momentum

APPENDIX 2

Momentum Group
Abridged financials
for the year ended 30 June 2008

INCOME STATEMENT

for the year ended 30 June

R MILLION	2008	2007	% change
Income from operations	2 720	2 627	4
Share of income of associates	9	(19)	>100
Income before tax	2 729	2 608	5
Direct taxation[1]	(733)	(536)	(37)
Profit for the year	1 996	2 072	(4)
Attributable to equity holders	2 002	2 076	(4)
Attributable to ordinary shareholders	1 957	2 038	(4)
Attributable to preference shareholders	45	38	18
Attributable to minorities	(6)	(4)	(50)

1. *Tax excludes all policyholder tax and includes only direct tax on shareholders.*

R MILLION	2008	2007
ASSETS		
Cash and cash equivalents	5 006	4 088
Loans and receivables (including insurance receivables)	23 522	19 572
Disposal group held for sale	–	407
Investment securities		
– held-for-trading	15	–
– held-to-maturity	460	1 036
– available-for-sale	3 100	1 589
– designated fair value through profit or loss	117 633	126 512
Derivative financial instruments	18 100	17 385
Current income tax asset	24	16
Policy loans	193	166
Reinsurance assets	550	544
Deferred tax asset	825	684
Investments in associates		
– designated fair value through profit or loss	6 666	6 074
– at equity accounted value	275	72
Intangible assets	2 829	2 746
Goodwill	297	294
Investment properties	3 808	2 356
Property and equipment	596	547
Total assets	183 899	184 088
EQUITY AND LIABILITIES		
Liabilities		
Accounts payable (including insurance payables)	5 202	3 141
Liabilities arising to third parties as a result of consolidating unit trusts	2 742	1 568
Derivative financial instruments	9 190	8 549
Other financial liabilities	3 801	4 283
Policyholder liabilities under investment contracts		
– with discretionary participation features	14 494	14 296
– without discretionary participation features	96 622	96 472
Disposal group held for sale	–	109
Interest bearing borrowings	242	270
Provisions	108	172
Current income tax liabilities	434	210
Deferred tax liability	1 840	2 213
Employee benefits liabilities	180	204
Deferred revenue liability	296	255
Policyholder liabilities under insurance contracts	41 982	45 875
Total liabilities	177 133	177 617
EQUITY		
Capital and reserves attributable to equity holders		
Ordinary shares	9	9
Share premium	1 532	1 532
Non distributable reserves	708	595
Distributable reserves	4 521	4 316
Capital and reserves attributable to equity holders	6 770	6 452
Minority interest	(4)	19
Total equity	6 766	6 471
Total equity and liabilities	183 899	184 088

NEW BUSINESS INFLOWS

R MILLION (unaudited)	2008	2007	% change
Recurring premiums	2 079	1 920	8
Momentum insurance – retail	1 308	1 166	12
Individual risk	520	449	16
Individual savings	788	717	10
Momentum insurance – employee benefits	406	390	4
FNB collaboration	365	364	–
Lump sums	66 099	54 177	22
Insurance operations	26 794	18 731	43
Retail investments	16 802	13 781	22
Employee benefits	9 954	4 896	>100
Institutional policies	38	54	(30)
Asset management[1]	39 305	35 446	11
Unit trusts	18 597	13 993	33
Asset management – on balance sheet	5 707	7 688	(26)
Asset management – off balance sheet	15 001	13 765	9
Total new business inflows	68 178	56 097	22
Momentum insurance	28 508	20 287	41
FNB insurance	365	364	–
Asset management	39 305	35 446	11
Annualised new business inflows[2]	8 689	7 338	18
Momentum insurance	4 393	3 429	28
FNB insurance	365	364	–
Asset management	3 931	3 545	11

1. *As a result of the sale of Ashburton to the Banking Group the comparative new business inflows for Ashburton have been removed from the table. These were previously included under "Unit trusts – international".*
2. *Represents new recurring premium inflows plus 10% of lump sum inflows.*

NET FLOW OF FUNDS

R MILLION (unaudited)	Funds received from clients (A) Year ended 30 June 2008	2007	% change	Payments to clients (B) Year ended 30 June 2008	2007	% change	Net flow of funds (A – B) Year ended 30 June 2008	2007	% change
Insurance operations	**35 633**	26 822	33	**33 008**	25 137	31	**2 625**	1 685	56
Wealth and retail	**23 259**	19 963	17	**19 517**	14 639	33	**3 742**	5 324	(30)
Employee benefits	**12 336**	6 805	81	**12 741**	9 266	38	**(405)**	(2 461)	84
Institutional policies	**38**	54	(30)	**750**	1 232	(39)	**(712)**	(1 178)	40
Asset management	**39 305**	35 446	11	**49 362**	77 242	(36)	**(10 057)**	(41 796)	76
Unit trusts	**18 597**	13 993	33	**14 513**	12 514	16	**4 084**	1 479	>100
Asset management – on balance sheet	**5 707**	7 688	(26)	**6 072**	9 956	(39)	**(365)**	(2 268)	84
Asset management – off balance sheet	**15 001**	13 765	9	**28 777**	54 772	(47)	**(13 776)**	(41 007)	66
Total	**74 938**	62 268	20	**82 370**	102 379	(20)	**(7 432)**	(40 111)	81

DIRECTORS' VALUATION OF STRATEGIC INVESTMENTS

R MILLION	2008	2007	% change	Valuation method	PE ratio
RMB Asset Management	2 437	2 797	(13)	A	8
Ashburton[1]	–	772	(100)		
Advantage (85%)	276	273	1	A	6
Lekana[2]	–	73	(100)		
Momentum Medical Scheme Administrators	442	456	(3)	B	
African operations	239	35	>100	B	
Directors' valuation of strategic investments	**3 394**	4 406	(23)		

1. *The investment in Ashburton was sold to the Banking Group effective 1 July 2007.*
2. *Due to the fact that the minorities in Lekana were bought out during the year, and the fact that the business has subsequently been divisionalised, the value of this business is now included in the value of in force business as part of the embedded value.*

Valuation method:

A – Price/Earnings multiple using normalised forward earnings
B – Discounted cashflow valuation

EMBEDDED VALUE OF MOMENTUM GROUP LIMITED

at 30 June

The embedded value of Momentum Group Limited (Momentum) as at 30 June 2008 and the value of new business for the year ended on that date are set out in this section.

Definition of embedded value

An embedded value is an estimate of the value of a company, excluding any value attributable to future new business, and consists of:

- the ordinary shareholders' net worth;
- plus the present value of future profits from in-force insurance business;
- less the cost of capital at risk.

The ordinary shareholders' net worth is the excess of assets over liabilities on the statutory valuation method, but where deductions for inadmissible assets and impairments are added back and where directors' values are used for unlisted subsidiaries and associate companies.

The present value of future profits is the present value of the projected stream of future after-tax profits in respect of insurance and off-balance sheet linked business in force at the calculation date, discounted at the risk discount rate.

The cost of capital at risk reflects the extent to which the expected long-term after-tax investment return on the assets backing the statutory capital adequacy requirement is less than the return required by shareholders, as reflected in the risk discount rate.

The value of in-force insurance business equals the present value of future profits less the cost of capital at risk.

Embedded value results

R MILLION (unaudited)	30 June 2008	1 July[1] 2007 Pro forma	30 June 2007
Ordinary shareholders' net worth[2]	**7 701**	7 770	8 244
Ordinary shareholders' net worth[2]	**7 701**	8 244	8 244
Impact of the transfer of Ashburton	**–**	(474)	–
Value of in-force insurance business	**8 307**	7 683	7 683
Present value of future profits[3]	**9 271**	8 458	8 458
Cost of capital at risk	**(964)**	(775)	(775)
Embedded value attributable to ordinary shareholders	**16 008**	15 453	15 927
% Change	**4**		10
% Return on embedded value [4]	**15**		28

1. *The pro forma embedded value as at 1 July 2007 reflects the position after allowing for the impact on ordinary shareholders' net worth of the transfer of Ashburton to the Banking Group. Ashburton was transferred at its net asset value of R298 million as at 30 June 2007.*
2. *Ordinary shareholders' net worth excludes the value attributable to preference shareholders.*
3. *The value of in-force insurance business of R8 307 million as at 30 June 2008 includes an amount of R235 million in respect of linked business written off balance sheet (30 June 2007: R242 million).*
4. *Return on embedded value is the increase in embedded value, excluding the impact of dividends paid to ordinary shareholders of R1 800 million (2007: R2 563 million), expressed as a percentage of the pro forma embedded value as at 1 July 2007.*

Value of new business

The value of new business is a measure of the value added to Momentum as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits generated by new insurance business sold during the year, discounted at the risk discount rate. The value of new business is net of acquisition expenses and is also appropriately reduced by the cost of capital at risk for new business.

Value of new business

R MILLION (unaudited)	2008	2007	% change
Value of new business (before cost of capital at risk)	640	580	10
Cost of capital at risk	(50)	(62)	19
Value of new business (net of cost of capital at risk)	590	518	14
• Wealth and retail[1,2]	385	345	12
• Employee benefits	51	50	2
• FNB collaboration	154	123	25
Present value of premiums[3]	28 222	25 157	12
Margin %	2.1	2.1	

1. *The wealth and retail value of new business of R385 million includes an amount of R14 million in respect of new local linked business written off balance sheet (30 June 2007: R2 million).*
2. *The wealth and retail value of new business includes an amount of R16 million in respect of new international linked business written off balance sheet (30 June 2007: R17 million).*
3. *The present value of premiums is defined as new single premiums plus the present value of expected future premiums on new recurring premium business, discounted at the risk discount rate.*

Value of new business by line of business

The value of new business (after cost of capital at risk), present value of premiums and margins on new business written during the year ended 30 June 2008 compare as follows with the new business written during the previous year for different lines of business:

Wealth and retail

R MILLION (unaudited)	2008	2007	% change
Value of new business	385	345	12
Present value of premiums	23 469	20 881	12
Margin %	1.6	1.7	

Employee benefits

R MILLION (unaudited)	2008	2007	% change
Value of new business	51	50	2
Present value of premiums	3 917	3 257	20
Margin %	1.3	1.5	

FNB collaboration

R MILLION (unaudited)	2008	2007	% change
Value of new business	154	123	25
Present value of premiums	836	1 019	(18)
Margin %	18.4	12.1	

Reconciliation of new business inflows

The following table provides a reconciliation of the total new business as reported in the review of Momentum's results, to the new business inflows used in the calculation of the value of new business.

Reconciliation of new business inflows

R MILLION (unaudited)	Year ended 30 June 2008 Annualised recurring premiums	Single premium inflows
Total new business inflows as reported	2 079	66 099
• Wealth and retail	1 308	16 840
• Employee benefits	406	9 954
• FNB collaboration	365	–
• Asset management	–	39 305
Inflows included/(not included) in value of new business	–	(48 617)
Wealth and retail:		
• Policy alterations and other retail items	(36)	(197)
• Linked products	36	(185)
• Guernsey cell captive business	–	(418)
Employee benefits:		
• Advantage, Lekana and short-term investments	–	(8 512)
Asset Management:		
• Unit trusts	–	(18 597)
• Asset management – on balance sheet	–	(5 707)
• Asset management – off balance sheet	–	(15 001)
Term extensions on maturing policies[1]	9	885
New business inflows included in value of new business	2 088	18 367
New business inflows included in value of new business consist of:		
• Wealth and retail	1 317	16 925
• Employee benefits	406	1 442
• FNB collaboration	365	–

1. *Only client-initiated term extensions (R9 million recurring premiums and R885 million single premiums) were included in the value of new business calculation. Automatic term extensions (R2 330 million single premiums) were excluded from the calculation.*

Composition of ordinary shareholders' net worth

R MILLION (unaudited)	2008	2007
Strategic subsidiaries and associate companies	3 394	4 406
• RMB Asset Management	2 437	2 797
• Ashburton[1]	–	772
• Advantage (85%)	276	273
• Lekana[2]	–	73
• Momentum Medical Scheme Administrators	442	456
• Momentum Africa (including Swabou Life (35%))[3]	239	35
Shareholders' portfolio investments	5 950	5 538
• Fixed interest instruments	4	630
• Preference shares	1 688	905
• Properties	–	139
• Share trust and subsidiary loans	898	1 148
• Cash and other	3 360	2 716
***Less:* Unsecured subordinated debt**	(1 079)	(1 090)
• Fair value of debt	(849)	(976)
• Accrued interest and interest rate swap	(230)	(114)
Shareholders' assets at directors' values	8 265	8 854
Adjustment to move from published to statutory valuation method for calculating liabilities	(129)	(124)
Shareholders' net worth for embedded value purposes	8 136	8 730
Attributable to preference shareholders[4]	(435)	(486)
Ordinary shareholders' net worth	7 701	8 244

1. *Ashburton was included at the directors' value of R772 million as at 30 June 2007. Ashburton was transferred to the Banking Group on 1 July 2007 at its net asset value of R298 million.*
2. *Momentum's 70% share of Lekana was included at its directors' value of R73 million as a strategic subsidiary as at 30 June 2007. During the year ended 30 June 2008 Momentum increased its share in Lekana to 100%. Following the divisionalisation of parts of Lekana's business, Lekana's net asset value is included in the share trust and subsidiary loans, and the values of the divisions are reflected in Momentum's value of in-force business, cost of capital and value of new business.*
3. *Momentum transferred a block of Namibian business to Swabou Life, a Namibian life insurance company, with effect from 1 August 2007. As part of this transaction, Momentum Group acquired a 35% share in Swabou Life.*
4. *The value of R435 million (30 June 2007: R486 million) attributable to preference shareholders reflects the market value of the preference share issue of R500 million.*

Reconciliation of ordinary shareholders' net worth for embedded value purposes to statutory surplus

R MILLION (unaudited)	2008	2007
Ordinary shareholders' net worth	7 701	8 244
Impairment of subsidiary and associate companies' values for statutory purposes	(2 807)	(3 877)
Other impairments and inadmissible assets	(64)	(35)
Add back fair value of preference shares allowed as statutory capital	435	486
Add back fair value of subordinated debt allowed as statutory capital	849	976
Statutory surplus	6 114	5 794

Reconciliation of ordinary shareholders' net worth for embedded value purposes to total shareholders' funds in the financial statements

R MILLION (unaudited)	2008	2007
Ordinary shareholders' net worth	7 701	8 244
Difference between statutory and published valuation methods	129	124
• Difference in investment contract liabilities	(2 108)	(1 729)
• Difference in insurance contract liabilities	962	707
• Deferred acquisition costs and deferred revenue liabilities	1 325	1 196
• Deferred tax on the items above	(50)	(50)
Impairment of value in respect of Ashburton[1]	–	(474)
Intangible asset relating to Sage	704	733
Adjustment in respect of Swabou Life[2]	(40)	–
Value of preference shares issued	435	486
Total shareholders' funds (net of minority shareholders' interest)	8 929	9 113

1. *Ashburton was transferred to the Banking Group at its net asset value of R298 million, on 1 July 2007. The impairment value is the difference between the directors' value and the transfer value.*
2. *The adjustment in respect of Momentum's share of Swabou Life reflects the difference between the directors' value of R193 million (included in ordinary shareholders' net worth) and the equity accounted value of R153 million included in the total shareholders' funds.*

Analysis of embedded value profits

Embedded value profits represent the change in embedded value, adjusted for any capital raised and ordinary dividends paid. The components of the embedded value profits attributable to ordinary shareholders for the year ended 30 June 2008 are set out below.

Analysis of embedded value profits

R MILLION (unaudited)		Ordinary shareholders' net worth	Present value of future profits	Cost of capital at risk	Embedded value
Embedded value at 30 June 2007		**8 244**	**8 458**	**(775)**	**15 927**
Impact of transfer of Ashburton		(474)	–	–	(474)
Embedded value at 1 July 2007 (pro forma)		**7 770**	**8 458**	**(775)**	**15 453**
Embedded value profits		**1 731**	**813**	**(189)**	**2 355**
Factors related to operations:		**1 562**	**1 106**	**(2)**	**2 666**
• Value of new business	(a)	(718)	1 358	(50)	590
• Expected return	(b)	–	1 037	(85)	952
• Expected profit transfer to net worth	(c)	1 496	(1 496)	–	–
• Expected release from cost of capital	(d)	–	–	127	127
• Operating experience variances	(e)	670	2	–	672
• Experience assumption changes	(f)	114	205	6	325
Factors related to market conditions:		**169**	**(293)**	**(187)**	**(311)**
• Investment return on ordinary shareholders' net worth	(g)	283	–	–	283
• Investment variances	(h)	31	(237)	(145)	(351)
• Economic assumption changes	(i)	(145)	(56)	(42)	(243)
Dividends paid to ordinary shareholders	(j)	**(1 800)**	**–**	**–**	**(1 800)**
Embedded value attributable to ordinary shareholders at 30 June 2008		**7 701**	**9 271**	**(964)**	**16 008**

The embedded value profits attributable to ordinary shareholders of R2 355 million represents a return of 15% on the pro forma embedded value of R15 453 million at 1 July 2007, compared to a return on embedded value of 28% for the year to 30 June 2007.

(a) The value of new business is an estimate of the economic value of the new business written during the year, determined at the point of sale. The negative contribution to the shareholders' net worth represents the new business strain on the statutory valuation method, which allows for the elimination of negative liabilities on whole life contracts.

(b) The expected return is determined by applying the risk discount rate applicable at 30 June 2007 to the value of in-force insurance business at the start of the reporting period, and adding the expected return on new business, which is determined by applying the current risk discount rate to the value of new business from the point of sale to 30 June 2008.

(c) The expected profit transfer from the value of in-force insurance business to the shareholders' net worth is calculated on the statutory valuation method.

(d) The expected release from cost of capital at risk represents the difference between the expected after-tax investment return on the assets backing the capital adequacy requirement, and the risk discount rate over the year.

(e) The operating experience variances represent the impact of differences between the actual experience and the assumptions used in the embedded value calculations. The operating experience variances of R672 million include the following:

Source of variation (unaudited)	R MILLION
Momentum's individual life business[1]	137
Financial structures	79
Working capital portfolio profits	27
FNB collaboration	198
Employee benefits business	99
Maintenance expenses	(19)
Secondary Tax on Companies expected but not paid	48
Tax	105
Tax rate on profits for the year changing from 29% to 28%	22
Other items	(24)
Total	**672**

1. *Includes R217 million from favourable mortality and morbidity experience and negative R80 million from unfavourable experience in respect of early terminations, premium cessations and other policy alterations.*

(f) The impact of the experience assumption changes of R325 million consists of the following:

Assumption change (unaudited)	R MILLION
Mortality (including AIDS) and morbidity	190
Early policy terminations	(49)
Premium growth: voluntary take-up rates	47
Extending the projection period for credit life business (FNB collaboration)	71
Employee benefits administration margins	(53)
Change in corporate tax rate from 29% to 28%	111
Modelling and miscellaneous changes	8
Total	**325**

(g) Investment returns on ordinary shareholders' net worth of R283 million comprise the following:

R MILLION (unaudited)	2008	2007
Investment income (including dividends from strategic subsidiaries)	603	587
Capital appreciation (including strategic subsidiaries' retained earnings)	(326)	1 065
Change in fair value of the preference shares issued	51	62
Preference share dividends paid	(45)	(39)
Investment return on ordinary shareholders' net worth	**283**	1 675

The investment return can also be presented as follows:

R MILLION (unaudited)	2008	2007
Investment income (excluding dividends from subsidiaries)	305	241
Subsidiaries' earnings	235	352
Capital appreciation (including revaluation of subsidiaries)	(263)	1 059
Change in fair value of the preference shares issued	51	62
Preference share dividends paid	(45)	(39)
Investment return on ordinary shareholders' net worth	**283**	1 675

(h) The investment variance of negative R351 million represents the impact of the lower than assumed investment returns on current and future insurance profits.

(i) The economic assumption changes of negative R243 million include the effect of the reduction in the assumed rate of investment return, expense inflation rate and risk discount rate in respect of local and offshore business. The economic assumption changes' impact on the opportunity cost of capital reflects the higher differential between the risk discount rate and the assumed investment return after tax.

Assumptions

The embedded value calculations comply with the Actuarial Society of South Africa's Professional Guidance Note PGN107 (version 3). The same best-estimate assumptions were used for the embedded value calculations and the statutory valuation. The main assumptions used in the embedded value calculations are described below:

Economic assumptions

% (unaudited)	2008	2007
Risk discount rate	13.5	11.0
Investment returns (before tax)	12.0	9.5
Implied differential	1.5	1.5
Expense inflation rate	9.5	6.5
Implied real return	2.5	3.0

The investment return assumption of 12.0% per annum (30 June 2007: 9.5% per annum) was derived from the yields on South African government bonds at 30 June 2008 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return by adding the following premiums/(discounts) to the risk-free yield of 10.9% per annum (30 June 2007: 8.4% per annum).

% (unaudited)	2008 premium/ (discount)	2007 premium/ (discount)
Equities	2.0	2.0
Properties	1.0	1.0
Government securities	–	–
Other fixed interest securities	0.5	0.5
Cash	(2.0)	(2.0)

The future expense inflation assumption of 9.5% per annum (30 June 2007: 6.5% per annum) was based on an assumed long term differential of 2.5% (30 June 2007: 3.0%) relative to the assumed future investment return assumption of 12.0% per annum (30 June 2007: 9.5% per annum).

The risk discount rate was set equal to the risk free yield of 10.9% per annum plus 2.6% (30 June 2007: 8.4% per annum plus 2.6%).

For offshore business there was a small reduction in the investment return, expense inflation rate and risk discount rate assumptions, relative to the previous financial year.

In the calculation of the cost of capital at risk, it was assumed that the capital adequacy requirements will be backed by surplus assets consisting of 55% cash or near cash and 45% variable rate preference shares, to benefit from the effective after tax yield that can be obtained on variable rate preference shares.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates are based on the results of recent internal experience investigations. The mortality assumptions allow for an expected deterioration in mortality as a result of AIDS, as well as expected improvements in mortality at older ages in respect of annuities in payment.

Mortality rates (excluding AIDS) were left unchanged from 30 June 2007, but morbidity rates were reduced for individual life products. Allowance for AIDS related mortality was reduced to be in line with the latest professional guidance note PGN105 (version 2) of the Actuarial Society of South Africa.

Expenses

The maintenance expense assumptions are based on the budgeted maintenance expenses for the financial year to 30 June 2009, are differentiated by main product group, and are sufficient to support the existing business on a going-concern basis.

Premium growth take up rates

The embedded value of in-force insurance business includes the expected value of future premium increases resulting from voluntary premium growth arrangements on in-force insurance business, by using an expected take up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the twelve months ended 30 June 2008.

The assumptions and modelling methodology for voluntary premium growth were changed as at 30 June 2008, following the investigation into recent voluntary take up experience.

Directors' valuations of asset management subsidiaries

The directors' values of RMB Asset Management and Advantage include the value of expected profits from business written on Momentum's balance sheet as well as the value of profits derived from managing assets in respect of Momentum's insurance business. A price:earnings ratio approach was used to derive the directors' values of the asset management operations.

Reserving bases

It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

Policy and premium discontinuance bases

It was assumed that the current policy and premium discontinuance bases and practices would be maintained in future.

Tax

Allowance was made for future income tax based on the four-fund tax dispensation, and for capital gains tax at face value in the policyholders' portfolios. No allowance was made for capital gains tax on the shareholders' strategic subsidiary investments, as these are not held with the intention of ultimate disposal.

The cost of capital at risk was based on projected after-tax returns on the assets backing the capital adequacy requirements.

Allowance was made for Secondary Tax on Companies ("STC") on future dividends ultimately payable to shareholders at a rate of 5.6% (30 June 2007: 5.6%) of net expected future profits. The STC assumption is based on the expected future cash dividends according to the dividend policy of Momentum, taking into account expected future STC credits arising from dividends received. This allowance does not anticipate any changes in STC and the projections allow for STC over the entire projection term. The impact on the embedded value of allowing for STC is negative R493 million.

The assumed future corporate tax rate was reduced from 29% to 28%.

Sensitivities

This section illustrates the effect of different assumptions on the value of in-force insurance business and the value of new business.

For each sensitivity illustrated, all other assumptions have been left unchanged, except for the sensitivity to a 1% reduction in investment returns, where it was assumed that the inflation rate and the risk discount rate would also reduce by 1%.

Allowance was made for compensating management actions. It was assumed that bonus rates would be reduced consistent with the reduction in investment returns. In the case of group risk benefits, it was assumed that the deterioration in mortality experience would be countered by a corresponding increase in premiums after a delay of one year. In the calculation of the new business sensitivity to a reduction in investment returns, it was assumed that new business premium rates for products with guaranteed investment returns (annuities and guaranteed endowments) would be adjusted. This assumption is in line with the current practice of weekly reviews of new business premium rates.

The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of Momentum. The sensitivities to changes in the risk discount rate are included in the tables below.

Value of in-force insurance business sensitivities

R MILLION (unaudited)	Present value of future profits	Cost of capital at risk	Value of in-force insurance business	Change from base (%)
Base value	9 271	(964)	8 307	
Risk discount rate increases from 13.5% to 14.5%	8 838	(1 066)	7 772	(6.4)
Risk discount rate decreases from 13.5% to 12.5%	9 752	(851)	8 901	7.2
Renewal expenses increase by 10%	8 912	(964)	7 948	(4.3)
Expense inflation increases from 9.5% to 10.5%	9 124	(964)	8 160	(1.8)
Policy discontinuance rates increase by 10%	9 026	(913)	8 113	(2.3)
Mortality and morbidity experience deteriorate by 10%	8 201	(964)	7 237	(12.9)
Premium growth take-up reduces by 10%	9 151	(964)	8 187	(1.5)
Investment returns reduce from 12% to 11%	9 262	(998)	8 264	(0.5)
Equity values decrease by 10%[1]	8 744	(964)	7 780	(6.3)

1. *In addition to the impact on the value of in-force insurance business shown in the table above, an assumed decrease of 10% in equity values will reduce the value of strategic subsidiaries and associate companies by R339 million, a reduction of 4.4% in the ordinary shareholders' net worth. The combined impact of a 10% reduction in equity values on the value of in-force insurance business and the ordinary shareholders' net worth is a 5.4% reduction in embedded value.*

Value of new business sensitivities

R MILLION (unaudited)	Gross value of new business	Cost of capital at risk	Value of new business	Change from base (%)
Base value	640	(50)	590	
Risk discount rate increases from 13.5% to 14.5%	583	(55)	528	(10.5)
Risk discount rate decreases from 13.5% to 12.5%	704	(45)	659	11.7
Renewal expenses increase by 10%	597	(50)	547	(7.3)
Expense inflation increases from 9.5% to 10.5%	620	(50)	570	(3.4)
Policy discontinuance rates increase by 10%	564	(47)	517	(12.4)
Mortality and morbidity experience deteriorate by 10%	458	(50)	408	(30.8)
Premium growth take-up reduces by 10%	617	(50)	567	(3.9)
Investment returns reduce from 12% to 11%	682	(58)	624	5.8
New business acquisition expenses increase by 10%	596	(50)	546	(7.5)
New business volumes decrease by 20%	416	(40)	376	(36.3)

Review by the independent actuaries

The methodology and the assumptions underlying the calculation of the embedded value and the value of new business were reviewed by Deloitte & Touche. They are satisfied that, based on the information supplied to them by Momentum, the methodology and assumptions are appropriate for the purpose of the embedded value disclosure, that these have been determined in accordance with generally accepted actuarial principles and in accordance with guidance note PGN107 (version 3) of the Actuarial Society of South Africa, that the approach has been applied consistently across the different business units and that the methodology and assumptions have been applied consistently over the year.