.

19 Risk management policies continued

19.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, arising from the possibility that the company could be required to pay its liabilities earlier than expected.

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 31 December 2020 (extended by 18 months in the prior year), is assumed. The Company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

Other payables include loans from subsidiary companies which are payable on demand.

The following table indicates the maturity analysis of the liabilities:

		Undiscounted cash flows		
	Carrying value Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm
2020				
Amortised cost				
Cumulative redeemable preference shares	**254**	**254**	**254**	**–**
Other payables	**28**	**28**	**28**	**–**
Other liabilities	**1**	**1**	**1**	**–**
Financial guarantee contracts	**141**	**2 025**	**–**	**2 025**
Total liabilities	**424**	**2 308**	**283**	**2 025**
2019				
Amortised cost				
Cumulative redeemable preference shares	254	291	–	291
Other payables	1 125	1 125	1 125	–
Other liabilities	1	1	1	–
Financial guarantee contracts	–	1 017	1 017	–
Total liabilities	1 380	2 434	2 143	291

19.4 Market risk

Introduction

- Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key component of market risk applicable to the Company is interest rate risk.

19.4.1 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate as a result of changes in interest rates.

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The Company is exposed to floating interest rates that result in cash flow interest rate risk. Financial assets at amortised cost (empowerment loans) have a weighted average interest rate of 8.2% (2019: 8.9%). Cash and cash equivalents have a weighted average interest rate of 5.4% (2019: 6%).

19 Risk management policies continued

19.4 Market risk continued

19.4.2 Sensitivity to market risks

The Company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates have the most significant effect on earnings and equity.

The Company is exposed to floating interest rate changes only. Cash requirements fluctuate during the course of the year and are therefore of a short-term nature. Interest rate changes with respect to cash and cash equivalents will therefore not have a significant impact on earnings.

The Company has no foreign currency exposure.

20 Financial assets measurement

Financial assets summarised by measurement category in terms of IFRS 9	Fair value through profit or loss Mandatorily Rm	Amortised cost[1] Rm	Total Rm
2020			
Equity securities	**20**	**–**	**20**
Accounts receivable	**–**	**2**	**2**
Loans to associates	**–**	**1**	**1**
Preference shares	**–**	**27**	**27**
Empowerment partners	**–**	**263**	**263**
Strategic unsecured loans	**–**	**1**	**1**
Intercompany loans to subsidiaries	**–**	**548**	**548**
Provision for impairment on loans to subsidiary companies	**–**	**(109)**	**(109)**
Cash and cash equivalents	**–**	**211**	**211**
Total financial assets	**20**	**944**	**964**
2019			
Equity securities	4	–	4
Loans to associates	–	1	1
Preference shares	–	24	24
Empowerment partners	–	263	263
Strategic unsecured loans	–	1	1
Intercompany loans to subsidiaries	–	1 184	1 184
Provision for impairment on loans to subsidiary companies	–	(317)	(317)
Cash and cash equivalents	–	45	45
Total financial assets	4	1 201	1 205

[1] The carrying amount of financial assets carried at amortised cost approximates fair values.

ANNEXURE A

Significant subsidiary companies

Companies	Country of incorporation, where not South Africa	Interest held 2020 %	Interest held 2019 %	Cost 2020 Rm	Cost 2019 Rm	Loans to subsidiaries[1] 2020 Rm	Loans to subsidiaries[1] 2019 Rm
Momentum Metropolitan Life Ltd		**100**	100	**17 741**	18 129		
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
Momentum Health Solutions (Pty) Ltd		**100**	100				
Momentum Consult (Pty) Ltd		**100**	100				
Momentum Life Botswana Ltd	Botswana	**100**	100				
Momentum Asset Management (Pty) Ltd		**100**	100				
Momentum Global Investment Management Ltd	United Kingdom	**100**	100				
Momentum Collective Investments (RF) (Pty) Ltd		**100**	100				
Momentum Alternative Investments (Pty) Ltd		**100**	100				
Momentum International MultiManagers (Pty) Ltd		**100**	100				
Momentum Wealth (Pty) Ltd		**100**	100				
Momentum Wealth International Ltd	Guernsey	**100**	100				
102 Rivonia Road (Pty) Ltd		**80**	80				
Momentum Short Term Insurance Company Ltd		**100**	100				
MMI Short Term Insurance Administration (Pty) Ltd		**100**	100				
Momentum Multiply (Pty) Ltd		**100**	100				
Metropolitan Odyssey Ltd		**100**	100	**36**	36		
Metropolitan International Holdings (Pty) Ltd		**100**		**2 207**	2 090	**289**	436
Subsidiary companies							
Momentum Metropolitan Namibia Ltd	Namibia	**99.3**	96.5				
Cold Trade (Pty) Ltd	Namibia	**100**	100				
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	**–**	100				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Cannon Assurance Ltd	Kenya	**96**	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	**100**	100				
Metropolitan Life Swaziland Ltd	Swaziland	**–**	67				
Momentum Insurance (Swaziland) Ltd	Swaziland	**–**	100				
Metropolitan International Support (Pty) Ltd		**100**	100				
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	**66.7**	66.7				
Momentum Mozambique LDA	Mozambique	**66.7**	66.7				
Momentum Metropolitan Finance Company (Pty) Ltd		**100**	100	**600**	600	**3**	9
Metropolitan Life International Ltd		**100**	100	**47**	47		
Metropolitan Life of Botswana Ltd	Botswana	**100**	100	**73**	73		
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120**	120		
Momentum Retirement Administrators (Pty) Ltd		**100**	100				
Momentum Metropolitan Strategic Investments (Pty) Ltd		**100**	100	**4 395**	2 447		
Subsidiary companies							
Momentum SP Reid Securities (Pty) Ltd		**100**	100				
Momentum Outcome-Based Solutions (Pty) Ltd		**100**	100				
Guardrisk Life Ltd		**100**	100				
Guardrisk Life International Ltd	Mauritius	**100**	100				
Guardrisk Allied Products & Services (Pty) Ltd		**100**	100				
Guardrisk Insurance Company Ltd		**100**	100				
Guardrisk International Ltd PCC	Mauritius	**100**	100				
Momentum Insurance Company Ltd (previously Alexander Forbes Insurance Company Ltd)		**100**	–				
Momentum Metropolitan Holdings (UK) Ltd	United Kingdom	**100**	100				
Subsidiary companies							
Exponential Ventures LLP	United Kingdom	**100**	80				
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	100				
Financial Partners Ltd	Hong Kong	**–**	100				
Subtotal				**25 219**	23 542	**292**	445

1 These loans have been provided as a long-term source of additional capital for the subsidiary.

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Significant subsidiary companies

Companies continued	**Country of incorporation, where not South Africa**	**Interest held** 2020 %	**Interest held** 2019 %	**Cost** 2020 Rm	**Cost** 2019 Rm	**Loans to subsidiaries**[1] 2020 Rm	**Loans to subsidiaries**[1] 2019 Rm
Subtotal carried forward				**25 219**	23 542	**292**	445
MET Collective Investments (RF) (Pty) Ltd		**100**	100	**26**	26		
Eris Property Group (Pty) Ltd		**76.3**	76.3	**407**	407		
Metropolitan Health (Pty) Ltd		**100**	100	**448**	447	**29**	175
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**51**	51				
MetHealth (Pty) Ltd		**100**	100				
Global Doctor Networks (Pty) Ltd		**91.4**	91.4				
Hello Doctor (Pty) Ltd		**100**	100				
Momentum Metropolitan Infrastructure and Operations (Pty) Ltd		**100**	100	**352**	352		
Momentum Trust Ltd		**100**	100	**76**	76		
Less: impairments (refer to footnote below)				**(688)**	(678)		
Total interest in subsidiary companies				**25 840**	24 172	**321**	620

[1] These loans have been provided as a long-term source of additional capital for the subsidiary.

Subsidiary impairments	**2020 Rm**	**2019 Rm**
Metropolitan Odyssey Ltd	**36**	36
Metropolitan International Holdings (Pty) Ltd	**25**	25
Momentum Metropolitan Finance Company (Pty) Ltd	**437**	437
MET Collective Investments (RF) (Pty) Ltd	**10**	8
Momentum Metropolitan Infrastructure and Operations (Pty) Ltd	**112**	112
Momentum Trust Ltd	**68**	60
	688	678

Other loans to/(from) subsidiaries	**2020 Rm**	**2019 Rm**
Momentum Metropolitan Strategic Investments (Pty) Ltd	**311**	929
Momentum Health Solutions (Pty) Ltd	**20**	92
Metropolitan Capital (Pty) Ltd	**217**	155
Eris Property Fund (Pty) Ltd	**–**	8
	548	1 184
Less: impairments	**(109)**	(317)
Loans to subsidiary companies	**439**	867
Momentum Metropolitan Life Ltd	**(3)**	(1 102)
Loans from subsidiary companies	**(3)**	(1 102)

At 30 June, the following collective investment schemes (CIS) were significant subsidiaries of the Group:

	Interest held		Carrying amount	
	2020 %	Restated 2019[1] %	2020 Rm	Restated 2019[1] Rm
Momentum GF Global Equity Fund *(previously Momentum IF Global Equity Fund)*	**78.3**	62.3	**16 990**	12 342
Momentum Money Market Fund	**60.5**	59.0	**6 173**	5 789
Momentum MF Global Aggressive Fund	**100.0**	100	**5 833**	6 038
Momentum GF Global Enhanced Index Fund	**99.0**	**	**5 688**	**
Momentum Bond Fund	**95.1**	96.2	**5 512**	4 436
Momentum Income Plus Fund	**47.6**	43.9	**4 544**	2 513
Momentum Focus 6 Fund of Funds	**85.4**	84.9	**4 321**	4 879
Momentum SA Defensive Growth Fund	**100**	100	**3 924**	4 569
Momentum SA Flexible Fixed Interest Fund	**90.8**	90.1	**3 861**	2 293
Momentum MF Global Balanced Fund	**100.0**	100	**3 762**	4 571
Momentum Global Growth Fund IC Ltd	**95.1**	97.5	**3 297**	3 233
Momentum Enhanced Yield Fund	**54.2**	48.1	**3 054**	2 660
Momentum Trending Equity Fund	**99.7**	99.7	**2 864**	2 369
Momentum IF Global Emerging Markets Fund	**99.0**	96.7	**2 742**	1 166
Momentum MoM Ultra Long-Term Value Fund	**91.7**	87.7	**2 509**	2 896
Momentum MoM High Growth Fund	**100**	100	**2 324**	2 069
Momentum MoM Macro Value Fund	**100**	100	**2 089**	1 903
Momentum IF Global Fixed Income Fund	**100.2**	97.9	**2 012**	1 506
Momentum MoM Specialist Equity Fund	**100**	100	**1 989**	3 276
Momentum Capped SWIX Index Fund	**100**	100	**1 957**	2 209
Momentum MoM Opportunistic Equity Fund	**100**	100	**1 661**	2 020
Momentum MoM Emerging Manager Growth Fund	**100**	100	**1 430**	1 634
Momentum Core Equity Fund	**82.3**	87.7	**1 428**	1 373
Momentum Focus 7 Fund of Funds	**79.1**	75.0	**1 381**	1 440
Momentum Best Blend Flexible Income Fund	**66.1**	60.8	**1 333**	1 095
Momentum MoM Property Equity Fund	**95.4**	96.5	**1 185**	2 360
Momentum Equity Fund	**37.3**	38.8	**1 160**	1 503
Momentum SA Real Growth Property Fund	**100**	98.3	**942**	2 564
Momentum Inflation Linked Bond Portfolio	**99.9**	94.7	**881**	1 084
Momentum Focus 5 Fund of Funds	**69.3**	65.3	**827**	925
Momentum Macro Growth Fund	**100**	*	**778**	*
Momentum Rubix QI	**100**	100	**718**	841
Momentum Property Fund	**83.9**	83.9	**690**	1 346
Momentum Global Managed Fund IC Ltd	**78.3**	*	**677**	*
Momentum RCIS Multi-Managed ZAR Equity Hedge QI Hedge Fund	**99.6**	100	**649**	688
Momentum Value Equity Fund	**99.7**	99.0	**607**	738
Momentum RCIS Multi Managed ZAR Capi Alpha QI Hedge Fund	**99.4**	100	**555**	855
Momentum International Equity Feeder Fund	***	68.1	***	1 209
Momentum MF Global Moderate Fund	***	100	***	898
Momentum Global Cautious Fund IC Ltd Class A	***	77.0	***	618
Momentum RCIS ZAR Diversified QI Fund of Hedge Funds	***	100	***	615
FGAM Global Growth Fund IC Ltd	***	64.1	***	613
Momentum MoM Real Return Fund	***	100	***	580
Momentum MF International Equity	***	100	***	568
Total			**102 347**	96 284

1 Refer to Annexure I for more information on the restatements.

* This subsidiary was not considered to be significant in the prior year.

** This is a new investment for the current year.

*** This subsidiary is not considered to be significant in the current year.

Fund name	Domicile
Momentum GF Global Equity Fund	Luxembourg
Momentum MF Global Aggressive Fund	Luxembourg
Momentum GF Global Enhanced Index Fund	Luxembourg
Momentum MF Global Balanced Fund	Luxembourg
Momentum IF Global Emerging Markets Fund	Luxembourg
Momentum IF Global Fixed Income Fund	Luxembourg
Momentum Global Managed Fund IC Ltd	Guernsey
Momentum Global Growth Fund IC Ltd	Guernsey

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The Group considers certain CISs and other unit-linked investments to be structured entities. This annexure provides information on significant unconsolidated structured entities in which the Group holds an interest.

Collective investment schemes and other unit-linked investments

Unit-linked investments comprise local and foreign CISs as well as other unit-linked investments. CISs are categorised into property, equity or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event of no one category meeting this threshold, it is classified as a mixed asset class. Money market collective investment schemes are categorised as such.

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the Group is the policyholder of an investment contract issued by other insurance companies. Where the Group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2020 Rm	Restated 2019[1] Rm
Collective investment schemes		
Local and foreign	**147 880**	153 668
Equity	**92 455**	99 070
Interest-bearing	**24 561**	20 697
Property	**4 584**	5 836
Mixed	**23 444**	26 086
Money market	**2 505**	1 960
Commodity	**331**	19
Other unit-linked investments	**12 073**	11 237
Local and foreign		
Equity	**7 908**	6 404
Interest-bearing	**1 429**	1 214
Mixed	**2 507**	3 206
Commodity	**229**	413
At fair value through profit and loss: unit-linked investments	**159 953**	164 905

[1] Refer to Annexure I for more information on the restatements.

Detail on investments in associates at fair value through profit and loss

The Group holds a significant investment in the following associates at fair value through profit and loss:

	Carrying amount Rm	% interest held	Nature of relationship	Principal place of business
2020				
Momentum Harmony Portfolios Sterling Growth Fund	**264**	**12.5%**	**Standard investment**	**Luxembourg**
Momentum Africa Real Estate Fund	**198**	**32.5%**	**Standard investment**	**London**
Restated				
2019[1]				
Momentum Harmony Portfolios Sterling Growth Fund	211	9.1%	Standard investment	Luxembourg
Momentum Africa Real Estate Fund	213	31.8%	Standard investment	London

Summarised financial information relating to the associates above:

	Momentum Harmony Portfolios Sterling Growth Fund Rm	Momentum Africa Real Estate Fund Rm
2020		
Current assets	**18**	**369**
Non-current assets	**2 104**	**255**
Current liabilities	**10**	**11**
Non-current liabilities	**2 112**	**613**
Revenue	**30**	**12**
Losses	**(203)**	**(198)**
Restated		
2019[1]		
Current assets	32	290
Non-current assets	2 291	382
Current liabilities	5	3
Non-current liabilities	2 318	669
Revenue	20	9
Earnings	12	93

[1] Refer to Annexure I for more information on the restatements.

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the Group holds an interest.

Name of entity	Investment type	Nature and purpose of business	How is the entity financed?	Carrying amount[1] 2020 Rm	Carrying amount[1] 2019 Rm	Income received[2] 2020 Rm	Income received[2] 2019 Rm
Superdrive Investments (RF) Ltd	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	**649**	864	**42**	154
Thekwini Fund 14 (RF) Ltd	Floating rate note/vanilla bonds	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**533**	*	**34**	*
Ivuzi Investments Ltd	Floating rate note/fixed rate notes	Asset Backed Commercial Paper Programme set up by Rand Merchant Bank to acquire assets in various forms namely listed and unlisted bonds and loans	The special purpose vehicle runs a mismatch between assets and liabilities and funds itself by issuing notes to institutional clients	**	539	**	5
				1 182	1 403	**76**	159

* This listed securitisation was not considered to be significant in the prior year.

** This listed securitisation was not considered to be significant in the current year.

1 Included in securities at fair value through profit and loss in the statement of financial position. The carrying amount represents the Group's maximum exposure.

2 Consists of interest income and fair value gains/(losses).

3 The Group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

Abbreviations

A2X	A2X markets
ABHIL	Aditya Birla Health Insurance Ltd
AFI	Alexander Forbes Insurance
AFS	Annual Financial Statements
Aluwani	Aluwani Capital Partners (Pty) Ltd
ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
aYo	aYo Holdings Ltd
B-BBEE	Broad-based black economic empowerment
BSA	Bonus stabilisation accounts
CAE	Chief Audit Executive
CIC	Capital and Investment Committee
CIS	Collective investment scheme
CGU	Cash-generating unit
DAC	Deferred Acquisition Costs
DCF	Discounted cash flow
DRL	Deferred revenue liability
DPF	Discretionary participation features
DWT	Dividend withholding tax
EPF CV	Eris Property Fund Carry Vehicle (Pty) Ltd
ERM	Enterprise Risk Management
EV	Embedded value
FCTR	Foreign Currency Translation Reserve
FSCA	Financial Sector Conduct Authority
FSV	Financial Soundness Valuation
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit and loss
GCR	Global Credit Ratings
GIA	Group Internal Audit
GLTD	Group long-term disability table
HAFs	Heads of the Actuarial Function
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not yet reported
IBR	Incremental Borrowing Rate
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IFS	Insurer Financial Strength
IMA	Investment management agreement
ISDA	International Swaps and Derivatives Agreements
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange
KAM	Key audit matters
KTH	Kagiso Tiso Holdings (Pty) Ltd
LTIP	Long-term Incentive Plan
MAFR	Mandatory Audit Firm Rotation
MHC	Metropolitan Health Corporate (Pty) Ltd
MIH	Metropolitan International Holdings (Pty) Ltd
MMH/the Company	Momentum Metropolitan Holdings Ltd
MMH OP	MMH Outperformance Plan
MMI&O	Momentum Metropolitan Infrastructure and Operations (Pty) Limited
MML	Momentum Metropolitan Life Ltd
MMSI	Momentum Metropolitan Strategic Investments (Pty) Ltd
Momentum Metropolitan/ the Group	MMH and its subsidiaries
MSPS	Momentum Sales Phantom Shares
NSX	Namibian Stock Exchange
OTC	Over-the-counter
PA	Prudential Authority
PPFM	Principles and practices of financial management
PVP	Present value of future premiums
RDR	Risk discount rate
RMB	Rand Merchant Bank
RMI	Rand Merchant Insurance Holdings Ltd
ROEV	Return on Embedded Value
S&P	Standard & Poor's
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SARB	South African Reserve Bank
SAR	Share Appreciation Right
SCR	Solvency Capital Requirement
SENS	Stock Exchange News Service
UK	United Kingdom
VIF	Present value of in-force covered business
VOBA	Value of in-force business acquired
VNB	Value of new business
VWAP	Volume Weighted Average Price

Definitions

Adjusted net worth (ANW)

The ANW is the excess of assets over liabilities on the IFRS basis. Certain deductions for disregarded assets and impairments have been added back.

Advisory practice notes (APNs)

ASSA issues APNs applicable to various areas of financial reporting and practice that require actuarial input. The APNs are available on the ASSA website (www.actuarialsociety.org.za).

Annual premium equivalent (APE)

The APE is a common life industry measure of new business sales. It is calculated as annualised new recurring premiums plus 10% of single premiums.

Basis changes

Basis and other changes are the result of changes in actuarial assumptions and methodologies, reviewed at the reporting date and used in the reporting basis. These changes are reflected in the income statement as they occur.

Bonus stabilisation accounts (BSAs)

BSAs are the difference between the fund accounts of smoothed bonus business, or the discounted value of projected future benefit payments for with-profit annuity business, and the market values of the underlying assets. BSA is an actuarial term that constitutes either an asset or liability in accounting terms. The BSAs are included in contract holder liabilities.

Capitation contracts

Capitation contracts are those under which the Group accepts significant health benefit risk from medical schemes (the contract holder) by agreeing to indemnify the scheme against a defined set of the scheme benefits (the covered event) in return for a capitation fee.

Carry positions

Carry positions consist of sale and repurchase of assets agreements containing the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date.

Cash generating units (CGUs)

A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or groups of assets.

Cell captive

A cell captive is a contractual arrangement entered into between the insurer (referred to as the “cell provider” or “promoter”) and the cell shareholder whereby the risks and rewards associated with certain insurance activities accruing to the cell shareholder, in relation to the insurer, are specified. Cell captives allow clients to purchase cell owner ordinary shares (or a “cell”) in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses, investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

Cell captive arrangements include:

- “First-party” cell arrangements where the risks that are being insured relate to the cell shareholder’s own operations or operations within the cell shareholder’s group of companies; and
- “Third-party” cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.
- Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a profit share to the insured based on claims experience and related expenses at the end of the policy period.
- “Promoter cell” includes assets and liabilities of the Group shareholders. Assets, liabilities, and equity of the first and third-party cell arrangements are excluded.

Compulsory margins

Life insurance companies are required to hold compulsory margins in terms of the FSV basis prescribed in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. These margins are explicitly prescribed and held as a buffer to cover uncertainties with regard to the best-estimate assumptions used in the FSV basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Cost of required capital

The cost of required capital is the difference between the amount of required capital and the present value of future releases of this capital, allowing for future net of tax investment returns expected to be earned on this capital.

Covered business

Covered business is defined as long-term insurance business written by the life insurance subsidiaries (excluding Guardrisk); including individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating businesses.

Discretionary margins

In addition to compulsory margins, insurance companies may hold further discretionary margins where the HAFs believe that:

- the compulsory margins are insufficient for prudent reserving; or
- company practice or policy design justifies the deferral of profits.

Discretionary participation feature (DPF)

A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - the realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

Effective exposure

The exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account where applicable.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

Embedded value (EV)

An EV represents the discounted value of expected after-tax future profits from the current business. The EV is defined as:

- the ANW of covered and non-covered business;
- plus the VIF less the opportunity cost of required capital; and
- plus the write-up to directors' value of non-covered business.

EV earnings

Embedded value earnings are defined as the change in EV (after non-controlling interests) for the year, after adjustment for any capital movements such as dividends paid, capital injections and cost of treasury shares acquired or disposed of for the year.

Financial soundness valuation (FSV)

The FSV basis is prescribed by SAP 104 – Calculation of the value of the assets, liabilities and solvency capital requirement of long-term insurers – and uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence. For IFRS reporting purposes, this basis is used for the valuation of insurance contracts and investment contracts with DPF.

Definitions continued

Fund account

The fund account is the retrospective accumulation of premiums, net of charges and benefit payments at the declared bonus rates or at the allocated rate of investment return.

Investment variances

Investment variances represent the impact of higher/lower than assumed investment returns on after tax profits.

New business profit margin

New business profit margin is defined as the VNB expressed as a percentage of the PVP. New business profit margin is also expressed as a percentage of APE.

Non-covered business

Non-covered business includes the directors' valuations of the investment management entities, South African health operations, non-life insurance operations, the Guardrisk entities, as well as other non-insurance entities. The Group EV is also adjusted to allow for future holding company and international support expenses.

Normalised headline earnings

Normalised headline earnings comprise operating profit and investment income on shareholder assets. It excludes adjustments for MMH shares held by policyholder funds, the amortisation of intangible assets relating to business combinations as well as B-BBEE costs. It includes basis changes and investment variances.

Objective evidence of impairment

Objective evidence of impairment is related to the specific circumstances of each individual asset and can be the combined effect of several events. Objective evidence includes, but is not limited to:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in payment.
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset.

Open-ended instruments

The open-ended category includes financial instruments with no fixed maturity date as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

Prescribed officers

Prescribed officers as referred to in the Companies Act, 71 of 2008, are defined as follows – despite not being a director of a particular company, a person is a prescribed officer of the company if that person:

- exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company; or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.

The Group does not consider any employee that is not a director to be a prescribed officer as the functions of general executive control over significant portions of the business are performed by the executive directors.

Present value of future premiums (PVP)

The PVP is the present value of future premiums in respect of new business discounted using the RDR. The future premiums are net of reinsurance and are based on best-estimate assumptions such as future premium growth, mortality and withdrawal experience.

Present value of in-force covered business (VIF)

The gross VIF is the discounted present value of expected future after-tax profits as determined on the IFRS basis, in respect of covered business in force at the valuation date. The net VIF is the gross VIF less the cost of required capital. No account is taken of dividend withholding tax.

Related party transactions – key management personnel

Key management personnel are those persons, including close members of their families, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Reporting basis

Reporting basis is the basis on which the financial statements are prepared.

Required capital

Required capital includes any assets attributed to covered business over and above the amount required to back covered business liabilities whose distribution to shareholders is restricted.

Return on EV

Return on EV is the EV earnings over the period expressed as a percentage of the EV at the beginning of the period, adjusted for capital movements during the year.

Risk discount rate (RDR)

The RDR is the rate at which future expected profits are discounted when calculating the value of in-force business or the VNB. The RDR is determined based on the weighted average cost of capital of the Company. This has taken into account the sources of capital used to fund the covered business, ie shareholder equity and subordinated debt finance. The required return on equity was derived through application of the capital asset pricing model. The cost of debt financing was based on current financing costs.

Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Unit-linked investments

Unit-linked investments consist of investments in CISs, private equity fund investments and other investments where the value is determined based on the value of the underlying investments.

Unrated

The Group invests in unrated assets where investment mandates allow for this. These investments are, however, subject to internal credit assessments.

Useful life

Useful life is the period over which an asset is expected to be available for use by the Group.

Value of new business (VNB)

The VNB is the discounted present value of expected future after-tax profits from new business at point of sale less the cost of required capital at risk. No allowance is made for the impact of dividend withholding tax. Allowance is made for all expenses associated with underwriting, selling, marketing and administration incurred in the effort of obtaining new business.

Credit risk definitions

AAA

National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.

AA

National ratings denote a very strong credit risk relative to all other issuers.

A

National ratings denote a strong credit risk relative to all other issuers.

BBB

National ratings denote an adequate credit risk relative to all other issuers.

BB

National ratings denote a fairly weak credit risk relative to all other issuers.

B

National ratings denote a significantly weak credit risk relative to all other issuers.

CCC

National ratings denote an extremely weak credit risk relative to other issuers.

1 New IFRS standards and amendments

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the Group

- IASB revision of the Conceptual Framework for Financial Reporting (effective from annual periods beginning on or after 1 January 2020).
- IFRS 3 (Amendments) – Definition of a business (effective from annual periods beginning on or after 1 January 2020).
- IFRS 9, IAS 39 and IFRS 7 (Amendments) – Interest rate benchmark reform (effective from annual periods beginning on or after 1 January 2020).
- IAS 1 and IAS 8 (Amendments) – Definition of material (effective from annual periods beginning on or after 1 January 2020).
- IFRS 16 (Amendments) – Covid-19-related rent concessions (effective from annual periods beginning on or after 1 June 2020).
- IAS 1 (Amendments) – Classification of liabilities as current or non-current (effective from annual periods beginning on or after 1 January 2022[1]).
- IFRS 3 (Amendments) – Reference to the Conceptual Framework (effective from annual periods beginning on or after 1January 2022).
- IAS 16 (Amendments) – Proceeds before intended use (effective from annual periods beginning on or after 1 January 2022).
- IAS 37 (Amendments)– Costs of fulfilling a contract (effective from annual periods beginning on or after 1 January 2022).
- IFRS 17 – Insurance contracts (effective from annual periods beginning on or after 1 January 2023).

Improvements project amendments

- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2022).

[1] The IASB has issued an exposure draft proposing to defer the effective date of the Amendments to IAS 1 to 1 January 2023.

Management is currently assessing the impact of these amendments, but it is not expected to be significant other than detailed below.

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the Group.

IFRS 17 Insurance contracts

IFRS 17 will replace IFRS 4 on accounting for insurance contracts and will be effective for reporting periods starting on or after 1 January 2023. The effective date for the Group is 1 July 2023 (ie 30 June 2024 financial statements will be the first full year results presented on an IFRS 17 basis only and 31 December 2023 will be the first interim reporting period on this basis). Significant effort is required to enable the production of financial statements complying with the standard ahead of these dates, as it requires model and process development as well as data enhancements.

Developments across the main SA life licence have progressed in a number of areas and significant areas of uncertainty have been addressed. This is in part due to the changes in the final standard issued during June 2020. While the Group's initial efforts were focused on model development to accommodate the requirements of the standard, efforts have shifted to enable the production of product level income statements for a large group of products during the next financial year. Efforts to roll this out to other entities are under way, but did suffer some delays. These efforts are to a large extent coordinated by the Group, although some subsidiaries have also been driving their own implementation projects. The pace of the project will accelerate over the next two years. The extra year afforded us by the revised standard was partly absorbed by delays experienced during the 2020 calendar year. The Group is actively participating in a number of industry forums to ensure that the standard is interpreted and applied appropriately and consistently.

Apart from the efforts to mobilise as much production capacity as possible for IFRS 17 readiness, the Group will also need to systematically resolve some choices which impact on the long-term profit profile of the business during the next two years. These include:

- The calibration of the Group's fair value approach and where that would be applicable;
- The calibration of the risk adjustment.

Indications at this stage, for the products where the most analysis has been done, are that the Group will see a larger strain on profits in the first year of business being written.

The Group anticipates that for a number of product ranges, compulsory and discretionary margins may be released into equity.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the day that control is lost. All material subsidiaries have financial years ending on 30 June and are consolidated to that date. Subsidiaries with financial year-ends other than 30 June are consolidated using audited or reviewed results (where necessary) for the relevant period ended 30 June. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the Group. Separate disclosure is made of non-controlling interests. All intra-group balances and unrealised gains and losses on transactions between group companies are eliminated. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Initial measurement

The acquisition method of accounting is used to account for the acquisition of subsidiaries/business combinations by the Group. The cost of a business combination is the fair value of the assets given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). This includes assets or liabilities recognised from contingent consideration arrangements. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit and loss. Costs directly attributable to the business combination are expensed as incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest shareholders even if this results in the non-controlling interest shareholders having a deficit balance.

Disposals

If the Group loses control of a subsidiary company, the gain or loss on disposal is calculated as the difference between the fair value of the consideration received, and the carrying amount of the subsidiary's net assets and any non-controlling interest. Gains and losses on disposal of subsidiaries are included in the income statement as realised and fair value gains. Any gains or losses in other comprehensive income that relate to the subsidiary are reclassified to the income statement at the date of disposal.

Transactions with non-controlling interest shareholders

Transactions with non-controlling interest shareholders are treated as transactions with equity participants of the Group. Disposals to/acquisitions from non-controlling interest shareholders result in gains and losses for the Group that are recorded in equity. Any difference between any consideration paid/received and the relevant share acquired/sold of the carrying amount of the net assets of the subsidiary is recorded in equity.

Measurement – MMH separate financial statements

Investment in subsidiary companies are stated at cost less any impairment losses. The carrying amount of these investments is assessed annually for impairment indicators. If an indicator exists, the investment is impaired to the higher of the investment's fair value less costs to sell and value in use.

2.2 Associates

Associates are all entities over which the Group has *significant influence* but not control. The Group's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the Group.

Profits and losses resulting from transactions between group companies are recognised in the Group's results to the extent of the Group's unrelated interests in the associates. Gains and losses arising on the dilution of investments in associates are recognised in the income statement.

Measurement

Investments in associate companies are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the Group's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the Group's share of the associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition profit or loss and movements in other comprehensive income are adjusted against the carrying amount of the investments. The equity method is discontinued from the date that the Group ceases to have *significant influence* over the associate. When *significant influence* is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

2 **Consolidation** continued

2.2 **Associates** continued

Investments in CISs where the Group has *significant influence* are recognised at fair value through profit and loss and are not equity accounted where they back contract holder liabilities, based on the scope exemption in IAS 28 – Investments in associates for investment-linked insurance funds. Initial measurement is at fair value on trade date, with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the reporting date. Fair value adjustments on CISs are recognised in the income statement. The related income from these schemes is recognised as interest or dividends received, as appropriate.

Impairment

Under the equity method, the carrying amount is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount.

Measurement – MMH separate financial statements

Associated companies are carried at cost less impairment.

2.3 Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Measurement

Interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent. The financial statements have been rounded to the nearest R million.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, measured at fair value through profit and loss, are recognised as part of their fair value gain or loss.

Subsidiary undertakings

Foreign entities are entities of the Group that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in other comprehensive income. On disposal, such exchange differences are recognised in the income statement as part of net realised and unrealised fair value gains.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4 Intangible assets

4.1 Goodwill

Recognition and measurement

Goodwill represents the excess of the cost of a business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Subsequent to initial measurement, goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisition of subsidiaries is included in intangible assets whereas goodwill on acquisition of associates is included in investment in associates.

When the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergy of the combination in which the goodwill arose. CGUs to which goodwill has been allocated are assessed annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. An impairment loss is recognised whenever the carrying amount of the CGU exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Any impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets on a pro rata basis. Impairment losses on goodwill are not reversed.

4.2 Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the Group recognises an intangible asset representing the value of in-force business acquired (VOBA). VOBA represents the present value of future pre-tax profits embedded in the acquired insurance or investment with DPF contract business. The VOBA is recognised gross of tax, with the deferred tax liability accounted for separately in the statement of financial position.

Measurement

The fair value calculation of VOBA on acquisition is based on actuarial principles that take into account future premium and fee income, claim outgo, mortality, morbidity and persistency probabilities together with future costs and investment returns on the underlying assets. The profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies discontinue.

The asset is subsequently amortised over the expected life of the contracts as the profits of the related contracts emerge.

Impairment

VOBA is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary.

4.3 Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the Group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the Group expects to recognise the related revenue, which is between three and 10 years.

Impairment

The right is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount.

4 Intangible assets continued

4.4 Deferred acquisition costs (DAC)

On long-term investment business

Incremental costs that are directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an asset if the entity expects to recover them. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The asset represents the contractual right to benefit from receiving fees for providing investment management services, and is amortised over the policy term, as a constant percentage of expected gross profit margins (including investment income) arising from the contract or on a straightline basis. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period.

On non-life insurance business

Refer to the non-life insurance contracts section of the accounting policies.

Impairment

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

4.5 Brand and broker network

Brand and broker network intangible assets have been recognised by the Group as part of a business combination. The assets are recognised when they are separately identifiable, it is probable that the future economic benefits will flow to the Group and the assets have a cost or value that can be measured reliably.

Measurement

The brand and broker networks are initially measured at fair value. As there is generally no active market for these intangibles, the fair value is determined with reference to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, on the basis of the best information available. In determining this amount, the Group considers the outcome of recent transactions for similar assets, for example, the Group applies multiples reflecting current market transactions to factors that drive the profitability of the asset (such as operating profit and VNB).

Subsequently, the brand and broker networks are amortised over their expected useful lives using the straight-line method. The brands are amortised over 20 years and the broker networks over five to 20 years.

Impairment

The brand and broker networks are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, being the value in use.

4.6 Computer software

Recognition and measurement

Acquired computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected useful life of three to 10 years, which is assessed annually using the straight-line method.

Internally developed computer software

Costs directly associated with developing software for internal use are capitalised if the completion of the software development is technically feasible, the Group has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives, up to 10 years, using the straight-line method.

Costs associated with research or maintaining computer software programmes are recognised as an expense as incurred.

Impairment

Computer software not ready for use is tested for impairment annually. Computer software in use is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell and the value in use.

5 Owner-occupied properties

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the Group occupies a significant portion of the property, it is classified as an owner-occupied property.

Measurement

Owner-occupied properties are stated at revalued amounts, being fair value reflective of market conditions at the reporting date.

Fair value is determined using DCF techniques which present values the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio.

Increases in the carrying amount arising on revaluation of buildings are credited to a land and building revaluation reserve in other comprehensive income. Decreases that offset previous increases in respect of the same asset are charged against the revaluation reserve, and all other decreases are charged to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over five to 20 years. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Accumulated depreciation relating to these properties is eliminated against the gross carrying amount of the properties and the net amount is restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and the amount which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Disposals

When owner-occupied properties are sold, the amounts included in the land and buildings revaluation reserve are transferred to retained earnings.

6 Investment properties

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the companies of the Group. Investment properties include property under development for future use as investment property.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investment properties that are being redeveloped for continuing use as investment property, or for which the market has become less active, continue to be measured at fair value.

Undeveloped land is valued at fair value based on recent market activity in the area.

Transfers to and from investment properties

If an investment property becomes owner-occupied, it is reclassified under owner-occupied properties, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes, and vice versa.

6 **Investment properties** continued

Properties held under leases

Properties held under leases are classified as investment properties as long as they are held for long-term rental yields and not occupied by the Group. The initial cost of these properties is the lower of the fair value of the property and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses

Unrealised gains or losses arising on the valuation or disposal of investment properties are included in the income statement in net realised and unrealised fair value gains and losses. These fair value gains and losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

7 Financial assets

Classification

The Group classifies its financial assets in the following main categories:

- Financial assets at fair value through profit and loss, including derivative financial assets
- Financial assets at amortised cost

The classification of financial instruments is based on contractual cash flows characteristics and models through which financial instruments are managed (business model).

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to not account for the equity investments at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when its business model for managing those assets changes.

- **Debt instruments**
  There are three measurement categories into which debt instruments can be classified:

  – Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.
  – FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI.
  – FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured mandatorily at FVPL. The Group designates debt securities and funds on deposit and other money market instruments at FVPL upon initial recognition when it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise as a result of movements in related liabilities being recorded in profit or loss.

- **Equity instruments**
  The Group subsequently measures all equity investments at fair value. The Group's management has elected to not present fair value gains and losses on equity instruments in other comprehensive income. All fair value gains and losses on equity instruments are recognised in the income statement.

Recognition and measurement

A financial asset is recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the financial assets. These are recognised as Unsettled trades until the settlement date occurs. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition of the asset. Transaction costs that are not recognised as part of the financial asset are expensed in the income statement in net realised and unrealised fair value gains.

Financial assets at fair value through profit and loss is subsequently carried at fair value. Financial assets at amortised cost is recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment. Impairments are included in Depreciation, amortisation and impairment expenses in the statement of comprehensive income. Any gain or loss arising on derecognition of assets at amortised cost is recognised directly in the income statement and presented in net realised and unrealised fair value gains together with foreign exchange gains and losses.

7 **Financial assets** continued

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets at amortised cost, the Group determines at each reporting date whether there has been a significant increase in credit risk since initial recognition of the financial asset by assessing the likelihood or risk of default occurring since initial recognition based on all reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition. Where there is no significant increase in credit risk since initial recognition or for assets that have low credit risk at reporting date, a 12 month expected credit loss is recognised. Where a significant increase in credit risk since initial recognition occurred a lifetime expected credit loss is calculated.

The Group views financial assets at amortised cost to be low credit risk when there is a low risk of default and the borrower has the strong capacity to meet its contractual cash flow obligations in the near term.

Impairment losses on financial assets at amortised cost, other than impairments relating to amounts due from agents, brokers and intermediaries, are presented as net impairment losses within profit or loss. Impairment losses on amounts due from agents, brokers and intermediaries, are presented as part of sales remuneration within profit and loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Impairment – MMH separate financial statements

Intercompany loan impairment is calculated at each reporting date using probability of default and the loss given default rates. Probability of default rates considers historical defaults as well as forward looking estimates based on macro-economic factors obtained from rating agencies. Loans without repayment terms consider any senior external or internal loans which need to be repaid before the intercompany loan to determine a probability of default, since it reduces the liquid assets available to repay that intercompany loan. Management applies its own judgment, on an individual loan basis, to adjust the prescribed LGD to include forward-looking information. Balances are written off when there is no reasonable expectation of recovery.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. The Group also derecognises a financial asset when the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

When the Group has transferred its rights to receive cash flows from an asset or entered into a corresponding liability it evaluates if, and to what extent, it has retained the risks and rewards of ownership. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Realised and unrealised gains and losses

Financial assets at fair value through profit and loss

Realised and unrealised gains and losses arising from changes in the value of financial assets at FVPL are included in the income statement in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under investment income in the income statement.

Offsetting

Financial assets and liabilities were set off and the net balance reported in the statement of financial position where there was a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability was the same, and where the financial asset and liability were denominated in the same currency.

Scrip lending

The equities or bonds on loan by the Group, and not the collateral security, are reflected in the statement of financial position of the Group at year-end. Scrip lending fees received are included under fee income. The Group continues to recognise the related income on the equities and bonds on loan. Collateral held is not recognised in the financial statements unless the risks and rewards relating to the asset have passed to the Group.

8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including DCF and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative, subject to the offsetting principles as described under the financial assets accounting policies above.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging), or is based on a valuation technique whose variables include only observable market data.

When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the income statement but over the life of the transaction on an appropriate basis, or when the input becomes observable, or when the derivative matures or is closed out.

The subsequent fair value of exchange-traded derivatives is based on a closing market price while the value of OTC derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price. Changes in the fair value of derivative instruments are recognised immediately in the income statement within net realised and unrealised fair value gains and losses.

Embedded derivative liabilities are separated and fair-valued through income when they are not closely related to their host contracts and meet the definition of a derivative, or where the host contract is not carried at fair value.

9 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost, which approximates fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of change in value. Bank balances held to meet short-term cash commitments are included in funds on deposit and other money market instruments with a maturity of three months or less. Operating bank balances are included in bank and other cash balances.

10 Long-term and non-life insurance and investment contracts

The contracts issued by the Group transfer insurance risk, financial risk or both. As a result of the different risks transferred by contracts, contracts are separated into investment and insurance contracts for the purposes of valuation and profit recognition. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts only transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle:

- If the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through profit and loss) eg first-party cells. For these arrangements, only contract management fee income and investment income and net realised and unrealised fair value gains accruing to the promoter are included in the Group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

10 Long-term and non-life insurance and investment contracts continued

Classification of contracts continued

Insurance contracts

Insurance contracts are those under which the Group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is deemed significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

For *cell captive* business, insurance policies are issued in third-party *cell captive* structures or contingency policies. The Group also accepts insurance and reinsurance inwards risks directly, eg where the promoter cell shares in the underwriting experience of selected cell arrangements. All items relating to these arrangements are included in the Group's income statement and statement of financial position, except for contract management fees.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Contracts with DPF

The Group issues long-term insurance and investment contracts containing DPF. These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as long-term insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Long-term insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to long-term insurance contracts and investment contracts with DPF are measured in accordance with the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and solvency capital requirement of long-term insurers. The FSV basis is based on best estimate assumptions regarding future experience plus *compulsory margins* and additional *discretionary margins* for prudence and deferral of profit emergence. Margins are set at product level.

Assumptions used in the valuation basis are reviewed on a regular basis, most commonly annually, and any non-economic changes in estimates are reflected in the income statement as they occur. Economic changes in estimate are stabilised as they occur, except for negative changes that exceed available stabilisation reserves in which case the excess is reflected in the income statement and future positive changes are reflected in the income statement to the extent of any prior losses incurred. Where stabilisation reserves are held, they are reflected in the income statement according to a specified release pattern.

The valuation bases used for the major classes of contract liabilities, before the addition of the margins described under the heading of *compulsory and discretionary margins* below, are as follows:

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, BSAs are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and Group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported claims are disclosed in other payables.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

10 Long-term and non-life insurance and investment contracts continued

Long-term insurance contracts and investment contracts with DPF continued

Measurement continued

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit *compulsory margins* as required by SAP 104 – Calculation of the value of the assets, liabilities and solvency capital requirement of long-term insurers. *Discretionary margins* are held in addition to the *compulsory margins*. These *discretionary margins* are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design, and in line with the risks borne by the Group.

The main *discretionary margins* utilised in the valuation are as follows:

- For certain books of business which are ring-fenced per historic merger or take-over arrangements, liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the Group.
- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN 110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through profit and loss.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate for each insurance portfolio, the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present VOBA, is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP 104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the Group is entitled under reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

10 Long-term and non-life insurance and investment contracts continued

Long-term insurance contracts and investment contracts with DPF continued

Reinsurance contracts held continued

There are three types of reinsurance liabilities:

- The first consists of reinsurance liabilities which are payable to registered reinsurers, in terms of a reinsurance agreement and includes premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.
- The second type consists of reinsurance contracts which the Group has with third-party cell owners. The agreements in place with these cell owners are such that the cell owner acts as reinsurer to the Group for the business which the cell brings to the Group. The risks and rewards of insurance policies relating to these cells are passed on to the cell owner, and the Group retains no insurance risk relating to these policies on a net basis. The Group therefore has an obligation to pay the net results relating to the insurance business in the cell to the cell owner as a result of these agreements. This obligation is deemed to be a reinsurance arrangement and is disclosed as part of insurance contract liabilities.
- The third type consists of a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provides upfront funding to a cell within the Group, with the cell then repaying this funding over an agreed term. The liability associated with this repayment is disclosed as part of reinsurance contract liabilities and is valued consistently with the DCF approach used for insurance contract liabilities.

Impairment of reinsurance assets

If there is *objective evidence* that a reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method as that adopted for financial assets at amortised cost.

Long-term insurance premiums

Insurance premiums and annuity considerations receivable from long-term insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums is recognised when due. Receivables arising from insurance and investment contracts with DPF are recognised under insurance and other receivables.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

Insurance benefits and claims relating to long-term insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability and surrender claims are recognised when incurred. These claims also include claim events that occurred before the reporting date but have not been fully processed. Claims in the process of settlement are recognised in other payables in the statement of financial position. Maturity and annuity claims are recognised when they are due for payment. Outstanding claims are recognised in other payables. Contingency policy bonuses are included in claims in the income statement.

Reinsurance recoveries

Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on long-term insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the Group's contribution to their retirement and medical aid funds). These costs are expensed when incurred. The FSV basis makes implicit allowance for the recoupment of acquisition costs; therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

10 Long-term and non-life insurance and investment contracts continued

Investment contracts

The Group designates investment contract liabilities at fair value through profit and loss upon initial recognition as their fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment properties that are carried at fair value through profit and loss. The Group follows this approach because it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Measurement

The Group issues investment contracts without fixed terms and contracts with fixed terms and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through profit and loss.

For investment contracts without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the Group's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

A financial liability is recognised in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.

The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors relevant to a market participant, including the passing of time.

For investment contracts where investment management services are rendered and the contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded option within the investment contract liability. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

Deferred revenue liability

A DRL is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying amount of the DRL is recognised in revenue and falls within the scope of IFRS 15.

Deferred acquisition costs (DAC)

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

Non-life insurance contracts

Premiums

Non-life insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

10 Long-term and non-life insurance and investment contracts continued

Non-life insurance contracts continued

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs (DAC)

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out below:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for IBNR claims at year-end, using the percentages specified by class of business and development period as set out in the Short-term Insurance Act, 53 of 1998.

11 Financial liabilities

Recognition and measurement

The Group classifies its financial liabilities into the following categories:

- Financial liabilities at FVPL
- Financial liabilities at amortised cost

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

- **Financial liabilities at fair value through profit and loss**
  This category has two sub-categories: financial liabilities held for trading and those designated at FVPL at inception.

  A financial liability is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges. Derivatives held for trading are classified as mandatorily at fair value through profit and loss.

  Financial liabilities are classified as at fair value through profit and loss at inception if they are:

  – eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases; or
  – managed, with their performance being evaluated on a fair value basis; or
  – a financial instrument that includes a significant embedded derivative that clearly requires bifurcation.

A financial liability is recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Issues and settlements of financial liabilities are recognised on trade date, being the date on which the Group commits to issuing or settling the financial liabilities.

The fair value of financial liabilities quoted in active markets is based on current market prices. Alternatively, where an active market does not exist, fair value is derived from cash flow models or other appropriate valuation models allowing for the Group's own credit risk. These include the use of arm's-length transactions, DCF analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

11 **Financial liabilities** continued

Recognition and measurement continued

Financial liabilities, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below) and CIS liabilities (representing the units in collective investment schemes where the Group consolidates the collective investment schemes and is required to disclose the value of the units not held by the Group as liabilities) are managed, with their performance being evaluated on a fair value basis and designated at FVPL. These financial liabilities are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through profit and loss are included in the income statement in the period in which they arise. Changes in the fair value of the financial liability that relates to changes in own credit risk is recognised in other comprehensive income if it does not create an accounting mismatch. Interest on the callable notes and carry positions are disclosed separately as finance costs using the *effective interest rate method*.

Carry positions

Carry positions consist of sale and repurchase of assets agreements. These agreements contain the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities at fair value though income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments at FVPL.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the Group's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability *(carry positions)* carried at fair value where they are managed on a fair value basis.

Conversely, where the Group purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the Group, the consideration paid is included under financial assets carried at fair value where they are managed on a fair value basis.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the *effective interest rate method*.

- **Financial liabilities at amortised cost**
  Financial liabilities that are neither held for trading nor at fair value are measured at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the *effective interest rate method*.

  Convertible redeemable preference shares and convertible bonds

  Compound financial instruments issued by the Group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. At initial recognition, the fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The dividends on these preference shares are recognised in the income statement in finance costs.

  Other payables

  Other payables are initially carried at fair value and subsequently at amortised cost using the *effective interest rate method*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement. Changes in own credit risk allocated to other comprehensive income is not recognised in the income statement when derecognised, but rather transferred within equity.

12 Deferred income tax

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains, are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the capital gains effective rate, as it is assumed that the carrying amount will be recovered through sale.

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

13 Current taxation

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 20% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

14 Indirect taxation

Indirect taxes include various other taxes paid to central and local governments, including value added tax (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

15 Leases: accounting by lessee

From 1 July 2019, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

15 Leases: accounting by lessee continued

Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (ie the date the underlying asset is available for use). The Group mainly has leases for office buildings and IT equipment. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment. Right-of-use assets that are classified as owner-occupied properties or property and equipment are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets that are classified as investment properties are measured at fair value (refer to Investment properties accounting policy). The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets that are classified as owner-occupied properties and property and equipment are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Owner-occupied properties	50 years
Property and equipment	Five – 20 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (eg changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Financial liabilities at amortised cost.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (ie those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

Accounting policies applied until 30 June 2019

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the Group are classified as finance leases.

Measurement

- **Asset**
  Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.

- **Liability**
  The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the Group are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease. The Group recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which the termination takes place.

16 Leases: accounting by lessor

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

17 Contingent liabilities

Contingent liabilities are reflected when the Group has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

18 Employee benefits

Pension and provident fund obligations

The Group provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the Group. The defined benefit obligation is calculated annually, using the projected unit credit method. The liability balances have largely been settled and the plans are in the process of being closed.

Post-retirement medical aid obligations

The Group provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

Termination benefits

The Group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the Group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

The Group operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the Group measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

The Group recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

18 Employee benefits continued

Compensation plans valued on the projected unit credit method

The Group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the Group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable EV of a subsidiary company, and that will be used to settle the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

19 Assets and liabilities relating to disposal groups held for sale

Assets, liabilities or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets, liabilities or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of insurance and investment products, non-current assets held as investments for the benefit of policyholders are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The assets, liabilities or disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset, liability or disposal group at that date will be the lower of:

- its carrying amount before the asset, liability or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset, liability or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

20 Share capital

Share capital is classified as equity where the Group has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the Group are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included in equity.

Issue costs

Incremental external costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds. All other share issue costs are expensed.

Treasury shares

Treasury shares are equity share capital of the holding company held by subsidiaries, consolidated CISs and share trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from shareholder equity on consolidation until the shares are cancelled or reissued. If reissued, the difference between the carrying amount and the consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects, is included in share premium.

21 Dividends paid

Dividends paid to shareholders of the company are recognised on declaration date.

22 Puttable non-controlling interests

Puttable non-controlling interests represent put options granted to non-controlling interests of subsidiaries, entitling the non-controlling interests to dispose of their interest in the subsidiaries to the Group at contracted dates.

Recognition and measurement

A financial liability at fair value through profit and loss is recognised, being the present value of the estimated purchase price value discounted from the expected option exercise date to the reporting date. In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings.

The estimated purchase price is reconsidered at each reporting date and any change in the value of the liability is recorded in net realised and unrealised fair value gains in the income statement. Interest in respect of this liability is calculated using the *effective interest rate method* and recorded within finance costs.

23 Income recognition

Income comprises the fair value of services, net of value added tax, after eliminating income from within the Group. Income is recognised as follows:

23.1 Fee income

IFRS 15 sets out the principles of the timing of revenue recognition. Revenue is either recognised at a point in time or over time. Revenue is recognised over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If none of the above criteria is met, revenue is recognised at a point in time.

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the Group are recognised in the accounting period in which the services are rendered. Services are rendered over the expected duration of the contract, except for performance fees which are recognised at a point in time when the performance obligations are met. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered. Services are rendered over the expected duration of the contract.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered. Services are rendered over the expected duration of the contract.

Cell captive fee income includes management fees, which relates to the managing of the cell. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies and is recognised over the duration of the contract. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered. Scrip lending fees are recognised at a point in time. Policy administration services are rendered either at a point in time or over the duration of the contract depending on when the performance obligations are met.

23 **Income recognition** continued

23.2 Investment income

Interest income

Interest income is recognised in the income statement, using the *effective interest rate method* and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

Dividend income

Dividends received are recognised when the right to receive payment is established. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro rata number of shares, there is no change in economic interest of any investor and there is no economic benefit associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

24 Expense recognition

24.1 Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

24.2 Finance costs

Finance costs incurred on qualifying property assets are capitalised until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use. Capitalisation is ceased when substantially all activities necessary to prepare the asset for intended use. All other finance costs are recognised in the income statement, using the effective interest rate method, and taking into account the expected timing and amount of cash flows.

Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the effective interest rate method.

25 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker has been identified as the Group Executive Committee that makes strategic decisions. Refer to segmental report for more details.

Valuation techniques

The Group's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the Group's bi-annual reporting dates.

The valuation of the Group's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities *(level 1)*
- Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) *(level 2)*
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) *(level 3)*.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Instruments classified as level 1 have been valued using published price quotations in an active market and include the following classes of financial assets and liabilities:

- Local and foreign listed equity securities
- Stock and loans to government and other public bodies, excluding stock and loans to other public bodies listed on the JSE interest rate market
- Local and foreign listed and unlisted quoted collective investment schemes (this also refers to the related collective investment scheme liabilities)
- Derivative financial instruments, excluding OTC derivatives.

Critical accounting estimates and judgements

For venture capital fund investments that are classified as unit-linked investments, the Group applies the International Private Equity and Venture Capital (IPEV) valuation guidelines, which have been prepared with the goal that the derived fair value measurements are compliant with IFRS. The IPEV guidelines allow for adjustments post the valuation date for uncertainty related to time elapsing between the measurement dates of the fund manager and the investor, changes in market dynamics or other economic conditions, and facts or circumstances that may impact the valuation of start-up businesses. Management applies judgement if an adjustment is needed for any of these reasons.

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to note 6.7 for details of the instruments split into the different levels.

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
– Listed, local and foreign	DCF, earnings multiple, quoted prices	Cost of capital, earnings multiple, consumer price index, budgets, cash flow forecasts
Stock and loans to other public bodies		
– Listed, local	Published yield of benchmark bond	Nominal bond curve, real bond curve
– Listed, foreign	DCF, benchmarked against similar instrument with the same issuer	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread
– Unlisted	DCF	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread
Other debt securities		
– Listed, local	Published price quotations, DCF	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread
– Listed, foreign	Published price quotations, DCF	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread
– Unlisted	DCF	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread
Funds on deposit and other money market instruments		
– Listed	DCF, issue price (amortised cost)	Money market curve
– Unlisted	DCF	Money market curve, credit spread
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-scholes model (European options), binomial tree (American/Bermudan options), DCF	Nominal bond curve, swap curve, real bond curve, consumer price index, credit spread, volatility, forward equity, currency rates
Subordinated call notes (Liability)	Published yield quotations	Nominal bond curve, real bond curve
Carry positions (Liability)	DCF	Nominal bond curve, repo rates

There were no significant changes in the valuation methods applied since the prior year.

Information about fair value measurements using significant unobservable inputs *(level 3)*

Valuation techniques

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Securities at fair value through profit and loss				
Equity securities				
Foreign listed	Market pricing from publicly available data	Adjustments for low liquidity or inactivity	Liquidity discount: 0% to 30%	Adjustments would result in lower fair value
Unlisted	DCF	Risk adjusted discount rate	Equity risk premium: 4% to 8% Liquidity discount rate: 5% to 30% Nominal risk free: 6% to 10%	Higher discount rates would reduce fair value
	P/E ratio approach	P/E ratio or multiple	2.0 to 14.4 times	Higher multiple would result in higher fair value
	Sum of the parts	P/E ratios and discount rates	Equity risk premium: 4% to 8% Liquidity discount rate: 5% to 30% Nominal risk free: 6% to 10%	Higher multiple would result in higher fair value, higher discount rates would reduce fair value
Debt securities				
Stock and loans to government and other public bodies				
Unlisted	DCF	Discount rate	8.00% to 11.00% (2019: 8.00% to 11.00%)	The higher the discount rate, the lower the fair value of the assets
Other debt instruments				
Unlisted	DCF	Discount rate	8.28% to 9.85% (2019: 8.26% to 10.69%); 5.41% to 11.41% (2019: 8.43% to 11.55%)	The higher the discount rate, the lower the fair value of the assets

Information about fair value measurements using significant unobservable inputs *(level 3) (continued)*

Financial assets (continued)	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Funds on deposit and other money market instruments	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unit-linked investments				
Collective investment schemes				
Foreign unlisted or listed quoted	Quoted unit price multiplied by number of units held	Based on underlying assets/ liabilities credit spread, liquidity spread, discount rate, currency rate, consumer price index	Could vary significantly based on the assets and liabilities held by the investee	The higher the net asset value, the greater the fair value
Foreign unlisted unquoted	Unit price of underlying assets/ liabilities multiplied by number of units held	Based on underlying assets/ liabilities credit spread, liquidity spread, discount rate, currency rate, consumer price index	Could vary significantly based on the assets and liabilities held by the investee	The higher the net asset value, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
	Adjusted net asset value method	Distributions or net cash flows since last valuation Management applies judgement if an adjustment is required due to an inactive market	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation
Foreign unlisted or listed quoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value

Financial liabilities	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Investment contracts designated at fair value through profit and loss	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities at fair value through profit and loss				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	DCF	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value

There were no significant changes in the valuation methods applied since the prior year.

Valuation assumptions relating to outstanding MMH LTIP units at 30 June:

	Units granted during the current year						
	Retention units			Performance units			
2020	17th tranche[1]	18th tranche[1]	19th tranche[1]	17th tranche[1]	18th tranche[1]	19th tranche[1]	20th tranche[1]
Award date	01-Oct-17	01-Apr-18	01-Oct-18	01-Oct-17	01-Apr-18	09-Apr-18	01-Oct-18
Vesting date	01-Oct-20	01-Apr-21	01-Oct-21	01-Oct-20	01-Apr-21	31-Oct-21	01-Oct-21
Units granted (thousands)	443	8	9	470	35	56	9
Valuation assumptions include:							
Outstanding tranche period in years	0.25	0.75	1.25	0.25	0.75	1.34	1.25
Take-up rate on units outstanding	94%	94%	88%	94%	94%	88%	88%
Current vesting rate	100%	100%	100%	15%	15%	33%	33%
Share price at year-end	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61

	Units granted during the prior year						
	Retention units					Performance units	
Restated 2019[3]	15th tranche[1]	16th tranche[1]	17th tranche[1]	18th tranche[1]	19th tranche	15th tranche[1]	16th tranche[1]
Award date	01-Oct-16	01-Apr-17	01-Oct-17	01-Apr-18	01-Oct-18	01-Oct-16	01-Apr-17
Vesting date	01-Oct-19	01-Apr-20	01-Oct-20	01-Apr-21	01-Oct-21	01-Oct-19	01-Apr-20
Units granted (thousands)	128	4	230	4	240	134	7
Valuation assumptions include:							
Outstanding tranche period in years	0.25	0.75	1.25	1.75	2.25	0.25	0.75
Take-up rate on units outstanding	94%	94%	88%	88%	82%	94%	94%
Current vesting rate	100%	100%	100%	100%	100%	0%	0%
Share price at year-end	R18.97	R18.97	R18.97	R18.97	R18.97	R18.97	R18.97

1 This relates to dividend offers made during the year.

2 In terms of the MMH LTIP rules, the date at which the achievement of performance conditions is measured, is prior to the ultimate vesting date. After year 3 of the scheme, the measurement of performance and the vesting percentage in respect of all units is confirmed. Vesting and settlement then takes place one third on this date, one third a year thereafter, and one third two years thereafter

3 The number of units have been restated to only show the units granted and not the total units outstanding.

Vesting rate assumptions regarding performance units in the table above

As stated on page 101, the performance units in the MMH LTIP are subject to performance criteria.

There are currently two generations of MMH LTIPs in issue, the old MMH LTIPs awarded up to October 2018 and the latest LTIP tranche awarded from October 2019.

The performance criterion under the old MMH LTIP compares MMH's ROEV against the average risk-free rate of return over the vesting period. The ROEV target is "risk-free + 3%", with outperformance considered to be "risk-free + 6%". "Risk-free" in this context refers to the 10-year yield to maturity on RSA government bonds, averaged over the vesting period of three years. As at 30 June 2020, the liability for the LTIP issued in October 2017 was calculated assuming a 15% ex-gratia entitlement for units maturing in October 2020 which would otherwise have been forfeited. The ex-gratia vesting does not have a material impact on the MMH financial results. The calculation also assumed 33% vesting of units issued in 2018 (vesting in 2021 with settlement dates in 2021, 2022 and 2023). Actual vesting percentage for the 2018 MMH LTIP in 2021 will depend on the actual ROEV performance over the period and might differ from current estimates.

The October 2019 MMH LTIP tranche's performance criteria are weighted 50% to business unit specific targets and 50% to Group level targets. The Group level targets have three components, of which two are linked to normalised headline earnings growth over the vesting period, while the third is linked to MMH's Total Shareholder Returns (TSR) relative to its listed peers. Similarly, for business units, two of the three vesting conditions are based on cumulative normalised headline earnings over the vesting period, while a third component is based on a business unit specific financial measure. The MMH LTIP liability for the October 2019 MMH LTIP tranche as at 30 June 2020 was calculated assuming 67% of units issued in 2019 (vesting in 2022 with settlement dates in 2022, 2023 and 2024) will vest. This follows a recalibration of the performance criteria applicable to this tranche in light of the adverse impact of Covid-19 on the company's financial performance.

Units granted during the current year

Performance units			Deferred bonus units							
21st tranche[2]	22nd tranche[2]	23rd tranche[2]	2nd tranche[1]	3rd tranche[1]	4th tranche	5th tranche	6th tranche	7th tranche	8th tranche	9th tranche
01-Oct-19	01-Apr-20	06-Apr-20	01-Oct-18	01-Oct-18	01-Oct-19	01-Oct-19	01-Oct-19	01-Apr-20	01-Apr-20	01-Apr-20
01-Oct-22	01-Oct-22	06-Apr-23	01-Oct-20	01-Oct-21	01-Oct-20	01-Oct-21	01-Oct-22	01-Apr-21	01-Apr-22	01-Apr-23
10 956	251	69	121	122	2 559	2 559	2 559	29	29	29
2.25	2.25	2.76	0.25	1.25	0.25	1.25	2.25	0.75	1.75	2.75
82%	82%	82%	94%	88%	94%	88%	82%	94%	88%	82%
67%	67%	67%	100%	100%	100%	100%	100%	100%	100%	100%
R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61	R17.61

Units granted during the prior year

Performance units				Deferred bonus units		
17th tranche[1]	18th tranche[1]	19th tranche[1]	20th tranche	1st tranche	2nd tranche	3rd tranche
01-Oct-17	01-Apr-18	09-Apr-18	01-Oct-18	01-Oct-18	01-Oct-18	01-Oct-18
01-Oct-20	01-Apr-21	31-Oct-21	01-Oct-21	01-Oct-19	01-Oct-20	01-Oct-21
245	19	26	232	3 001	3 001	3 001
1.25	1.75	2.34	2.25	0.25	1.25	2.25
88%	88%	82%	82%	94%	88%	82%
0%	0%	100%	100%	100%	100%	100%
R18.97	R18.97	R18.97	R18.97	R18.97	R18.97	R18.97

The ex-gratia payment under the 2017 MMH LTIP and the recalibration of the 2019 MMH LTIP were introduced to offset some of the decline in the value of the incentive plans attributable to factors beyond management's control. Further detail on these changes to the incentive plans can be found in the Remuneration Report.

Compared to the ROEV assumptions used in the MMH LTIP liability calculation, an additional two percentage point increase in the future ROEV is not expected to result in any change in the MMH LTIP cost for MMH LTIP tranches in force at 30 June 2020. This is because the ROEV performance impacting the 2018 MMH LTIP currently falls below the threshold for vesting and would need as much as a 19% improvement for the performance hurdle to be met. As a result, taking into account historic performance to date (30 June 2020), the MMH LTIP liability is relatively insensitive to modest improvements in ROEV.

Valuation assumptions relating to outstanding MSPS units at 30 June:

	Units granted during the current year		
2020	**28th tranche**	**29th tranche**	**30th tranche**
Award date	01-Nov-19	01-Nov-19	01-Nov-19
Vesting date	01-Nov-22	01-Nov-23	01-Nov-24
Units granted (thousands)	191	197	197
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

2019	**25th tranche**	**26th tranche**	**27th tranche**
Award date	01-Nov-18	01-Nov-18	01-Nov-18
Vesting date	01-Nov-21	01-Nov-22	01-Nov-23
Units granted (thousands)	228	228	228
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

Valuation assumptions relating to outstanding MMH OP units at 30 June:

	Units granted during the prior year		
	Retention units		Performance units
2019	**1st tranche[1]**	**2nd tranche[1]**	**2nd tranche[1]**
Award date	05-Mar-15	05-Mar-15	05-Mar-15
Vesting date	01-Oct-18	01-Oct-19	01-Oct-19
Units granted (thousands)	3	2	14
Valuation assumptions include:			
Outstanding tranche period in years	N/A	0.25	0.25
Take-up rate on units outstanding	100%	100%	0%
Current vesting rate	94%	94%	94%
Share price at year-end	R18.97	R18.97	R18.97

[1] This relates to dividend offers made during the year. In terms of the rules of the MMH OP, although the vesting date is 1 October 2018, the settlement will only be in October 2019 on final vesting date.

The units granted during the current year were not outstanding as at 30 June 2020.

This scheme which was restricted to a few key employees, targeted a ROEV equal to the growth in nominal GDP + 6%. The scheme matured in 2019. The units which matured in October 2019 were forfeited as the threshold vesting criterion was not met.

Valuation assumptions relating to outstanding MMH SAR units at 30 June:

	Units granted during the prior year		
2019	**1st tranche**	**2nd tranche**	**3rd tranche**
Award date	01-Oct-18	01-Oct-18	01-Oct-18
Vesting date	01-Oct-21	01-Oct-22	01-Oct-23
Units granted (thousands)	7 658	7 658	7 658
Valuation assumptions include:			
Outstanding tranche period in years	2.25	3.25	4.25
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	82%	76%	70%
Share price at year-end	R18.97	R18.97	R18.97
Strike price	R16.80	R16.80	R16.80
Risk free rate	7%	7%	7%
Volatility rate	40%	40%	40%
Dividend yield	0%	0%	0%

There were no units granted during the current year.

The MMH SAR features three performance criteria measured over the vesting period. One third of the scheme will vest for each performance criterion that is met or exceeded.

Following the adverse impact of Covid-19, the Board Remuneration Committee agreed to extend the original vesting date and performance measurement period by 12 months, and to recalibrate the original vesting conditions. The scheme will now vest in 2022 (as opposed to 2021) with settlement dates in 2022, 2023 and 2024. The approved performance criteria are:

- Normalised headline earnings in F2022 must meet or exceed R3 200 million.
- Average ROEV over the vesting period to exceed the 10-year SA Government Bond rate (the risk-free rate) plus 3%.
- TSR over the vesting period to exceed the TSR of an equal-weighted index of MMH's main listed peers.

The earnings growth requirement was revised downward from 11% p.a. to an absolute target of R3 200 million. For the ROEV performance condition, the Remuneration Committee will retain the right to choose the exact methodology to allow for the adverse impact of Covid-19. Given that TSR measures relative performance against listed peers, there was no change made to the performance criteria other than the 12-month extension to the measurement period.

The SAR award specifies a strike price, which will determine the value of vested SARs as at the vesting date. A vested SAR is worth the greater of zero and the amount by which the MMH share price exceeds the strike price.

The SAR liability as at 30 June 2020 was calculated on an assumption that 63% of units issued in 2018 will vest. Actual vesting percentages in 2022 may deviate from this assumption.

Compared to the ROEV assumptions used in the SAR liability calculation, an additional increase in future ROEV of two percent would result in a higher vesting assumption of 66% and a resulting IFRS 2 cost of R1.1 million.

Tranches vested during the current or prior year

MMH LTIP: The 11th tranche was settled in October 2018 at R17.15 per share totalling R90.7 million.

MMH LTIP: The 12th tranche was settled in April 2019 at R16.44 per share totalling R2.2 million.

MMH LTIP: The 14th tranche was settled in September 2018 at R17.00 per share totalling R1.8 million.

MMH LTIP: The 15th tranche was settled in October 2019 at R17.96 per share totalling R165.8 million.

MMH LTIP: The 16th tranche was settled in April 2020 at R16.29 per share totalling R4.3 million.

MMH OPP: The first and second tranches was settled in October 2019 at R17.96 per share totalling R4.2 million.

MMH LTIP: Ad-hoc payments totalling R6.0 million (2019: R5.5 million).

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R224 million (2019: R122 million) for the Group and is disclosed under employee benefit expenses in note 23.

Directors' remuneration

The Group's executive directors are contracted as full-time, permanent employees, with the exception of the CEO who is currently on a fixed term contract. Notice periods range from one to three months' written notice. Bonus payments and the vesting of long-term incentives that are in place at the time of an individual's termination of service are subject to the rules of the relevant incentive scheme, subject to the discretion of the Remuneration Committee based on recommendations by the CEO.

Non-executive directors, including the Chairman and Lead Independent Director, receive a fixed annual fee that is inclusive of all Board and Committee attendance, as well as all other services performed on behalf of the Group. The Group pays for all travelling and accommodation expenses in respect of Board meetings.

	Salary		Short-term incentive payments		Long-term incentive payments		Medical aid contribution	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000
HP Meyer[1]	**6 756**	7 033	**3 025**	1 050	**345**	–	**–**	–
J Marais	**4 042**	3 820	**2 050**	675	**209**	–	**55**	51
R Ketola	**3 772**	3 447	**2 138**	1 925	**2 208**	–	**122**	141
NAS Kruger[2]	**–**	–	**–**	–	**–**	–	**–**	–
Executive directors	**14 570**	14 300	**7 213**	3 650	**2 762**	–	**177**	192

	Total fees	
	2020 R'000	2019 R'000
F Jakoet	**981**	994
FJC Truter	**2 321**	2 223
PJ Moleketi[3]	**338**	808
JJ Njeke	**2 126**	2 197
JC van Reenen	**926**	952
KC Shubane	**991**	865
L von Zeuner[4]	**–**	1 447
JD Krige[5]	**285**	791
SA Muller[6]	**–**	1 139
V Nkonyeni	**1 024**	766
P Cooper	**1 160**	1 136
SC Jurisich	**1 570**	1 595
L de Beer[7]	**1 330**	292
LM Chiume[7]	**1 492**	366
MS Moloko[7]	**1 692**	280
SL McPherson[7]	**854**	248
KG Legoabe-Kgomari[8]	**806**	–
DJ Park[9]	**805**	–
Non-executive directors	**18 701**	16 099

1 Salary amount after deduction of unpaid leave to the amount of R0.6 million.

2 Stepped down as Executive Director and Group CEO in February 2018. The contractual payment relates to an exit payment made in February 2018 in terms of a mutual separation agreement, along with his monthly salary and any LTIP vesting entitlements until 31 December 2018. LTIP benefits vesting beyond this date were forfeited.

3 Resigned November 2019.

4 Resigned February 2019.

5 Retired November 2019.

6 Retired November 2018.

7 Appointed March 2019.

8 Appointed June 2019.

9 Appointed December 2019.

	Retirement fund contribution		Contractual payment		Total remuneration		Value of shares granted		Value of total units outstanding at year-end	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000
	–	–	–	–	10 126	8 083	21 010	11 406	30 769	40 589
	224	212	–	–	6 580	4 758	11 425	6 587	14 127	9 877
	235	278	–	–	8 475	5 791	11 597	7 911	16 047	13 976
	–	–	–	5 506	–	5 506	–	–	–	–
	459	490	–	5 506	25 181	24 138	44 032	25 904	60 943	64 442

Directors' shareholding in MMH

Listed shares	Direct Beneficial '000	Indirect Beneficial '000	Total 2020 '000	Total 2019 '000
Executive directors				
HP Meyer	248	390	638	638
J Marais	189	–	189	189
Non-executive directors				
FJC Truter	44	433	477	477
PJ Moleketi[1]	–	–	–	112
JC van Reenen	–	144	144	144
KC Shubane	78	7	85	85
JD Krige[1]	–	–	–	408
P Cooper	292	150	442	442
SC Jurisich[2]	0	–	0	0
	851	1 124	1 975	2 495

[1] Stepped down and retired respectively in November 2019.

[2] 169 shares held in MMH in both the current and prior year.

Listed shares	Direct Beneficial '000	Indirect Beneficial '000	Total '000
Shareholding of directors who stepped down/retired in F2020			
PJ Moleketi	–	112	112
JD Krige	–	408	408
	–	520	520
Shareholding of directors who retired in F2019			
SA Muller	50	–	50

IFRS 16 TRANSITIONAL ADJUSTMENTS

The Group has applied IFRS 16 retrospectively from 1 July 2019, using the modified retrospective approach. Comparatives are not restated.

IFRS 16 replaces IAS 17 Leases, as well as the following interpretations: IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases - Incentives and SIC 27 Evaluating the substance of transactions involving the legal form of a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will no longer classify leases as operating or finance leases. Instead, a lessee will recognise a right-of-use asset and a corresponding liability at the inception of most leases. Lessor accounting has remained mainly unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the majority of leases were accounted for as operating leases. Lease payments made were recognised in the income statement on a straight-line basis over the term of the lease. On adoption of IFRS 16, the Group recognised lease liabilities of R361 million in relation to the leases measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 July 2019. The lease liability is included within Financial liabilities at amortised cost on the statement of financial position.

Right-of-use assets of R339 million was recognised at 1 July 2019. The cost of the right-of-use assets were measured retrospectively based on the lease liability measured at lease commencement date, using the discount rate based on the lessee's incremental borrowing rate (IBR) at 1 July 2019. The weighted average IBR applied to lease liabilities recognised on 1 July 2019 was 9.5%. R313 million is disclosed as part of Owner-occupied properties, R20 million is disclosed as part of Investment properties and R6 million is disclosed as part of Property and equipment on the statement of financial position. The right-of-use assets disclosed as part of Investment properties have been measured at fair value on 1 July 2019. The difference between the lease liability and right-of-use asset was recognised as an adjustment to retained earnings. There was also a R3 million increase in deferred tax.

Practical expedients used as allowed under IFRS 16:

- IFRS 16 has been applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.
- The Group has not reassessed existing contracts as to whether they contain a lease as defined under IFRS 16.
- Leases ending within 12 months of the transition date will continue to be accounted for under IAS 17.

Depreciation on the right-of-use asset and finance costs on the lease liability is recognised in the income statement, instead of the operating lease expense as per IAS 17.

The lease liability as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019, as follows:

	Rm
Operating lease commitments disclosed as at 30 June 2019	404
Commitments relating to short-term leases	(40)
Commitments relating to low-value assets	(2)
Operating lease liability before discounting	362
Discounting using weighted average incremental borrowing rate as at 1 July 2019	(84)
Operating lease liability before discounting	278
Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	76
Exchange differences	7
Lease liability as at 1 July 2019	361

Assets and liabilities held for sale

At 30 June 2020	2020 Rm	Restated 2019[1] Rm
Assets		
Intangible assets (refer to note 2.7 and 2.8)	6	–
Owner-occupied properties (refer to note 3.1)	1	–
Property and equipment	4	6
Financial assets at fair value through profit and loss	67	692
Financial assets at amortised cost	2	6
Reinsurance contract assets (refer to note 7)	3	21
Deferred income tax (refer to note 13)	8	–
Insurance and other receivables	38	–
Current income tax assets	2	–
Cash and cash equivalents	98	264
Total assets	**229**	989
Liabilities		
Insurance contract liabilities		
Long-term insurance contracts (refer to note 8.1.1)	30	262
Non-life insurance contracts (refer to note 8.2.1 and 8.2.2)	35	–
Investment contracts		
– with DPF (refer to note 9.1)	–	173
– designated at fair value through profit and loss (refer to note 9.2.1)	–	224
Financial liabilities at amortised cost	3	–
Reinsurance contract liabilities (refer to note 12)	11	–
Employee benefit obligations	1	–
Other payables	70	88
Current income tax liabilities	1	–
Total liabilities	**151**	747

1 Refer to Annexure I for more information on the restatements.

As part of its plan to exit a number of African countries, the Group classified entities in three of these African countries, as held for sale in the prior year. Two of the three countries have since been exited. The exit of the third country has not yet been completed due to regulatory approval outstanding. This approval is not within the Group's control. The Group is taking the necessary steps to obtain the approval. Entities in two additional countries have been classified as held for sale in the current year.

The Group's interest in the assets and liabilities of these countries has been classified as held for sale in the statement of financial position at 30 June 2020. This judgement was done based on the facts and circumstances which existed at that date when a formal assessment was made of whether the countries should be classified as held for sale. The Group is satisfied that it meets all the criteria required in order to classify these countries as held for sale. The sales will take effect via cash sales and is expected to occur once regulatory approval is given.

In order to recognise the entities as held for sale, the respective entities were written down to the lower of fair value less costs to sell and the Group's share of the net asset value of the entity. As a result, an impairment loss of R52 million (2019: R87 million) has been recognised which has been included as part of depreciation, amortisation and impairment expenses in the income statement. Refer to note 22.

The following restatements were made to the consolidated statement of financial position and income statement for the following periods:

Statement of financial position	Before restatement Rm	Decluttering[1] Rm	Held for sale[2] Rm	CIS consolidation[3] Rm	IFRS 4[4] Rm	Property[5] Rm	After restatement Rm
as at 30 June 2019						–	
Intangible assets	9 665	–	–	–	(32)		9 633
Owner-occupied properties	4 629	–	–	–	–	(931)	3 698
Investment properties	8 103	–	–	–	–	931	9 034
Financial assets at fair value through profit and loss	401 093	20 763	(111)	(443)	–	–	421 302
Investments in associates at fair value through profit and loss	18 314	(18 314)	–	–	–	–	–
Derivative financial assets at fair value through profit and loss	2 449	(2 449)	–	–	–	–	–
Financial assets at amortised cost	17 106	–	(6)	–	(27)	–	17 073
Insurance and other receivables	5 259	–	–	–	27	–	5 286
Assets relating to disposal groups held for sale	608	–	381	–	–	–	989
Cash and cash equivalents	27 147	–	(264)	178	–	–	27 061
Insurance contract liabilities							
Long-term insurance contracts	(116 166)	–	126	–	(4 212)	–	(120 252)
Investment contracts							
– with DPF	(23 800)	–	–	–	3 227	–	(20 573)
– designated at fair value through profit and loss	(251 053)	–	–	–	1 016	–	(250 037)
Financial liabilities at fair value through profit and loss	(40 753)	(2 318)	–	265	–	–	(42 806)
Derivative financial liabilities at fair value through profit and loss	(2 318)	2 318	–	–	–	–	–
Other payables	(25 064)	–	87	–	1	–	(24 976)
Liabilities relating to disposal groups held for sale	(534)	–	(213)	–	–	–	(747)
as at 1 July 2018							
Intangible assets	10 515	–	–	–	(31)	–	10 484
Owner-occupied properties	3 864	–	–	–	–	(865)	2 999
Investment properties	8 614	–	–	–	–	865	9 479
Financial assets at fair value through profit and loss	395 146	14 293	–	223	–	–	409 662
Investments in associates at fair value through profit and loss	11 383	(11 383)	–	–	–	–	–
Derivative financial assets at fair value through profit and loss	2 910	(2 910)	–	–	–	–	–
Financial assets at amortised cost	6 020	–	–	–	(21)	–	5 999
Insurance and other receivables	4 962	–	–	–	21	–	4 983
Cash and cash equivalents	25 812	–	–	(11)	–	–	25 801
Insurance contract liabilities							
Long-term insurance contracts	(109 194)	–	–	–	(5 436)	–	(114 630)
Investment contracts							
– with DPF	(24 550)	–	–	–	3 644	–	(20 906)
– designated at fair value through profit and loss	(247 861)	–	–	–	1 822	–	(246 039)
Financial liabilities at fair value through profit and loss	(37 200)	(2 255)	–	(212)	–	–	(39 667)
Derivative financial liabilities at fair value through profit and loss	(2 255)	2 255	–	–	–	–	–
Other payables	(14 304)	–	–	–	1	–	(14 303)

Income statement for the year ended 30 June 2019	**Before restatement Rm**	**Decluttering[1] Rm**	**Held for sale[2] Rm**	**CIS consolidation[3] Rm**	**IFRS 4[4] Rm**	**Property[5] Rm**	**After restatement Rm**
Insurance premiums	51 974	–	–	–	(483)	–	51 491
Insurance premiums ceded to reinsurers	(15 356)	–	–	–	663		(14 693)
Fee income						–	
Contract administration	2 754	–	–	–	(117)	–	2 637
Investment income						–	
Other investment income	20 793	–	–	(49)	–	–	20 744
Net realised and unrealised fair value gains	1 439	–	–	131	–	–	1 570
Insurance benefits and claims	(34 751)	–	–	–	(168)	–	(34 919)
Insurance claims recovered from reinsurers	8 169	–	–	–	(203)	–	7 966
Change in actuarial liabilities and related reinsurance							
Change in long-term insurance contract liabilities	(6 282)	–	–	–	760	–	(5 522)
Change in investment contracts with DPF liabilities	588	–	–	–	(417)	–	171
Fair value adjustments on investment contract liabilities	(9 107)	–	–	–	(37)	–	(9 144)
Fair value adjustments on collective investment scheme liabilities	492	–	–	(64)	–	–	428
Sales remuneration	(6 078)	–	–	–	(1)	–	(6 079)
Other expenses	(7 415)	–	–	(18)	3	–	(7 430)
Earnings for year	2 410	–	–	–	–	–	2 410
Statement of cash flows for the year ended 30 June 2019							
Cash utilised in operations	(15 185)	–	–	189	–	–	(14 996)
Cash resources and funds on deposit at beginning	25 812	–	–	(11)	–	–	25 801
Cash resources and funds on deposit at end	27 147	–	–	178	–	–	27 325

1 Investments in associates at fair value through profit and loss and Derivative financial assets at fair value through profit and loss are now included within Financial assets at fair value through profit and loss. Derivative financial liabilities at fair value through profit and loss are now included within Financial liabilities at fair value through profit and loss. These assets and liabilities are all recognised at fair value and are not managed differently from one another, and therefore this change assists in decluttering of the financial statements. 30 June 2019 and 1 July 2018 have been restated accordingly.

2 At 30 June 2019, the current assets and liabilities of the entities classified as held for sale were not reclassified to the disposal groups held for sale line items on the statement of financial position. 30 June 2019 has been restated accordingly.

3 A reassessment of control over collective investment schemes under IFRS 10 resulted in additional funds that are managed by asset managers owned by the Group being consolidated and all funds that are managed by external asset managers being unconsolidated. In addition, at 30 June 2019, the cross-holding in collective investment schemes was understated by R1.3 billion. 30 June 2019 and 1 July 2018 have been restated accordingly.

4 Products in Momentum Life that provide a guarantee to return premiums on death were not previously included in the assessment of insurance risk and were incorrectly accounted for as Investment contracts designated at fair value through profit and loss as well as Investment contracts with discretionary participation features (DPF). Reclassifying these products as insurance products is the driver for the increase in Insurance contract liabilities. A second, separate correction was that Investment contracts with DPF (including those recognised within Metropolitan Life) have been re-assessed so that only those with significant discretion are included in this classification. This only affected the balance between Investment contracts with and without DPF, both which ultimately reflect increases due to the first effect. A third, separate correction relates to some of the third party cells in Guardrisk Life Ltd, which do not have significant insurance risk but were previously disclosed as part of Insurance contract liabilities. These liabilities have been reallocated to Investment contracts designated at fair value through profit and loss to correctly reflect the nature of the risks. 30 June 2019 and 1 July 2018 have been restated accordingly.

5 The Group reclassified a portion of the property on 102 Rivonia Road from Owner-occupied properties to Investment properties as this assessment had not previously been performed for each portion of the building that could be sold separately or leased out separately under a finance lease. 30 June 2019 and 1 July 2018 have been restated accordingly.

Analysis of assets managed and/or administered[1]	2020 Rm	Restated 2019[2] Rm
Managed and/or administered by Investments		
Financial assets	**418 560**	423 774
Momentum Manager of Managers	**69 999**	70 885
Momentum Investment Consultants	**7 971**	6 226
Momentum Collective Investments	**83 767**	85 344
Momentum Asset Management	**154 980**	169 265
Momentum Global Investments	**62 143**	57 250
Momentum Alternative Investments	**7 027**	7 152
Momentum Securities	**32 673**	27 652
Properties – Eris Property Group	**17 723**	23 030
On-balance sheet	**7 883**	8 242
Off-balance sheet	**9 840**	14 788
Momentum Wealth linked product assets under administration	**169 551**	160 806
On-balance sheet	**110 132**	104 753
Off-balance sheet	**59 419**	56 053
Managed internally or by other managers within the Group (on-balance sheet)	**94 348**	82 952
Managed by external managers (on-balance sheet)	**14 459**	16 051
Properties managed internally or by other managers within the Group or externally	**4 604**	4 682
Momentum Corporate – cell captives on-balance sheet	**23 078**	18 013
Total assets managed and/or administered	**742 323**	729 308
Managed and/or administered by Investments		
On-balance sheet	**208 095**	230 229
Off-balance sheet	**210 465**	193 545
	418 560	423 774
Admin and brokerage assets	**100 402**	113 154
Other assets	**318 158**	310 620
	418 560	423 774

1 Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.

2 Refer to Annexure I for more information on the restatements.

Net funds received from clients[1]	Gross single inflows Rm	Gross recurring inflows Rm	Gross inflow Rm	Gross outflow Rm	Net inflow/ (outflow) Rm
12 mths to 30.06.2020					
Momentum Life	570	8 896	9 466	(9 093)	373
Momentum Investments	23 333	734	24 067	(22 658)	1 409
Metropolitan Life	1 060	6 025	7 085	(5 435)	1 650
Momentum Corporate	3 015	13 182	16 197	(15 685)	512
Non-life Insurance	3 782	9 745	13 527	(4 984)	8 543
Momentum Metropolitan Africa	772	3 926	4 698	(2 518)	2 180
Long-term insurance business fund flows	32 532	42 508	75 040	(60 373)	14 667
Off-balance sheet fund flows					
Managed and/or administered by Investments			94 430	(91 642)	2 788
Properties – Eris Property Group			432	(5 380)	(4 948)
Momentum Wealth linked product assets under administration			7 871	(9 131)	(1 260)
Total net funds received from clients			177 773	(166 526)	11 247
12 mths to 30.06.2019					
Momentum Life	418	8 795	9 213	(9 725)	(512)
Momentum Investments	20 505	534	21 039	(26 759)	(5 720)
Metropolitan Life	1 121	5 931	7 052	(5 804)	1 248
Momentum Corporate	8 390	12 601	20 991	(15 763)	5 228
Non-life Insurance	2 084	8 081	10 165	(4 893)	5 272
Momentum Metropolitan Africa	553	4 139	4 692	(2 802)	1 890
Long-term insurance business fund flows	33 071	40 081	73 152	(65 746)	7 406
Off-balance sheet fund flows					
Managed and/or administered by Investments			69 711	(74 739)	(5 028)
Properties – Eris Property Group			3 570	(2 295)	1 275
Momentum Wealth linked product assets under administration			6 589	(8 632)	(2 043)
Total net funds received from clients			153 022	(151 412)	1 610

[1] Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.

Additional information

Analysis of assets backing shareholder excess	2020 Rm	%	2019 Rm	%
Equity securities	462	2.0	356	1.4
Preference shares	825	3.7	1 223	5.3
Collective investment schemes	1 036	4.6	872	3.8
Debt securities	6 366	28.2	6 892	29.9
Properties	3 843	17.1	3 854	16.7
Owner-occupied properties	1 766	7.9	3 146	13.7
Investment properties	2 077	9.2	708	3.1
Cash and cash equivalents and funds on deposit	7 402	32.8	7 882	34.2
Intangible assets	6 055	26.9	5 977	26.0
Other net assets	1 630	7.2	909	3.9
	27 619	122.5	27 965	121.5
Redeemable preference shares	(254)	(1.1)	(254)	(1.1)
Subordinated redeemable debt	(4 431)	(19.6)	(4 431)	(19.2)
Treasury shares held on behalf of contract holders	(397)	(1.8)	(260)	(1.1)
Shareholder excess per reporting basis	22 537	100.0	23 020	100.0

Number of employees	2020	2019
Indoor staff	9 915	9 566
SA	8 829	8 275
International	1 086	1 291
Field staff	6 352	6 208
Momentum Life and Investments	1 127	1 052
Metropolitan Life	3 865	3 561
International	1 360	1 595
Total	16 267	15 774

SHAREHOLDER PROFILE

Shareholder	Number of share-holders	% of issued share capital	Shares held (million)
Non-public			
Directors	7	0.1	2
Kagiso Tiso Holdings (Pty) Ltd	1	5.4	81
RMI Holdings Ltd	1	26.8	401
Government Employees Pension Fund	6	7.5	112
Public			
Private investors	16 067	3.4	51
Pension funds	237	3.5	52
Collective investment schemes and mutual funds	1 551	51.2	768
Banks and insurance companies	48	2.1	32
Total	17 918	100.0	1 499

An estimated 409 million shares (2019: 365 million shares) representing 27.3% (2019: 24.4%) of total shares are held by foreign investors.

Size of shareholding	Number of share-holders	% of total share-holders	Shares held (million)	% of issued share capital
1 – 5 000	15 438	86.2	12	0.8
5 001 – 10 000	792	4.4	6	0.4
10 001 – 50 000	858	4.8	19	1.3
50 001 – 100 000	246	1.4	18	1.2
100 001– 1 000 000	454	2.5	150	10.0
1 000 001 and more	130	0.7	1 294	86.3
Total	17 918	100.0	1 499	100.0

Beneficial owners	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	26.8
Government Employees Pension Fund	112	7.5
Off The Shelf Investments 108 (Pty) Ltd	81	5.4
Total	594	39.7

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2020, are disclosed.

	2020	2019
12 months		
Value of listed shares traded (rand million)	**13 442**	12 461
Volume of listed shares traded (million)	**722**	716
Shares traded (% of average listed shares in issue)	**50**	49
Trade prices		
Highest (cents per share)	**2 278**	1 987
Lowest (cents per share)	**1 326**	1 500
Last sale of year (cents per share)	**1 761**	1 897
Percentage (%) change during year	**(7)**	7
Percentage (%) change – life insurance sector (J857)	**(31)**	8
Percentage (%) change – top 40 index (J200)	**(4)**	1
30 June		
Price normalised headline earnings (segmental) ratio	**17.3**	9.3
Dividend yield % (dividend on listed shares)	**2.3**	3.7
Dividend yield % – top 40 index (J200)	**3.5**	3.1
Total shares issued (million)		
Ordinary shares listed on JSE	**1 498**	1 498
Treasury shares held by subsidiary for shareholders	**(27)**	(27)
Treasury shares held on behalf of contract holders	**(23)**	(14)
Basic number of shares in issue	**1 448**	1 457
Convertible redeemable preference shares[1]	**–**	28
Diluted number of shares in issue	**1 448**	1 485
Convertible redeemable preference shares[1]	**28**	–
Treasury shares held on behalf of contract holders	**23**	14
Diluted number of shares in issue for normalised headline earnings purposes[2]	**1 499**	1 499
Market capitalisation at end (Rbn)[3]	**26**	28

1 On a diluted basis, the KTH preference shares are anti-dilutive in the current year. For diluted headline earnings and earnings, these preference shares have therefore been ignored in accordance with IAS 33. Normalised headline earnings treats the preference shares as if they were ordinary equity. This treatment is consistent with how the preference shares were treated in prior years.

2 The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

3 The market capitalisation is calculated on the fully diluted number of shares in issue.

SHAREHOLDER DIARY

Financial year-end	30 June 2020	
Reporting	Interim results	5 March 2020
	Trading update for the 9 months to March 2020	21 May 2020
	Announcement of year-end results	9 September 2020
	Annual report published	9 September 2020
	Trading update for the 3 months to September 2020	24 November 2020
	Annual general meeting	26 November 2020

ADMINISTRATION

MOMENTUM METROPOLITAN HOLDINGS LTD

Group Company Secretary and registered office
Gcobisa Tyusha
268 West Avenue
Centurion
Telephone: +27 12 673 1931
gcobisa.tyusha@mmltd.co.za

Investor relations
investorrelations@mmltd.co.za

Company registration
2000/031756/06

Internet address
http://www.momentummetropolitan.co.za

Auditors
Ernst & Young Inc.

Share codes
JSE – MTM
A2X – MTM
NSX – MMT

Sponsor – South Africa
Merrill Lynch South Africa (Pty) Ltd

Transfer secretaries – South Africa
Link Market Services SA (Pty) Ltd
13th Floor
19 Ameshoff Street
Braamfontein
2001
PO Box 4844, Johannesburg 2000

Sponsor – Namibia
Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia
Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue
Burg Street Entrance
Windhoek, Namibia
PO Box 2301, Windhoek, Namibia

Debt sponsor
Rand Merchant Bank