



MMI HOLDINGS

**Report by the Statutory Actuary of
MMI Group Limited**

**on the Section 37 Transfer of the Ashburton
and FNB Life Businesses from MMI Group
Limited**

to FirstRand Life Assurance Limited

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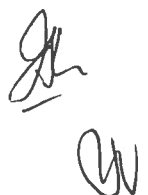
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1. Introduction

- 1.1 The Ashburton Business and FNB Life Business, collectively defined in this report as the “Business” is in the process of being transferred from MMI Group Limited (“MMI Group”) to FirstRand Life Assurance Limited (“FirstRand Life”) in terms of Sections 37 and 38 of the Long-Term Insurance Act 1998 (“Section 37”).
- 1.2 The proposed transfer of the Business (“the Transfer”) from MMI Group to FirstRand Life is contained in a sale agreement concluded by the parties on 5 April 2016. The effective date of the Transfer is 1 July 2015 for actuarial valuation purposes. It is anticipated that the actual transfer of the Business will take place after 30 June 2016, after approval by the Registrar of Long-term Insurance and the Competition Authorities have been obtained in respect of the Transfer.
- 1.3 I have prepared this report in my capacity as statutory actuary of MMI Group.
- 1.4 The purpose of this report is to express an opinion from the perspective of the statutory actuary of MMI Group on the likely effect of the Transfer on the following:
- The extent to which the security of the policyholders of the Business and other existing policyholders of MMI Group is adequately safeguarded; and
 - Whether the reasonable benefit expectations of the policyholders of the Business and other existing policyholders of MMI Group are adversely affected by the Transfer.
- 1.5 This report is addressed to the directors of MMI Group. It will be made available to policyholders of MMI Group, the Financial Services Board (“FSB”), the Registrar of Long-term Insurance and the independent actuary appointed by the FSB to review the Transfer (if applicable). The report will also be available for public inspection.
- 1.6 This report considers the position of the policyholders of the Business and other existing policyholders of MMI Group. The report by the statutory actuary of FirstRand Life considers the position of the existing policyholders of FirstRand Life.
- 1.7 This report is set out under the following headings:
- Section 2: Background information of the companies and a summary of my opinion;
 - Section 3: Overview of the Transfer;
 - Section 4: Security of policyholders’ benefits;
 - Section 5: Impact of the Transfer on policyholders’ reasonable benefit expectations;
 - Section 6: Impact of the Transfer on different interested parties;
 - Section 7: Operational matters with regard to policyholder communication;
 - Section 8: Conditions precedent;
 - Section 9: Conclusion;

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- Appendix A: Product definitions of the Business transferred; and
- Appendix B: Scope of the Business transferred as per the sale agreement

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2. Overview and Summary Opinion

MMI Group History

- 2.1 MMI Group is a wholly owned subsidiary of MMI Holdings Limited (“MMI Holdings”) and is a registered long-term insurance company incorporated under the laws of the Republic of South Africa. MMI Group was formed through the merger of the Momentum Group Limited (“Momentum”) and Metropolitan Life Limited (“Metropolitan”) long-term insurance licenses in 2010. Momentum provided credit life, funeral and other specified life insurance products, collectively known as the “FNB Life Business”, to the client base of FirstRand Bank Limited (“FRB”).
- 2.2 The FNB Life Business was fully reinsured from MMI Group to Momentum Ability Limited (“MAL”), a cell captive long-term insurance subsidiary of MMI Group of which FirstRand Investment Holdings (“FRIHL”) is a cell shareholder.
- 2.3 The Ashburton Business written on the MMI Group long-term insurance license consists of Endowment and Living Annuity products. Ashburton Investment Holdings Limited (“Ashburton”) is a wholly owned investment management company of FirstRand and utilises the long-term insurance license of MMI Group to provide the above-mentioned products to its client base. The Directors of MMI Group and FirstRand Life now wish to transfer the Business from MMI Group to FirstRand Life pursuant to FirstRand Life being issued its own long-term insurance licence and have concluded a sale agreement setting out the terms and conditions on which this will occur.

Qualifications and Experience

- 2.4 I joined Momentum in January 2001 and have been in the employment of Momentum and MMI Group since then, apart from a position as consulting actuary at Quindiem Consulting between 2007 and 2009. I am a fellow of the Institute of Actuaries (FFA), having qualified in 2003 and a fellow of the Actuarial Society of South Africa (FASSA). My primary regulator is the Actuarial Society of South Africa (“Actuarial Society”). I am also an FRM (Financial Risk Management) certificate holder from the Global Association of Risk Professionals.
- 2.5 I was appointed as statutory actuary of MMI Group Limited in January 2012.

Professional Guidance

- 2.6 In the preparation of this report I have been guided by Advisory Practice Note (“APN”) 108 and Standard Actuarial Practice Note (“SAP”) 901 issued by the Actuarial Society and the Section 38 transfer guidelines issued by the FSB.

Opinion

2.7 It is my opinion that:

- The proposed terms of the Transfer are actuarially sound;
- The security of the policyholders of the Business and existing policyholders of MMI Group is adequately safeguarded;
- The rights and reasonable benefit expectations of the policyholders of the Business and existing MMI Group policyholders are not adversely affected;
- The Transfer will not adversely affect the operational conduct of the divisions in MMI Group; nor the FirstRand Life divisions that will assume responsibility for the administration of the Business

2.8 It is therefore my opinion that the Transfer will not prejudice the policyholders of the Business and existing MMI Group policyholders.

2.9 The opinion is dependent on certain commitments by FirstRand Life as described in Section 4 of this report and it is recommended that the approval of the Transfer be made conditional on the fulfilment of these commitments.

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3. Overview of the Transfer

Background to the Transfer

- 3.1 This section of the report provides background to the Transfer.
- 3.2 MMI Group provides a comprehensive range of long-term insurance and investment products and services to its client base in South Africa. The client base includes individuals, small to large-sized organisations and government institutions. MMI Group is adequately capitalised under the current and future anticipated regulatory regimes.
- 3.3 FirstRand Life is a newly established long-term insurance company in South Africa and it started writing life insurance products from 1 July 2015.
- 3.4 The Effective Date of the Transfer is 1 July 2015 ("Effective Date").
- 3.5 The Business to be transferred from MMI Group to FirstRand Life is categorised by product type in the table below, with a description of each product category provided in Appendix A. The numbers shown in the table exclude current assets and liabilities.

Product Type	Statutory Policyholder Liabilities, Gross of Reinsurance at 30 June 2015 (R'm)
Risk Products (FNB Life Business):	
Personal Accident, Hospital Cash and Lifestyle Protector	17
Funeral	25
Credit Life and Cover for Life	124
Investment Products (Ashburton Business):	
Individual and Corporate Endowments	91
Living Annuities	1 179
Total	1 436

Structure of the Transfer

- 3.6 The assets and liabilities of the Business will be transferred from MMI Group to FirstRand Life on the closing date, as specified in the sale agreement. The closing date is subject to the fulfilment or waiving of the suspensive conditions outlined in the sale agreement. The scope of the assets and liabilities to be transferred from MMI Group to FirstRand Life is defined in the sale agreement and an extract of this is disclosed in Appendix B.

FNB Life Business

- 3.7 The reinsurance agreement between MMI Group and MAL will be terminated on the closing date and as a result the liabilities and assets will be transferred between these two licensed entities. This includes an “incurred but not reported” (“IBNR”) policyholder liability held in respect of the FNB Life Business for the expected claims that have been incurred but not yet reported and the asset backing the IBNR liability; and an outstanding claims payable liability and its corresponding backing asset (“current asset and liability”).
- 3.8 The IBNR policyholder liability and backing asset, together with the current asset and liability, will be transferred from MMI Group to FirstRand Life as part of the Transfer and forming part of the Business. The physical assets that are transferred consist of cash and near-cash instruments.
- 3.9 The treatment of the cell arrangement between MAL and FRIHL falls outside the scope of this report.

Ashburton Business

- 3.10 The assets and liabilities that will be transferred in respect of the Ashburton Business consist of linked policyholder liabilities and their matching assets. These assets are classified as “Collective Investment Schemes” and are maintained by nominees, and the relevant nominee mandates form part of the Business subject to the Transfer. No other assets or liabilities are held in respect of the Ashburton Business.

Impact of the Transfer

- 3.11 The assets and liabilities to be transferred from MMI Group to FirstRand Life will have a zero net impact on the balance sheet of both MMI Group and FirstRand Life.
- 3.12 MMI Group will continue to conduct the Business during the period leading up to the closing date. Therefore, the value of the assets and liabilities transferred from MMI Group to FirstRand Life on the closing date will most likely differ from the value of the assets and liabilities as at the Effective Date. MMI Group’s delivery obligation on the closing date will be limited to delivering the assets and liabilities that constitute the Business as at the closing date.
- 3.13 MMI Group’s tax specialists have confirmed that the Transfer will have the following tax implications on the policyholder and corporate tax funds of MMI Group:
- The transfer price for the Business, as stipulated in the sale agreement, will be subject to Capital Gains Tax (“CGT”) payable by MMI Group in the corporate fund;
 - The transfer of FNB Life Business will not create a tax obligation in the individual and corporate policyholder funds as the assets transferred are cash and near-cash instruments and do not attract CGT;



- The transfer of Ashburton Business will create a tax obligation in the individual policyholder fund as capital gains on the assets transferred do attract CGT. Even though the underlying assets won't be sold but merely transferred from one legal entity to another, the change of ownership from MMI Group to FirstRand Life creates a deemed disposal tax obligation. The impact from a tax perspective is similar to the tax obligation created by the sale of the underlying assets. The CGT triggered by the Transfer will be funded by the FirstRand Life shareholder (i.e. FirstRand) and hence will not be charged against Ashburton policyholders at the time of transfer. This implies that gross assets and liabilities will be transferred to FirstRand Life and that the policyholders will only be liable for CGT once underlying investments are switched, their policies reach maturity or they surrender their policies. This ensures that the policyholders of the Ashburton Business are transferred in the same position they would have been in had the Transfer not occurred. Management of FirstRand has confirmed in writing that they will fund the CGT costs triggered by the transfer and that the policyholders of the Ashburton Business will be unaffected by the transfer.

- 3.14 The transfer of the Business will increase the regulatory capital requirement (i.e. CAR) of FirstRand Life from R10m to R179m. This will necessitate a capital injection of R242m into FirstRand Life to ensure that it maintains its target capital coverage ratio of 1.5 to 2.0 times CAR. FirstRand Limited has confirmed in writing that they will make the capital injection required to ensure that FirstRand Life meets its target capital coverage ratio prior to the transfer of the Business.
- 3.15 As per clause 15.8 of the sale agreement, any costs arising as a result of the Transfer will be borne by FirstRand Life and not the policyholders of the Business. The management of FirstRand Life have confirmed that this will be the case.



4. Policyholder Security

4.1 The security of the policyholders of the Business and other existing policyholders of MMI Group is dependent on the financial position of MMI Group and FirstRand Life, which is primarily a function of two important elements:

- Adequate reserving in respect of policyholder liabilities, including appropriate allowance for future uncertainty *via* the inclusion of both compulsory and discretionary margins, and
- Additional shareholder capital held in excess of liabilities as a buffer against future adverse experience. The adequacy of shareholder capital held can be measured in a number of ways, including current and future regulatory capital requirements (i.e. CAR and SCR) and economic capital requirements.

Reserves and Margins

4.2 The policyholder liabilities of the Business, including compulsory and discretionary margins, are calculated according to all relevant accounting and actuarial regulatory and professional guidance; including the International Financial Reporting Standards for insurance contracts and financial instruments, SAP 104 issued by the Actuarial Society of South Africa and the Long Term Insurance Act 1998. This is the case for both MMI Group and FirstRand Life, before and after the Transfer respectively.

Statutory Capital Adequacy Requirements

4.3 I have evaluated the security of the policyholders of the Business and other existing MMI Group policyholders before and after the implementation of the Transfer by considering the following:

- The results of the statutory valuation of MMI Group as at 30 June 2015 before implementing the Transfer (using the Long-Term Quantitative Return of MMI Group);
- The results of the pro forma statutory valuation of MMI Group, adjusted to reflect the position immediately after implementing the Transfer as at 1 July 2015 (but before any allowance for a purchase consideration in terms of the sale agreement); and
- The results of the pro forma statutory valuation of FirstRand Life, adjusted to reflect the position immediately after implementing the Transfer as at 1 July 2015 and allowing for an additional capital injection of R242m by FirstRand Limited to FirstRand Life.

Solvency Position (R'm)	MMI Group <i>Before Transfer</i> 30 June 2015	MMI Group <i>After Transfer</i> 1 July 2015	FirstRand Life <i>After Transfer</i> 1 July 2015
Value of Assets	365 435	364 140	1 762
Value of Liabilities	349 402	348 107	1 463
Statutory Surplus	16 033	16 033	299
CAR	5 810	5 810	179
Capital Adequacy Cover Ratio	2.8	2.8	1.7

- 4.4 The excess of assets over liabilities of MMI Group covered the CAR 2.8 times before the Transfer and 2.8 times on a pro forma basis after the Transfer. These ratios reduce to 2.5 times after allowing for the dividends declared post 30 June 2015. The statutory surplus remains unchanged after the Transfer because the assets transferred are equal to the liabilities transferred.
- 4.5 The pro forma excess of assets over liabilities of FirstRand Life after the Transfer cover the CAR 0.32 times if no allowance is made for the R242m injection. However FirstRand Life has indicated that it will hold capital equal to the maximum of 2.0 times OCAR and 1.5 times TCAR and has undertaken to capitalise the licence to this level.

Economic Capital Requirements

- 4.6 The economic capital requirement of MMI Group is quantified using internal capital projection models. The internal capital models are used to determine and confirm the most appropriate capital levels for covered business.
- 4.7 The economic capital requirement of FirstRand Life is determined as a multiple of their CAR.
- 4.8 I have compared the excess of assets over liabilities on the statutory basis to the economic capital requirement for MMI Group before the Transfer at 30 June 2015 and on a pro forma basis for both MMI Group and FirstRand Life immediately after implementing the Transfer as at 1 July 2015 (and allowing for planned capital injections of FirstRand Limited to FirstRand Life). The comparisons show that both MMI Group and FirstRand Life are adequately capitalised after the Transfer.

Solvency Assessment and Management ("SAM")

- 4.9 I have also considered the impact of the Transfer on the solvency position of MMI Group under the SAM regulatory regime. SAM is the new solvency regime for South African insurers and is anticipated to be implemented in 2017.
- 4.10 The SAM balance sheet and capital requirements (i.e. SCR) were assessed for MMI Group before the Transfer as at 30 June 2015 and on a pro forma basis immediately after implementing the Transfer as at 1 July 2015. This was done using the results of the SAM Comprehensive Parallel Run that was performed for the annual financial period ending 30 June 2015. The comparisons show that MMI Group's solvency position is satisfactory on a SAM basis after the Transfer. While full SAM calculations have not yet been performed on the transferring business for FirstRand Life the statutory actuary of FirstRand Life has considered the likely impact and concluded that the SAM Solvency Capital requirement would also be met for FirstRand Life (after allowing for capitalising the licence as described above).

Specific Reserving Matters

- 4.11 There are no specific reserving matters that are likely to impact on the policyholders of the Business and the other existing policyholders of MMI Group.

Covenants

- 4.12 There are restrictions imposed on the investment of the capital held by MMI Holdings, which arise from the covenants attached to some of the financial liabilities held in the MMI Holdings' shareholders' portfolio. For example, the MMI Holdings convertible preference shares stipulate a minimum amount that should be invested in liquid instruments. Certain policy contracts also contain covenants about capital adequacy.
- 4.13 The CAR cover of MMI Group immediately after implementing the Transfer as at 1 July 2015 will not result in any breaches of these requirements or in an increased likelihood of a breach. The MMI Group covenants are therefore not affected by the Transfer.

Dividend policy

- 4.14 The MMI Holdings dividend policy is broadly to grow the dividend in line with the growth in core headline earnings. In "normal" times, i.e. when earnings per share is greater than core headline earnings per share ("CHEPS"), MMI Holdings aims for a dividend cover of around 1.5 times basic CHEPS.

- 4.15 No formal dividend policy has been articulated for the long-term insurance subsidiaries of MMI Holdings. Dividends by the life insurance subsidiaries (e.g. MMI Group) take account of affordability and economic capital requirements, as well as MMI Holdings' needs to meet its dividend policy.
- 4.16 The Transfer is not expected to have any impact on the dividend policy of MMI Holdings or future dividends paid by MMI Group.

Conclusion

- 4.17 When considering the security of policyholders, the test is whether the solvency of MMI Group after the Transfer provides adequate security. Similarly, the solvency of FirstRand Life after the Transfer should provide adequate protection for the policyholders of the FNB Life and Ashburton businesses.
- 4.18 The pro forma statutory excess of assets over liabilities of MMI Group after the Transfer covers CAR adequately and also comfortably exceeds the economic capital requirements as at 30 June 2015. This is also the case if the dividends paid after 30 June 2015 is taken into account. Furthermore, the pro forma statutory excess of assets over liabilities of FirstRand Life after the Transfer also covers CAR adequately and comfortably exceeds the economic capital requirements as at 30 June 2015, on condition that a capital injection of R242m is made prior to the transfer of the Business which is expected to occur after 30 June 2016. This injection is necessary to recapitalise the FirstRand Life license to meet minimum regulatory and internal economic capital requirements. In my opinion the pro forma capital position of MMI Group and FirstRand Life (after allowing for a R242m capital injection) immediately after implementing the Transfer as at 1 July 2015 provides adequate security to meet the future contractual obligations to existing policyholders of MMI Group and policyholders of the Business respectively, as well as any claims of creditors.
- 4.19 An examination of economic capital and SAM results for MMI Group leads to the conclusion that none of these measures indicates an unsatisfactory state of solvency post transfer.
- 4.20 Therefore I conclude that the Transfer will not prejudice the security of the policyholders of the Business and other existing MMI Group policyholders.



5. Policyholders' Reasonable Benefit Expectations

5.1 In order to determine whether the reasonable benefit expectations of the policyholders of the Business will be satisfied after the Transfer, I considered the following with regard to FirstRand Life:

- The adequacy of their governance framework and structures;
- The adequacy of their operational capabilities, with specific focus on actuarial, risk, finance, administration and client service functions; and
- The likely impact on policyholder premiums and benefits of the Business as a result of the Transfer.

5.2 The basis of my assessment is to determine whether the policyholders of the Business would be in a worse position after the Transfer, compared to their position immediately before the Transfer. I have also considered the impact of the Transfer on the existing policyholders of MMI Group to determine whether the Transfer would put them in a worse position, compared to their position immediately before the Transfer.

Governance Structures

5.3 The protection of policyholders' reasonable benefit expectations is dependent on management's commitment to look after the interests of policyholders. The commitment of management to the fair treatment of policyholders of MMI Group can be demonstrated by the governance committees that have been established to ensure the fair treatment of policyholders.

5.4 The Board, the Fair Practices Committee, management and the Statutory actuary of MMI Group are aware of their duty to ensure at all times that the reasonable benefit expectations of the various classes of MMI Group's policyholders are not unfairly prejudiced, with specific attention given to the entitlements and expectations of discretionary participating policyholders. The Transfer from MMI Group to FirstRand Life will not dilute this duty, or the ability to exercise it in respect of the existing policyholders of MMI Group.

5.5 The roles and responsibilities of the governance committees of FirstRand Life are similar to that of MMI Group. These board sub-committees, as confirmed to me by the management of FirstRand Life, which are (amongst others) responsible for the fair treatment and protection of policyholders' interests, are illustrated in the table below, along with their MMI equivalents:



MMI Group	FirstRand Life
Audit Committee	Audit and Risk Committee
Actuarial Committee	Actuarial and Product Committee
Risk, Capital and Compliance Committee	Balance Sheet Management Committee
Fair Practices Committee	

- 5.6 The equivalent of the responsibilities carried out by the Fair Practices Committee of MMI Group is performed by the Actuarial and Product Committee of FirstRand Life in respect of the business written by FirstRand Life.
- 5.7 The functions of the committees currently assuming responsibility for the fair treatment and security of the FNB Life and Ashburton policyholders are expected to continue under the governance structure of FirstRand Life.

Operations, Administration, Client Service and Communication

- 5.8 The majority of the operational functions of the FNB Life Business were transferred to FirstRand in 2013 and are currently incorporated in FirstRand Life. Therefore, the Transfer of the FNB Life Business is not expected to affect the operational capabilities or client service functions of MMI Group. Furthermore, because these operational functions have already been embedded into FirstRand Life, the operational and client service functions supporting the FNB Life Business are expected to remain unaffected by the Transfer.
- 5.9 With regard to the Ashburton Business, the majority of the operational capabilities and client service functions are performed by Ashburton as part of the agreements stipulated in paragraph 2.4. Ashburton uses MMI Group's long-term insurance license to provide the existing policies to its client base whilst performing most of the operational and client service functions with its internal resources. Therefore, the transfer of the Ashburton Business is not expected to have an impact on the operational capabilities and client service functions of MMI Group or FirstRand Life and policyholders should therefore be unaffected by the Transfer in their interactions with Ashburton. FirstRand Life's commitment to fund the CGT of Ashburton policyholders does place an additional administrative burden on FirstRand Life to track this amount over time.

Investment Policy

- 5.10 The investment policy of MMI Group will not change as a result of the Transfer to FirstRand Life.
- 5.11 The investment policy of the FNB Life Business is to match the IBNR policyholder liability with assets that are cash and near-cash instruments. This investment policy will not change

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as a result of the Transfer to FirstRand life. The Ashburton policies are classified as linked products and the assets underlying the linked policies are therefore held at all times and will be unaffected by the Transfer.

Investment Charges

- 5.12 The investment charges applicable to the existing policyholders of MMI Group will not change as a result of the Transfer of the Business to FirstRand Life.
- 5.13 FirstRand Life management has confirmed that no changes will be made to the investment charges of the Ashburton policies as a result of the Transfer to FirstRand Life. In addition, the Ashburton policies will remain with the same investment manager and in the same investment funds as before the Transfer. Investment charges are currently not applicable to the FNB Life Business.

Premiums, Benefits, Expenses and Tax

- 5.14 The premiums and benefits of existing policyholders of MMI Group will not change as a result of the Transfer to FirstRand Life. The expense allocation methodology for MMI Group currently excludes the policies of the FNB Life Business for expense apportionment and therefore the Transfer will not alter the expense charges for existing policyholders of MMI Group.
- 5.15 MMI Group currently benefits from the expense relief generated by the new business expenses of the FNB Life Business when determining policyholder tax. This current and future expected benefit will be forfeited with the transfer of the FNB Life Business and will result in a higher tax cost in the policyholder funds of MMI Group. However, the benefit forfeited is limited to one year's expense relief due to the introduction of the new tax legislation for insurance risk business, with effect from 1 July 2016. This new tax legislation removes the benefit of expense relief in respect of the FNB Life Business when determining policyholder tax. The expense relief benefit forfeited by MMI Group, due to the transfer of the FNB Life Business, will be for the account of the MMI Group shareholder, i.e. MMI Holdings and will not have any adverse impact on the solvency of MMI Group. The Transfer will not result in any other changes to the tax charges born by the existing policyholders of MMI Group.
- 5.16 The transfer of the Ashburton Business will not affect the premiums or benefits of existing policyholders of MMI Group. Furthermore, due to the linked nature of the Ashburton Business and the binder functions performed by Ashburton on behalf of MMI Group, the transfer of the Ashburton Business to FirstRand Life will not affect the expense allocation



methodology of MMI Group and subsequent expense charges to the existing policyholders of MMI Group.

- 5.17 Management of FirstRand Life has confirmed that there will be no changes to the current premiums, benefits and expense charges of the FNB Life and Ashburton Businesses as a result of the Transfer to FirstRand Life. FirstRand Life Management has also confirmed that the CGT charge in respect of the Ashburton Business, referred to paragraph 3.13, will be funded by the FirstRand Life shareholder (i.e. FirstRand) and will be recovered from the Ashburton policyholders on the basis that would have applied had the Transfer not occurred. This will place policyholders in the same position they would have been had the Transfer not occurred. The Transfer will not result in any other changes to the tax charges born by the policyholders of the Business.

Early Termination Values

- 5.18 The surrender terms, penalties and charges applicable to the products underlying the policies of the existing policyholders of MMI Group will not change as a result of the Transfer to FirstRand Life.
- 5.19 FirstRand Life management has confirmed that the surrender terms, penalties and charges applicable to the Ashburton Business will not change as a result of the Transfer to FirstRand Life. Early termination values are currently not applicable to the FNB Life Business.

Conclusion

- 5.20 In conclusion, the existing reasonable benefit expectations of the policyholders of the Business and other existing policyholders of MMI Group will not be compromised as a result of the Transfer.

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6. Effect of Transfer on Different Interested Parties

6.1 I have also taken the following considerations into account from an MMI Group perspective:

- Whether the Transfer is likely to balance fairly the interests and rights of existing policyholders and other interested parties; and
- Whether any particular class of policyholder or other interested party could be adversely affected by the implementation of the Transfer.

6.2 The parties considered in this report are:

- Existing creditors other than policyholders of MMI Group; and
- Existing policyholders of MMI Group.

Existing Policies in Respect of which MMI Group has Some Degree of Discretion in Determining Benefits

6.3 The existing policyholders with discretionary participating products will not be affected by the transfer of the Business. The implementation of the Transfer does not change the discretionary nature of the benefits underlying discretionary participating products. MMI Group will exercise discretion in determining benefits and charges in a fair and equitable manner after implementing the Transfer, in the same way that discretion was exercised before implementation of the Transfer.

Policies (Other than Those Dealt with Above) in Respect of which MMI Group has no Discretion in Determining Benefits

6.4 As MMI Group is in a sound financial position after the Transfer, the security of these existing policyholders of MMI Group is not impaired by the Transfer.



7. Communication Plan

- 7.1 I have reviewed the proposed communication plan as outlined in FSB 17 in the application to the FSB.
- 7.2 The formal notification will be published in the Government Gazette as well as such other newspapers as required by the Registrar, 30 days before lodging the application with the Registrar.
- 7.3 Following publication of the notifications, the documents as prescribed by the FSB will lay open for 15 days for inspection at the head offices of FirstRand Life and Ashburton in Johannesburg and the head office of MMI Group in Centurion. A register will be kept of all persons viewing the documents and made available to the FSB. Complaints and enquiries can be directed to MMI Group or FirstRand Life *via* FRB and Ashburton, in addition to directing complaints directly to the FSB.
- 7.4 Details about the Transfer will be published on the websites of MMI Group, FRB and Ashburton, and also communicated to the policyholders of the Business *via* email, SMS or post in accordance with the communication plan.
- 7.5 I am satisfied that the process of communication to the policyholders of the Business and other existing policyholders of MMI Group is sufficient.



8. Conditions Precedent

Approvals Required

8.1 The Transfer is subject to receipt of a number of regulatory approvals, including those of the Competition Authorities (to the extent required) and FSB.

Board and Shareholder Resolutions

8.2 The Transfer is also subject to the following resolutions being taken:

- The Boards of MMI Group and FirstRand Life approving the Transfer as specified in the sale agreement.



9. Conclusion

9.1 In my opinion:

- The proposed terms of the Transfer are actuarially sound;
- The security of the policyholders of the Business and other existing policyholders of MMI Group is adequately safeguarded;
- The rights and reasonable benefit expectations of the policyholders of the Business and other existing MMI Group policyholders are not adversely affected; and
- The Transfer will not adversely affect the operational conduct of the divisions in MMI Group, nor the FirstRand Life divisions that will assume responsibility for the administration of the Business.

9.2 It is therefore my opinion that the proposed transfer will not prejudice the policyholders of the Business or the other existing policyholders of MMI Group.

9.3 The opinion is dependent on certain commitments by FirstRand Life described in the report and it is recommended that the approval of the Transfer be made conditional on the fulfilment of the following commitments, in particular:

- That FirstRand Life will be adequately recapitalised prior to transfer of the Business by the amount required to increase the CAR cover ratio to the maximum of 2,0 times OCAR or 1,5 times TCAR after the Transfer; and
- That FirstRand Life will fund the CGT charge in respect of the Ashburton Business, referred to in paragraph 3.13; and recover the tax from the Ashburton policyholders on the basis that would have applied had the Transfer not occurred, placing policyholders in the same position they would have been had the Transfer not occurred.



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Statutory Actuary: MMI Group Limited

Fellow of the Actuarial Society of South Africa

5 April 2016



Appendix A – Product Definitions

The products underlying the FNB Life and Ashburton Businesses are defined as follows:

FNB Life Business

- Personal Accident: Provides insurance cover in the event of death as a result of an accident, in the form of a cash pay-out
- Hospital Cash: Provides insurance cover in the event of hospitalisation as a result of an accident or pre-defined illness, in the form of a fixed daily cash pay-out for a specified period
- Lifestyle Protector: Provides insurance cover to FNB credit card clients in the event of death or permanent disability, in the form of a cash pay-out
- Funeral: Provides insurance cover in the event of death, in the form of a cash pay-out
- Credit Life: Provides a variety of insurance cover to settle the outstanding debt of an FNB Home Loan, credit card, personal or business loan in the event of death, disability, critical illness and retrenchment. The cover ranges from a lump sum cash pay-out, to short-term regular cash pay-outs in the form of an annuity
- Cover for Life: Provides insurance cover to settle the outstanding debt of a FNB Home Loan in the event of death, disability and critical illness. The cover is provided in the form of a cash pay-out and can be converted into full whole life cover under specified circumstances

Ashburton Business

- Endowment: Provides a tax-efficient savings vehicle for investors with an investment horizon of at least five years
- Living Annuity: Provides investors with a regular income after retirement



Appendix B – Scope of the Business Transferred

The assets and liabilities in respect of the Business to be transferred are defined in the sale agreement as follows:

FNB Life Business

- FNB Life Business: the bancassurance business that consists of the FNB Life Assets, the FNB Life Contracts and the FNB Life Liabilities
- FNB Life Assets: assets with a value equal to the sum of the IBNR and the Reported but Unpaid Claims Reserve
- FNB Life Contracts: all FNB Life Policies, contracts, agreements, mandates, commitments and arrangements, whether written, oral, tacit or otherwise, as amended from time to time, entered into by MMI Group in relation to the FNB Life Business, but excluding the Excluded FNB Life Contracts
- FNB Life Policies: the FNB Life branded credit life, funeral, personal accident, cover for life, hospital cash plan and lifestyle protector policies underwritten by MMI Group
- FNB Life Liabilities: all Liabilities of MMI Group arising from the FNB Life Policies

This report interprets the “FNB Life Liabilities” as the IBNR policyholder liability and any outstanding claims payable liability; and the “FNB Life Assets” as the assets backing the IBNR policyholder liability and outstanding claims payable liability.

Ashburton Business

- Ashburton Business: the Ashburton Assets and the Ashburton Liabilities
- Ashburton Assets: the Ashburton Contracts and all assets held by the Nominees (on behalf of MMI Group) that are linked to the Ashburton Liabilities
- Ashburton Policies: the Ashburton branded linked endowment policies and living annuity policies underwritten by MMI Group and administered by Ashburton
- Ashburton Contracts: all Ashburton Policies, contracts, agreements, mandates, commitments and arrangements, whether written, oral, tacit or otherwise, as amended from time to time, entered into by MMI Group in relation to the Ashburton Business, but excluding the Excluded Ashburton Contract
- Ashburton Liabilities: all Liabilities of MMI Group arising from the Ashburton Policies

This report interprets the “Ashburton Liabilities” as the linked endowment and living annuity policyholder liabilities; and “Ashburton Assets” as the assets backing these policyholder liabilities.