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MOMENTUM METROPOLITAN LIFE LIMITED ANNUAL FINANCIAL STATEMENTS

Audited results for the twelve months ended

30 June 2020

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MOMENTUM METROPOLITAN LIFE LIMITED
ANNUAL FINANCIAL STATEMENTS 2020

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

Responsibility for financial statements

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

To enable the directors to meet these responsibilities:

- The Group and Company financial statements are prepared by management; opinions are obtained from the statutory actuaries of the life insurance companies and the external auditors of the companies.
- The board is advised by the Audit Committee, comprising mostly independent non-executive directors, and the Actuarial Committee. These committees meet regularly with the auditors, the statutory actuaries 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 statutory actuaries of the companies have unrestricted access to these committees.

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 22 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.

MML is an issuer of listed debt and therefore is required to prepare consolidated financial statements in terms of IFRS 10 – Consolidated Financial Statements. In recent years, MML considered themselves exempt from this requirement. On consideration we have determined that this approach is not appropriate and have therefore prepared consolidated financial statements and are thus presenting the comparative periods for the first time. Please refer to Annexure H for further details.

Approval of annual financial statements

The annual financial statements, presented on pages 15 to 245, were approved by the Board of directors on 29 October 2020 and are signed on its behalf by:

JJ Njeke
Group chairman

Centurion, 30 October 2020

Hillie Meyer
Group chief executive officer

Centurion, 30 October 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, 30 October 2020

TO THE SHAREHOLDERS OF MOMENTUM METROPOLITAN LIFE LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Momentum Metropolitan Life Limited and its subsidiaries ('the group') and company set out on pages 15 to 112 and 117 to 245, 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 group consolidated and company 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 9 of the group financial statement notes and note 11 of the company financial statement notes; the valuation and movements in the liability is disclosed in note 7 of the group financial statement notes and note 9 of the company financial statement notes. 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 judgement. 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 group consolidated and company 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:

- For the group financial statements
  R1 873 million of owner-occupied properties as disclosed in note 3.1; R9 019 million of investment properties as disclosed in note 4.1; and R 3 228 million of financial assets as disclosed in note 5.7.
- For the company financial statements
  R781 million of owner-occupied properties as disclosed in note 3.1; R6 984 million of investment properties as disclosed in note 4.1; and R3 347 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 5 of the group financial statements and notes 3, 4 and 6 of the company financial statements to ensure compliance with the relevant financial reporting requirements, including disclosure of sensitivities of the valuation to alternative assumptions.

Other Matters

The financial statements of Momentum Metropolitan Life Limited for the year ended 30 June 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 3 September 2019. Those financial statements however only reflected the company. The group consolidated financial statements of Momentum Metropolitan Life Limited and its subsidiaries (the group) were not prepared and included in the prior year. This has required the company to add comparative information in the current year financial statements as a restatement of prior periods presented. The corresponding numbers presented to the group consolidated financial statements have not been audited nor reviewed by any auditor. Refer to Annexure H in the financial statements for further information.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 246-page document titled "Momentum Metropolitan Life Limited Group Annual Financial Statements 30 June 2020", which includes the:

- Directors' responsibility and approval
- Certificate by the Group Company Secretary
- Directors' report
- Audit Committee report
- Statement of actuarial values of assets and liabilities
- Shareholder diary and administration

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 Life Limited for 1 year.

Ernst & Young Inc.

Director: J.C. de Villiers
Registered Auditor

30 October 2020
102 Rivonia Road
Sandton
2196

The board is pleased to present the audited financial statements of Momentum Metropolitan Life Ltd (MML or the Company) and its subsidiaries (collectively Momentum Metropolitan Life 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.

Nature of activities

Momentum Metropolitan Life Ltd is a South African based financial services company that offers a comprehensive range of products and administration services, including life insurance, employee benefits and health insurance products.

Corporate events

Listed debt

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

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 SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee);
- Financial Pronouncements (as issued by the Financial Reporting Standards Committee);
- the Listings Requirements of the JSE; and
- the Companies Act.

The accounting policies of the Group have been applied consistently to all years presented. 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 of the Annual Financial Statements (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 were 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 for more details.

Corporate governance

The board has satisfied itself that appropriate principles of corporate governance (King IV™) were applied throughout the year under review.

The assessment of the application and implementation of King IV™ principles is ongoing. The results to date, show that the Company's governance processes are well entrenched, and that the company is generally compliant with all the principles of King IV.

For a table disclosing all the principles of King IV™, and how each has been applied, refer to the MMH group integrated report and to the King IV™ application register, which is available on the MMH website: http://www.momentummetropolitan.co.za/en/about/governance

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 30.

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.

Earnings attributable to equity holders for the year under review were R461 million (2019: R2 867 million). Normalised headline earnings were R680 million (2019: R2 767 million) and normalised headline earnings per share 358 cents (2019: 1 456 cents). Refer to note 1 for a reconciliation of earnings to normalised headline earnings.

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	**423**	**62**	830	30
Momentum Investments	**294**	**43**	493	18
Metropolitan Life	**302**	**44**	610	22
Momentum Corporate	**146**	**21**	512	18
Non-life Insurance	**(16)**	**(2)**	(37)	(1)
Momentum Metropolitan Africa	**(5)**	**(1)**	–	–
New Initiatives	**(92)**	**(13)**	27	1
Shareholders	**(372)**	**(54)**	332	12
Total	**680**	**100**	2 767	100

Subsidiaries and associates

Details of significant subsidiary companies are contained in Annexure A. Details of associates are contained in Annexure B.

Share capital

Share issue and repurchase

There were no changes in the authorised or issued share capital of Momentum Metropolitan Life Ltd during the financial year.

Share options

The Group has not issued any options on MML shares. The Group awards units to employees as part of cash-settled share-based schemes. Refer to note 13.1.2 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 14 for more details.

Shareholder dividend

Ordinary share dividend

The following dividends were declared during the current year:

	2020 cents per share	2019 cents per share
Interim – March	**374**	439
Final – September	**–**	334
Special dividend	**–**	501
Dividend *in specie*	**325**	–
	699	1 274

Shareholders

Momentum Metropolitan Life Ltd Group is a wholly owned subsidiary of Momentum Metropolitan Holdings Ltd.

Directorate, secretary and auditor

The company had the following directors at 30 June 2020:

JJ Njeke (chairman)	Independent non-executive
H Meyer (chief executive officer)	Executive
JC Cilliers (Marais) (deputy chief executive officer)	Executive
R Ketola	Executive
L de Beer	Independent non-executive
F Truter	Independent non-executive
S Jurisich	Independent non-executive
F Daniels (Jakoet)	Independent non-executive
LM Chiume	Non-independent non-executive
MS Moloko	Independent non-executive
SL Mc Pherson	Independent non-executive
KS Legoabe-Kgomari	Non-independent non-executive
DJ Park	Independent non-executive

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	
P Cooper (Independent non-executive)	1 July 2020 (subject to PA approval)	
V Nkonyeni (Independent non-executive)	1 July 2020 (subject to PA approval)	
PJ Makosholo (Non-independent non-executive)	1 July 2020 (subject to PA approval)	

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 Company's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019. Ernst & Young Inc. was appointed as external auditors at the Company's annual general meeting on 26 November 2019.

Directors' shareholding

The aggregate direct and indirect holdings in Momentum Metropolitan Holdings Ltd 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	44	433	477	477
	481	823	1 304	1 304

No changes occurred between the reporting date and the date of approval of the financial statements.

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 MML directors for the period ended 30 June 2020 is set out below.

	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	18 632
Non-executive	13 947	–	–	–	–	–	13 947	9 350
Total	13 947	14 570	7 213	459	177	2 762	39 128	27 982

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

Special resolutions

MML annual general meeting – 26 November 2019

At the annual general meeting of shareholders of the Company held on 26 November 2019 the following special resolutions were approved:

- The fees for the members of the board of directors and other committee members were approved.
- The board of directors was authorised to repurchase shares issued by the Company, subject to the provisions of the Memorandum of Incorporation of the Company, the Companies Act and conditions as may be imposed by any other relevant authority.
- The board of directors was authorised, by way of a general approval, to authorise the Company to provide direct or indirect financial assistance to persons who are related or inter-related to the Company as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the board may determine. This approval is valid for two years from the date of approval of this resolution.
- The board of directors was authorised to provide direct or indirect financial assistance for subscription or purchase of securities in related or inter-related entities as contemplated in section 44 of the Companies Act. This approval is valid for two years from the date of approval of this resolution, subject to compliance with the requirements of the Memorandum of Incorporation and the Companies Act, on such terms and conditions and for as much as the board may determine.

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 year-end

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. Refer to note 32 for more details.

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

This report is provided by the Audit Committee (the committee) of the Momentum Metropolitan Group (the Holdings Group) which, through the Group governance arrangements, also serves as the Audit Committee for the Momentum Metropolitan Life Group (the Group). This report is in respect of the consolidated annual financial statements of Momentum Metropolitan Life Ltd Group for the financial year ended 30 June 2020.

The committee had discharged its responsibilities as mandated by the board of Momentum Metropolitan Life Ltd (the board), its statutory duties in compliance with the Companies Act, 71 of 2008, as amended, and the JSE Listings Requirements, the JSE Debt 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; and
- 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. The minutes of meetings of the committee are prepared at a Holdings Group level only. However, the Group matters are considered as part of the agenda of the committee.

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 Momentum Metropolitan Life Ltd.

During the year, Frans Truter stepped down as Chair of the committee to take over as Chair of the board Risk and Capital 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 Holdings Group's F2020 Integrated Report and the Holdings 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 of Momentum Metropolitan Holdings Ltd, which is available on the Holdings Group's website https://www.momentummetropolitan.co.za/en/investor-relations/relations.

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 Company'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; and
- 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 Group'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 Chairman 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 Group's combined assurance framework and the results of the assurance work in F2020 is provided on page 3 to 24 of the Group Integrated Report.

Finance director and finance function

The committee considered and satisfied itself that Risto Ketola has the appropriate expertise and experience to fulfil the role Finance Director of the Group; 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 Group's ongoing financial stability and sustainability. The board's statement on the going concern status is included in the directors' report.

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 Holdings Group 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 Group'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; and
- 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.

Confirmations of key functions for the year continued

External audit quality and independence

On the recommendation of the committee, the board resolved to early adopt mandatory audit firm rotation. Consequently, PwC has rotated off the Group'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 and paragraph 7.10(b) of the JSE Debt 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 in note 24 to the AFS. All the non-audit services 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 at the Audit Committee meetings. 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 is applied 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.

F2021 objectives

The key items of focus for the F2021 year are:

- ongoing monitoring of the Group's readiness for the introduction of the 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; and
- continue to monitor the impact of the Covid-19 pandemic on financial reporting.

Linda de Beer
Chair: Audit Committee

Centurion, 30 October 2020

STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	2020 Rm	Unaudited 2019[1] Rm	Unaudited 1 July 2018[1] Rm	Notes
Assets				
Intangible assets	**2 740**	2 873	3 000	2
Owner-occupied properties	**2 039**	2 017	2 356	3
Property and equipment	**212**	169	190	
Investment properties	**9 030**	9 515	9 537	4
Employee benefit assets	**648**	467	433	
Financial assets at fair value through profit and loss	**395 214**	395 492	385 085	5.1
Financial assets at amortised cost	**9 501**	17 852	5 511	5.2
Reinsurance contract assets	**2 157**	2 132	1 814	6
Deferred income tax	**286**	313	183	12
Insurance and other receivables	**2 948**	2 864	2 813	5.3
Current income tax assets	**–**	16	104	
Cash and cash equivalents	**22 325**	19 056	19 100	5.4
Total assets	**447 100**	452 765	430 126	
Equity				
Equity attributable to owners of the parent	**12 311**	14 317	13 147	
Share capital	**1 041**	1 041	1 041	14
Other components of equity	**5 564**	5 323	5 513	15
Retained earnings	**5 706**	7 953	6 593	
Preference shares	**–**	500	500	
Non-controlling interests	**102**	95	80	
Total equity	**12 413**	14 912	13 727	
Liabilities				
Insurance contract liabilities				
Long-term insurance contracts	**102 859**	109 550	103 702	7.1
Non-life insurance contracts	**253**	199	160	7.2
Investment contracts	**260 985**	256 112	254 466	
– with discretionary participation features (DPF)	**16 563**	18 632	19 108	8.1
– designated at fair value through profit and loss	**244 422**	237 480	235 358	8.2
Financial liabilities at fair value through profit and loss	**50 183**	46 044	42 599	10.1
Financial liabilities at amortised cost	**1 687**	1 343	2 072	10.2
Reinsurance contract liabilities	**562**	576	592	11
Deferred income tax	**1 254**	1 655	1 133	12
Employee benefit obligations	**871**	924	783	13
Other payables	**15 973**	21 153	10 784	10.3
Provisions	**13**	16	20	
Current income tax liabilities	**47**	281	88	
Total liabilities	**434 687**	437 853	416 399	
Total equity and liabilities	**447 100**	452 765	430 126	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

STATEMENT OF PROFIT AND LOSS

For the year ended 30 June 2020

	2020 Rm	Unaudited 2019 Rm	Notes
Insurance premiums	**25 115**	28 911	
Insurance premiums ceded to reinsurers	**(2 815)**	(2 613)	
Net insurance premiums	**22 300**	26 298	16
Fee income	**4 340**	4 168	17
Contract administration	**2 745**	2 503	
Trust and fiduciary services	**1 028**	1 051	
Other fee income	**567**	614	
Investment income	**19 968**	19 901	18
Amortised cost	**1 109**	845	
Other investment income	**18 859**	19 056	
Net realised and unrealised fair value gains	**(12 805)**	1 126	19
Net income	**33 803**	51 493	
Insurance benefits and claims	**24 323**	23 526	
Insurance claims recovered from reinsurers	**(2 523)**	(2 180)	
Net insurance benefits and claims	**21 800**	21 346	20
Change in actuarial liabilities and related reinsurance	**(8 826)**	5 003	
Change in long-term insurance contract liabilities	**(6 719)**	5 813	7.1
Change in investment contracts with DPF liabilities	**(2 069)**	(476)	8.1
Change in reinsurance assets	**(25)**	(318)	6
Change in reinsurance liabilities	**(13)**	(16)	11
Fair value adjustments on investment contract liabilities	**5 605**	8 915	8.2
Fair value adjustments on collective investment scheme liabilities	**1 415**	(466)	
Depreciation, amortisation and impairment expenses	**543**	162	21
Employee benefit expenses	**4 053**	4 002	22
Sales remuneration	**3 441**	3 397	23
Other expenses	**3 351**	3 689	24
Expenses	**31 382**	46 048	
Results of operations	**2 421**	5 445	
Finance costs	**(899)**	(856)	25
Profit before tax	**1 522**	4 589	
Income tax expense	**(1 026)**	(1 673)	26
Earnings for year	**496**	2 916	
Attributable to:			
Owners of the parent	**461**	2 867	
Non-controlling interests	**1**	15	
MMI Group Ltd preference shares	**34**	34	
	496	2 916	
Earnings per ordinary share (cents)	**242.6**	1 508.9	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 Rm	Unaudited 2019[1] Rm	Notes
Earnings for year	**496**	2 873	
Other comprehensive (loss)/income, net of tax	**343**	(145)	
Items that may subsequently be reclassified to income			
Exchange differences on translating foreign operations	**93**	(2)	15
Items that may subsequently be reclassified to income	**250**	(143)	
Land and building revaluation	**25**	(204)	15
Remeasurements of post-employee benefit funds	**163**	2	15
Other	**1**	–	
Own credit gains on financial liabilities designated at fair value through profit or loss	**69**	–	10.1
Income tax relating to items that will not be reclassified	**(8)**	59	15
Total comprehensive income for year	**839**	2 771	
Total comprehensive income attributable to:			
Owners of the parent	**804**	2 722	
Non-controlling interests	**1**	15	
Momentum Metropolitan Life Ltd preference shares	**34**	34	
	839	2 771	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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	Preference shares Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2018[1] (unaudited)	9	1 032	5 513	6 593	13 147	500	80	13 727	
IFRS 9 opening adjustment[2]	–	–	–	(17)	(17)	–	–	(17)	
Adjusted opening balance	9	1 032	5 513	6 576	13 130	500	80	13 710	
Total comprehensive (loss)/income	–	–	(145)	2 867	2 722	34	15	2 771	
Income statement	–	–	–	2 867	2 867	34	15	2 916	
Other comprehensive income	–	–	(145)	–	(145)	–	–	(145)	
Dividend paid	–	–	–	(1 535)	(1 535)	(34)	–	(1 569)	
Transfer to retained earnings from other reserves	–	–	(45)	45	–	–	–	–	
Balance at 1 July 2019 (unaudited)	**9**	**1 032**	**5 323**	**7 953**	**14 317**	**500**	**95**	**14 912**	
IFRS 16 opening adjustment[2]	**–**	**–**	**–**	**(20)**	**(20)**	**–**	**–**	**(20)**	
Adjusted opening balance	**9**	**1 032**	**5 323**	**7 933**	**14 297**	**500**	**95**	**14 892**	
Total comprehensive income	**–**	**–**	**274**	**530**	**804**	**34**	**1**	**839**	
Income statement	**–**	**–**	**–**	**461**	**461**	**34**	**1**	**496**	
Other comprehensive income	**–**	**–**	**274**	**69**	**343**		**–**	**343**	
Dividend paid	**–**	**–**	**–**	**(2 909)**	**(2 909)**	**(34)**	**–**	**(2 943)**	
Transfer to retained earnings from other reserves	**–**	**–**	**(33)**	**33**	**–**	**–**	**–**	**–**	15
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**	
Repurchase of preference shares				**119**	**119**	**(500)**		**(381)**	
Balance at 30 June 2020	**9**	**1 032**	**5 564**	**5 707**	**12 311**	**–**	**102**	**12 413**	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further detail.

[2] 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.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	2020 Rm	Unaudited 2019[1] Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(11 258)**	(17 092)	
Interest received	**13 495**	12 870	
Dividends received	**5 236**	5 636	
Income tax paid	**(1 632)**	(942)	27.2
Interest paid	**(843)**	(856)	27.3
Net cash inflow/(outflow) from operating activities	**4 998**	(384)	
Cash flow from investing activities			
Acquisition of a subsidiary	**(42)**	–	28
Disposal of subsidiary	**–**	–	27.5
Purchase of owner-occupied properties	**(88)**	(49)	3
Disposal of owner-occupied properties	**–**	22	3
Purchase of investment properties	**(277)**	(334)	
Disposal of investment properties	**105**	683	4
Purchase of property and equipment	**(97)**	(83)	
Disposal of property and equipment	**2**	–	
Purchase of intangible assets	**(40)**	(48)	2
Disposal of intangible assets	**–**	–	
Net cash (outflow)/inflow from investing activities	**(437)**	191	
Cash flow from financing activities			
Subordinated call notes issued	**750**	750	27.4
Subordinated call notes repaid	**(755)**	(749)	27.4
Proceeds from carry positions	**7 444**	6 613	27.4
Repayment of carry positions	**(6 613)**	(4 255)	27.4
Repayment of capital portion of property development loans	**–**	(219)	27.4
Repayment of capital portion of other borrowings	**(6)**	(844)	27.4
Proceeds from other borrowings	**–**	335	27.4
Payment of principal portion of lease liability	**(94)**	–	27.4
Dividend paid to equity holders[2]	**(2 293)**	(1 535)	
Repurchase of preference shares	**(381)**	–	
Preference share dividends paid	**(34)**	(34)	
Net cash (outflow)/inflow from financing activities	**(1 982)**	62	
Net cash flow	**2 579**	(131)	
Cash resources and funds on deposit at beginning	**19 056**	19 100	
Movement due to foreign exchange gains and losses	**690**	87	
Cash resources and funds on deposit at end	**22 325**	19 056	
Made up as follows:			
Bank and other cash balances	**8 966**	8 753	5.4
Funds on deposit and other money market instruments	**13 359**	10 303	
	22 325	19 056	

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

2 Included in dividends paid in the current year is a dividend in specie of R616 million paid to Momentum Metropolitan Holdings Limited in the form of a loan repayment.

Basis of preparation of the statements

Momentum Metropolitan Life Limited ("MML") is an issuer of listed debt and therefore is required to prepare consolidated financial statements in terms of IFRS 10 – Consolidated Financial Statements. In recent years, MML considered themselves exempt from this requirement. On consideration, we have determined that this approach is not appropriate and have therefore prepared consolidated financial statements and are thus presenting the comparative periods for the first time. The disclosures from the prior year have not been audited. Please refer to Annexure H for further details.

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 Committee), 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;
- Financial assets at fair value through profit and loss;
- Momentum Metropolitan Life Ltd company: Interest in subsidiaries at fair value through other comprehensive income;
- Investment contract liabilities designated at fair value through profit and loss and financial liabilities at fair value through profit and loss; and
- Liabilities for cash-settled share-based payment arrangements.

Other measurement basis

- Insurance contracts, investment contracts with DPF and reinsurance contracts valued using the FSV basis as set out in 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 of 2017;
- Employee benefit obligations measured using the projected unit credit method; and
- 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 E. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 annual financial statements 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) and have been audited by Ernst & Young Inc. in compliance with the requirements of the Companies Act, 71 of 2008.

Published standards, amendments and interpretations effective for the financial period ended 30 June 2020

Effective annual periods beginning on or after	Description
1 January 2019	IFRS 9 (Amendment) – Financial instruments: prepayment features with negative compensation.
1 January 2019	IFRS 16 – Leases
1 January 2019	IAS 28 (Amendment) – Investments in associates and joint ventures: long-term interests in associates and joint ventures
1 January 2019	IAS 19 (Amendment) – Employee benefits: accounting for plan amendment, curtailment or settlement
1 January 2019	IFRIC 23 – Uncertainty over income tax treatments
Annual improvements 2015 – 17 cycle	
1 January 2019	IFRS 3 – Business combinations: Previously held interests in a joint operation
1 January 2019	IFRS 11 – Joint arrangements: Previously held interests in a joint operation
1 January 2019	IAS 12 – Income taxes: Income tax consequences of payments on financial instruments classified as equity
1 January 2019	IAS 23 – Borrowing costs: Borrowing costs eligible for capitalisation

Standards, amendments to and interpretations of published standards that are not yet effective

Effective annual periods beginning on or after	Description
1 January 2020	IFRS 3 (Amendments) – Definition of a business
1 January 2020	IFRS 9, IAS 39 and IFRS 7 (Amendments) – Interest rate benchmark reform
1 January 2020	IAS 1 and IAS 8 (Amendments) – Definition of material
1 January 2020	IASB revision of the Conceptual Framework for Financial Reporting
1 June 2020	IFRS 16 (Amendments) – Covid-19-related rent concessions
1 January 2022[1]	IAS 1 (Amendments) – Classification of liabilities as current or non-current
1 January 2022	IFRS 3 (Amendments) – Reference to the Conceptual Framework
1 January 2022	IAS 16 (Amendments) – Property, plant and equipment: Proceeds before intended use
1 January 2022	IAS 37 (Amendments) – Onerous Contracts – Costs of fulfilling a contract
1 January 2023	IFRS 17 – Insurance contracts
Annual improvements 2018–2020 cycle	
1 January 2022	IFRS 1 – First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter
1 January 2022	IFRS 9 – Financial Instruments: Fees in the “10 percent” test for derecognition of financial liabilities
1 January 2022	IAS 41 – Agriculture: Taxation in fair value measurements

[1] The IASB has issued an exposure draft proposing to defer the effective date of the Amendments to IAS 1 to 1 January 2023.

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, 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 intangibles assets – note 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Valuation of financial assets – note 5
- Assessment of control over collective investment schemes – note 5
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 6, 9 and 11
- Valuation assumptions for the value of services provided (cash-settled arrangements) – notes 13.1.2
- Provision for deferred tax – note 12
- Assessment of IFRS 15's principles around the timing of revenue recognition – Annexure E
- Valuation assumptions for financial instruments – 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 our African operations.
- **Non-life Insurance:** This segment includes allocations relating to Momentum Short-term Insurance, Momentum Insurance, and the cell captive insurer, Guardrisk.
- **New Initiatives:** This includes India, aYo, Momentum 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 (e.g. 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. This measurement basis excludes the amortisation of intangible assets relating to business combinations as well as dividends received from subsidiaries and intercompany loan impairments, which are eliminated on consolidation of the holding company group. 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 company basis and is therefore included in the Shareholders segment.

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

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.

For the year ended 30 June 2020

12 mths to 30.06.2020	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm
Revenue				
Net insurance premiums	9 466	24 067	7 085	15 630
Recurring premiums	8 896	734	6 025	12 617
Single premiums	570	23 333	1 060	3 013
Fee income	1 306	2 614	116	910
External fee income	1 306	2 430	116	910
Intergroup fee income	–	184	–	–
Expenses				
Net payments to contract holders				
External payments	9 093	22 658	5 435	15 278
Other expenses	3 234	2 296	2 539	1 332
Sales remuneration	1 254	786	1 075	116
Administration expenses	1 640	1 284	1 422	1 178
Asset management, direct property and other fee expenses	222	205	–	–
Intergroup expenses	118	21	42	38
Income tax	–	65	–	–
Normalised headline earnings	423	294	302	146
Operating profit/(loss)[2]	599	368	422	207
Tax on operating profit/(loss)	(191)	(80)	(120)	(60)
Investment income	21	18	–	–
Tax on investment income	(6)	(5)	–	–
Fair value gains/(losses)	–	(11)	–	(2)
Tax on fair value gains/(losses)	–	4	–	1
Basis changes and investment variances[3]	(271)	(272)	(412)	(470)
Actuarial liabilities	69 855	165 471	33 800	93 953

1 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 (R593 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangible assets relating to business combinations (R32 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

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

3 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 embedded value reporting.

Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
1 101	–	–	–	57 349	(35 049)	22 300
1 101	–	–	–	29 373	(10 839)	18 534
–	–	–	–	27 976	(24 210)	3 766
3	–	–	–	4 949	(609)	4 340
3	–	–	–	4 765	(425)	4 340
–	–	–	–	184	(184)	–
624	–	–	–	53 088	(31 288)	21 800
619	1	85	228	10 334	1 054	11 388
210	–	–	–	3 441	–	3 441
331	1	85	336	6 277	76	6 353
–	–	–	5	432	1 162	1 594
78	–	–	(113)	184	(184)	–
21	3	–	15	104	922	1 026
(16)	(5)	(92)	(372)	680	–	680
(62)	(2)	(92)	(71)	1 369	–	1 369
9	(3)	–	(185)	(630)	–	(630)
49	1	1	396	486	–	486
(14)	–	–	(55)	(80)	–	(80)
2	(1)	(1)	(458)	(471)	–	(471)
–	–	–	1	6	–	6
–	–	–	–	(1 425)	–	(1 425)
1 023	–	–	(5)	364 097	–	364 097

For the year ended 30 June 2020

12 mths to 30.06.2019[4] (unaudited)	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm
Revenue				
Net insurance premiums	9 213	21 039	7 052	20 396
Recurring premiums	8 795	534	5 931	12 008
Single premiums	418	20 505	1 121	8 388
Fee income	1 147	2 615	121	841
External fee income	1 147	2 435	121	841
Intergroup fee income	–	180	–	–
Expenses				
Net payments to contract holders				
External payments	9 631	26 759	5 804	15 322
Other expenses	3 463	2 278	2 487	1 277
Sales remuneration	1 319	778	984	104
Administration expenses	1 681	1 287	1 458	1 145
Asset management, direct property and other fee expenses	344	181	–	–
Intergroup expenses	119	32	45	28
Income tax	(16)	38	–	–
Normalised headline earnings	830	493	610	512
Operating profit/(loss)[2]	1 171	571	850	711
Tax on operating profit/(loss)	(358)	(111)	(240)	(199)
Investment income	24	29	–	–
Tax on investment income	(7)	(8)	–	–
Fair value gains/(losses)	–	16	–	–
Tax on fair value gains/(losses)	–	(4)	–	–
Basis changes and investment variances[3]	(98)	(39)	4	22
Actuarial liabilities	73 830	159 239	35 654	96 125

1 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 (R641 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangible assets relating to business combinations (R51 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

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

3 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 embedded value reporting.

4 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
1 007	–	–	–	58 707	(32 409)	26 298
1 007	–	–	–	28 275	(10 549)	17 726
–	–	–	–	30 432	(21 860)	8 572
5	–	–	7	4 736	(568)	4 168
5	–	–	7	4 556	(388)	4 168
–	–	–	–	180	(180)	–
602	–	–	–	58 118	(36 772)	21 346
574	204	94	(32)	10 129	1 121	11 250
212	–	–	–	3 397	–	3 397
303	1	81	61	6 017	101	6 118
–	–	–	10	535	1 200	1 735
59	–	–	(103)	180	(180)	–
19	–	–	–	41	1 632	1 673
(37)	–	27	332	2 767	–	2 767
(84)	(1)	21	(145)	3 094	–	3 094
9	–	–	(65)	(964)	–	(964)
52	–	8	561	674	–	674
(15)	–	(2)	(90)	(122)	–	(122)
1	1	–	74	92	–	92
–	–	–	(3)	(7)	–	(7)
–	–	–	–	(111)	–	(111)
1 018	–	–	(5)	365 861	–	365 861

1 Normalised headline earnings

	2020 Rm	2019[1] Rm
Group earnings per ordinary share attributable to owners of the parent		
Earnings (cents per share)	243	1 509
Normalised headline earnings (cents per share)	358	1 456
Reconciliation of headline earnings attributable to owners of the parent		
Earnings – equity holders of group	461	2 867
Intangible asset impairments	25	–
Tax on intangible asset impairments	(7)	–
Impairment of fixed assets	–	22
Impairment of intangible computer software	36	6
(Gain)/loss on sale of subsidiary	–	(44)
Impairment of owner-occupied property below cost	114	67
Tax on impairment of owner-occupied property below cost	(10)	(13)
Impairment/(reversal of impairment) of intercompany loans	30	(175)
Amortisation of intangible assets relating to business combinations	31	37
Normalised headline earnings[2]	680	2 767
Weighted average number of ordinary shares in issue (million)	190	190

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

[2] Normalised headline earnings include the impact of investment variances, actuarial basis changes of negative R1 425 million (2019: negative R111 million) and other non-recurring items. However, normalised headline earnings adjust the standard definition of headline earnings for the amortisation of intangible assets from business combinations as well as dividends received from subsidiaries and intercompany loan impairments, which are eliminated on consolidation of the holding company group. Management uses this as a segmental performance measure and is of the opinion that it represents underlying performance that is under control of the respective segments.

2 Intangible assets

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

		2020 Rm	2019[1] Rm
2.1	**Goodwill**	40	40
2.2	**Value of in-force business acquired**	487	553
2.3	**Customer relationships**	18	21
2.4	**Deferred acquisition costs on long-term insurance business**	1 940	1 972
2.5	**Deferred acquisition costs on short-term insurance business**	20	–
2.6	**Computer software**	231	286
2.7	**Right-of-use assets**	4	–
		2 740	2 872

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

2.1 Goodwill

	2020 Rm	2019 Rm
Cost	56	56
Accumulated impairment	(16)	(16)
Carrying amount	40	40
Carrying amount at beginning	40	40
Additions	–	–
Disposals	–	–
Impairment charges	–	–
Other	–	–
Exchange differences	–	–
Carrying amount at end	40	40
Cash-generating units (CGUs)		
Ex-Metropolitan group – Metropolitan Life (Metropolitan/Momentum merger)	40	40
	40	40

2 Intangible assets continued

2.1 Goodwill continued

Critical accounting estimates and judgements

Goodwill is allocated to CGUs for the purpose of impairment testing. The life book represents the CGU of the life insurance book of Commercial Union Life Association of South Africa Ltd of R40 million, acquired in 1999 (included in the Metropolitan Life segment).

Goodwill is allocated to Cash Generating units (CGUs) and impairment testing is performed at the level of individual CGUs. The recoverable value of this CGU is determined based on a value-in-use calculation with reference to directors' valuations. The value-in-use calculation uses a risk-adjusted cash flow projection which includes projected new business based on financial forecasts approved by management covering a five-year period. This cash flow projection takes into account entity specific risks and is 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 the 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.

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 the 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. Key assumptions are disclosed below.

	2020		2019	
Assumptions	**RDR**	**Growth rate**	**RDR**	**Growth rate**
Ex-Metropolitan group	**13%**	**6%**	12%	6%

		2020 Rm	2019 Rm
2.2 Value of in-force business acquired			
Acquisition of insurance and investment contracts with DPF			
Cost		**1 040**	1 040
Accumulated amortisation		**(528)**	(487)
Accumulated impairment		**(25)**	–
Carrying amount		**487**	553
Carrying amount at beginning		**553**	596
Amortisation charges		**(41)**	(43)
Impairment charges		**(25)**	–
Carrying amount at end		**487**	553
The carrying amount is made up as follows:	**To be fully amortised by year**		
Sage – Shareholders	**2032**	**487**	553
		487	553

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

Critical accounting estimates and judgements

The value of in-force business acquired is reviewed for impairment through a discounted cash flow valuation. This valuation method references the results of the Embedded Value calculations for the relevant product. This methodology uses a number of assumptions relating to future cash flows which is aligned to the company's valuation data and models and these are all subjected to the company's governance structures and review. For this year-end, particular focus was placed on the extent to which Covid-19 may affect assumptions on future mortality, morbidity and persistency.

Value of in-force business acquired relating to the Sage acquisition (Shareholders) was impaired to its recoverable amount 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. Any further reduction in the recoverable amount will result in an additional impairment.

2 Intangible assets continued

		2020 Rm	2019[1] Rm
2.3 Customer relationships			
Cost		**372**	387
Accumulated amortisation		**(354)**	(366)
Accumulated impairment		**–**	–
Carrying amount		**18**	21
Carrying amount at beginning		**21**	30
Amortisation charges		**(5)**	(9)
Impairment charges		**–**	–
Exchange differences		**2**	–
Carrying amount at end		**18**	21
The carrying amount is made up as follows:	**To be fully amortised by year**		
Momentum Short-term Insurance – Non-life Insurance	**2027**	**10**	14
Other		**8**	7
		18	21

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 value-in-use calculations with reference to value of in-force business. Refer to assumptions in note 2.2.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

	2020 Rm	2019 Rm
2.4 Deferred acquisition costs		
Carrying amount at beginning	**1 972**	2 023
Additions	**333**	341
Amortisation charges	**(369)**	(392)
Transfer to assets relating to disposal groups held for sale	**–**	–
Other	**–**	–
Exchange differences	**4**	–
Carrying amount at end	**1 940**	1 972
2.5 Deferred acquisition costs on short-term insurance business		
Carrying amount at beginning	**–**	–
Additions	**20**	–
Amortisation charges	**–**	–
Exchange differences	**–**	–
Carrying amount at end	**20**	–

Critical accounting estimates and judgements

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 contract. DAC is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary. Refer to assumptions in note 9.

2 Intangible assets continued

	2020 Rm	2019 Rm
2.6 Computer software		
Cost	**847**	802
Accumulated amortisation	**(416)**	(352)
Accumulated impairment	**(200)**	(164)
Carrying amount	**231**	286
Carrying amount at beginning	**286**	311
Additions	**40**	48
Disposals	**–**	–
Amortisation charges	**(59)**	(67)
Impairment charges	**(36)**	(6)
Exchange differences	**–**	–
Carrying amount at end	**231**	286

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 R102 million (2019: R149 million) representing internally developed software. The decrease in Internally developed software relates to R34 million amortisation charges in the current year, R25 million impairment and R12 million additions.

Material computer software

The short-term insurance segment has computer software of R117 million (2019: R111 million) which will be fully amortised by 2027.

	2020 Rm	2019[1] Rm
2.7 Right-of-use assets		
Carrying amount at beginning	**–**	–
Recognised on 1 July 2019 on adoption of IFRS 16	**9**	–
Amortisation charges	**(5)**	–
Carrying amount at end	**4**	–

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

3 Owner-occupied properties

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

	2020 Rm	2019[1] Rm
3.1 Owned owner-occupied properties	**1 873**	1 967
3.2 Right-of-use assets	**166**	–
	2 039	1 967

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

	2020 Rm	2019 Rm
3.1 Owned owner-occupied properties		
Owner-occupied properties – at fair value	**1 873**	2 017
Historical carrying amount – cost model	**1 507**	1 460
Fair value at beginning	**2 017**	2 356
Additions	**88**	49
Disposals	**–**	(22)
Revaluations	**23**	(201)
Depreciation charges	**(31)**	(31)
Impairment charges	**(114)**	(67)
Transfer to investment properties	**(110)**	(67)
Transfer to assets relating to disposal groups held for sale	**–**	–
Sale of business	**–**	–
Exchange differences	**–**	–
Fair value at end	**1 873**	2 017

3 Owner-occupied properties continued

3.1 Owned owner-occupied properties continued

Borrowing costs of R26 million (2019: R20 million) were capitalised in the current year. The borrowing costs relate to the Marc, Tower 2.

The impairment in the current and prior year relates to a decrease in the property valuation of certain buildings in the Shareholder segment 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 discounted cash flow (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.

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

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	9.0% – 10.0%	10%	144	(119)
Discount rate	14.0% – 15.0%	10%	186	(172)

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 to 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.

	2020 Rm	2019 Rm
3.2 Right-of-use assets		
Carrying amount at beginning	–	–
Recognised on 1 July 2019 on adoption of IFRS 16	225	–
Additions	39	–
Disposals	–	–
Depreciation charges	(67)	–
Modifications	(34)	–
Exchange differences	3	–
Carrying amount at end	166	–

		2020 Rm	2019[1] Rm
4	**Investment properties**		
	Refer to Annexure E para 6 and 15 for the accounting policies relating to this note.		
4.1	**Owned investment properties**	**9 023**	9 515
4.2	**Right-of-use assets**	**7**	–
		9 030	9 515
4.1	**Owned investment properties**		
	At 30 June, investment properties comprised the following property types:		
	Shopping malls	**3 642**	3 696
	Office buildings	**5 021**	5 436
	Industrial	**279**	252
	Hotels	**263**	267
	Vacant land	**58**	57
	Other	**78**	81
	Property at valuation	**9 341**	9 789
	Accelerated rental income (refer to note 5.3)	**(311)**	(274)
		9 030	9 515
	Investment properties under development		
	Fair value at beginning	**–**	2 064
	Capitalised development expenditure	**–**	191
	Revaluations	**–**	–
	Transfer from owner-occupied properties	**–**	297
	Transfer to completed properties[1]	**–**	(2 552)
	Exchange differences	**–**	–
	Fair value at end	**–**	–
	Completed properties		
	Fair value at beginning	**9 515**	7 473
	Capitalised subsequent expenditure	**204**	143
	Acquisition of subsidiary	**118**	–
	Additions	**73**	–
	Disposals	**(105)**	(683)
	Revaluations	**(860)**	266
	Change in accelerated rental income	**(36)**	(7)
	Sale of business	**–**	–
	Transfer from/(to) owner-occupied properties[2]	**110**	(230)
	Transfer from investment properties under development[1]	**–**	2 553
	Fair value at end	**9 019**	9 515

[1] The prior year relates to the Marc building, Tower 1 and 2.
[2] The current year and prior year relates to the Marc building, Tower 2.

Borrowing costs of R121 million (2019: R56 million) were capitalised in the current year. The borrowing costs relate to the Marc, Tower 2.

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

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 55% (2019: 27%) 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 the "headline" assumptions including capitalisation 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 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 capitalisation and discount rates. The valuators carried out extensive market research and also collaborated with our professional peers.

			Change in fair value	
Assumptions	Base assumption	Change in assumption	Decrease in assumption Rm	Increase in assumption Rm
2020				
Capitalisation rate	7.0% – 11.0%	10%	850	(696)
Discount rate	9.0% – 15.0%	10%	1 208	(903)

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	7	–
Additions	4	–
Transfer from investment properties under development	–	–
Carrying amount at end	11	–

5 Financial assets

Refer to Annexure E 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; and
- 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 calculated the expected credit loss for assets carried at amortised cost is done 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 5.6 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 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 .

The Group's financial assets are summarised below:

		2020 Rm	2019[1] Rm
5.1	**Financial assets at fair value through profit and loss**	**395 214**	395 492
5.2	**Financial assets at amortised cost**	**9 501**	17 852
5.3	**Insurance and other receivables (excluding accelerated rental income and prepayments)**	**2 534**	2 472
5.4	**Cash and cash equivalents**	**22 325**	19 056
	Total financial assets	**429 574**	434 872

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5.1	**Financial assets at fair value through profit and loss**	2020 Rm	2019 Rm
	Unit-linked investments	**155 875**	161 667
	Debt securities	**125 960**	113 466
	Equity securities	**90 863**	95 422
	Funds on deposit and other money market instruments	**19 235**	22 493
	Derivative financial assets	**3 281**	2 444
		395 214	395 492
	Open-ended	**242 700**	255 276
	Current	**40 938**	38 146
	Non-current	**111 577**	102 071
	1 to 5 years	**44 101**	42 285
	5 to 10 years	**17 645**	18 621
	>10 years	**49 831**	41 165
		395 215	395 493

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.

5 Financial assets

5.1 Financial assets at fair value through profit and loss continued

Derivative financial instruments

	2020		2019[1]	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
Held for trading	**3 281**	**5 370**	2 444	2 317

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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.

5 Financial assets continued

5.1 Financial assets at fair value through profit and loss continued

Derivative financial instruments continued

	2020			2019[1]		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
Derivatives held for trading						
Equity derivatives		385	1 647		20	22
Options, OTC	(8 411)	86	1 646	–	1	–
Options, exchange traded	(128)	21	–	(922)	7	–
Futures, OTC	–	–	–	(27)	–	–
Futures, exchange traded	26 243	1	1	1 317	3	–
Swaps, OTC	110	277	–	(13)	9	22
Interest rate derivatives		2 682	2 552		2 088	1 224
Options, OTC	–	3	–	(310)	13	–
Options, exchange traded	–	–	–	–	–	–
Futures, OTC	–	–	–	–	–	–
Futures, exchange traded	–	–	–	–	–	–
Swaps, OTC	124	2 650	2 520	897	2 074	1 219
Forward rate agreement, OTC	(3)	29	32	(4)	1	5
Bonds		61	79		55	9
Options, OTC	–	–	–	–	–	–
Options, exchange traded	44	–	–	1	–	–
Futures, OTC	(20)	60	79	4 580	55	9
Futures, exchange traded	599	1	–	1 705	–	–
Swaps, OTC	–	–	–	–	–	–
Swaps, exchange traded	–	–	–	–	–	–
Credit derivatives		33	–		12	–
Options, OTC	–	–	–	–	–	–
Swaps, OTC	33	33	–	12	12	–
Currency derivatives		120	1 092		268	1 060
Options, OTC	174	112	181	(4 660)	250	163
Options, exchange traded	(10)	–	–	–	–	–
Futures, OTC	316	8	1	987	16	–
Futures, exchange traded	29	–	–	36	–	–
Swaps, OTC	(859)	–	910	(896)	2	897
Total derivative financial instruments		3 281	5 370		2 443	2 315

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 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.

5 Financial assets continued

5.1 Financial assets at fair value through profit and loss continued

Derivative financial instruments continued

Offsetting

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

	2020 Rm	2019 Rm
Derivative financial assets		
Gross and net amounts of recognised financial assets[1]	3 281	2 444
Related amounts not set off in the statement of financial position		
Financial instruments	(2 170)	(1 139)
Net amount	1 111	1 305
Derivative financial liabilities		
Gross and net amounts of recognised financial liabilities[1]	5 370	2 316
Related amounts not set off in the statement of financial position		
Financial instruments	(2 003)	(1 139)
Net amount	3 367	1 177

[1] No offsetting in current and prior year.

	2020 Rm	2019[1] Rm
5.2 Financial assets at amortised cost		
Unsettled trades	4 182	11 550
Accounts receivable	1 426	1 279
Less: provision for impairment	(68)	(47)
Loans	3 961	5 070
Related party loans		
Staff loans	10	11
Other related party loans	206	143
Less: provision for impairment	(50)	(20)
Other loans		
Policy loans	837	982
Due from agents, brokers and intermediaries	382	431
Less: provision for impairment	(155)	(191)
Other	2 731	3 714
Total included in financial assets	9 501	17 852
Current	9 188	17 619
Non-current	313	233
	9 501	17 852

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Unsettled trades result from transactions that Portfolios Managers enter into on behalf of the various subsidiaries in the Group in accordance with the 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.

5 Financial assets continued

5.2 Financial assets at amortised cost continued

Reconciliation of expected credit losses	Accounts receivable Rm	Relate party loans Rm	Due from agents, brokers and intermediaries Rm	Total Rm
2020				
Balance at beginning	**(47)**	**(20)**	**(191)**	**(258)**
Additional provision	**(25)**	**(30)**	**–**	**(55)**
Reversed to the income statement	**4**	**–**	**36**	**40**
Other	**–**	**–**	**–**	**–**
Bad debts written off	**–**	**–**	**–**	**–**
Balance at end	**(68)**	**(50)**	**(155)**	**(273)**
2019				
Balance at beginning	(41)	(136)	(211)	(388)
IFRS 9 opening retained earnings adjustment	4	(58)	–	(54)
Adjusted opening balance	(37)	(194)	(211)	(442)
Additional provision	(14)	174	–	160
Reversed to the income statement	4	–	36	40
Other	–	–	(16)	(16)
Bad debts written off	–	–	–	–
Balance at end	(47)	(20)	(191)	(258)

Terms and conditions of material loans

- Loans to group companies are interest-free, repayable on demand, and are unsecured.
- 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 5.6 for the split of the credit risk and expected credit loss allowances into stages.

	2020 Rm	2019[1] Rm
5.3 Insurance and other receivables	**2 533**	2 471
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**1 774**	1 851
Cell captives	**1**	1
Due from reinsurers	**762**	620
Investment contract holders with DPF	**32**	42
Less: provision for impairment	**(36)**	(43)
Related party – Insurance receivables	**1**	1
Total included in financial assets	**2 534**	2 472
Accelerated rental income	**311**	274
Prepayments	**103**	118
Total insurance and other receivables	**2 948**	2 864
Current	**2 887**	2 717
Non-current	**61**	147
	2 948	2 864

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Impairment of receivables arising from insurance contracts and investment contracts with DPF

Impairment is mainly due to expected payment defaults.

5 Financial assets continued

	2020 Rm	2019[1] Rm
5.4 Cash and cash equivalents		
Bank and other cash balances	**8 966**	8 753
Funds on deposit and other money market instruments – maturity <90 days	**13 359**	10 303
	22 325	19 056

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5.5 Financial assets measurement

Financial assets summarised by measurement category in terms of IFRS 9	Fair value through profit and loss: Mandatorily Rm	Fair value through profit and loss: Designated[1] Rm	Fair value through profit and loss: Total fair value Rm	Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
2020						
Unit-linked investments	**155 875**	**–**	**155 875**	**–**	**–**	**155 875**
Debt securities	**39 630**	**86 330**	**125 960**	**–**	**–**	**125 960**
Equity securities[2]	**90 863**	**–**	**90 863**	**–**	**–**	**90 863**
Funds on deposit and other money market instruments	**9 584**	**9 651**	**19 235**	**–**	**–**	**19 235**
Derivative financial assets	**3 281**	**–**	**3 281**	**–**	**–**	**3 281**
Financial assets at amortised cost	**–**	**–**	**–**	**9 501**	**–**	**9 501**
Insurance and other receivables (excluding accelerated rental and prepayments)	**–**	**–**	**–**	**–**	**2 534**	**2 534**
Cash and cash equivalents	**–**	**–**	**–**	**22 325**	**–**	**22 325**
Total financial assets	**299 233**	**95 981**	**395 214**	**31 826**	**2 534**	**429 574**
2019[3]						
Unit-linked investments	161 667	–	161 667	–	–	161 667
Debt securities	32 001	81 465	113 466	–	–	113 466
Equity securities[2]	95 422	–	95 422	–	–	95 422
Funds on deposit and other money market instruments	11 977	10 516	22 493	–	–	22 493
Derivative financial assets	2 444	–	2 444	–	–	2 444
Financial assets at amortised cost	–	–	–	17 852	–	17 852
Insurance and other receivables (excluding accelerated rental and prepayments)	–	–	–	–	2 472	2 472
Cash and cash equivalents	–	–	–	19 056	–	19 056
Total financial assets	303 511	91 981	395 492	36 908	2 472	434 872

[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] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5 Financial assets continued

5.5 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 (IMA) 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. Majority of these funds are held with an objective of capital growth. For those funds not held for capital growth, a look-through basis was applied to determine the business model. 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.

5 Financial assets continued

5.6 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	2019[1] Rm
Financial assets at fair value through profit and loss		
Debt securities	**125 960**	113 466
Stock and loans to Government and other public bodies	**62 363**	54 489
Other debt instruments	**63 597**	58 977
Funds on deposit and other money market instruments	**19 235**	22 493
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	**27 729**	23 649
Collective investment schemes	**25 714**	21 814
Other unit-linked investments	**2 015**	1 835
Derivative financial assets – Held for trading	**3 281**	2 444
Financial assets at amortised cost	**9 501**	17 852
Unsettled trades	**4 182**	11 550
Accounts receivable	**1 358**	1 232
Loans	**3 961**	5 070
Insurance and other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 534**	2 472
Cash and cash equivalents	**22 325**	19 056
Total assets bearing credit risk	**210 565**	201 432

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5 Financial assets continued

5.6 Credit risk continued

Credit risk exposure continued

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	4 162	–	20	4 182
Accounts receivable	1 232	151	43	1 426
Provision for impairment	(1)	(59)	(8)	(68)
Debt securities	–	–	–	–
Funds on deposit and other money market instruments	–	–	–	–
Policy loans	837	–	–	837
Due from agents, brokers and intermediaries	137	–	245	382
Provision for impairment	–	–	(155)	(155)
Other	2 203	–	744	2 947
Provision for impairment	–	–	(50)	(50)
	8 570	92	839	9 501
2019[1]				
Financial assets at amortised cost				
Unsettled trades	11 526	–	24	11 550
Accounts receivable	1 107	74	98	1 279
Provision for impairment	–	–	(47)	(47)
Debt securities	–	–	–	–
Funds on deposit and other money market instruments	–	–	–	–
Policy loans	982	–	–	982
Due from agents, brokers and intermediaries	240	–	191	431
Provision for impairment	–	–	(191)	(191)
Other	3 776	–	92	3 869
Provision for impairment	–	–	(20)	(20)
	17 631	74	147	17 852

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5 Financial assets continued

5.6 Credit risk continued

Credit risk exposure continued

Reconciliation of expected credit losses	12-month expected credit losses (Stage 1) Rm	Lifetime expected credit losses (Stage 2 and stage 3) Rm	Total Rm
2020			
Accounts receivable			
Opening balance	–	(47)	(47)
Movement recognised in the income statement	(1)	(20)	(21)
Closing balance	(1)	(67)	(68)
Related party loans			
Opening balance	–	(20)	(20)
Movement recognised in the income statement	–	(30)	(30)
Closing balance	–	(50)	(50)
Due from agents, brokers and intermediaries			
Opening balance	–	(191)	(191)
Movement recognised in the income statement	–	36	36
Closing balance	–	(155)	(155)
2019[1]			
Accounts receivable			
Adjusted opening balance	–	(37)	(37)
Movement recognised in the income statement	–	(10)	(10)
Closing balance	–	(47)	(47)
Related party loans			
Adjusted opening balance	–	(194)	(194)
Movement recognised in the income statement	–	174	174
Closing balance	–	(20)	(20)
Due from agents, brokers and intermediaries			
Adjusted opening balance	–	(211)	(211)
Movement recognised in the income statement	–	20	20
Closing balance	–	(191)	(191)

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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.

5 Financial assets continued

5.6 Credit risk continued

Credit risk exposure continued

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
	Staging definitions				
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.				

5 Financial assets continued

5.6 Credit risk continued

Credit risk exposure 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 instrument	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 instrument	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. Policy loans are collateralised by the insurance policy and therefore the expected credit loss is negligible.
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. Subsidiary loans are sensitive to the subsidiary's solvency and forward-looking liquidity position.

5 Financial assets continued

5.6 Credit risk continued

Credit quality

The assets in the Group's maximum exposure table on the previous page are analysed in the table below, 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, S&P and GCR. Refer to Annexure D for the definitions used in this section.

	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	53 127	6 807	841	1 309	47	232	–	–	62 363
Other debt instruments	13 467	36 906	8 207	1 512	593	285	–	2 627	63 597
Derivative financial assets	1 314	1 709	10	–	–	–	–	248	3 281
Cash and cash equivalents and funds on deposit and money market instruments	7 431	29 369	2 894	85	344	6	–	1 431	41 560
Other unrated instruments									
Other financial assets at amortised cost	–	–	–	–	–	–	–	9 501	9 501
Insurance and other receivables	–	–	–	–	–	–	–	2 534	2 534
Unit-linked investments[1]	–	–	–	–	–	–	–	27 729	27 729
	75 339	74 791	11 952	2 906	984	523	–	44 070	210 565
2019[2]									
Financial assets at fair value through profit and loss									
Debt securities									
Stock and loans to Government and other public bodies	45 369	8 350	687	1	–	82	–	–	54 489
Other debt instruments	15 213	33 931	6 980	535	40	658	–	1 620	58 977
Derivative financial assets	1 165	1 220	18	–	–	–	–	41	2 444
Cash and cash equivalents and funds on deposit and money market instruments	4 706	34 688	1 923	4	121	–	–	107	41 549
Other unrated instruments									
Other financial assets at amortised cost	–	–	–	–	–	–	–	17 852	17 852
Insurance and other receivables	–	–	–	–	–	–	–	2 472	2 472
Unit-linked investments[1]	–	–	–	–	–	–	–	23 649	23 649
	66 453	78 189	9 608	540	161	740	–	45 741	201 432

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

2 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5 Financial assets continued

5.6 Credit risk continued

Credit quality of reinsurers

The table below represent the reinsured proportion of all the business reinsured as well as their respective international Fitch credit ratings or equivalent thereof when Fitch ratings are not available.

	2020		2019[1]	
Reinsurer	Reinsured portion %	Credit rating	Reinsured portion %	Credit rating
Swiss Re	**27%**	**AA-**	27%	AA-
General Cologne Re	**20%**	**AA+**	21%	AA+
Hannover Re	**4%**	**AA-**	4%	A-
RGA Re	**14%**	**AA-**	14%	AA-
Munich Re	**31%**	**AA-**	31%	A-
Other	**4%**	**A**	3%	A
	100%		100%	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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	**590**	**17**	**5**	**13**	**625**
2019					
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	565	20	1	14	600

5 Financial assets continued

5.7 Financial assets hierarchy

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

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

2020	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through profit and loss	281 152	110 834	3 228	395 214
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	98 246	648	–	98 894
Foreign unlisted or listed quoted	43 454	51	159	43 664
Foreign unlisted unquoted	–	580	425	1 005
Other unit-linked investments				
Local unlisted or listed quoted	1 873	62	–	1 935
Local unlisted unquoted	–	8 223	1 849	10 072
Foreign unlisted or listed quoted	20	–	–	20
Foreign unlisted unquoted	–	70	216	286
Debt securities				
Stock and loans to Government and other public bodies				
Local listed	46 041	12 367	–	58 408
Foreign listed	55	31	3	89
Unlisted	–	3 866	–	3 866
Other debt instruments				
Local listed	208	36 093	22	36 323
Foreign listed	314	670	–	984
Unlisted	–	25 848	442	26 290
Equity securities				
Local listed	59 166	4	1	59 171
Foreign listed	31 585	1	–	31 586
Unlisted	–	–	106	106
Funds on deposit and other money market instruments	–	19 230	5	19 235
Derivative financial assets – Held for trading	190	3 090	–	3 280
	281 152	110 834	3 228	395 214

[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.

There were no significant transfers between level 1 and level 2 assets in the current or prior years.

5 Financial assets continued

5.7 Financial assets hierarchy continued

2019[2]	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through profit and loss	285 013	107 637	2 843	395 493
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	99 589	586	3	100 178
Foreign unlisted or listed quoted	49 348	24	–	49 372
Foreign unlisted unquoted	–	456	553	1 009
Other unit-linked investments				
Local unlisted or listed quoted[2]	1 809	1 427	1	3 237
Local unlisted unquoted	–	6 274	1 460	7 734
Foreign unlisted or listed quoted	–	–	–	–
Foreign unlisted unquoted	–	–	136	136
Debt securities				
Stock and loans to Government and other public bodies				
Local listed	37 211	11 598	–	48 809
Foreign listed	1 559	27	2	1 588
Unlisted	–	4 092	–	4 092
Other debt instruments				
Local listed	–	32 367	3	32 370
Foreign listed	165	622	–	787
Unlisted	–	25 239	580	25 819
Equity securities				
Local listed	73 743	2	1	73 746
Foreign listed	21 579	3	–	21 582
Unlisted	–	–	96	96
Funds on deposit and other money market instruments	–	22 486	8	22 494
Derivative financial assets – Held for trading	10	2 434	–	2 444
	285 013	107 637	2 843	395 493

[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] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

5 Financial assets continued

5.7 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	**2 153**	**585**	**97**	**8**	**2 843**
Transfer to assets relating to disposal groups held for sale	**–**	**–**	**–**	**–**	**–**
Transfer from other asset classes					**–**
Total gains/(losses) in net realised and unrealised fair value gains in the income statement	**–**	**–**	**–**	**–**	**–**
Realised (losses)/gains	**3 051**	**60**	**(50)**	**–**	**3 061**
Unrealised gains/(losses)	**(402)**	**(51)**	**41**	**(3)**	**(415)**
Accrued interest in investment income in the income statement	**–**	**2**	**–**	**–**	**2**
Purchases	**4 450**	**681**	**–**	**–**	**5 131**
Sales	**(6 745)**	**(862)**	**(11)**	**–**	**(7 618)**
Settlements	**–**	**(37)**	**–**	**–**	**(37)**
Transfers into level 3[1]	**142**	**89**	**30**	**–**	**261**
Closing balance	**2 649**	**467**	**107**	**5**	**3 228**
2019[2]					
Opening balance[2]	1 363	1 500	29	–	2 892
Business combinations	–	–	–	–	–
Transfer to assets relating to disposal groups held for sale					–
Total (losses)/gains in net realised and unrealised fair value gains in the income statement					–
Realised gains/(losses)	122	(11)	(7)	–	104
Unrealised (losses)/gains	(132)	43	61	–	(28)
Accrued interest in investment income in the income statement	–	36	–	–	36
Purchases	842	175	16	–	1 033
Sales	(343)	(713)	(2)	(20)	(1 078)
Settlements	(1)	(478)	–	–	(479)
Transfers into level 3[1]	302	40	1	28	371
Transfers out level 2[3]	–	(7)	(1)		(8)
Closing balance	2 153	585	97	8	2 843

1 The transfer into level 3 equity securities and unit-linked investments relates mainly to observability of inputs in the valuation method in the current year assets and stale prices in the prior year.

2 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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

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

5 Financial assets continued

5.7 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	**2 649**	**467**
Assumption change	**10% increase/ (decrease) in unit price**	**1% increase/ (decrease) in interest rates**
Effect of increase in assumption	**265**	**5**
Effect of decrease in assumption	**(265)**	**(5)**
2019[1]		
Carrying amount	2 153	585
Assumption change	1% increase/ (decrease) in discount rates	1% (increase)/ decrease in discount rate
Effect of increase in assumption	215	6
Effect of decrease in assumption	(215)	(6)

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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		2019	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Financial assets at amortised cost	**9 501**	**9 505**	17 734	17 740
Unsettled trades	**4 182**	**4 182**	11 550	11 550
Accounts receivable	**1 358**	**1 358**	1 114	1 114
Loans	**3 961**	**3 965**	5 070	5 076
Insurance and other receivables (excluding accelerated rental income and prepayments)	**2 534**	**2 534**	2 472	2 472
Cash and cash equivalents	**22 325**	**22 325**	19 056	19 056
	34 360	**34 364**	39 262	39 268

Calculation of fair value

- For accounts receivable, unsettled trades, insurance and other receivables and cash and cash equivalents, the carrying amount approximates fair value due to their short-term nature.
- For policy loans, the fair value of R816 million (2019: R1 003 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 10.55% (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.

	2020 Rm	2019[1] Rm
6 Reinsurance contract assets		
Refer to Annexure E para 10 for the accounting policies relating to this note.		
Reinsurance asset relating to cell captive business	**2**	1
Reinsurance asset relating to long-term insurance	**1 274**	1 298
Prepaid reinsurance	**881**	833
	2 157	2 132
Balance at beginning	**2 132**	1 814
Movement charged to income statement	**26**	318
Attributable to non-cell captive business	**33**	334
Attributable to cell captive business	**(7)**	(16)
Other	**(1)**	–
Balance at end	**2 157**	2 132
Current	**1 229**	1 169
Non-current	**928**	963
	2 157	2 132

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Refer to note 9 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 5.3.

	2020 Rm	2019[1] Rm
7 Insurance contracts		
7.1 Long-term insurance contracts		
7.1.1 Long-term insurance contract liabilities	**102 807**	109 510
7.1.2 Liabilities to third-party cell captive owners	**52**	40
	102 859	109 550
Capitation contracts		
Total	**102 859**	109 550
Current	**29 498**	32 393
Non-current	**73 361**	77 157
	102 859	109 550

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Movement in long-term insurance contracts

	2020 Rm	2019[1] Rm
7.1.1 Long-term insurance contract liabilities		
Balance at beginning	**109 510**	103 679
Transfer to policyholder liabilities under insurance contracts	**(6 703)**	5 831
Increase in retrospective liabilities	**(2 220)**	122
Unwind of discount rate	**3 612**	3 668
Expected release of margins	**(2 963)**	(2 747)
Expected cash flows	**(4 378)**	(3 284)
Change in economic assumptions	**(1 034)**	(257)
Change in non-economic assumptions	**700**	350
New business	**2 224**	7 299
Experience variances	**(2 644)**	680
Balance at end	**102 807**	109 510
7.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	**40**	23
Charge to the income statement	**(16)**	(18)
Net cash flows	**203**	188
Changes in share capital, dividends and other items relating to cell captives[1]	**(175)**	(153)
Balance at end	**52**	40

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

		2020 Rm	2019 Rm
7	**Insurance contracts** continued		
7.2	**Non-life insurance contracts**		
7.2.1	Unearned premium provision	**28**	2
7.2.2	Outstanding claims	**225**	197
	Total	**253**	199
	Current	**225**	170
	Non-current	**28**	29
		253	199
	Movement in non-life insurance contracts		
7.2.1	**Unearned premium provision**		
	Balance at beginning	**2**	2
	Movement in unearned premium provision		
	Premium income received	**26**	–
	Balance at end	**28**	2
7.2.2	**Outstanding claims**		
	Balance at beginning	**197**	158
	Increase in outstanding claims	**28**	39
	Balance at end	**225**	197

Refer to note 9 for the assumptions and estimates used.

		2020 Rm	2019 Rm
8	**Investment contracts**		
	Refer to Annexure E para 10 for the accounting policies relating to this note.		
8.1	**Investment contracts with DPF**	**16 563**	18 632
8.2	**Investment contracts designated at fair value through profit and loss**	**244 422**	237 480
8.2.1	Investment contract liabilities designated at fair value through profit and loss	**243 177**	236 150
8.2.2	Liabilities to first-party cell captive owners	**1 245**	1 330
		260 985	256 112
	Movement in investment contracts with DPF		
8.1	**Investment contracts with DPF**		
	Refer to Annexure E para 10 for the accounting policies relating to this note.		
	Balance at beginning	**18 632**	19 108
	Transfer to policyholder liabilities under investment contracts with DPF	**(2 069)**	(476)
	(Decrease)/Increase in retrospective liabilities	**(2 118)**	(904)
	Unwind of discount rate	**9**	5
	Expected release of margins	**(38)**	(37)
	Expected cash flows	**42**	39
	Change in economic assumptions	**1**	(1)
	Change in non-economic assumptions	**92**	(7)
	New business	**7**	306
	Experience variances	**(63)**	123
	Balance at end	**16 563**	18 632
	Current	**15 302**	17 218
	Non-current	**1 261**	1 414
		16 563	18 632

Movement in investment contracts designated at fair value through profit and loss

	2020 Rm	2019[1] Rm
8 Investment contracts continued		
8.2 Investment contracts designated at fair value through profit and loss continued		
8.2.1 Investment contract liabilities designated at fair value through profit and loss		
Balance at beginning	**236 150**	234 019
Contract holder movements	**6 717**	2 094
Deposits received	**35 052**	32 412
Contract benefit payments	**(31 240)**	(36 724)
Fees on investment contracts	**(2 674)**	(2 433)
Fair value adjustment to policyholder liabilities under investment contracts	**5 616**	8 871
Changes in share capital, dividends and other items relating to cell captives	**(37)**	(32)
Exchange differences	**310**	37
Balance at end	**243 177**	236 150
8.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	**1 330**	1 339
Contract holder movements	**(85)**	(9)
Deposits received	**(4)**	(3)
Contract benefit payments	**(48)**	(48)
Fees on investment contracts	**(2)**	(2)
Fair value adjustment to policyholder liabilities under investment contracts	**(11)**	44
Changes in share capital, dividends and other items relating to cell captives	**(20)**	–
Balance at end	**1 245**	1 330
Current	**126 403**	123 040
Non-current	**118 019**	114 440
	244 422	237 480

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

The instruments in note 8.2 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 10.4.

Refer to note 9 for the assumptions and estimates used.

9 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 the 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 E 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 R7 520 million (2019: R8 421 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

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 business and December 2019 for Momentum Life and Investments 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 to 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 benefit 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 the 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, waiting 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.

9 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%).0%)
- An inflation rate of 5.7% p.a. for ZAR-denominated retail business was used to project future renewal expenses 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. 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[1] %
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%

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 accepted 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

9 Contract holder liabilities – assumptions and estimates continued

Investment guarantees (APN 110) continued

The following instruments have been valued by the model:

	2020		2019	
Instrument	Price (% of nominal)	Volatility	Price (% of nominal)	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 four-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.

Allowance for the impact of the Covid-19 Pandemic

Liabilities were increased by an amount of R826 million (before tax) in recognition of the expected impact of the Covid-19 pandemic. The bulk of this provision (R606 million) is in respect of expected negative mortality experience, using mortality assumptions based on the Actuarial Society Covid-19 model published in May 2020. For PHI business, allowance was made for a 20% reduction in return to work termination rates for a period of 24 months (R100 million). For those lines of business where premium skip or holiday options were introduced, an assumption was made that 50% of the policies taking up the options would terminate (R70 million). An additional liability of R50 million was set up in respect of expected business interruption claims in the hospitality sector, which is after quota share and excess of loss reinsurance recoveries. In the absence of observed negative experience and in the light of the premium holiday allowances mentioned above, no additional allowances have been made for increased future terminations. Furthermore, no additional allowance has been made for specific Covid-19-related management expenses as these are deemed not to be material. No allowance was made for potential higher mortality for annuitants and PHI claims in payment, which would reduce liabilities.

The financial impact of setting up these additional liabilities is reflected in the basis and other changes in the next table.

9 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 transferred to investment stabilisation liabilities.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2020 by R767 million (2019: R124 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – negative R23 million (2019: negative R154 million).
  - Experience basis changes – negative R707 million (2019: negative R49 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – negative R37 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 decrease by 1% Rm	Discon-tinuance 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)	**53 019**	**51 726**	**52 149**	**53 261**	**50 014**	**53 688**
Annuities (retail and employee benefits)	**48 044**	**47 879**	**47 916**	**48 044**	**48 507**	**50 011**
Employee benefits business (excluding annuities)	**2 271**	**2 269**	**2 268**	**2 275**	**2 273**	**2 334**
Investment with DPF business	**16 563**	**16 548**	**16 556**	**16 563**	**16 563**	**16 739**
Investment business	**243 177**	**243 177**	**243 177**	**243 180**	**243 177**	**244 114**
Subtotal	**363 074**	**361 599**	**362 066**	**363 323**	**360 534**	**366 886**
Cell captive and non-life business	**1 023**	**1 002**	**1 019**	**960**	**995**	**1 025**
Total	**364 097**	**362 601**	**363 085**	**364 283**	**361 529**	**367 911**
2019[1]						
Insurance business						
Retail insurance business (excluding annuities)	58 532	57 237	57 631	58 883	55 553	59 505
Annuities (retail and employee benefits)	49 057	48 889	48 917	49 057	49 625	51 615
Employee benefits business (excluding annuities)	2 471	2 470	2 470	2 471	2 477	2 574
Investment with DPF business	18 633	18 622	18 628	18 632	18 632	18 823
Investment business	236 150	236 150	236 150	236 149	236 150	238 499
Subtotal	364 843	363 368	363 796	365 192	362 437	371 016
Cell captive and non-life business	1 018	986	1 013	956	990	1 019
Total	365 861	364 354	364 809	366 148	363 427	372 035

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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.

9 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 R114 million (2019: R119 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.

10 Financial liabilities

Refer to Annexure E 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; and
- 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.

The Group's financial liabilities are summarised below:

		2020 Rm	2019[1] Rm
10.1	**Financial liabilities at fair value through profit and loss**	**50 183**	46 044
10.2	**Financial liabilities at amortised cost**	**1 687**	1 343
10.3	**Other payables (excluding premiums paid in advance and deferred revenue liability)**	**14 993**	20 232
		66 863	67 619

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

		2020 Rm	2019[1] Rm
10.1	**Financial liabilities at fair value through profit and loss**		
	Collective investment scheme liabilities	**32 938**	32 678
	Subordinated call notes	**4 431**	4 431
	Carry positions	**7 444**	6 613
	Derivative financial liabilities (refer to note 5.1)	**5 370**	2 317
	Other borrowings	**–**	5
		50 183	46 044
	Current	**43 137**	40 569
	Non-current	**7 046**	5 475
		50 183	46 044

- The 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 required amount to pay at maturity is R181 million.
- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries. Consequently, scheme interests not held by the Group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.

10 Financial liabilities continued

10.1 Financial liabilities at fair value through profit and loss continued

- Subordinated call notes (unsecured) – the 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 34 for more detail.
- Carry positions (secured) – R502 million (2019: R510 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by Government stock with a value of R497 million (2019: R509 million). Offsetting has not been applied.
- 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.

	2020 Rm	2019[1] Rm
10.2 Financial liabilities at amortised cost		
Property development loans	**1 326**	1 269
Finance lease liabilities	**232**	–
Other	**129**	74
	1 687	1 343
Current	**485**	85
Non-current	**1 202**	1 258
	1 687	1 343

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

10.2.1 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 JIBAR plus 2.10%. The loan is secured by the underlying property. A R258 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.
- A R186 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.

	2020 Rm	2019 Rm
10.2.2 Finance lease liabilities		
Carrying amount at beginning	**–**	–
Recognised on 1 July 2019 on adoption of IFRS 16	**320**	–
New leases entered into	**43**	
Interest expense	**21**	–
Payments	**(116)**	–
Modifications	**(39)**	–
Exchange Differences	**3**	
Carrying amount at end	**232**	–

10 Financial liabilities continued

10.3 Other payables

	2020 Rm	2019[1] Rm
Payables arising from insurance contracts and investment contracts with DPF	**4 204**	4 465
Claims in process of settlement		
Insurance contracts	**3 082**	3 426
Investment contracts with DPF	**1 040**	1 019
Due to reinsurers	**82**	20
Payables arising from investment contracts	**1 125**	845
Financial instruments	**9 664**	14 922
Unsettled trades	**5 076**	11 085
Commission creditors	**770**	757
Other payables	**3 818**	3 080
Total included in financial liabilities	**14 993**	20 232
Premiums paid in advance	**748**	686
Deferred revenue liability	**232**	235
Total other payables	**15 973**	21 153
Current	**15 346**	20 233
Non-current	**627**	920
	15 973	21 153
Reconciliation of deferred revenue liability		
Balance at beginning of year	**235**	245
Deferred income relating to new business	**63**	58
Amount recognised in income statement	**(68)**	(68)
Exchange Differences	**2**	–
Balance at end of year	**232**	235
Current	**9**	8
Non-current	**223**	227
1 to 5 years	**70**	70
5 to 10 years	**118**	118
>10 years	**35**	39
	232	235

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Refer to Annexure E para 23 for the accounting policies relating to deferred revenue liability.

10 Financial liabilities continued

10.4 Financial liabilities measurement

Financial liabilities summarised by measurement category in terms of IFRS 9	Fair value through profit and loss			Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
	Mandatorily Rm	Designated Rm	Total fair value Rm			
2020						
Investment contracts with DPF	–	–	–	–	16 563	16 563
Investment contracts designated at fair value through profit and loss	–	244 422	244 422	–	–	244 422
Collective investment scheme liabilities	–	32 938	32 938	–	–	32 938
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	7 444	7 444	–	–	7 444
Derivative financial liabilities	5 370	–	5 370	–	–	5 370
Other borrowings	–	–	–	–	–	–
Financial liabilities at amortised cost	–	–	–	1 455	232	1 687
Other payables (excluding premiums in advance and deferred revenue liability)	–	–	–	10 789	4 204	14 993
Total financial liabilities	**5 370**	**289 235**	**294 605**	**12 244**	**20 999**	**327 848**
2019[1]						
Investment contracts with DPF	–	–	–	–	18 632	18 632
Investment contracts designated at fair value through profit and loss	–	237 480	237 480	–	–	237 480
Collective investment scheme liabilities	–	32 678	32 678	–	–	32 678
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	6 613	6 613	–	–	6 613
Derivative financial liabilities	2 317	–	2 317	–	–	2 317
Other borrowings	–	5	5	–	–	5
Financial liabilities at amortised cost	–	–	–	1 343	–	1 343
Other payables (excluding premiums in advance and deferred revenue liability)	–	104	104	15 663	4 465	20 232
Total financial liabilities	2 317	281 311	283 628	17 006	23 097	323 731

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

10.5 Financial liabilities hierarchy

Refer to Annexure F 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	–	244 396	26	244 422
Financial liabilities at fair value through profit and loss	32 903	17 244	36	50 183
Collective investment scheme liabilities	32 902	–	36	32 938
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	7 444	–	7 444
Derivative financial liabilities – held for trading	1	5 369	–	5 370
Other borrowings	–	–	–	–
	32 903	**261 640**	**62**	**294 605**
2019[1]				
Investment contracts designated at fair value through profit and loss	1 346	236 105	29	237 480
Financial liabilities at fair value through profit and loss	32 615	13 361	68	46 044
Collective investment scheme liabilities	32 615	–	63	32 678
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	6 613	–	6 613
Derivative financial liabilities – held for trading	–	2 317	–	2 317
Other borrowings	–	–	5	5
	33 961	249 466	97	283 524

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

10 Financial liabilities continued

10.5 Financial liabilities hierarchy continued

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

	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	5	97
Total losses/(gains) in net realised and unrealised fair value gains in the income statement				
Realised gains	1	(4)	–	(3)
Unrealised losses	(1)	(17)	–	(18)
Total losses in other comprehensive income	–	10	–	10
Issues	–	–	–	–
Sales	–	(4)	–	(4)
Settlements	–	(12)	(5)	(17)
Contract holder movements				
Benefits paid	(4)	–	–	(4)
Investment return	1	–	–	1
Transfers out of level 3	–	–	–	–
Closing balance	26	36	–	62
2019[1]				
Opening balance	25	86	5	116
Total losses/(gains) in net realised and unrealised fair value gains in the income statement				
Realised gains	–	(6)	–	(6)
Unrealised losses	3	2	–	5
Issues	–	19	–	19
Sales	–	(26)	–	(26)
Settlements	–	(12)	–	(12)
Contract holder movements				
Benefits paid	–	–	–	
Investment return	1	–	–	1
Transfers out of level 3	–	–	–	–
Closing balance	29	63	5	97

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying amount of level 3 financial instrument liabilities by R6 million and R6 million (2019: R10 million and R10 million), respectively.

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		2019	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Financial liabilities at amortised cost	1 455	1 455	1 343	1 343
Other	1 455	1 455	1 343	1 343
Other payables (excluding premiums in advance and deferred revenue liability)	14 993	14 993	20 232	20 232
Payables arising from investment contracts	1 125	1 125	845	845
Other	13 868	13 868	19 387	19 387
	16 448	16 448	21 575	21 575

Calculation of fair value

- 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.

	2020 Rm	2019[1] Rm
11 Reinsurance contract liabilities		
Refer to Annexure E para 10 for the accounting policies relating to this note.		
Balance at beginning	**576**	592
Change in liabilities under reinsurance agreements	**(13)**	(16)
Change in estimates	**(13)**	(16)
Reinsurance ceded	**(1)**	–
Balance at end	**562**	576
Current	**92**	69
Non-current	**470**	507
	562	576

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

Refer to note 9 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

	2020 Rm	2019[1] Rm
12 Deferred income tax		
Refer to Appendix D para 12 for the accounting policies relating to this note.		
Deferred tax asset	**286**	313
Deferred tax liability	**(1 254)**	(1 655)
	(968)	(1 342)
Deferred tax is made up as follows:		
Accruals and provisions	**30**	25
Accelerated wear and tear	**(132)**	(117)
Revaluations	**(406)**	(508)
Deferred tax on intangible assets as a result of business combinations	**(144)**	(155)
Deferred revenue liability	**–**	–
Difference between published and statutory policyholder liabilities	**–**	–
Tax losses	**326**	215
Negative rand reserves	**(527)**	(658)
Deferred acquisition costs	**(21)**	(21)
Prepayments	**(1)**	(1)
Other	**(93)**	(122)
	(968)	(1 342)
Current	**(5)**	(127)
Non-current	**(963)**	(1 215)
	(968)	(1 342)
Movement in deferred tax		
Balance at beginning	**(1 342)**	(950)
Recognised on 1 July 2019 on adoption of IFRS 16	**3**	–
Recognised as a result of Taung Square valuation	**(7)**	–
Charge to the income statement	**384**	(450)
Accruals and provisions	**5**	35
Accelerated wear and tear	**(16)**	(18)
Revaluations	**236**	26
Deferred tax movement on intangible assets as a result of past business combinations	**19**	52
Deferred revenue liability	**–**	(123)
Difference between published and statutory policyholder liabilities	**–**	(945)
Tax losses	**111**	(393)
Negative rand reserves	**131**	333
Deferred acquisition costs	**1**	551
Prepayments	**1**	16
Other	**(104)**	16
Charge to other comprehensive income	**(7)**	59
Other	**–**	(1)
Exchange differences	**1**	–
Balance at end	**(968)**	(1 342)
Deferred tax asset on available tax losses and credits not provided for	**691**	104

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

12 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 R326 million (2019: R215 million) raised due to tax losses, is a deferred tax asset of R140 million (2019: R51 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 R245 million (2019: R132 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.

Management performed projections during the year and indicated on the earnings profile that utilisation of the Return Transfer Credit (RTC) on the IPF will commence in 2021. However, the utilisation will be further accelerated as an additional R1.8 billion of Negative Rand Reserves will be phased-in over the next four years which transfer tax will have to be paid on and therefore will assist in utilising the RTC.

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.

		2020 Rm	2019[1] Rm
13	**Employee benefit obligations**		
	Refer to Annexure E para 18 for the accounting policies relating to this note.		
13.1	**Post-retirement medical benefits**		
13.1.1	**Post-retirement medical benefits**	**105**	147
13.1.2	**Cash-settled arrangements**	**306**	281
	Other employee benefit obligations	**460**	496
	Total employee benefit obligations	**871**	924
	Current	**682**	647
	Non-current	**189**	277
		871	924
13.1.1	**Employee benefit expenses are included in the income statement. Refer to note 22.**		
	Balance at beginning – unfunded	**147**	151
	Current service costs	**6**	2
	Past service cost	**2**	–
	Interest expense	**9**	14
	Actuarial gains – other comprehensive income	**(34)**	(15)
	Employer contributions	**–**	–
	Settlements	**(20)**	–
	Benefits paid and transferred	**(5)**	(5)
	Balance at end – unfunded	**105**	147
	Current	**9**	10
	Non-current	**96**	136
		105	147

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.

13 Employee benefit obligations

13.1 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	8% (2019: 8%)	1.00%	(10)	12
Valuation rate of interest/discount rate	11% (2019: 0%)	1.00%		
Administration fee inflation	6% (2019: 6%)			
Normal retirement age	60			
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 9.3 years (2019: 10.7 years).

	2020 Rm	2019[1] Rm
13.1.2 Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**281**	268
Additional provisions	**170**	92
Benefits paid	**(149)**	(79)
Other	**2**	–
Exchange differences	**2**	–
Balance at end	**306**	281
Current	**215**	141
Non-current	**91**	140
	306	281

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Share schemes

Long-term incentive plan (LTIP)

Certain key senior staff members were identified as vital to the future success of the company, and its ability to compete in an ever changing environment. The purpose of the LTIP is to incentivise and retain these key senior staff members. The 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 embedded value (ROEV) of the company. The units will therefore vest after a period of three years, and the company'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 the vesting date, subject to the employee remaining in the employ of the company, and not being subject to disciplinary action during the period between the award date and the vesting 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 company 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).

13 Employee benefit obligations continued

13.1 Post-retirement medical benefits continued

13.1.2 Cash-settled arrangements continued

Share schemes continued

Outperformance plan (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 company's targeted Return on Embedded Value (ROEV) of Nominal GDP + 6%. Participants are primarily awarded performance units (vesting subject to certain company 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 an 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.

Share Appreciation Rights Scheme (SAR)

The 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 VWAP price up to payment date.

	LTIP Performance units '000	LTIP Retention units '000	LTIP Deferred bonus units '000	OP Performance units '000	OP Retention units '000	SAR Total units '000
Units in force at 1 July 2018	21 303	16 349	–	7 098	225	–
Units granted during year	361	332	5 903	36	5	19 009
Units transferred from / (to) other group companies during year	(342)	(164)	(17)	–	–	–
Units exercised/released during year	–	(3 648)	(92)	–	–	–
Market value of range at date of exercise/ release (cents)	–	1 602 – 1 810	1 700 – 1 810	–	–	–
Units cancelled/lapsed during year	(8 463)	(2 019)	(408)	(5 498)	–	(2 449)
Units in force at 1 July 2019	**12 859**	**10 850**	**5 386**	**1 636**	**230**	**16 560**
Units granted during year	**8 651**	**430**	**5 509**	**–**	**4**	**–**
Units transferred from/(to) other group companies during year	**713**	**164**	**192**	**–**	**–**	**700**
Units exercised/released during year	**–**	**(4 067)**	**(1 893)**	**–**	**(234)**	**–**
Market value of range at date of exercise/ release (cents)	**–**	**1604 – 1815**	**1604 – 1796**	**–**	**1 796**	**–**
Units cancelled/lapsed during year	**(5 245)**	**(630)**	**(555)**	**(1 636)**	**–**	**(816)**
Units in force at 30 June 2020	**16 978**	**6 747**	**8 639**	**–**	**–**	**16 444**

Shares outstanding (by expiry date) for the LTIP, OP and SAR are as follows:

2020	LTIP Performance units '000	LTIP Retention units '000	LTIP Deferred bonus units '000	OP Performance units '000	OP Retention units '000	SAR Total units '000
Financial year 2020/2021	**7 541**	**6 639**	**3 471**	**–**	**–**	**–**
Financial year 2021/2022	**508**	**108**	**3 471**	**–**	**–**	**–**
Financial year 2022/2023	**3 125**	**–**	**1 698**	**–**	**–**	**5 481**
Financial year 2023/2024	**3 124**	**–**	**–**	**–**	**–**	**5 481**
Financial year 2024/2025	**2 680**	**–**	**–**	**–**	**–**	**5 481**
Total outstanding shares	**16 978**	**6 747**	**8640**	**–**	**–**	**16 443**

13 **Employee benefit obligations** continued

13.1 **Post-retirement medical benefits** continued

13.1.2 **Cash-settled arrangements** continued

Share schemes continued

Share Appreciation Rights Scheme (SAR) continued

Inputs used in the valuation of the share schemes:

	Valuation assumptions include			
LTIP	**Outstanding tranche period in months**	**Take-up rate on units outstanding**	**Current vesting rate**	**Share price at year-end**
Award date 01/10/2017 and vesting date 01/10/2020 – performance units	3	94%	15%	R17.61
Award date 01/10/2017 and vesting date 01/10/2020 – retention units	3	94%	100%	R17.61
Award date 01/04/2018 and vesting date 01/04/2021 – performance units	9	94%	15%	R17.61
Award date 01/04/2018 and vesting date 01/04/2021 – retention units	9	94%	100%	R17.61
Award date 09/04/2018 and vesting date 31/10/2021 – performance units	16	88%	33%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – performance units	15	88%	33%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – retention units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2022 – performance units	27	82%	67%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2023 – performance units	39	76%	67%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2024 – performance units	51	70%	67%	R17.61
Award date 01/10/2018 and vesting date 01/10/2020 – deferred bonus units	3	94%	100%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – deferred bonus units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2020 – deferred bonus units	3	94%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2021 – deferred bonus units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 – deferred bonus units	27	82%	100%	R17.61

	Valuation assumptions include			
SAR	**Outstanding tranche period in years**	**Take-up rate on units outstanding**	**Current vesting rate**	**Share price at year-end**
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2022 – performance units	27	82%	63%	R17.61
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2023 – performance units	39	76%	63%	R17.61
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2024 – performance units	51	70%	63%	R17.61

13 Employee benefit obligations continued

13.1 Post-retirement medical benefits continued

13.1.2 Cash-settled arrangements continued

Vesting rate assumptions regarding performance units in the previous tables

Long-term incentive plan (LTIP)

The performance criterion under the LTIP compares MMH's return on embedded value (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. The vesting period is three years.

The LTIP liability as at 30 June 2019 was calculated assuming zero performance units issued before 2018 (maturing in 2019 and 2020) will vest and 100% of units issued in 2018 (vesting in 2021 with settlement dates in 2021, 2022 and 2023) will vest. Actual vesting percentages in 2021 to 2023 might be lower, unless there is a material improvement in future ROEV.

Compared to the ROEV assumptions used in the LTIP liability calculation, an additional one percentage point increase in ROEV is not expected to result in a materially higher LTIP cost, for LTIP tranches in force at 30 June 2019. An additional two percentage points increase in the future ROEV is expected to result in additional vesting of 10% of affected performance units under the LTIP, at an expected cost of R2 million. At the current point in time, and taking into account historic performance to date (30 June 2019), the LTIP liability is relatively insensitive to modest improvements in ROEV.

Outperformance plan (OP)

This scheme, restricted to a few key employees, targets a return on embedded value equal to the growth in nominal GDP + 6%. The vesting period is five years, measured from 2014 (maturing in 2019).

As at 30 June 2019, it was estimated that none of the OPP performance units maturing in 2019 will vest.

The cost associated with this scheme is not sensitive to future ROEV assumptions, as the period over which performance criteria is measured has closed.

Share Appreciation Rights Scheme (SAR)

The SAR features three performance criteria measured over the vesting period years. One third of the SARs will vest for each performance criterion that is met or exceeded. The performance criteria are:

- normalised headline earnings growth over the vesting period to meet or exceed an average of 11% p.a.;
- Average ROEV over the vesting period to exceed the 10-year South Africa Government Bond rate (the risk-free rate) plus 3%; and
- total shareholder return (TSR) over the vesting period to exceed the TSR of an equal-weighted index of MMH's main listed peers.

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 company share price exceeds the strike price.

The SAR liability as at 30 June 2019 was calculated on an assumption that 100% of units issued in 2019 (vesting in 2021, with settlement dates in 2021, 2022 and 2023) will vest. Actual vesting percentages in 2021 might be lower.

Compared to the ROEV assumptions used in the SAR liability calculation, any additional increase in ROEV is not expected to result in a higher SAR cost as the maximum vesting percentage has already been assumed.

13 **Employee benefit obligations** continued

13.1 **Post-retirement medical benefits** continued

13.1.2 **Cash-settled arrangements** continued

Share scheme

Momentum Sales Phantom Scheme (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 company will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the company and therefore the scheme is cash-settled.

Reconciliation of units/options in force:

	MSPS '000
Units/Options in force at 1 July 2018	5 549
Granted at prices ranging between (cents)	1 702 – 2 615
Units/Options granted during year	708
Granted at prices ranging between (cents)	1 702 – 1 702
Units/Options exercised/ released during year	(1 447)
Market value of range at date of exercise/release	1 602 – 1 769
Units/Options cancelled/lapsed during year	(414)
Granted at prices ranging between (cents)	1 702 – 3 298
Units/Options in force at 30 June 2019	4 396
Granted at prices ranging between (cents)	**1702 – 2650**
Units/Options granted during year	**661**
Granted at prices ranging between (cents)	**1966 – 1966**
Units/Options exercised/ released during year	**(1 769)**
Market value of range at date of exercise/release	**1822 – 1991**
Units/Options cancelled/lapsed during year	**(387)**
Granted at prices ranging between (cents)	**1702 – 2650**
Units/Options in force at 30 June 2020	**2 901**

Shares outstanding (by expiry date) for the MSPS are as follows:

2020	MSPS '000
Financial year 2020/2021	**816**
Financial year 2021/2022	**803**
Financial year 2022/2023	**683**
Financial year 2023/2024	**402**
Financial year 2024/2025	**197**
Total outstanding shares	**2 901**

Valuation assumptions:

Assumptions	**2020**	**2019**
Share price	**1702 – 2438**	1 702 – 3 298
Forfeiture rate	**5.0%**	5.0%

Share-based payment expense

The share-based payment expense relating to cash settled schemes is R169 million (2019: R92 million) for the group and is disclosed under employee benefit expenses in note 22.

14 Share capital and share premium

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

Authorised share capital of MML

- 225 million ordinary shares of 5 cents each.
- 50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each.

Issued share capital

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

	2020 Rm	2019[1] Rm
Balance at beginning	**1 041**	1 041
(Increase)/Decrease in treasury shares held on behalf of contract holders	**–**	–
Increase in treasury shares held by subsidiary for shareholders	**–**	–
	1 041	1 041
Share capital	**9**	9
Share premium	**1 032**	1 032
	1 041	1 041

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

Preference shares

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. 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.

		2020 Rm	2019[1] Rm
15	**Other components of equity**		
15.1	**Land and building revaluation reserve**	**455**	451
15.2	**Foreign currency translation reserve**	**131**	38
15.3	**Non-distributable reserve**	**(11)**	5
15.4	**Employee benefit revaluation reserve**	**260**	100
15.5	**Common Control Reserve**	**4 729**	4 729
		5 564	5 323
	Movements in other reserves		
15.1	**Land and building revaluation reserve**		
	Refer to Annexure E para 5		
	Balance at beginning	**451**	627
	Earnings directly attributable to other components of equity	**20**	(143)
	Revaluation	**25**	(204)
	Deferred tax on revaluation	**(5)**	61
	Transfer to retained earnings	**(16)**	(33)
	Balance at end	**455**	451
15.2	**Foreign currency translation reserve**		
	Refer to Annexure E para 3		
	Balance at beginning	**38**	40
	Currency translation differences	**93**	(2)
	Balance at end	**131**	38
15.3	**Non-distributable reserve**		
	Balance at beginning	**5**	5
	Transfer from retained earnings	**(17)**	–
	Other	**1**	–
	Balance at end	**(11)**	5

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

		2020 Rm	2019[1] Rm
15	**Other components of equity** continued		
15.4	**Employee benefit revaluation reserve**		
	Refer to Annexure E para 18		
	Balance at beginning	**100**	100
	Remeasurement of post-employment benefit obligations	**163**	2
	Other	**(3)**	(2)
	Balance at end	**260**	100
15.5	**Common Control Reserve**		
	Balance at beginning	**4 729**	4 729
	Acquisitions	**–**	–
	Release	**–**	–
	Other	**–**	–
	Balance at end	**4 729**	4 729

		2020 Rm	2019[1] Rm
16	**Net insurance premiums**		
	Refer to Annexure E para 10 for the accounting policies relating to this note.		
	Premiums received	**25 115**	28 911
	Long-term insurance contracts	**22 395**	26 227
	Non-life insurance contracts	**959**	879
	Investment contracts with DPF	**1 711**	1 762
	Related party – Premiums received	**50**	43
	Premiums received ceded to reinsurers	**(2 815)**	(2 613)
		22 300	26 298
	Included in the above is the following relating to cell captives:		
	Long-term insurance contracts	**345**	338
	Premiums received ceded to reinsurers	**(175)**	(189)
		170	149

		2020 Rm	2019[1] Rm
17	**Fee income**		
	Refer to Annexure E para 23 for the accounting policies relating to this note.		
	Contract administration	**2 745**	2 503
	Investment contract administration	**2 677**	2 435
	Release of deferred front-end fees	**68**	68
	Health administration	**–**	–
	Trust and fiduciary services	**1 028**	1 051
	Asset management	**471**	460
	Retirement fund administration	**463**	437
	Asset administration	**94**	154
	Other fee income	**567**	614
	Momentum Multiply fee income	**329**	385
	Administration fees received	**2**	2
	Other	**236**	227
		4 340	4 168

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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	2019[1] Rm
18	**Investment income**		
	Refer to Annexure E para 23 for the accounting policies relating to this note.		
	Interest income	**13 474**	12 947
	At fair value through profit and loss	**12 365**	12 102
	At amortised cost using the effective interest rate method		
	Cash and cash equivalents	**988**	711
	Financial assets at amortised cost	**121**	134
	At fair value through profit and loss		
	Dividend income – listed	**2 805**	4 075
	Dividend income – unlisted	**2 369**	1 498
	Rental income	**1 210**	1 208
	Investment properties	**1 201**	1 199
	Owner-occupied properties	**9**	9
	Related party – Investment income	**83**	65
	Other income	**27**	108
		19 968	19 901
19	**Net realised and unrealised fair value gains**		
	Refer to Annexure E para 6, 7 and 11 for the accounting policies relating to this note.		
	Financial assets	**(11 859)**	847
	Designated at fair value through profit and loss	**(9 051)**	2 733
	Mandatorily at fair value through profit and loss	**529**	(2 384)
	Derivative financial instruments – income/(losses)	**(3 320)**	498
	Net realised and unrealised foreign exchange differences on financial instruments not at fair value through profit and loss	**(17)**	–
	Investment property	**(894)**	281
	Valuation (losses)/gains	**(860)**	266
	Change in accelerated rental income	**(34)**	15
	Financial liabilities	**(67)**	(57)
	Designated at fair value through profit and loss	**(67)**	(57)
		16	11
		(12 805)	1 082
20	**Net insurance benefits and claims**		
	Refer to Annexure E para 10 for the accounting policies relating to this note.		
	Long-term insurance contracts	**20 468**	20 281
	Death and disability claims	**9 716**	9 175
	Maturity claims	**4 104**	4 486
	Annuities	**4 492**	4 170
	Surrenders	**1 962**	2 213
	Terminations, disinvestments and withdrawal benefits	**57**	134
	Other	**137**	103
	Non-life insurance benefits incurred	**560**	517
	Investment contracts with DPF	**3 231**	2 638
	Terminations, disinvestments and withdrawal benefits	**1 573**	1 750
	Maturity claims	**446**	407
	Surrenders	**1 015**	247
	Annuities	**88**	142
	Death and disability claims	**100**	83
	Other	**9**	9
	Related party – Claims paid	**36**	52
	Non-life insurance change in provision for outstanding claims	**28**	38
		24 323	23 526
	Amounts recovered from reinsurers	**(2 523)**	(2 180)
		21 800	21 346

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

		2020 Rm	2019[1] Rm
21	**Depreciation, amortisation and impairment expenses**		
	Refer to Annexure E para 4, 5 and 7 for the accounting policies relating to this note.		
	Depreciation	**207**	112
	Owner-occupied properties (refer to note 3.1)	**31**	31
	Equipment	**109**	81
	Right-of-use assets (refer to note 3.2)	**67**	–
	Amortisation (refer to note 2)	**110**	119
	Value of in-force business acquired	**41**	43
	Customer relationships	**5**	9
	Computer software	**59**	67
	Right-of-use assets (refer to note 2.7)	**5**	–
	Impairment of intangible assets (refer to note 2)	**61**	6
	Value of in-force business acquired	**25**	–
	Computer software	**36**	6
	Impairment of owner-occupied properties (refer note 3.1)	**114**	67
	Impairment of financial assets (refer to note 5.2)	**51**	(164)
	Financial assets at amortised cost	**51**	(164)
	Impairment of other assets	**–**	22
		543	162
22	**Employee benefit expenses**		
	Refer to Annexure E para 18 for the accounting policies relating to this note.	**3 455**	3 471
	Salaries	**242**	230
	Defined contribution retirement fund	**139**	134
	Contributions to medical aid funds		202
	Share-based payment expenses – Cash-settled arrangements (refer to note 13.1.2)	**169**	92
	Training costs	**59**	61
	Retirement fund assets	**(54)**	(46)
	Post-retirement medical benefits	**17**	16
	Other	**26**	44
		4 053	4 002

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

		2020 Rm	2019 Rm
23	**Sales remuneration**		
	Refer to Annexure E para 10 for the accounting policies relating to this note.		
	Commission incurred for the acquisition of insurance contracts	**2 250**	2 165
	Commission incurred for the acquisition of investment contracts	**890**	916
	Amortisation of deferred acquisition costs (short- and long-term)	**369**	392
	Impairment of amounts due from agents, brokers and intermediaries (refer to note 5.2)	**(36)**	(36)
	Related party – Commission	**(32)**	(40)
		3 441	3 397

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		2020 Rm	2019[1] Rm
24	**Other expenses**		
	Refer to Annexure E para 24 for the accounting policies relating to this note.		
	Asset management fees	**908**	932
	Consulting fees	**358**	356
	Information technology expenses	**443**	448
	Direct property operating expenses on investment property	**524**	492
	Office costs	**313**	325
	Marketing costs	**341**	314
	Other indirect taxes	**275**	317
	Momentum Multiply benefit payments	**218**	340
	Travel expenses	**102**	168
	Auditors' remuneration	**66**	71
	Audit fees	**65**	56
	Fees for other services	**1**	15
	Bank charges	**45**	59
	Bad debts written off	**–**	1
	Lease charges[2]	**34**	105
	Policy services	**36**	38
	Other expenses	**71**	82
	Sundry expenses	**85**	67
	Expenses recovered from subsidiaries and fellow MMH subsidiaries	**(468)**	(426)
		3 351	3 689
25	**Finance costs**		
	Refer to Annexure E 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
	Lease liabilities	**22**	–
	Other	**149**	152
		899	856
	Designated at fair value through profit and loss	**728**	704
	Amortised cost	**171**	152
		899	856

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

2 Included in Lease charges are R16 million relating to short-term leases, R8 million relating to lease of low-value assets, and R11 million relating to variable lease payments in the current year.

	2020 Rm	2019[1] Rm
26 Income tax expenses		
Refer to Annexure E para 13 for the accounting policies relating to this note.		
Income tax expenses/(credits)		
Current taxation	**1 410**	1 222
Shareholder tax		
South African normal tax – current year	**878**	556
South African normal tax – prior year	**5**	8
Foreign countries – normal tax	**20**	18
Foreign withholding tax	**19**	82
Contract holder tax		
Tax on contract holder funds - current year	**473**	544
Tax attributable to cell captive owners	**15**	14
Deferred tax	**(384)**	451
Shareholder tax		
South African normal tax - current year	**(222)**	529
South African normal tax - prior year	**–**	(16)
Foreign countries – normal tax	**1**	1
Contract holder tax		
Tax on contract holder funds – current year	**(163)**	(62)
Tax on contract holder funds – current year	**–**	(1)
	1 026	1 673

Tax rate reconciliation	2020 %	2019[1] %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Prior year adjustments	**0.2**	0.2
Taxation on contract holder funds	**21.4**	12.1
Foreign tax differential	**(1.7)**	(0.4)
Capital gains tax	**(1.1)**	0.1
Non-taxable income[2]	**(11.0)**	(4.3)
Non-deductible expenses[3]	**15.9**	0.7
Deferred tax asset not recognised	**15.1**	0.4
Cell captive tax – to be recovered from cell owners	**0.6**	–
Effective rate	**67.4**	36.8

1 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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

3 Non-deductible expenses comprise Shareholder 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	2019[1] Rm
27	**Cash flow from operating activities**		
27.1	**Cash utilised in operations**		
	Profit before tax	**1 522**	4 589
	Adjusted for		
	Items disclosed in other notes		
	Dividends received	**(5 236)**	(5 636)
	Interest received	**(13 495)**	(12 870)
	Finance costs	**899**	856
	Non-cash-flow items		
	Net realised and unrealised fair value gains	**12 805**	(1 126)
	Depreciation and amortisation expenses	**317**	230
	Amortisation of Deferred Acquisition Costs	**369**	392
	Impairment charges	**226**	(76)
	Share-Based Payment Expense	**169**	92
	Bonus expense	**201**	297
	Leave pay expense	**79**	26
	Bad debts written off	**–**	1
	Impairment of amounts due from agents, brokers and intermediaries	**(36)**	(36)
	Deferred revenue liability change expense	**(68)**	(68)
	Post retirement medical benefit expense	**(3)**	15
	Provision	**(3)**	(4)
	Change in long-term insurance contract liabilities	**(6 719)**	5 813
	Change in investment contracts with DPF liabilities	**(2 069)**	(476)
	Fair Value Adjustments on CIS Liabilities	**1 415**	(466)
	Fair value adjustment on investment contract liability to 1st party cell captive	**(11)**	44
	Fair Value Adjustments on Invest Contract Liabilities	**5 616**	8 871
	Change in re-insurance asset and liability provisions	**(38)**	(334)
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Net insurance and investment liabilities	**1 141**	(6 795)
	Deferred Acquisition Costs	**(353)**	(341)
	Financial assets at amortised cost	**8 336**	(12 211)
	Insurance and other receivables	**(41)**	(17)
	Reinsurance assets and liabilities	**(1)**	–
	Employee benefit assets and obligations	**(469)**	(268)
	Other operating liabilities	**(4 513)**	10 437
	Financial assets and liabilities	**(11 298)**	(8 040)
	Cash utilised in operations	**(11 258)**	(17 092)
27.2	**Income tax paid**		
	(Due)/receivable at beginning	**(265)**	16
	Charged to income statement	**(1 410)**	(1 222)
	Charged directly to other comprehensive income	**(1)**	–
	Other	**(3)**	–
	Due at the end	**47**	265
		(1 632)	(941)
27.3	**Interest paid (operating activities)**		
	Unsecured subordinated call notes	**440**	418
	Cost of carry positions	**288**	286
	Lease liability	**22**	–
	Other	**93**	152
		843	856

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

27 Cash flow from operating activities continued

27.4 Liabilities arising from financing activities

	2020 Rm	2019[1] Rm
Due at beginning	12 392	10 705
Recognised on 1 July 2019 on adoption of IFRS 16	320	–
Subordinated call notes issued	750	750
Subordinated call notes repaid	(755)	(749)
Proceeds from carry positions	7 444	6 613
Repayment of carry positions	(6 613)	(4 255)
Repayment of property development loans	–	(219)
Proceeds from borrowings	–	335
Repayment of borrowings	(6)	(844)
Other borrowings additions	2	–
Acquisition of a subsidiary	60	–
New leases entered into	43	–
Lease payments	(94)	–
Lease modifications	(39)	–
Accrued interest	1 046	856
Interest paid[2]	(990)	(856)
Fair value movement	67	57
Own credit gains included in other comprehensive income	(69)	–
Foreign currency translation difference	4	(1)
Due at end	13 562	12 392

27.5 Disposal of subsidiary recon

	2020 Rm	2019[1] Rm
Assets/(liabilities) disposed of:		
Plant and Equipment	–	1
Loans and Receivables	–	20
Cash and Cash Equivalents	–	44
Employee Benefit Obligations	–	(2)
Other Payables	–	(16)
Loan with related party	–	(47)
Net assets sold	–	–
Non-controlling interests disposed of	–	–
Profit on sale of subsidiary	–	44
Cash flow from sale of subsidiary	–	44
Cash proceeds on sale of subsidiary	–	44
Cash and cash equivalents disposed of	–	(44)
Net cash on disposal	–	–

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

[2] R834 million of the interest paid is included in operating activities and R147 million of the interest paid, relating to capitalised borrowing costs is included in investing activities in the Statement of Cash Flows.

28 Business combinations

Business combinations for the year ended 30 June 2020

On 01 July 2019, MML Group, through its wholly owned subsidiary, MML Company, acquired Taung Square Proprietary Limited for R44 million, made up as follows:

- R35 million in respect of the Taung Sale Shares;
- R9 million in respect of Taung Sale Claims.

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

	2020 Rm	2019[1] Rm
Investment property	118	–
Trade and other receivables	1	–
Current tax receivable	–	–
Cash and cash equivalents	2	–
Total Assets	121	–
Other financial liabilities	60	–
Deferred tax	7	–
Trade and other payables	1	–
Amount due to shareholders	3	–
Total liabilities	71	–
Net asset value	50	–
Non-controlling interest arising on acquisition	6	–
Acquisition price	44	–
Goodwill	–	–

Business combinations for the year ended 30 June 2019

There were no significant business combinations in the current year.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

29 Related party transactions

29.1 Major shareholders and group companies

The holding company of Momentum Metropolitan Life Ltd is Momentum Metropolitan Holdings Ltd, and the major shareholder in Momentum Metropolitan Holdings Ltd is Rand Merchant Investment Holdings Ltd (RMIH).

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; 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.

29.2 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 C.

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[1] Rm
Salaries and other short-term employee benefits	**25**	18
Post-employment benefits	**–**	1
Termination benefits	**–**	–
Share-based payments	**7**	10
Directors' fees	**14**	9
	46	38

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 13.1.2.

Aggregate details of insurance and investment transactions between the company (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**	1	143
Aggregate life and disability cover	**37**	**–**	680	–
Deposits/premiums for the year	**2**	**9**	1	7
Withdrawals/claims for the year	**–**	**(7)**	–	–

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.

29.3 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.

29 Related party transactions continued

29.4 Transactions with significant shareholders

MML dividend declarations:

MML declared a final ordinary dividend of R633.2 million (R3.34 per ordinary share) to Momentum Metropolitan Holdings Ltd for the year ended 30 June 2019, which was only provided for during the 2020 financial year, compared to a final ordinary dividend of R702.4 million (R3.70 per ordinary share) for the year ended 30 June 2018, which was only provided for during the 2019 financial year.

MML also declared R708.6 million (2019: R833.4 million) in interim ordinary dividends being R3.74 (2019: R4.39) per ordinary share to Momentum Metropolitan Holdings Ltd in March 2020 (2019: March 2019).

In addition, MML declared a special dividend of R950 million (R5.01 per ordinary share) to Momentum Metropolitan Holdings Limited for the year ended 30 June 2019 and a dividend in specie of R615.7 million (R3.25 per ordinary share), which was provided for during the 2020 financial year. The dividend was a non-cash transaction used to settle a loan amount. The special dividend was used by the Group for the acquisition of Momentum Insurance (previously Alexander Forbes Insurance).

The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends declared to Momentum Metropolitan Holdings Ltd in the current year amounted to R34 million (2019: R34 million).

29.4 Post-employment benefit plans

Refer to note 13 for details of the Group's employee benefit plans.

30 Capital and lease commitments

	2020 Rm	2019[1] Rm
Capital commitments		
Authorised but not contracted	–	–
Authorised and contracted	325	–
	325	–

The above commitments, which are in respect of building refurbishments of R199 million for the next two years and building development costs of R126 million, will be financed from internal sources.

Lease commitments

The minimum future lease payments payable under non-cancellable operating leases on property and equipment:

	2020 Rm	2019[1] Rm
Less than 1 year	4	111
Between 1 and 5 years	–	231
More than 5 years	–	54
	4	396

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:

	2020 Rm	2019[1] Rm
Less than 1 year	357	363
Between 1 and 5 years	800	926
More than 5 years	1 000	1 138
	2 157	2 427

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

31 Contingent liabilities

Refer to Annexure E 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.

32 Events after the reporting period

The Covid-19 pandemic has brought many challenges to the Group's operating environment and impacted our stakeholders from a health perspective, financially through the severe volatility in investment markets and lower interest rates, and within their daily movements due to Government restrictions that were implemented by Governments in response to the pandemic. These effects are continuing and the Group is expected to be impacted by an expected worsening in 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 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 an employee share ownership scheme, which will acquire 3% of the Group's ordinary share capital. The share ownership scheme is structured as a trust to the benefit all of the Group's South African employees. The scheme is subject to the certain suspensive conditions, including approval from existing shareholders. The scheme aspires to realise broad-based black socio-economic transformation, through the empowerment of employees to participate as shareholders in the business.

On 12 October 2020, Momentum Metropolitan Life Ltd, through its wholly-owned subsidiary, Momentum Global Investment Management (Pty) Ltd, announced it had agreed to acquire 100% of the shares in Seneca Investment Managers Limited, an investment management company based in Liverpool, UK. The strategic acquisition is in line with the Group's ambition to grow its distribution and solution footprint in the UK market. Due to the timing of the transaction, a purchase price allocation has not yet been finalised.

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

33 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 endeavour 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 Group is currently exposed to the following financial risks:

Long-term insurance risk: Long-term insurance risk is the risk that future claims will cause an adverse change in the value of long-term life insurance contracts through the realisation of a 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 South Africa.

Short-term insurance risk: Short-term insurance risk is the risk of unexpected underwriting losses in respect of existing short-term insurance business as well as the new business expected to be written over the following 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.

Liquidity risk: Liquidity risk is the risk that, though solvent, the organisation has inadequate cash resources to meet its financial obligations when 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) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth or market disruptions).

Market risk: Market risk is the risk of losses arising from adverse movements in the level and/or volatility of financial market prices and rates. 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, unsecured lending, 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.

34 Capital management

34.1 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 while 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 while focusing on effective implementation and execution of the principles.

34.2 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.

- **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.

- **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:** MML, as the custodian of shareholder funds within Momentum Metropolitan Holdings (MMH), aims to declare dividends that supports the external dividend declarations, capital structure optimisation and strategic investments undertaken by the MMH.

  MMH's dividend policy is to grow dividends in line with MMH's diluted normalised headline earnings growth. MMH targets a 2.5x Diluted 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 MMH's diluted 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.

34 Capital management continued

34.3 Overview of capital management developments

34.3.1 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 and is performed within the PA.

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

34.3.2 Changes in capital structure

Momentum Metropolitan Life preference share buyback

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

Subordinated debt raising

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

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

34.3.3 MML subordinated debt profile

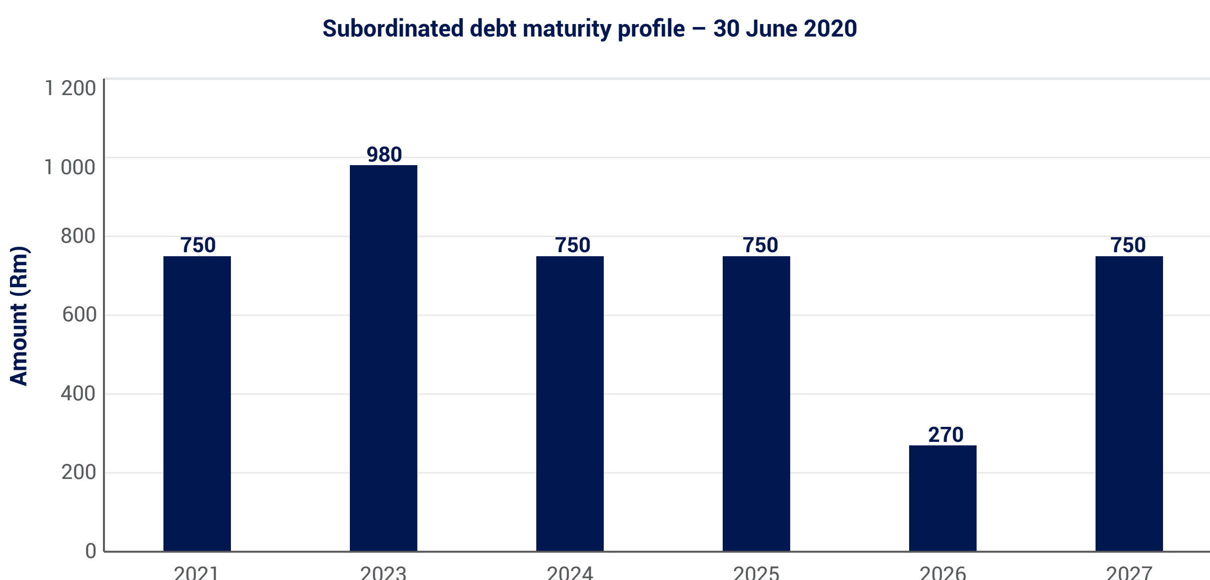
Instrument Code	Amount issued (Rm)	Coupon rate	Original tenor (years)	Term to first call (years)	Date issued	Interest rate
MMIG02	750	10.07%	7	<1	17-Mar-2014	Fixed
MMIG04	270	11.30%	10	5	12-Aug-2015	Fixed
MMIG05	980	10.86%	7	2	12-Aug-2015	Fixed
MMIG06	750	JIB03 + 220bps	6	3	19-Oct-2017	Floating
MMIG07	750	JIB03 + 175bps	5.5	4	18-Mar-2019	Floating
MML01	290	JIB03 +175	7	6.5	10-Dec-2019	Floating
MML02	460	9.29%	7	6.5	10-Dec-2019	Fixed
	4 250					

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.

34.3 Overview of capital management developments continued

34.3.3 Subordinated debt profile continued

The graph below shows the maturity profile of MML's subordinated debt:



34.4 Capital coverage

MML has adopted a target range for regulatory solvency cover of 1.7 to 2.1 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.

34.5 Credit ratings

On 1 April 2020, Moody's amended MML's credit rating and maintained a negative outlook on the rating. The change in the credit rating 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 MML credit ratings as at 30 June 2020 and 30 June 2020.

		National scale		Global scale		
	Type	2020	2019[1]	2020	2019[1]	Outlook
MML	Insurer Financial Strength	**Aaa.za (AAA)**	Aaa.za (AAA)	**Baa3 (BBB-)**	Baa2 (BBB)	**Negative**
MML	Issuer rating	**Aa1.za (AA+)**	Aaa.za (AAA)	**Ba1 (BB+)**	Baa3 (BBB-)	**Negative**
Subordinated debt	N/A	**Aa3.za (AA-)**	Aa2.za (AA)	**Ba2 (BB)**	Ba1 (BB+)	**Negative**

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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

On the company, Moody's commented that "Momentum Metropolitan Life Ltd'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 company from stress related to credit pressures at the sovereign level. The company'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 company'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 Covid-19 which will make it more challenging for the company to meet its profitability targets under its 'Reset and Grow' strategy.

35 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				
Contracts with DPF	**43 658**	**15 421**	**2 501**	**61 581**
Individual contracts with DPF	**31 105**	**1 494**	**2 453**	**35 052**
Smoothed bonus business	**21 997**	**573**	**813**	**23 383**
Smoothed bonus – fully vesting	**–**	**921**	**1 640**	**2 561**
Conventional with-profit business	**9 108**	**–**	**–**	**9 108**
Group contracts with DPF	**12 553**	**13 928**	**48**	**26 529**
Smoothed bonus business	**(46)**	**13 316**	**–**	**13 270**
Smoothed bonus business – fully vesting	**–**	**584**	**–**	**584**
With-profit annuity business	**12 599**	**28**	**48**	**12 675**
Market-related business	**16 423**	**958**	**230 285**	**247 666**
Individual market-related business	**16 451**	**958**	**155 245**	**172 654**
Group market-related business	**(28)**	**–**	**75 040**	**75 012**
Other business	**43 253**	**183**	**10 391**	**53 827**
Non-profit annuity business	**35 445**	**–**	**1 827**	**37 272**
Guaranteed endowments	**11**	**–**	**8 564**	**8 575**
Other non-profit business	**7 797**	**183**	**–**	**7 980**
Subtotal	**103 334**	**16 563**	**243 177**	**363 074**
Liabilities in cell captive and non-life business	**(222)**	**–**	**1 245**	**1 023**
Total contract holder liabilities	**103 112**	**16 563**	**244 422**	**364 097**
2019[1]				
Contracts with DPF	47 752	17 440	2 601	67 793
Individual contracts with DPF	33 836	1 527	2 551	37 914
Smoothed bonus business	24 232	646	804	25 682
Smoothed bonus – fully vesting	–	881	1 747	2 628
Conventional with-profit business	9 604	–	–	9 604
Group contracts with DPF	13 916	15 913	50	29 879
Smoothed bonus business	65	15 153	–	15 218
Smoothed bonus business – fully vesting	–	722	–	722
With-profit annuity business	13 851	38	50	13 939
Market-related business	18 876	1 012	222 113	242 000
Individual market-related business	18 887	1 012	147 533	167 433
Group market-related business	(11)	–	74 579	74 567
Other business	43 433	180	11 437	55 050
Non-profit annuity business	35 206	–	2 083	37 289
Guaranteed endowments	20	–	9 354	9 373
Other non-profit business	8 207	180	–	8 387
Subtotal	110 061	18 632	236 150	364 843
Liabilities in cell captive and non-life business	(312)	–	1 330	1 018
Total contract holder liabilities	109 749	18 632	237 480	365 861

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

35 Insurance and investment business continued

35.1 Classes of long-term insurance and investment business continued

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.
- 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 discretionary participation 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.

35 Insurance and investment business continued

35.1 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 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)

Insurance

- 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.
- 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.

35 Insurance and investment business continued

35.2 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 Head of the Actuarial Function (HAF) has a duty under the Insurance Act 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, including 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 HAF reports on these matters to the board, Audit Committee and the Prudential Authority. The Actuarial Committee supports the HAF in his 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.

35.2.1 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:

- Premium rates are required to be certified by the HAF as being actuarially sound.
- 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.

35 Insurance and investment business continued

35.2 Long-term insurance risk continued

35.2.1 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 retain 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 sum insured at risk:

	2020			2019[1]		
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	**2 427 478**	**19 087**	**18 657**	2 348 931	20 572	20 137
20 001 – 50 000	**795 772**	**32 018**	**31 155**	848 200	32 810	31 872
50 001 – 100 000	**319 240**	**28 006**	**25 671**	314 723	25 830	23 437
100 001 – 200 000	**109 835**	**17 838**	**13 077**	116 721	18 843	13 823
200 001 – 500 000	**180 820**	**62 034**	**42 588**	191 607	64 293	44 719
500 001 – 1 000 000	**213 144**	**117 270**	**86 735**	221 404	121 193	89 395
>1 000 000	**471 144**	**1 027 437**	**575 393**	469 103	994 523	556 028
Subtotal	**4 517 433**	**1 303 690**	**793 276**	4 510 689	1 278 064	779 411
Cell captive business	**66 817**	**43 915**	**8 783**	74 822	43 578	8 716
Total	**4 584 250**	**1 347 605**	**802 059**	4 585 511	1 321 642	788 127

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

35 Insurance and investment business continued

35.2 Long-term insurance risk continued

35.2.1 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; and
  - 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; and
    - 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[1]
0 – 1 000	**7 189**	7 505
1 001 – 5 000	**221**	223
>5 000	**131**	119
Subtotal	**7 541**	7 847
Cell captive business	**1**	1
Total	**7 542**	7 848

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

35 Insurance and investment business continued

35.2 Long-term insurance risk continued

35.2.1 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:

	2020		2019[1]	
Annuity amount per annum Rands	**Number of annuitants**	**Total amount per annum Rm**	**Number of annuitants**	**Total amount per annum Rm**
0 – 10 000	**63 782**	**280**	66 966	292
10 001 – 50 000	**43 485**	**1 029**	44 082	1 036
50 001 – 100 000	**11 252**	**791**	11 236	786
100 001 – 200 000	**6 693**	**926**	6 272	865
>200 000	**4 437**	**1 703**	3 983	1 512
Subtotal	**129 649**	**4 729**	132 539	4 491
Cell captive business	**121**	**33**	136	35
Total	**129 770**	**4 762**	132 675	4 526

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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.

35.2.2 Contract persistency risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.

- 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 has 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.

35 Insurance and investment business continued

35.2 Long-term insurance risk continued

35.2.2 Contract persistency risk continued

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.

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 programs 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.

35.2.3 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.

35.2.4 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.

35.2.5 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.

35.3 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.

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.

35 Insurance and investment business continued

35.3 Non-life insurance risk continued

- 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 includes 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 write 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[1] Rm
Premiums	**959**	879
Claims	**588**	555

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

36 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 portfolios' 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.

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 enterprise risk management function.

The Capital and Investment Committee 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 carry positions and the subordinated call notes.

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 Capital and Investment Committee. 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		2019#	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**72**	**322 712**	72	326 563
Medium[2]	**25**	**109 433**	25	110 833
Low/illiquid[3]	**3**	**14 021**	3	14 589
Other assets not included above				
– employee benefit assets		**648**		467
– deferred income tax		**286**		313
Total assets		**447 100**		452 765

[1] 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.

[2] 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).

[3] 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).

[#] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 R million	Carrying amount Rm	Total Rm	Open-ended[1] Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	>10 years Rm
Insurance contracts (DCFs)[2]	103 334	103 334	16 976	12 831	26 776	20 298	26 453
Linked (market-related) business							
Individual	16 451	16 451	2 041	1 222	3 968	4 095	5 125
Employee benefits	(28)	(28)	(4)	(2)	(9)	(12)	–
Smoothed bonus business							
Individual	21 997	21 997	623	2 831	6 854	5 101	6 588
Employee benefits	(46)	(46)	(46)	–	–	–	–
Conventional with-profit business	9 108	9 108	5 457	301	480	178	2 692
Guaranteed endowments	11	11	–	9	2	–	–
Non-profit business							
Individual	5 452	5 452	1 291	1 150	1 029	514	1 468
Employee benefits	2 345	2 345	117	1 699	195	109	225
Annuity business	48 044	48 044	7 498	5 621	14 257	10 313	10 355
Investment contracts with DPF (DCFs)[2]	16 563	16 563	15 039	265	567	295	397
Linked (market-related) business							
Individual	957	957	6	185	337	187	242
Employee benefits	–	–	–	–	–	–	–
Smoothed bonus business							
Individual	573	573	–	80	230	108	155
Employee benefits	13 316	13 316	13 316	–	–	–	–
Smoothed bonus – fully vesting							
Individual	921	921	921	–	–	–	–
Employee benefits	584	584	584	–	–	–	–
Conventional with-profit business	–	–	–	–	–	–	–
Non-profit business							
Individual	1	1	1	–	–	–	–
Employee benefits	183	183	183	–	–	–	–
Annuity business	28	28	28	–	–	–	–
Investment contracts (undiscounted cash flows)	243 177	244 007	115 587	8 576	11 977	16 667	91 200
Linked (market-related) business							
Individual	155 244	155 244	39 545	4 650	4 679	16 529	89 841
Employee benefits	75 040	75 040	73 600	16	76	127	1 221
Smoothed bonus business							
Individual	813	813	800	–	1	2	10
Employee benefits	–	–	–	–	–	–	–
Smoothed bonus – fully vesting							
Individual	1 640	1 640	1 377	9	11	38	205
Employee benefits	–	–	–	–	–	–	–
Guaranteed endowments	8 564	9 256	200	3 224	5 832	–	–
Non-profit business							
Individual	–	–	–	–	–	–	–
Employee benefits	–	–	–	–	–	–	–
Annuity business	1 876	2 014	65	677	1 378	(29)	(77)

[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

- 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

2020 R million	Carrying amount Rm	Total Rm	Open-ended[1] Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	>10 years Rm
Subtotal policyholder liabilities under insurance and investment contracts	363 074	363 904	147 602	21 672	39 320	37 260	118 050
Cell captive business	1 023	1 023	156	398	(495)	(86)	1 050
Total policyholder liabilities under insurance and investment contracts	364 097	364 927	147 758	22 070	38 825	37 174	119 100
Financial liabilities at fair value through profit and loss	50 183	45 945	32 938	8 550	3 315	1 142	–
Collective investment scheme liabilities	32 938	32 938	32 938	–	–	–	–
Subordinated call notes	4 431	5 563	–	1 106	3 315	1 142	–
Carry positions	7 444	7 444	–	7 444	–	–	–
Derivative financial liabilities3	5 370	–	–	–	–	–	–
Other borrowings	–	–	–	–	–	–	–
Financial liabilities at amortised cost	1 687	2 894	–	411	1 346	1 139	–
Finance lease liabilities	232	485	–	132	257	96	–
Property development loans	1 326	2 272	–	147	1 081	1 044	–
Other	129	137	–	131	7	(1)	–
Other payables[4]	14 993	14 993	1	14 971	21	–	–
Reinsurance contract liabilities	562	562	–	92	362	108	–
Other liabilities[5]	3 165	–	–	–	–	–	–
Total liabilities	434 687	429 321	180 697	46 094	43 869	39 563	119 100

[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
- 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.

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 the company. 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.

37 **Liquidity risk** continued

Maturity profile of liabilities continued

2019[1]	Carrying amount Rm	Total Rm	Open-ended Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	>10 years
Insurance contracts (DCFs)	110 060	110 060	20 672	12 059	25 918	21 059	30 352
Linked (market-related) business							
Individual	18 886	18 886	4 591	1 713	3 481	3 612	5 488
Employee benefits	(11)	(11)	–	(1)	(5)	(6)	–
Smoothed bonus business		–					
Individual	24 232	24 232	1 073	3 211	7 156	5 817	6 975
Employee benefits	65	65	65	–	–	–	–
Conventional with-profit business	9 604	9 604	5 637	372	496	210	2 889
Guaranteed endowments	20	20	–	10	10	–	–
Non-profit business		–					
Individual	5 790	5 790	1 415	493	817	612	2 453
Employee benefits	2 417	2 417	32	1 268	400	231	486
Annuity business	49 057	49 057	7 858	4 993	13 563	10 582	12 061
Investment contracts with DPF (DCFs)	18 633	18 633	16 981	238	706	312	396
Linked (market-related) business							
Individual	1 012	1 012	6	110	446	199	251
Employee benefits	–	–	–	–	–	–	–
Smoothed bonus business		–					
Individual	646	646	–	128	260	113	145
Employee benefits	15 153	15 153	15 153	–	–	–	–
Smoothed bonus – fully vesting		–					
Individual	881	881	881	–	–	–	–
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)	236 150	238 106	115 314	6 923	16 319	13 181	86 369
Linked (market-related) business							
Individual	147 533	147 533	39 718	4 450	5 343	13 027	84 995
Employee benefits	74 579	74 579	73 162	16	75	125	1 201
Smoothed bonus business		–					
Individual	804	804	789	1	1	2	11
Employee benefits	–	–	–	–	–	–	–
Smoothed bonus – fully vesting							
Individual	1 747	1 747	1 450	12	15	35	235
Employee benefits	–	–	–	–	–	–	–
Guaranteed endowments	9 354	11 010	144	1 726	9 139	1	–
Annuity business		–					
Individual	–	–	–	–	–	–	–
Employee benefits	–	–	–	–	–	–	–
Guaranteed endowments	2 133	2 433	51	718	1 746	(9)	(73)
Subtotal policyholder liabilities under insurance and investment contracts	364 843	366 799	152 967	19 220	42 943	34 552	117 117
Cell captive and non-life business	1 018	1 018	147	300	(419)	(142)	1 132
Total policyholder liabilities under insurance and investment contracts	365 861	367 817	153 114	19 520	42 524	34 410	118 249
Financial liabilities at fair value through profit and loss	46 044	44 875	32 559	7 775	3 452	1 084	5
Collective investment scheme liabilities	32 678	32 559	32 559	–	–	–	–
Subordinated call notes	4 431	5 698	–	1 162	3 452	1 084	–
Carry positions	6 613	6 613	–	6 613	–	–	–
Derivative financial liabilities	2 317	–	–	–	–	–	–
Other borrowings	5	5	–	–	–	–	5
Financial liabilities at amortised cost	1 343	2 156	–	122	795	1 239	–
Other payables	20 232	20 232	1	20 126	–	105	–
Reinsurance contract liabilities	576	576	–	69	309	129	69
Other liabilities	3 797	–	–	–	–	–	–
Total liabilities	437 853	435 656	185 674	47 612	47 080	36 967	118 323

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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.

	Carrying amount Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm	> 5years Rm
2020					
Derivatives held for trading					
Equity derivatives	(1 262)	(786)	(713)	(73)	–
Interest rate derivatives	130	(542)	1 097	(708)	(931)
Bond derivatives	(18)	(105)	(105)	–	–
Credit derivatives	33	33	11	28	(6)
Currency derivatives	(972)	(667)	(101)	21	(587)
Total net undiscounted cash flow projections	(2 089)	(2 067)	189	(732)	(1 524)
Derivative financial instruments					
Assets	3 281				
Liabilities	(5 370)				
	(2 089)				
2019[1]					
Derivatives held for trading					
Equity derivatives	(2)	(12)	1	(13)	–
Interest rate derivatives	864	252	(14)	1 744	(1 478)
Bond derivatives	46	16 686	–	(3 839)	20 525
Credit derivatives	12	–	–	–	–
Currency derivatives	(792)	(490)	103	(249)	(344)
Total net undiscounted cash flow projections	128	16 436	90	(2 357)	18 703
Derivative financial instruments					
Assets	2 444				
Liabilities	(2 316)				
	128				

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

38 Market risk

Market risk is defined as the risk of losses arising from adverse movements in the level and/or volatility of financial market prices and rates. 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	2019[1] Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value through profit and loss					
Unit-linked investments	**155 875**	161 667	✓✓	✓	✓
Debt securities	**125 960**	113 466	✓	✓✓	✓
Equity securities	**90 863**	95 422	✓✓		✓
Funds on deposit and other money market instruments	**19 235**	22 493	✓	✓✓	✓
Derivative financial assets	**3 281**	2 444	✓✓	✓✓	✓
Carried at amortised cost					
Unsettled trades	**4 182**	11 550			✓
Accounts receivable	**1 358**	1 232		✓	✓
Loans	**3 961**	5 070		✓✓	✓
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 533**	2 471		✓	✓
Cash and cash equivalents	**22 325**	19 056		✓✓	✓
Other non-financial assets	**17 527**	17 894	N/A	N/A	N/A
Total assets	**447 100**	452 765			
Liabilities					
Carried at fair value through profit and loss					
Investment contracts					
Designated at fair value through profit and loss	**244 422**	237 480	✓✓	✓✓	✓
Collective investment scheme liabilities	**32 938**	32 678	✓✓	✓	✓
Subordinated call notes	**4 431**	4 431	✓	✓✓	
Carry positions	**7 444**	6 613	✓	✓✓	
Derivative financial liabilities	**5 370**	2 317	✓✓	✓✓	✓
Other borrowings	**–**	5		✓	✓
Carried at amortised cost					
Lease liabilities	**232**	–			
Other	**1 455**	1 343		✓✓	
Other payables (excluding premiums received in advance and deferred revenue liabilities)					
Payables arising from insurance contracts and investment contracts with DPF	**4 204**	4 465			✓
Payables arising from investment contracts	**1 125**	845			✓
Unsettled trades	**5 076**	11 085			✓
Commission creditors	**770**	757		✓	✓
Other	**3 818**	3 080		✓	✓
Insurance contract liabilities	**103 112**	109 749	*	*	*
Investment contracts with DPF liabilities	**16 563**	18 632	✓✓	✓✓	✓✓
Other non-financial liabilities	**3 727**	4 373	N/A	N/A	N/A
Total liabilities	**434 687**	437 853			

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 35.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 Asset and Liability Management (ALM) Policy while the Client Investment Policy governs the management of policyholder market risk.

The executive BSM is 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 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, which is supported by technical as well as fundamental analysis.

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 R3 million (2019[1]: R13.7 million) for MML.

The calculation for MML is based on the risk-free yield curve. The average rate that produces the same result is 4.9% (2019[1]: 11.3%).

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.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systematic 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 below 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

Exposure of financial instruments to interest rates 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	**125 960**	**47 842**	**76 173**	**1 945**	**42%**
Funds on deposit and other money market instruments	**19 235**	**12 665**	**6 568**	**2**	**38%**
Derivative financial assets	**3 281**	**–**	**3 281**	**–**	**N/A**
Derivative financial liabilities	**(5 370)**	**–**	**(5 370)**	**–**	**N/A**
At amortised cost					
Debt securities	**–**	**–**	**–**	**–**	**–**
Funds on deposit and other money market instruments	**–**	**–**	**–**	**–**	**–**
Loans and receivables at amortised cost	**9 645**	**1 499**	**–**	**8 146**	**–**
Cash and cash equivalents	**22 325**	**18 910**	**–**	**3 415**	**–**
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 533**	**–**	**–**	**2 533**	**–**
	177 609	**80 916**	**80 652**	**16 041**	
2019[1]					
At fair value through profit and loss					
Debt securities	113 466	42 365	69 184	1 917	69%
Funds on deposit and other money market instruments	22 489	14 186	8 298	5	39%
Derivative financial assets	2 444	–	2 444	–	N/A
Derivative financial liabilities	(2 317)	–	(2 317)	–	N/A
At amortised cost					
Debt securities	–	–	–	–	0%
Funds on deposit and other money market instruments	–	–	–	–	0%
Loans and receivables at amortised cost	18 008	1 451	–	16 557	0%
Cash and cash equivalents	19 056	18 393	–	663	0%
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 471	–	–	2 471	0%
	175 617	76 395	77 609	21 613	

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Liability exposure to interest rates is reflected in note 10.

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 South African Reserve Bank.

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 next 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, Malawi, Mauritius, Mozambique, Nigeria, Tanzania 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:

	Africa Rm	UK Rm	US Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
2020							
Closing exchange rate		**21.4519**	**17.3610**	**19.5045**			
Investment securities							
At fair value through profit and loss							
Unit-linked investments	**–**	**5 083**	**30 065**	**804**	**129**	**52**	**36 133**
Equity securities	**–**	**1 890**	**18 707**	**3 427**	**4 780**	**2 409**	**31 213**
Debt securities	**–**	**110**	**1 772**	**36**	**11**	**–**	**1 929**
Funds on deposit and other money market instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial assets	**–**	**9**	**16**	**2**	**–**	**–**	**27**
At amortised cost							
Debt securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Funds on deposit and other money market instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and accounts receivable	**–**	**78**	**116**	**6**	**14**	**11**	**225**
Cash and cash equivalents	**–**	**335**	**4 427**	**84**	**163**	**40**	**5 049**
Insurance and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**7 505**	**55 103**	**4 359**	**5 097**	**2 512**	**74 576**
2019[1]							
Closing exchange rate		17.9473	14.1084	16.0651			
Investment securities							
At fair value through profit and loss							
Unit-linked investments	–	4 750	34 054	939	19	95	39 857
Equity securities	2	1 773	12 490	2 574	2 642	1 669	21 150
Debt securities	–	108	3 450	111	–	–	3 669
Funds on deposit and other money market instruments	–	–	–	–	–	–	–
Derivative financial assets	–	–	(11)	1	–	–	(10)
At amortised cost							
Debt securities	–	–	–	–	–	–	–
Funds on deposit and other money market instruments	–	–	–	–	–	–	–
Loans and accounts receivable	–	36	94	6	48	24	208
Cash and cash equivalents	–	156	2 484	94	37	30	2 801
Insurance and other receivables	–	–	–	–	–	–	–
	2	6 823	52 561	3 725	2 746	1 818	67 675

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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	2019[1] Rm
Investment properties	**9 030**	9 515
Owner-occupied properties	**2 039**	2 017
Collective investment schemes >55% property exposure (refer to Annexure B)	**4 634**	5 948
	15 703	17 480
Percentage of total assets	**3.5%**	3.9%

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 R1 795 million (2019: R636 million).

38.5 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	**343**	**(523)**	(177)	(193)
2019[1]				
Increase/(decrease) in earnings and equity	**226**	**(270)**	30	(76)

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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 MMI's current practice and accounting policy, the investment variances from insurance contracts were stabilised. As at 30 June 2020, MMI's investment stabilisation reserve had a balance of R0 million (2019[1]: 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.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

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, accounts receivables, 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 policyholders and other financial assets at amortised cost 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.

Credit risk governance

The governance of credit risk is comprehensively set out in the Capital and Investment Committee (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 enterprise risk management (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; and
- 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 Covid-19

The high quality credit investment portfolio continues to perform well. In our shareholder portfolio we have minimal exposure to those sectors hardest hit by Covid-19 like airlines, hospitality, tourism and consumer finance. In 2020 we had no defaults due to Covid-19. We continue to update and re-assess the risk of Covid-19 on our 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.

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.

39 Credit risk continued

Financial assets at amortised cost continued

Credit risk exposure

For the Group's maximum exposure to credit risk refer to note 5.6.

Financial assets and liabilities designated at fair value through profit and loss

The current fair value movements, on instruments 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 1 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 the 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.

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).

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 R837 million (2019[1]: R982 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 5.2. 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.

Impact of Covid-19

The high quality credit investment portfolio continues to perform well. In our shareholder portfolio we have minimal exposure to those sectors hardest hit by Covid-19 like airlines, hospitality, tourism and consumer finance. In 2020 we had no defaults due to Covid-19. We continue to update and re-assess the risk of Covid-19 on our portfolio and for each counterparty as new information becomes available.

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MOMENTUM METROPOLITAN LIFE LIMITED
ANNUAL FINANCIAL STATEMENTS 2020

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Published basis	Notes	2020 Rm	2019 Rm
Total assets per balance sheet	1	**403 775**	404 008
Total liabilities per balance sheet	2	**390 967**	388 697
Liabilities under insurance contracts		**103 499**	110 233
Liabilities under investment contracts		**258 221**	253 580
Current and other liabilities		**24 816**	20 453
Unsecured subordinated debt	3	**4 431**	4 431
Excess of assets over liabilities		**12 808**	15 311
Statutory basis			
Total assets		**386 023**	390 772
Total liabilities		**356 330**	357 511
Basic own funds		**29 693**	33 261
Own funds eligible to meet SCR	6	**29 067**	32 297
Solvency capital requirement (SCR)		**15 737**	15 869
Excess own funds (SCR)		**13 330**	16 428
SCR cover pre-foreseeable dividend		**1.9 x**	2.1 x
SCR cover post-foreseeable dividend		**1.9 x**	2.0 x

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MOMENTUM METROPOLITAN LIFE LIMITED AS AT 30 JUNE 2020

1 Value of assets

The value of the assets on the published reporting basis is determined according to the accounting policies as set out in Annexure E. Equity investments in subsidiaries are included in the balance sheet at fair value.

2 Value of liabilities

The liability valuation methodology and assumptions under the published reporting basis are set out in the accounting policies and in note 11 to the financial statements.

3 Unsecured subordinated debt

The unsecured subordinated debt is not reflected as a liability when determining the excess of assets over liabilities on the statutory basis as it is regarded as capital for statutory purposes.

4 Analysis of change in excess of assets over liabilities on the published reporting basis

	Notes	2020 Rm	2019 Rm
Excess of assets over liabilities at end of the year		**12 808**	15 311
Excess of assets over liabilities at beginning of the year		**15 311**	14 157
Change in excess of assets over liabilities over the year		**(2 503)**	1 154
Operating profit (excluding basis changes)	4.1	**801**	2 303
Basis changes	4.2	**(768)**	(124)
Investment return on excess	4.3	**485**	764
Attributable earnings		**518**	2 943
Retained earnings adjustments		**(55)**	(16)
Revaluation of investments in subsidiaries		**108**	(61)
Revaluation of owner occupied buildings to fair value		**25**	(203)
Adjustments to defined benefit pension funds		**162**	2
Income tax relating to items that will not be reclassified		**(7)**	59
Dividends paid		**(2 942)**	(1 570)
Own credit gains on financial liabilities designated at fair value through profit or loss		**69**	–
Repurchase of preference shares		**(381)**	–
Change in excess of assets over liabilities		**(2 503)**	1 154

4 Analysis of change in excess of assets over liabilities on the published reporting basis continued

4.1 Operating profit includes expected returns and capital releases on explicit discretionary margins. Momentum Metropolitan Life Limited holds explicit discretionary margins (in addition to discretionary margins implicit in policy liabilities) that serve as a buffer against the impact of market fluctuations on the assets backing those fixed liabilities that cannot be perfectly matched. Expected investment returns and a portion of the capital amount on these margins have been released to earnings in the 12 months ended 30 June 2020 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

4.2 The basis changes consist of the following items:

	2020 Rm	2019 Rm
Economic assumptions[1]	**(38)**	78
Maintenance expense assumptions[2]	**147**	(32)
Mortality and morbidity assumptions[3]	**(598)**	180
Termination assumptions[4]	**(256)**	(196)
Methodology changes and other items[5]	**(23)**	(154)
Total	**(768)**	(124)

[1] Economic assumption changes are transferred to the investment stabilisation account in accordance with accounting policies. The balance relates to residual changes that could not be absorbed by the investment stabilisation account.

[2] Maintenance expense assumptions have been revised based on the budgeted expenses for the year ending 30 June 2021, expected business in-force over the 2021 financial year and inflation expectations.

[3] Assumed mortality and morbidity rates were reviewed consistent with recent experience investigations. In addition, provisions were also made for the expected impact of the Covid-19 pandemic which comprise most of the change.

[4] The termination basis has been strengthened in line with recent experience investigations. The most significant items relate to a reduction in later duration assumed termination rates of retail risk business. In addition, provisions were also made for the expected impact of the Covid-19 pandemic.

[5] Various minor modelling and methodology changes were made.

4.3 Investment income of R485 million (2019: R764 million) includes dividends of R124 million (2019: R210 million) received from strategic subsidiaries.

5 Reconciliation between excess of assets over liabilities on the published reporting basis and the statutory basis

	Notes	2020 Rm	2019 Rm
Excess of assets over liabilities on the published reporting basis		**12 808**	15 311
Remove deferred acquisition costs, goodwill and intangibles	5.1	**(2 413)**	(2 538)
Unsecured subordinated debt	5.2	**4 431**	4 431
Liability valuation differences	5.3	**20 933**	22 483
Increase in net deferred tax liabilities	5.4	**(5 202)**	(5 614)
Participations	5.5	**(882)**	(859)
Reinsurance assets	5.6	**(389)**	(349)
Other	5.7	**407**	396
Basic Own Funds		**29 693**	33 261
Restricted own funds	5.8	**(626)**	(313)
Foreseeable dividend	5.9	**–**	(651)
Own funds eligible to meet SCR		**29 067**	32 297

5.1 Deferred acquisition costs (DAC), goodwill and intangible assets are excluded for statutory purposes in accordance with the prudential standards.

5.2 The subordinated debt issued by the company is regarded as a liability for IFRS purposes but as Own Funds for statutory purposes.

5.3 This is the difference between IFRS liabilities (best estimate plus planned and discretionary margins) and statutory liabilities (best estimate plus risk margin).

5.4 A deferred tax liability is raised on the difference between IFRS liabilities and statutory technical provisions.

5.5 For IFRS purposes, participations are mainly valued using Directors' Valuations. For statutory purposes, the prudential standards require the participation to be valued at net asset value less any goodwill or intangibles. Where the participation is an insurer, it is valued for statutory purposes at the value of Basic Own Funds.

5 Reconciliation between excess of assets over liabilities on the published reporting basis and the statutory basis continued

5.6 The IFRS reinsurance asset is removed for statutory purposes and the reinsurance value calculated as part of the technical provisions is included as a reinsurance asset. In addition, Collective Investment Scheme assets backing linked reinsurance business are removed from investment assets and included in reinsurance assets for statutory purposes.

5.7 Other includes current assets and other liabilities. Deferred Revenue Liabilities and prospective commission liabilities are removed because they form part of statutory technical provisions.

5.8 Restricted Own Funds are surplus funds held within ring-fenced funds that are not available to cover any risks outside of that fund.

5.9 As per the prudential standards, foreseeable dividends must be excluded from Own Funds.

6 Classification of own funds

	2020 Rm	2019 Rm
Tier 1	**24 636**	27 866
Tier 2	**4 431**	4 431
Own funds eligible to meet SCR	**29 067**	32 297

7 Loss absorbing capacity of technical provisions (LACOTP)

The standardised formula SCR is calculated using a modular approach, whereby the capital requirement for each risk module is quantified as the effect on the basic own funds of a pre-defined shock scenario. The loss absorbing capacity of technical provisions refers to the ability of an insurer to apply management actions in response to the shock being tested, thereby reducing the impact on basic own funds. Categories of management actions used are briefly discussed below.

Discretionary participation business

Positive Bonus Stabilisation Accounts (BSAs): to the extent to which they are available, they absorb part of the impact of a stress event before any further management actions are considered. This is not considered a management action, but does form part of the LACOTP.

Assumed under-declaration of bonuses on discretionary participation business: it is assumed that future bonus declarations will be less than assumed future investment returns to improve funding levels. The assumed under-declarations are in line with the principles and practices of financial management.

Removal of non-vesting bonuses (including undeclared terminal bonuses): the impact is limited to be no more than 10% of policyholder funds of the affected products on the majority of affected products except ring-fenced business where the limitation is not applied. The assumed non-vested bonus removals are in line with the principles and practices of financial management.

Other management actions

Repricing: The contractual ability to re-price certain risk products was used as a management action in demographic and market risk stresses. For the longevity and interest rate increase stresses, this results in an increased SCR after the stress.

Policy fees: In the expense stress event an increase in policy fees is modelled on some products after allowing for an implementation delay of one year.

STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	2020 Rm	Restated 2019 Rm	Restated 1 July 2018 Rm	Notes
Assets				
Intangible assets	**2 413**	2 538	2 647	2
Owner-occupied properties	**1 056**	750	1 642	3
Property and equipment	**183**	131	128	
Investment properties	**6 797**	7 163	6 321	4
Interest in subsidiaries	**76 871**	73 128	69 130	5
Employee benefit assets	**649**	466	433	
Financial assets at fair value through profit and loss	**288 896**	294 658	288 622	6.1
Financial assets at amortised cost	**6 223**	7 316	6 111	6.2
Insurance and other receivables	**2 786**	2 627	2 704	6.3
Reinsurance contract assets	**2 156**	2 131	1 872	7
Cash and cash equivalents	**15 112**	12 478	12 478	6.4
Assets relating to disposal groups held for sale	**633**	622	–	8
Total assets	**403 775**	404 008	392 088	
Equity				
Equity attributable to owners of the parent	**12 808**	14 811	13 657	
Share capital	**1 041**	1 041	1 041	15
Other components of equity	**5 427**	5 156	5 436	16
Retained earnings	**6 340**	8 614	7 180	
Preference shares	**–**	500	500	17
Total equity	**12 808**	15 311	14 157	
Liabilities				
Insurance contract liabilities				
Long-term insurance contracts	**103 499**	110 233	104 497	9
Investment contracts	**258 221**	253 580	252 011	10
– with discretionary participation features	**16 563**	18 632	19 108	
– designated at fair value through profit and loss	**241 658**	234 948	232 903	
Financial liabilities at fair value through profit and loss	**15 754**	12 226	10 360	12.1
Financial liabilities at amortised cost	**378**	–	–	12.2
Deferred income tax	**981**	1 399	901	13
Employee benefit obligations	**758**	818	694	14
Other payables	**11 335**	10 165	9 390	12.3
Current income tax liabilities	**41**	276	78	
Total liabilities	**390 967**	388 697	377 931	
Total equity and liabilities	**403 775**	404 008	392 088	

Refer to Annexure H for more information on the restatements.

INCOME STATEMENT

For the year ended 30 June 2020

	2020 Rm	Restated 2019 Rm	Notes
Insurance premiums	**23 811**	27 693	
Insurance premiums ceded to reinsurers	**(2 615)**	(2 405)	
Net insurance premiums	**21 196**	25 288	18
Fee income	**3 335**	3 088	19
Contract administration	**2 740**	2 498	
Trust and fiduciary services	**463**	445	
Other fee income	**132**	145	
Investment income	**17 502**	17 226	20
Amortised cost	**758**	542	
Other investment income	**16 744**	16 684	
Net realised and unrealised fair value gains	**(12 147)**	3 269	21
Net income	**29 886**	48 871	
Insurance benefits and claims	**23 657**	22 904	
Insurance claims recovered from reinsurers	**(2 433)**	(2 112)	
Net insurance benefits and claims	**21 224**	20 792	22
Change in actuarial liabilities and related reinsurance	**(8 828)**	5 001	
Change in insurance contract liabilities	**(6 734)**	5 736	9
Change in investment contracts with DPF liabilities	**(2 069)**	(476)	10.1
Change in reinsurance contract assets	**(25)**	(259)	7
Fair value adjustments on investment contract liabilities	**5 616**	8 855	10.2
Depreciation, amortisation and impairment expenses	**342**	252	23
Impairment expenses due to expected credit losses	**659**	(115)	23
Employee benefit expenses	**3 383**	3 367	24
Sales remuneration	**3 156**	3 104	25
Other expenses	**2 100**	2 382	26
Expenses	**27 652**	43 638	
Results of operations	**2 234**	5 233	
Finance costs	**(813)**	(753)	27
Profit before tax	**1 421**	4 480	
Income tax expense	**(903)**	(1 537)	28
Earnings for year	**518**	2 943	
Attributable to:			
Owners of the parent	**484**	2 909	1
Momentum Metropolitan Life Ltd preference shares	**34**	34	
	518	2 943	
Basic earnings per ordinary share (cents)	**255**	1 531	

Refer to Annexure H 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	518	2 943	
Other comprehensive income/(loss), net of tax	357	(203)	
Items that will not be reclassified to income			
Land and building revaluation	25	(203)	16
Revaluation of subsidiaries	108	(61)	16
Remeasurements of post-employee benefit funds	162	2	16
Income tax relating to items that will not be reclassified	(7)	59	16
Own credit gains on financial liabilities designated at fair value through profit or loss	69	–	12.1
Total comprehensive income for year	875	2 740	
Total comprehensive income attributable to:			
Owners of the parent	841	2 706	
Momentum Metropolitan Life Ltd preference shares	34	34	
	875	2 740	

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	Preference shares Rm	Total equity Rm
Balance at 1 July 2018	9	1 032	5 436	7 180	13 657	500	14 157
IFRS 9 opening adjustment[1]	–	–	–	(16)	(16)	–	(16)
Adjusted opening balance	9	1 032	5 436	7 164	13 641	500	14 141
Total comprehensive (loss)/income	–	–	(203)	2 909	2 706	34	2 740
Income statement	–	–	–	2 909	2 909	34	2 943
Other comprehensive loss	–	–	(203)	–	(203)	–	(203)
Dividend paid	–	–	–	(1 536)	(1 536)	(34)	(1 570)
Transfer to retained earnings	–	–	(77)	77	–	–	–
Balance at 1 July 2019	9	1 032	5 156	8 614	14 811	500	15 311
IFRS 16 opening adjustment[1]	–	–	–	(55)	(55)	–	(55)
Adjusted opening balance	9	1 032	5 156	8 559	14 756	500	15 256
Total comprehensive income	–	–	288	553	841	34	875
Income statement	–	–	–	484	484	34	518
Other comprehensive income	–	–	288	69	357	–	357
Dividend paid	–	–	–	(2 908)	(2 908)	(34)	(2 942)
Transfer to retained earnings	–	–	(17)	17	–	–	–
Repurchase of preference shares	–	–	–	119	119	(500)	(381)
Balance at 30 June 2020	9	1 032	5 427	6 340	12 808	–	12 808

[1] The company adopted IFRS 16 in the current year and IFRS 9 in the prior year. Refer to Annexure G for more detail in respect of IFRS 16.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	2020 Rm	Restated 2019 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(9 552)**	(13 984)	29.1
Interest received	**11 704**	11 528	
Dividends received	**4 802**	4 677	
Income tax paid	**(1 560)**	(781)	29.2
Interest paid	**(813)**	(753)	29.3
Net cash inflow from operating activities	**4 581**	687	
Cash flow from investing activities			
Additional investment in subsidiaries	**(5)**	(434)	
Acquisition of subsidiaries	**44**	–	
Proceeds from disposal of subsidiaries	**–**	44	
Purchase of owner-occupied properties	**(63)**	(48)	
Proceeds from disposal of owner-occupied properties	**–**	22	
Purchase of investment properties	**(160)**	(900)	
Proceeds from disposal of investment properties	**105**	683	
Purchase of property and equipment	**(91)**	(79)	
Proceeds from disposal of property and equipment	**7**	(1)	
Purchase of intangible assets	**(15)**	(8)	
Net cash outflow from investing activities	**(266)**	(721)	
Cash flow from financing activities			
Subordinated call notes issued	**750**	750	29.4
Subordinated call notes repaid	**(755)**	(749)	29.4
Proceeds from borrowings	**6 313**	5 576	29.4
Repayment of borrowings	**(5 576)**	(3 973)	29.4
Payment of principal portion of lease liability	**(96)**	–	29.4
Dividends paid to equity holders[1]	**(2 292)**	(1 536)	
Preference share dividends paid	**(34)**	(34)	
Repurchase of preference shares	**(381)**	–	
Net cash (outflow)/inflow from financing activities	**(2 071)**	34	
Net cash flow	**2 244**	–	
Cash resources and funds on deposit at beginning	**12 478**	12 478	
Foreign cash resources	**390**	–	
Cash resources and funds on deposit at end	**15 112**	12 478	
Made up as follows:			
Cash and cash equivalents	**15 112**	12 478	6.4
	15 112	12 478	

[1] Included in dividends paid in the current year is a dividend in specie of R616 million paid to Momentum Metropolitan Holdings Limited in the form of a loan repayment.

The company'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.
- **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.
- **Momentum Metropolitan Africa:** This segment includes allocations relating to African operations.
- **Non-life Insurance:** This segment includes allocations relating to Momentum Short-term Insurance, Momentum Insurance, and the cell captive insurer, Guardrisk.
- **New Initiatives:** This segment includes allocations relating to India, aYo, Momentum 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 (e.g. certain holding company expenses).

The executive committee of the company assesses the performance of the operating segments based on normalised headline earnings. This measurement basis excludes the amortisation of intangible assets relating to business combinations as well as dividends received from subsidiaries and intercompany loan impairments, which are eliminated on consolidation of the holding company group. 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 company basis and is therefore included in the Shareholders segment.

The majority of revenue earned by the company is attributable to South Africa.

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

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.

For the year ended 30 June 2020

2020	Momentum Life Rm	Momentum Investments Rm	Metropolitan Life Rm	Momentum Corporate Rm
Revenue				
Net insurance premiums	9 466	23 931	7 085	15 630
Recurring premiums	8 896	734	6 025	12 617
Single premiums	570	23 197	1 060	3 013
Fee income	925	1 385	116	910
External fee income	925	1 385	116	910
Expenses				
Net payments to contract holders				
External payments	9 093	22 508	5 435	15 278
Other expenses	2 679	1 338	2 497	1 305
Sales remuneration	1 238	727	1 075	116
Administration expenses	1 416	604	1 335	1 162
Amortisation, depreciation and impairment	25	7	87	27
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Income tax	174	409	84	236
Normalised headline earnings	483	40	301	147
Operating profit/(loss)[2]	680	67	421	208
Tax on operating profit/(loss)	(197)	(19)	(120)	(60)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Fair value gains/(losses)	–	(11)	–	(2)
Tax on fair value gains/(losses)	–	3	–	1
Basis changes and investment variances[3]	(271)	(272)	(412)	(470)
Actuarial liabilities	69 855	163 828	33 800	94 237

[1] The 'Reconciling items' column relates to investment contract business inflows and outflows included in the segmental split. Refer to note 10 for more information.

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

[3] 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 embedded value reporting.

[4] 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 R96 496 million with no such non-current assets located in other countries.

	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
	–	–	–	–	56 112	(34 916)	21 196
	–	–	–	–	28 272	(10 773)	17 499
	–	–	–	–	27 840	(24 143)	3 697
	–	–	–	(1)	3 335	–	3 335
	–	–	–	(1)	3 335	–	3 335
	–	–	–	–	52 314	(31 090)	21 224
	–	–	29	757	8 605	1 035	9 640
	–	–	–	–	3 156	–	3 156
	–	–	29	(82)	4 464	–	4 464
	–	–	–	835	981	–	981
	–	–	–	–	–	419	419
	–	–	–	4	4	616	620
	–	–	–	–	903	–	903
	(3)	(1)	(35)	145	1 077	–	1 077
	–	–	(34)	(41)	1 301	–	1 301
	–	–	–	(173)	(569)	–	(569)
	–	–	–	370	370	–	370
	–	–	–	(48)	(48)	–	(48)
	(4)	(1)	(1)	40	21	–	21
	1	–	–	(3)	2	–	2
	–	–	–	–	(1 425)	–	(1 425)
	–	–	–	–	361 720	–	361 720

Restated **2019**	**Momentum Life Rm**	**Momentum Investments Rm**	**Metropolitan Life Rm**	**Momentum Corporate Rm**
Revenue				
Net insurance premiums	9 213	20 908	7 052	20 397
Recurring premiums	8 795	534	5 931	12 009
Single premiums	418	20 374	1 121	8 388
Fee income	720	1 399	121	841
External fee income	720	1 399	121	841
Expenses				
Net payments to contract holders				
External payments	9 631	26 643	5 804	15 322
Other expenses	2 803	1 335	2 442	1 253
Sales remuneration	1 297	719	984	104
Administration expenses	1 496	613	1 422	1 139
Amortisation, depreciation and impairment	10	3	36	10
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Income tax	312	667	151	407
Normalised headline earnings	966	219	610	512
Operating profit/(loss)[2]	1 348	299	850	711
Tax on operating profit/(loss)	(382)	(84)	(240)	(199)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Fair value gains/(losses)	–	5	–	–
Tax on fair value gains/(losses)	–	(1)	–	–
Basis changes and investment variances[3]	(98)	(39)	4	22
Actuarial liabilities	73 830	157 892	35 654	96 437

1 The 'Reconciling items' column relates to investment contract business inflows and outflows included in the segmental split. Refer to note 10 for more information.

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

3 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 embedded value reporting.

4 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 R93 779 million with no such non-current assets located in other countries.

Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
–	–	–	–	57 570	(32 282)	25 288
–	–	–	–	27 269	(10 552)	16 717
–	–	–	–	30 301	(21 730)	8 571
–	–	–	7	3 088	–	3 088
–	–	–	7	3 088	–	3 088
–	–	–	–	57 400	(36 608)	20 792
–	–	27	78	7 938	1 052	8 990
–	–	–	–	3 104	–	3 104
–	–	27	(2)	4 695	–	4 695
–	–	–	74	133	–	133
–	–	–	–	–	410	410
–	–	–	6	6	642	648
–	–	–	–	1 537	–	1 537
–	–	27	354	2 688	–	2 688
–	–	21	(135)	3 094	–	3 094
–	–	–	(66)	(971)	–	(971)
–	–	8	547	555	–	555
–	–	(2)	(86)	(88)	–	(88)
–	–	–	103	108	–	108
–	–	–	(9)	(10)	–	(10)
–	–	–	–	(111)	–	(111)
–	–	–	–	363 813	–	363 813

1 Normalised headline earnings

	2020 Rm	Restated 2019 Rm
Earnings per ordinary share attributable to owners of the parent		
Earnings (cents per share)	255	1 531
Normalised headline earnings (cents per share)	568	1 417
Reconciliation of normalised headline earnings attributable to owners of the parent		
Earnings – equity holders of the company	484	2 909
Impairment of owner-occupied property below cost	15	67
Tax on impairment of owner-occupied property below cost	(10)	(14)
Impairment of office equipment	–	22
Impairment of intangible computer software	24	–
Impairment of intangible assets relating to business combinations	25	–
Tax on impairment of intangible assets relating to business combinations	(7)	
Impairment/(reversal of impairment) of intercompany loans	640	(119)
Subsidiary dividends received	(124)	(210)
Amortisation of intangible assets relating to business combinations	41	46
Tax on amortisation of intangible assets relating to business combinations	(11)	(13)
Normalised headline earnings[1]	1 077	2 688
Weighted average number of ordinary shares in issue (million)	190	190

[1] **Normalised headline earnings**
Normalised headline earnings include the impact of investment variances, actuarial basis changes of negative R1 425 million (2019: negative R160 million) and other non-recurring items. However, normalised headline earnings adjust the standard definition of headline earnings for the amortisation of intangible assets from business combinations as well as dividends received from subsidiaries and intercompany loan impairments, which are eliminated on consolidation of the holding company group. Management uses this as a segmental performance measure and is of the opinion that it represents underlying performance that is under control of the respective segments.

2 Intangible assets

		2020 Rm	Restated 2019 Rm
2.1	**Goodwill**	40	40
2.2	**Value of in-force business acquired**	487	553
2.3	**Customer relationships**	–	–
2.4	**Deferred acquisition costs**	1 830	1 859
2.5	**Owned and leased computer software**	56	86
		2 413	2 538

2.1 Goodwill

	2020 Rm	2019 Rm
Cost	56	56
Accumulated impairment	(16)	(16)
Carrying amount	40	40
Carrying amount at beginning	40	40
Carrying amount at end	40	40
Cash-generating unit (CGU)		
Life books	40	40
	40	40

Critical accounting estimates and judgements

Goodwill is allocated to CGUs for the purpose of impairment testing. The life book represents the CGU of the life insurance book of Commercial Union Life Association of South Africa Ltd of R40 million, acquired in 1999 (included in the Metropolitan Life segment).

Goodwill is allocated to Cash Generating units (CGUs) and impairment testing is performed at the level of individual CGUs. The recoverable value of this CGU is determined based on a value-in-use calculation with reference to directors' valuations. The value-in-use calculation uses a risk-adjusted cash flow projection which includes projected new business based on financial forecasts approved by management covering a five-year period. This cash flow projection takes into account entity specific risks and is 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 the 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.

2 Intangible assets continued

2.1 Goodwill continued

Critical accounting estimates and judgements continued

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 the 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. Key assumptions are disclosed below.

	2020		2019	
Assumptions	**RDR**	**Growth rate**	**RDR**	**Growth rate**
Commercial Union Life Association of South Africa Ltd	**13%**	**6%**	12%	6%

	2020 Rm	2019 Rm
2.2 Value of in-force business acquired		
Acquisition of insurance and investment contracts with DPF		
Cost	**1 040**	1 040
Accumulated amortisation	**(528)**	(487)
Accumulated impairment	**(25)**	–
Carrying amount	**487**	553
Carrying amount at beginning	**553**	596
Amortisation charges	**(41)**	(43)
Impairment charges	**(25)**	–
Carrying amount at end	**487**	553
The carrying amount is made up as follows:		
Sage – Shareholders segment	**487**	553
	487	553

As a result of certain insurance contracts acquisitions, the company carries an intangible asset representing the VIF acquired. R487 million (2019: R553 million) relates to the acquisition of Sage and will be fully amortised by 2032.

Critical accounting estimates and judgements

The value of in-force business acquired is reviewed for impairment through a discounted cash flow valuation. This valuation method references the results of the Embedded Value calculations for the relevant product. This methodology uses a number of assumptions relating to future cash flows which is aligned to the company's valuation data and models and these are all subjected to the company's governance structures and review. For this year end, particular focus was placed on the extent to which Covid-19 may affect assumptions on future mortality, morbidity and persistency.

Value of in-force business acquired relating to the Sage acquisition (Shareholders) was impaired to its recoverable amount 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. Any further reduction in the recoverable amount will result in an additional impairment. Should the recoverable amount decrease by 20%, an impairment of R97 million will be required relating to the Value of in-force business acquired from Sage.

	2020 Rm	2019 Rm
2.3 Customer relationships		
Cost	**–**	17
Accumulated amortisation	**–**	(17)
Carrying amount	**–**	–
Carrying amount at beginning	**–**	3
Amortisation charges	**–**	(3)
Carrying amount at end	**–**	–

Customer relationships represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations related to the acquisition of client contracts from Everest Corporate Benefits (Pty) Ltd (included in the shareholder segment) and was fully amortised by the end of the prior year.

2 Intangible assets continued

	2020 Rm	Restated 2019 Rm
2.4 Deferred acquisition costs		
Carrying amount at beginning	**1 859**	1 899
Additions	**287**	288
Amortisation charges	**(316)**	(328)
Carrying amount at end	**1 830**	1 859

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 11.

	2020 Rm	2019 Rm
2.5 Owned and leased computer software		
Cost	**468**	443
Accumulated amortisation	**(233)**	(202)
Accumulated impairment	**(179)**	(155)
Carrying amount	**56**	86
Carrying amount at beginning	**86**	109
Recognised on 1 July 2019 on adoption of IFRS 16	**10**	–
Additions	**15**	8
Amortisation charges	**(31)**	(31)
Impairment charges	**(24)**	–
Carrying amount at end	**56**	86

Internally developed software

Included in computer software is a carrying amount of R39 million (2019: R60 million) representing internally developed software. The decrease in Internally developed software relates to R20 million amortisation charges in the current year and R13 million impairment (impairment explained below).

Impairments

During the year, computer software in the Shareholder segment was impaired by R12 million due to a write off relating to residual Khula costs. In addition, other software in the Shareholders segment of R12 million was also impaired.

Material computer software

The Momentum Investments segment has computer software of R21 million (2019: R11 million) which will be fully amortised by 2024.

3 Owner-occupied properties

	2020 Rm	2019 Rm
3.1 Owned owner-occupied properties	**781**	750
3.2 Right-of-use assets	**275**	–
	1 056	750
3.1 Owned owner-occupied properties		
Historical carrying amount – cost model	**689**	677
Owner-occupied properties – at fair value	**781**	750
Fair value at beginning	**750**	1 642
Additions	**63**	48
Disposals	**–**	(22)
Revaluations	**25**	(200)
Depreciation charges	**(31)**	(31)
Impairment charges	**(15)**	(67)
Transfer from investment properties	**–**	2
Transfer to assets relating to disposal groups held for sale	**(11)**	(622)
Fair value at end	**781**	750

3 Owner-occupied properties continued

3.1 Owned owner-occupied properties continued

The impairment in the current and prior year relates to a decrease in the property valuation of certain buildings in the Shareholder segment 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 discounted cash flow (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.

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	9% – 10%	10%	96	(79)
Discount rate	14% – 15%	10%	155	(131)

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. 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 Covid-19 were included in the calculations.

In determining the property values regard was had to 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 company will keep the valuations under frequent review.

3.2 Right-of-use assets

	2020 Rm	2019 Rm
Carrying amount at beginning	–	–
Recognised on 1 July 2019 on adoption of IFRS 16	352	–
Additions	39	–
Modifications	(34)	–
Depreciation charges	(82)	–
Carrying amount at end	275	–

	2020 Rm	2019 Rm
4 Investment properties		
At 30 June, investment properties comprised the following property types:		
Shopping malls	**3 319**	3 503
Office buildings	**3 027**	3 200
Industrial	**279**	252
Hotels	**262**	267
Vacant land	**25**	25
Other	**72**	74
Property at valuation	**6 984**	7 321
Accelerated rental income (refer to note 6.3)	**(187)**	(158)
	6 797	7 163
Completed properties		
Fair value at beginning	**7 163**	6 321
Capitalised subsequent expenditure	**86**	143
Additions	**74**	1 180
Disposals	**(105)**	(683)
Revaluations	**(392)**	210
Change in accelerated rental income	**(29)**	(6)
Transfer to owner-occupied properties	**–**	(2)
Fair value at end	**6 797**	7 163

A register of investment properties is available for inspection at the company's registered office. Investment properties are classified as level 3.

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 55% (2019: 27%) of the portfolio for the company. Eris is responsible for the majority of the internal valuations of the company. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

The valuation 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 assets 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 capitalisation and discount rates. The valuators carried out extensive market research and also collaborated with their professional peers.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
2020				
Capitalisation rate	**7% – 11%**	**10%**	**720**	**(589)**
Discount rate	**9% – 15%**	**10%**	**1 161**	**(858)**

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.

5 Interest in subsidiaries

Subsidiaries (directly held)	Effective % holding 2020 %	Effective % holding 2019 %	Company carrying amount 2020 Rm	Company carrying amount Restated 2019 Rm	Amounts owing by/(to) subsidiaries 2020 Rm	Amounts owing by/(to) subsidiaries 2019 Rm	Carrying amount (including loan account) 2020 Rm	Carrying amount (including loan account) Restated 2019 Rm	Nature of business	Country of incorporation
Listed										
At fair value through profit and loss			**73 575**	69 989	**–**	–	**73 575**	69 989		
Collective investment schemes (Annexure A)	**Various**	Various	**73 575**	69 989	**–**	–	**73 575**	69 989	Unit trusts	South Africa
Total listed subsidiaries			**73 575**	69 989	**–**	–	**73 575**	69 989		
Unlisted										
At fair value through profit and loss			**527**	482	**14**	11	**541**	493		
102 Rivonia Road (Pty) Ltd	**80**	80	**357**	359	**–**	–	**357**	359	Property Investment	South Africa
SMH Land Development (Pty) Ltd	**100**	100	**103**	97	**(15)**	(15)	**88**	82	Property Investment	South Africa
Other unlisted investments in subsidiaries	**Various**	Various	**67**	26	**29**	26	**96**	52	Various	Various
At fair value through other comprehensive income[1, 2]			**2 769**	2 657	**992**	943	**3 761**	3 600		
Momentum Asset Management (Pty) Ltd	**100**	100	**774**	722	**(6)**	(8)	**768**	714	Investment Management	South Africa
Momentum Short-term Insurance Company Ltd	**100**	100	**603**	589	**37**	29	**640**	618	Short term insurance	South Africa
Momentum Multiply (Pty) Ltd	**100**	100	**332**	447	**8**	24	**340**	471	Client Engagement Services	South Africa
Momentum Wealth International Ltd	**100**	100	**512**	348	**17**	10	**529**	358	Investment services	Guernsey
Momentum Wealth (Pty) Ltd	**100**	100	**165**	161	**134**	170	**299**	331	Investment Management	South Africa
129 Rivonia Road (Pty) Ltd	**100**	100	**–**	7	**664**	583	**664**	590	Property Investment	South Africa
Momentum Alternative Investments (Pty) Ltd	**100**	100	**64**	68	**(2)**	(1)	**62**	67	Investment Management	South Africa
Momentum Life Botswana Ltd	**100**	100	**26**	26	**23**	16	**49**	42	Credit & group life insurance	Botswana
Momentum Alternative Insurance Ltd	**100**	100	**31**	30	**–**	–	**31**	30	Short term Insurance	South Africa
Momentum Ability Ltd	**100**	100	**30**	26	**–**	–	**30**	26	Long term Insurance	South Africa
Momentum Metropolitan Umhlanga (Pty) Ltd	**100**	100	**26**	28	**110**	105	**136**	133	Property Investment	South Africa
Momentum Structured Insurance Ltd	**100**	100	**16**	11	**–**	–	**16**	11	Short term insurance	South Africa
MMI Short-term Insurance Administration (Pty) Ltd	**100**	100	**160**	193	**7**	10	**167**	203	Short term insurance admin	South Africa
Other unlisted investments in subsidiaries	**Various**	Various	**30**	1	**–**	5	**30**	6	Various	Various
Total unlisted subsidiaries			**3 296**	3 139	**1 006**	954	**4 302**	4 093		
Total interest in subsidiaries			**76 871**	73 128	**1 006**	954	**77 877**	74 082		

[1] The investments in these subsidiaries were irrevocably designated at fair value through other comprehensive income as the company considers these investments to be strategic in nature.

[2] During the period, the company received the following dividends from subsidiaries at fair value through other comprehensive income: R45 million (2019: R55 million) from Momentum Wealth (Pty) Ltd, R40 million (2019: R101 million) from Momentum Asset Management (Pty) Ltd, R29 million (2019: R38 million) from Momentum Wealth International Ltd and R10 million (2019: R9 million) from Momentum Alternative investments (Pty) Ltd.

		2020 Rm	Restated 2019 Rm
6	**Financial assets**		
6.1	**Financial assets at fair value through profit and loss**	**288 896**	294 658
6.2	**Financial assets at amortised cost**	**6 223**	7 316
6.3	**Insurance and other receivables (excluding accelerated rental income and prepayments)**	**2 515**	2 469
6.4	**Cash and cash equivalents**	**15 112**	12 478
		312 746	316 921
6.1	**Financial assets at fair value through profit and loss**		
	Equity securities	**32 929**	43 114
	Debt securities	**92 473**	88 371
	Funds on deposit and other money market instruments	**10 597**	11 741
	Unit-linked investments	**150 115**	149 057
	Derivative financial assets	**2 782**	2 375
		288 896	294 658
	Open ended	**184 044**	193 403
	Current	**22 466**	21 862
	Non-current	**82 386**	79 393
	1 to 5 years	**29 915**	30 630
	5 to 10 years	**11 737**	14 249
	> 10 years	**40 734**	34 514
		288 896	294 658

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.

Derivative financial instruments

	2020		2019	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
Held for trading	**2 782**	**5 010**	2 375	2 219

As part of its asset and liability management, the company 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.

6 Financial assets continued

6.1 Financial assets at fair value through profit and loss continued

Derivative financial instruments continued

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.

	2020			2019		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
Derivatives held for trading						
Equity derivatives		212	1 646		19	23
Options, OTC	(8 411)	86	1 646	–	1	1
Options, exchange traded	(93)	16	–	(922)	7	–
Futures, OTC	–	–	–	(27)	–	–
Futures, exchange traded	25 748	–	–	1 244	2	–
Swaps, OTC	110	110	–	(13)	9	22
Interest rate derivatives		2 365	2 244		2 066	1 214
Options, OTC	–	–	–	(310)	13	–
Swaps, OTC	124	2 336	2 212	843	2 052	1 209
Forward rate agreement, OTC	(3)	29	32	(4)	1	5
Bonds		60	80		55	9
Options, exchange traded	44	–	–	1	–	–
Futures, OTC	(20)	60	80	4 580	55	9
Futures, exchange traded	534	–	–	1 705	–	–
Credit derivatives		33	–		12	
Swaps, OTC	33	33	–	12	12	–
Currency derivatives		112	1 040		223	973
Futures, OTC	–	–	–	–	–	–
Options, OTC	(1 183)	112	181	(1 128)	222	148
Options, exchange traded	(10)	–	–	–	–	–
Swaps, OTC	(859)	–	859	(825)	1	825
Futures, exchange traded	29	–	–	36	–	–
Total derivative financial instruments	**16 043**	**2 782**	**5 010**	5 193	2 375	2 219

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 company.

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

6 Financial assets continued

6.1 Financial assets at fair value through profit and loss continued

Derivative financial instruments continued

The company's exposure under derivative contracts is closely monitored as part of the overall management of the company'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 and net amounts of recognised financial assets[1]	**2 782**	2 375
Related amounts not set off in the statement of financial position		
Financial instruments	**(1 783)**	(1 131)
Cash collateral received	**(918)**	(789)
Net amount	**81**	455
Derivative financial liabilities		
Gross and net amounts of recognised financial liabilities[1]	**5 010**	2 219
Related amounts not set off in the statement of financial position		
Financial instruments	**(1 783)**	(1 131)
Cash collateral received	**(733)**	(540)
Net amount	**2 494**	548

[1] No offsetting in current and prior year.

6.2 Financial assets at amortised cost

	2020 Rm	Restated 2019 Rm
Financial assets at amortised cost		
Accounts receivable	**860**	893
Less provision for impairment	**(65)**	(45)
Unsettled trades[1]	**1 485**	801
Loans	**3 943**	5 667
Related party loans		
Loans due from subsidiaries and fellow MMH subsidiaries	**3 384**	4 373
Less provision for impairment[2]	**(720)**	(81)
Staff loans	**10**	11
Other related party loans[3]	**205**	142
Other loans		
Due from agents, brokers and intermediaries	**382**	431
Less provision for impairment	**(155)**	(191)
Policy loans	**837**	982
	6 223	7 316
Current	**6 175**	7 240
Non-current	**48**	76
	6 223	7 316

[1] Unsettled trades result from transactions that Portfolios Managers enter into on behalf of the company in accordance with the discretionary portfolio management agreements. The company's accounting policy is to recognise purchases and sales of financial assets on the trade date, ie the date on which the company commits to purchase or sell the financial asset. All trade transactions that the company 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. 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.

[2] The additional provision is mainly the result of a R550 million fair value loss on investment properties in 129 Rivonia Road (Pty) Ltd, a subsidiary of the company, which led to increased expected credit losses on the loan provided to the subsidiary.

[3] R26 million relates to aYo and R179 million relates to Abland – related parties to MML.

6 Financial assets continued

6.2 Financial assets at amortised cost continued

Reconciliation of expected credit losses	Accounts receivable Rm	Loans due from subsidiaries and fellow MMH subsidiaries Rm	Due from agents brokers and inter-mediaries Rm	Total Rm
2020				
Balance at beginning	**45**	**81**	**191**	**317**
Additional provision	**23**	**639**	**–**	**662**
Reversed to the income statement	**(3)**	**–**	**(36)**	**(39)**
Balance at end	**65**	**720**	**155**	**940**
2019				
Balance at beginning	36	200	211	447
IFRS 9 opening retained earnings adjustment	5	–	11	16
Adjusted opening balance	41	200	222	463
Additional provision	9	–	5	14
Reversed to the income statement	(5)	(119)	(36)	(160)
Balance at end	45	81	191	317

Terms and conditions of material loans

- Loans to group companies are interest free, repayable on demand, and are unsecured.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at prime plus 1% 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.

6.3 Insurance and other receivables

	2020 Rm	Restated 2019 Rm
Insurance and other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 515**	2 469
Insurance contract holders	**1 772**	1 858
Investment contract holders with DPF	**33**	40
Less provision for impairment	**(36)**	(43)
Due from reinsurers	**746**	614
Total included in financial assets	**2 515**	2 469
Accelerated rental income (refer to note 4)	**187**	158
Prepayments	**84**	–
	2 786	2 627
Current	**2 765**	2 500
Non-current	**21**	127
	2 786	2 627

6 Financial assets continued

6.3 Insurance and other receivables continued

Impairment of receivables arising from insurance contracts and investment contracts with DPF

Impairment is mainly due to expected payment defaults.

	2020 Rm	2019 Rm
6.4 Cash and cash equivalents		
Bank and other cash balances	**6 628**	6 638
Funds on deposit and other money market instruments – maturity < 90 days	**8 484**	5 840
	15 112	12 478

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	At fair value through other comprehensive income Rm	Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
2020							
Equity securities[2]	**32 929**	**–**	**32 929**	**–**	**–**	**–**	**32 929**
Debt securities	**6 589**	**85 884**	**92 473**	**–**	**–**	**–**	**92 473**
Funds on deposit and other money market instruments	**1 096**	**9 501**	**10 597**	**–**	**–**	**–**	**10 597**
Unit-linked investments	**150 115**	**–**	**150 115**	**–**	**–**	**–**	**150 115**
Derivative financial assets	**2 782**	**–**	**2 782**	**–**	**–**	**–**	**2 782**
Financial assets at amortised cost	**–**	**–**	**–**	**–**	**6 223**	**–**	**6 223**
Insurance and other receivables (excluding accelerated rental income and prepayments)	**–**	**–**	**–**	**–**	**–**	**2 515**	**2 515**
Cash and cash equivalents	**–**	**–**	**–**	**–**	**15 112**	**–**	**15 112**
Investments in subsidiaries at fair value	**74 102**	**–**	**74 102**	**2 769**	**–**	**–**	**76 871**
Total financial assets	**267 613**	**95 385**	**362 998**	**2 769**	**21 335**	**2 515**	**389 617**
2019 Restated							
Equity securities[2]	43 114	–	43 114	–	–	–	43 114
Debt securities	7 536	80 835	88 371	–	–	–	88 371
Funds on deposit and other money market instruments	1 264	10 477	11 741	–	–	–	11 741
Unit-linked investments	149 057	–	149 057	–	–	–	149 057
Derivative financial assets	2 375	–	2 375	–	–	–	2 375
Financial assets at amortised cost	–	–	–	–	7 316	–	7 316
Insurance and other receivables (excluding accelerated rental income and prepayments)	–	–	–	–	–	2 469	2 469
Cash and cash equivalents	–	–	–	–	12 478	–	12 478
Investments in subsidiaries at fair value	70 471	–	70 471	2 657	–	–	73 128
Total financial assets	273 817	91 312	365 129	2 657	19 794	2 469	390 049

[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.

6 **Financial assets** continued

6.5 **Financial assets measurement** continued

Business model assessment

The company's financial asset classification is determined based on the contractual cash flows characteristics and models through which financial instruments are managed (business model). The level at which the business model assessment is done is determined by the company and is on a portfolio level.

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 company. 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 (IMA) 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.

Collective investment schemes

A number of collective investment schemes are classified as subsidiaries of the company. 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 was 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 company uses judgement in making these assumptions and selecting inputs to the impairment calculations, based on the company's history, existing market conditions, as well as forward-looking estimates at the end of each reporting period.

6 Financial assets continued

6.6 Credit risk

Refer to note 40 for detail on the credit risk management.

Credit risk exposure

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

	2020 Rm	Restated 2019 Rm
Financial assets at fair value through profit and loss		
Debt securities	92 473	88 371
Stock and loans to government and other public bodies	47 640	42 653
Other debt instruments	44 833	45 718
Funds on deposit and other money market instruments	10 597	11 741
Unit-linked investments (categorised as interest bearing and money market)	49 038	39 226
Collective investment schemes	47 111	37 443
Other unit-linked investments	1 927	1 783
Derivative financial assets – Held for trading	2 782	2 375
Financial assets at amortised cost	6 223	7 316
Accounts receivable	795	848
Unsettled trades	1 485	801
Loans	3 943	5 667
Insurance and other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 515	2 469
Cash and cash equivalents	15 112	12 478
Total assets bearing credit risk	**178 740**	163 976

6 Financial assets continued

6.6 Credit risk continued

Credit risk exposure continued

Credit risk balances – expected credit loss	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
2020				
Financial assets at amortised cost				
Accounts receivable	**704**	**24**	**132**	**860**
Provision for impairment	**–**	**–**	**(65)**	**(65)**
Unsettled trades	**1 485**	**–**	**–**	**1 485**
Loans				
Related party loans				
Loans due from subsidiaries and fellow MMH subsidiaries[1]	**349**	**–**	**3 035**	**3 384**
Provision for impairment[1]	**–**	**–**	**(720)**	**(720)**
Staff loans	**8**	**–**	**2**	**10**
Other related party loans	**205**	**–**	**–**	**205**
Other loans				
Due from agents, brokers and intermediaries	**137**	**–**	**245**	**382**
Provision for impairment	**–**	**–**	**(155)**	**(155)**
Policy loans	**837**	**–**	**–**	**837**
	3 725	**24**	**2 474**	**6 223**
Restated				
2019				
Financial assets at amortised cost				
Accounts receivable	810	28	55	893
Provision for impairment	–	–	(45)	(45)
Unsettled trades	801	–	–	801
Loans				
Related party loans				
Loans due from subsidiaries and fellow MMH subsidiaries	2 028	–	2 345	4 373
Provision for impairment	–	–	(81)	(81)
Staff loans	11	–	–	11
Other related party loans	142	–	–	142
Other loans				
Due from agents, brokers and intermediaries	228	12	191	431
Provision for impairment	–	(2)	(189)	(191)
Policy loans	982	–	–	982
	5 002	38	2 276	7 316

[1] The increase in stage 3 loans from the prior year is due to the loan of R660 million to Momentum Metropolitan Strategic Investments, a fellow MMH subsidiary, being transferred from stage 1 to stage 3 as a result of a reduction in the company's solvency and access to cash facilities. Refer to note 6.2 for an explanation of the increase in the provision for impairment.

6 Financial assets continued

6.6 Credit risk continued

Credit risk exposure continued

Reconciliation of expected credit losses	12 month expected credit losses (Stage 1) Rm	Lifetime expected credit losses (Stage 2 and stage 3) Rm	Total Rm
2020			
Accounts receivable			
Opening balance	–	45	45
Movement recognised in the income statement	–	20	20
Closing balance	–	65	65
Loans due from subsidiaries and fellow MMH subsidiaries			
Opening balance	–	81	81
Movement recognised in the income statement	–	639	639
Closing balance	–	720	720
Due from agents, brokers and intermediaries			
Opening balance	–	191	191
Movement recognised in the income statement	–	(36)	(36)
Closing balance	–	155	155
2019			
Accounts receivable			
Adjusted opening balance	–	41	41
Movement recognised in the income statement	–	4	4
Closing balance	–	45	45
Loans due from subsidiaries and fellow MMH subsidiaries			
Adjusted opening balance	–	200	200
Movement recognised in the income statement	–	(119)	(119)
Closing balance	–	81	81
Due from agents, brokers and intermediaries			
Adjusted opening balance	–	222	222
Movement recognised in the income statement	–	(31)	(31)
Closing balance[1]	–	191	19

[1] Includes R2 million relating to stage 2 ECL provision.

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

Credit risk exposure continued

	Staging definitions			
Stage	**Unsettled trades and accounts receivable**	**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	• 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	• 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	• 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

Credit risk exposure continued

Significant increase in credit risk	Criteria
Unsettled trades, accounts receivable, loans and due from agents, broker and intermediaries	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
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.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held. Policy loans are collateralised by the insurance policy and therefore the expected credit loss is negligible.
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.
Loans	The credit risk of the loan balances outstanding depend on the balance sheet strength of the counterparty, impacting its capacity to meet its obligations. Subsidiary loans are sensitive to the subsidiary's solvency and forward looking liquidity position.

6 **Financial assets** continued

6.6 **Credit risk** continued

Credit quality

The assets in the company's maximum exposure table are analysed in the table below, 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, S&P and GCR. Refer to Annexure D for the definitions used in this section.

	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B 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	**40 770**	**5 345**	**682**	**714**	**42**	**87**	**–**	**47 640**
Other debt instruments	**12 601**	**25 390**	**5 101**	**75**	**383**	**161**	**1 122**	**44 833**
Derivative financial instruments	**1 313**	**1 393**	**–**	**–**	**–**	**–**	**76**	**2 782**
Cash and cash equivalents and funds on deposit	**5 597**	**19 609**	**167**	**–**	**183**	**6**	**147**	**25 709**
Other unrated instruments								
Financial assets at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**6 223**	**6 223**
Insurance and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**2 515**	**2 515**
Unit-linked investments[1]	**–**	**–**	**–**	**–**	**–**	**–**	**49 038**	**49 038**
	60 281	**51 737**	**5 950**	**789**	**608**	**254**	**59 121**	**178 740**
Restated								
2019								
Financial assets at fair value through profit and loss								
Debt securities								
Stock and loans to government and other public bodies	36 514	5 391	666	–	–	82	–	42 653
Other debt instruments	14 048	25 442	4 660	29	35	498	1 006	45 718
Derivative financial instruments	1 165	1 169	–	–	–	–	41	2 375
Cash and cash equivalents and funds on deposit	1 809	21 976	309	4	87	–	34	24 219
Other unrated instruments								
Financial assets at amortised cost	–	–	–	–	–	–	7 316	7 316
Insurance and other receivables	–	–	–	–	–	–	2 469	2 469
Unit-linked investments[1]	–	–	–	–	–	–	39 226	39 226
	53 536	53 978	5 635	33	122	580	50 092	163 976

[1] Refer to Annexure A and Annexure B for detail on unit-linked investments and note 40 for credit risk management relating to unit-linked investments.

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 company has reinsured of R746 million (2019: R614 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:

Reinsurer	2020 Reinsured portion %	2020 Credit rating	2019 Reinsured portion %	2019 Credit rating
Swiss Re	**29**	**AA-**	28	AA-
General Cologne Re	**21**	**AA+**	23	AA+
Hannover Re	**4**	**AA-**	5	A-
RGA Re	**15**	**AA-**	15	AA-
Munich Re	**27**	**AA-**	26	A-
Other	**4**	**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	**583**	**17**	**5**	**13**	**618**
	583	**17**	**5**	**13**	**618**
2019					
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	565	20	1	14	600
	565	20	1	14	600

6 Financial assets continued

6.7 Financial assets hierarchy

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

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

2020	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through profit and loss	206 290	79 259	3 347	288 896
Equity securities				
Local listed	31 073	4	1	31 078
Foreign listed	1 740	–	–	1 740
Unlisted	–	–	111	111
Debt securities				
Stock and loans to government and other public bodies				
Local listed	34 910	9 016	–	43 926
Foreign listed	–	31	–	31
Unlisted	–	3 683	–	3 683
Other debt instruments				
Local listed	–	18 979	19	18 998
Foreign listed	–	424	–	424
Unlisted	–	24 525	886	25 411
Funds on deposit and other money market instruments	–	10 597	–	10 597
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	95 072	364	–	95 436
Foreign unlisted or listed quoted	41 691	42	–	41 733
Foreign unlisted unquoted	–	577	157	734
Other unit-linked investments				
Local unlisted or listed quoted	1 786	45	–	1 831
Local unlisted unquoted	–	8 135	1 958	10 093
Foreign unlisted or listed quoted	2	–	–	2
Foreign unlisted unquoted	–	71	215	286
Derivative financial assets – Held for trading	16	2 766	–	2 782
Interest in subsidiaries	73 045	–	3 826	76 871
At fair value through profit and loss	73 045	–	1 057	74 102
At fair value through other comprehensive income	–	–	2 769	2 769
	279 335	79 259	7 173	365 767

[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.

There were no significant transfers between level 1 and level 2 assets in the current or prior years.

6 Financial assets continued

6.7 Financial assets hierarchy continued

Restated 2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through profit and loss	211 141	80 600	2 917	294 658
Equity securities				
Local listed	36 051	2	–	36 053
Foreign listed	6 960	–	–	6 960
Unlisted	–	–	101	101
Debt securities				
Stock and loans to government and other public bodies				
Local listed	29 338	9 244	–	38 582
Foreign listed	–	26	–	26
Unlisted	–	4 045	–	4 045
Other debt instruments				
Local listed	–	19 771	–	19 771
Foreign listed	–	335	–	335
Unlisted	–	24 643	969	25 612
Funds on deposit and other money market instruments	–	11 741	–	11 741
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	100 633	314	–	100 947
Foreign unlisted or listed quoted	36 380	24	–	36 404
Foreign unlisted unquoted	–	456	303	759
Other unit-linked investments				
Local unlisted or listed quoted	1 770	1 311	–	3 081
Local unlisted unquoted	–	6 322	1 408	7 730
Foreign unlisted or listed quoted	–	–	–	–
Foreign unlisted unquoted	–	–	136	136
Derivative financial assets – Held for trading	9	2 366	–	2 375
Interest in subsidiaries	69 510	–	3 618	73 128
At fair value through profit and loss	69 510	–	961	70 471
At fair value through other comprehensive income	–	–	2 657	2 657
	280 651	80 600	6 535	367 786

[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.

There were no significant transfers between level 1 and level 2 assets in the current or prior years.

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:

	Securities at fair value through profit and loss			Interest in subsidiaries		
	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	At fair value through profit and loss Rm	At fair value through other compre-hensive income Rm	Total Rm
2020						
Opening balance	101	969	1 847	961	2 657	6 535
Total gains/(losses) in net realised and unrealised fair value gains in the income statement						
Realised gains/(losses)	(39)	24	3 052	(83)	–	2 954
Unrealised gains/(losses)	41	(12)	(423)	55	–	(339)
Total gains/(losses) in other comprehensive income	–	–	–	–	107	107
Accrued interest in investment income in the income statement	–	50	–	–	–	50
Purchases	1	607	4 449	211	5	5 273
Sales/settlements	(11)	(808)	(6 741)	(87)	–	(7 647)
Transfers into level 3[1]	19	75	146	–	–	240
Transfers out of level 3	–	–	–	–	–	–
Closing balance	112	905	2 330	1 057	2 769	7 173
Restated						
2019						
Opening balance	34	1 611	1 085	947	2 328	6 005
Total gains/(losses) in net realised and unrealised fair value gains in the income statement						
Realised gains/(losses)	(7)	19	151	(78)	–	85
Unrealised gains/(losses)	77	20	105	210	–	412
Total gains/(losses) in other comprehensive income	–	–	(172)	–	(61)	(233)
Accrued interest in investment income in the income statement	–	80	117	(117)	–	80
Purchases	–	377	761	36	434	1 608
Sales/settlements	(2)	(1 178)	(417)	(37)	(44)	(1 678)
Transfers into level 3[1]	–	40	302	–	–	342
Transfers out of level 3	(1)	–	(85)	–	–	(86)
Closing balance	101	969	1 847	961	2 657	6 535

[1] The transfer into level 3 unit-linked investments relates mainly to inputs becoming unobservable in the valuation method in the current year assets and stale prices in the prior year.

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			At fair value through other comprehensive income
	Debt securities Rm	Unit-linked investments Rm	Interest in subsidiaries Rm	Interest in subsidiaries Rm
2020				
Carrying amount	**905**	**2 330**	**1 057**	**2 769**
Assumption change	**1% increase/ (decrease) in discount rates**	**10% increase/ (decrease) in unit price**	**10% increase/ (decrease) in fair value of assets/ liabilities**	**10% increase/ (decrease) in fair value of assets/ liabilities**
Effect of increase in assumption	**(9)**	**233**	**106**	**277**
Effect of decrease in assumption	**9**	**(233)**	**(106)**	**(277)**
Restated 2019				
Carrying amount	969	1 847	961	2 657
Assumption change	1% increase/ (decrease) in discount rates	10% increase/ (decrease) in unit price	10% increase/ (decrease) in fair value of assets/ liabilities	10% increase/ (decrease) in fair value of assets/ liabilities
Effect of increase in assumption	(10)	185	96	266
Effect of decrease in assumption	10	(185)	(96)	(266)

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	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Assets				
Financial assets at amortised cost	**6 223**	**6 202**	7 316	7 337
Accounts receivable	**795**	**795**	848	848
Unsettled trades	**1 485**	**1 485**	801	801
Loans	**3 943**	**3 922**	5 667	5 688
Insurance and other receivables (excluding accelerated rental income and prepayments)	**2 515**	**2 515**	2 469	2 469
Cash and cash equivalents	**15 112**	**15 112**	12 478	12 478
	23 850	**23 829**	22 263	22 284

Calculation of fair value

- For accounts receivable, unsettled trades, insurance and other receivables and cash and cash equivalents, the carrying amount approximates fair value due to their short-term nature.
- For policy loans, the fair value of R816 million (2019: R1 003 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 10.55% (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.

		2020 Rm	2019 Rm
7	**Reinsurance contract assets**		
	Reinsurance asset relating to long-term insurance	**1 275**	1 298
	Prepaid reinsurance	**881**	833
		2 156	2 131
	Balance at beginning	**2 131**	1 872
	Movement charged to income statement	**25**	259
	Balance at end	**2 156**	2 131
	Current	**1 202**	1 168
	Non-current	**954**	963
		2 156	2 131

Refer to note 11 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

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

		2020 Rm	2019 Rm
8	**Assets relating to disposal groups held for sale**		
	Assets relating to disposal groups held for sale		
	Owner-occupied properties	**633**	622
		633	622

The assets relating to disposal groups held for sale, relates to the intention to sell owner-occupied buildings to a subsidiary of the company. It is expected that the transaction will be completed in the next 12 months. The decision for the sale was made in the prior year, but the approval process was not concluded in the current year. Owner-occupied properties relating to disposal groups held for sale are classified as level 3 (refer to note 3).

		2020 Rm	Restated 2019 Rm
9	**Insurance contracts**		
	Movement in long-term insurance contract liabilities		
	Balance at beginning	**110 233**	104 497
	Transfer to policyholder liabilities under insurance contracts	**(6 734)**	5 736
	Increase in retrospective liabilities	**(2 235)**	30
	Unwind of discount rate	**3 611**	3 667
	Expected release of margins	**(2 962)**	(2 747)
	Expected cash flows	**(4 370)**	(3 274)
	Change in economic assumptions	**(1 035)**	(257)
	Change in non-economic assumptions	**700**	350
	New business	**2 202**	7 288
	Experience variances	**(2 645)**	679
	Balance at end	**103 499**	110 233
	Current	**29 973**	32 904
	Non-current	**73 526**	77 329
		103 499	110 233

Refer to note 11 for the assumptions and estimates used.

		2020 Rm	Restated 2019 Rm
10	**Investment contracts**		
10.1	**Investment contracts with DPF**	**16 563**	18 632
10.2	**Investment contracts designated at fair value through profit and loss**	**241 658**	234 948
		258 221	253 580
10.1	**Investment contracts with DPF**		
	Movement in investment contracts with DPF		
	Balance at beginning	**18 632**	19 108
	Transfer from policyholder liabilities under investment contracts with DPF	**(2 069)**	(476)
	Decrease in retrospective liabilities	**(2 118)**	(904)
	Unwind of discount rate	**9**	5
	Expected release of margins	**(38)**	(38)
	Expected cash flows	**42**	39
	Change in economic assumptions	**1**	(1)
	Change in non-economic assumptions	**92**	(7)
	New business	**7**	307
	Experience variances	**(64)**	123
	Balance at end	**16 563**	18 632
	Current	**15 302**	17 218
	Non-current	**1 261**	1 414
		16 563	18 632
10.2	**Investment contracts designated at fair value through profit and loss**		
	Movement in investment contracts designated at fair value through profit and loss		
	Balance at beginning	**234 948**	232 903
	Contract holder movements	**6 710**	2 045
	Deposits received	**34 916**	32 282
	Contract benefit payments	**(31 090)**	(36 608)
	Fees on investment contracts	**(2 732)**	(2 484)
	Fair value adjustment to policyholder liabilities under investment contracts	**5 616**	8 855
	Balance at end	**241 658**	234 948
	Current	**123 520**	120 369
	Non-current	**118 138**	114 579
		241 658	234 948

The investment contracts designated at fair value through profit and loss 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 12.5.

Refer to note 11 for the assumptions and estimates used.

11 Contract holder liabilities – assumptions and estimates

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the standard of actuarial practice note SAP 104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies in Annexure E.

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 may be applied, as required by the valuation methodology or if the head of the actuarial function considers such margins necessary to cover the risks inherent in the contracts.

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 MML retail businesses.
- Conventional with-profit business (excluding home service funeral business): Annual mortality investigations are carried out, with the most recent investigation being in respect of the period to 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: The Momentum Retail annuitant mortality basis is derived from the RMV 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 is based on the 2002 South African Annuitant standard 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. 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.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the 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 Retail. For Metropolitan Life exposure is extremely low and morbidity rates are derived through collaboration with reinsurers.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the group's own experience.
- 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, waiting 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 Retail 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 Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

11 Contract holder liabilities – assumptions and estimates continued

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.

Investment returns

- 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%)

The main best-estimate assumptions, gross of tax, used in the valuation are:

	2020 %	2019 %
Gilt rate – risk-free investment return	**10.5**	9.3
Renewal expense inflation	**5.7**	6.3

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 accepted 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)

- A market-consistent stochastic model was calibrated using market data as at 30 June 2020 and 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 model that was used to calculate the liabilities.

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
Yield % – 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**
Yield % – 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

11 Contract holder liabilities – assumptions and estimates continued

Investment guarantees (APN 110) continued

The following instruments have been valued by the model:

	2020		2019	
Instrument	**Price (% of nominal)**	**Volatility**	**Price (% of nominal)**	**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 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 equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year forward 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.

Allowance for the impact of the Covid-19 Pandemic

The company has considered the likely impact of the Covid-19 pandemic and the related decline in economic conditions and outlook, as well as expected policyholder behaviour. It has reviewed recent claims experience, publicly available models that project infection and mortality rates of Covid-19 and observed data from relief options that clients have exercised in the preceding three months. Based on this review, the mortality, disability and termination rates used in the valuation basis of the insurance operations of the company have been adjusted for the 2021 and 2022 financial years. The overall impact of these changes is a reduction in the normalised headline earnings for the year of R894 million. The bulk of the impact was in respect of mortality (R700 million) which was calculated by applying age-based infection and fatality rates to the sum-at-risk of the various books of business. Several international studies were referenced to determine the infection and fatality rates used and socio-economic adjustments were also applied. The morbidity impact (R72 million) was based on an assumption that Momentum Corporate would experience a 20% reduction in return to work termination rates in respect of income protection clients for a period of 24 months. The terminations impact (R122 million) is in respect of Momentum Life and Metropolitan Life. Momentum Life offered a range of relief measures to clients in March 2020, such as premium holiday or pause options, and the assumption has been made that 50% of the policyholders who exercised those options would terminate their policies at the end of the option term. Metropolitan Life has assumed that it will experience increased terminations of funeral policies that cause the loss of 10% of negative reserves held in respect of that book as at 30 June 2020. No explicit allowance was deemed necessary for adverse retrenchment experience due to the limited exposure to this risk.

The financial impact of setting up these additional liabilities is reflected in the basis and other changes below.

11 Contract holder liabilities – assumptions and estimates continued

Basis and other changes

Assumptions and methodologies used in the financial soundness valuation 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.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2020 by R768 million (2019: decrease of R124 million) for the company. The major contributors to this change were as follows for the company:
  - Actuarial methodology and other changes of negative R61 million (2019: negative R76 million).
  - Experience basis changes of negative R707 million (2019: negative R48 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation and investment over- or under-performance in respect of non-linked business is included under this heading.

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 decrease by 1% Rm	Discon-tinuance 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)	**53 019**	**51 726**	**52 149**	**53 261**	**50 014**	**53 688**
Annuities (retail and employee benefits)	**48 044**	**47 879**	**47 916**	**48 044**	**48 507**	**50 010**
Employee benefits business (excluding annuities)	**2 436**	**2 434**	**2 433**	**2 440**	**2 438**	**2 499**
Investment with DPF business	**16 563**	**16 548**	**16 556**	**16 563**	**16 563**	**16 739**
Investment business	**241 658**	**241 658**	**241 658**	**241 661**	**241 658**	**242 596**
Total	**361 720**	**360 245**	**360 712**	**361 969**	**359 180**	**365 532**
2019 Restated						
Insurance business						
Retail insurance business (excluding annuities)	58 532	57 237	57 631	58 883	55 553	59 505
Annuities (retail and employee benefits)	49 058	48 889	48 917	49 057	49 626	51 615
Employee benefits business (excluding annuities)	2 643	2 642	2 642	2 643	2 650	2 746
Investment with DPF business	18 632	18 622	18 628	18 632	18 632	18 823
Investment business	234 948	234 948	234 948	234 948	234 948	237 298
Total	363 813	362 338	362 766	364 163	361 409	369 987

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.

11 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 company employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMH's published embedded value 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 above 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 on 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 R114 million (2019: R119.2 million) in the before-tax earnings of the company.

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 company'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.

		2020 Rm	Restated 2019 Rm
12	**Financial liabilities**		
12.1	**Financial liabilities at fair value through profit and loss**	**15 754**	12 226
12.2	**Financial liabilities at amortised cost**	**378**	–
12.3	**Other payables (excluding premiums paid in advance and deferred revenue liability)**	**10 353**	9 254
		26 485	21 480
12.1	**Financial liabilities at fair value through profit and loss**		
	Subordinated call notes	**4 431**	4 431
	Carry positions	**6 313**	5 576
	Derivative financial liabilities (refer to note 6.1)	**5 010**	2 219
		15 754	12 226
	Current	**8 994**	6 769
	Non-current	**6 760**	5 457
		15 754	12 226

The 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 required amount to pay at maturity is R181 million.

Subordinated call notes (unsecured) – the Financial Sector Conduct Authority (FSCA) granted approval for the company to raise debt issuances. The company 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 36 for more detail (cash flow interest rate risk).

Carry positions (secured) – R502 million (2019: R510 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R497 million (2019: R509 million). Offsetting has not been applied.

These instruments would have been disclosed as at amortised cost under IFRS 9 had they not been designated at fair value through profit and loss.

12 Financial liabilities continued

12.2 Financial liabilities at amortised cost

	2020 Rm	2019 Rm
Lease liabilities		
Carrying amount at beginning	–	–
Recognised on 1 July 2019 on adoption of IFRS 16	475	–
New liabilities entered into	39	–
Payments	(136)	–
Modifications	(40)	–
Interest expense	40	–
Carrying amount at end	378	–
Current	100	–
Non-current	278	–
	378	–

12.3 Other payables

	2020 Rm	Restated 2019 Rm
Payables arising from insurance contracts and investment contracts with DPF	4 198	4 463
Claims in process of settlement		
Insurance contracts	3 076	3 424
Investment contracts with DPF	1 040	1 019
Due to reinsurers	82	20
Payables arising from investment contracts	1 125	875
Loans due to subsidiaries and fellow MMH subsidiaries	45	43
Commission creditors	769	758
Unsettled trades	1 754	640
Other payables	2 462	2 475
Total included in financial liabilities	10 353	9 254
Premiums paid in advance	765	686
Deferred revenue liability	217	225
	11 335	10 165
Current	10 740	9 269
Non-current	595	896
	11 335	10 165

12 **Financial liabilities** continued

12.3 **Other payables** continued

	2020 Rm	2019 Rm
Reconciliation of deferred revenue liability		
Balance at beginning of year	**225**	239
Deferred income relating to new business	**57**	51
Amount recognised in income statement	**(65)**	(65)
Balance at end of year	**217**	225
Current	**4**	5
Non-current	**213**	220
1 to 5 years	**60**	63
5 to 10 years	**118**	118
>10 years	**35**	39
	217	225

12.4 **Financial liabilities measurement**

Financial liabilities summarised by measurement category in terms of IFRS 9	Fair value through profit and loss					
	Mandatorily Rm	Designated Rm	Total fair value Rm	Amortised cost Rm	Not in scope of IFRS 9 Rm	Total Rm
2020						
Investment contracts with DPF	**–**	**–**	**–**	**–**	**16 563**	**16 563**
Investment contracts designated at fair value through profit and loss	**–**	**241 658**	**241 658**	**–**	**–**	**241 658**
Subordinated call notes	**–**	**4 431**	**4 431**	**–**	**–**	**4 431**
Carry positions	**–**	**6 313**	**6 313**	**–**	**–**	**6 313**
Derivative financial liabilities	**5 010**	**–**	**5 010**	**–**	**–**	**5 010**
Financial liabilities at amortised cost	**–**	**–**	**–**	**–**	**378**	**378**
Other payables (excluding premiums in advance and deferred revenue liability)	**–**	**–**	**–**	**6 155**	**4 198**	**10 353**
Total financial liabilities	**5 010**	**252 402**	**257 412**	**6 155**	**21 139**	**284 706**
Restated						
2019						
Investment contracts with DPF	–	–	–	–	18 632	18 632
Investment contracts designated at fair value through profit and loss	–	234 948	234 948	–	–	234 948
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	5 576	5 576	–	–	5 576
Derivative financial liabilities	2 219	–	2 219	–	–	2 219
Financial liabilities at amortised cost	–	–	–	–	–	–
Other payables (excluding premiums in advance and deferred revenue liability)	–	–	–	4 791	4 463	9 254
Total financial liabilities	2 219	244 955	247 174	4 791	23 095	275 060

12 Financial liabilities continued

12.5 Financial liabilities hierarchy

Refer to Annexure F 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	–	241 632	26	241 658
Financial liabilities at fair value through profit and loss	–	15 754	–	15 754
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	6 313	–	6 313
Derivative financial liabilities – held for trading	–	5 010	–	5 010
	–	257 386	26	257 412
Restated				
2019				
Investment contracts designated at fair value through profit and loss	–	234 919	29	234 948
Financial liabilities at fair value through profit and loss	–	12 226	–	12 226
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	5 576	–	5 576
Derivative financial liabilities – held for trading	–	2 219	–	2 219
	–	247 145	29	247 174

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

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

	Investment contracts designated at fair value through profit and loss	
	2020 Rm	2019 Rm
Opening Balance	29	25
Total losses/(gains) in net realised and unrealised fair value gains in the income statement		
Realised gains	1	–
Unrealised losses	–	3
Contract holder movements		
Benefits paid	(5)	–
Investment return	1	1
Closing Balance	26	29

Sensitivity: Increasing/decreasing the asset value by 10% would decrease/increase the carrying amount of level 3 investment contracts designated at fair value through profit and loss by R2.6 million (2019: R2.9 million) and R2.6 million (2019: R2.9 million) respectively.

12 Financial liabilities continued

12.5 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	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Other payables (excluding premiums in advance and deferred revenue liability)	**10 353**	**10 353**	9 254	9 254
Payables arising from investment contracts	**1 125**	**1 125**	875	875
Other	**9 228**	**9 228**	8 379	8 379
	10 353	**10 353**	9 254	9 254

Calculation of fair value

For payables arising from investment contracts and other payables, the carrying amount approximates fair value due to their short-term nature.

	2020 Rm	2019 Rm
13 Deferred income tax		
Deferred tax liability	**(981)**	(1 399)
Deferred tax is made up as follows:		
Accruals and provisions	**13**	9
Revaluations	**(294)**	(530)
Deferred tax on intangible assets as a result of past business combinations	**(136)**	(155)
Negative rand reserves	**(527)**	(658)
Deferred assessed losses	**50**	11
Other	**(87)**	(76)
	(981)	(1 399)
Current	**(24)**	(84)
Non-current	**(957)**	(1 315)
	(981)	(1 399)
Movement in deferred tax:		
Balance at beginning	**(1 399)**	(901)
Recognised on 1 July 2019 on adoption of IFRS 16	**3**	–
Charge to the income statement	**422**	(557)
Accruals and provisions	**3**	26
Revaluations	**241**	(6)
Deferred tax movement on intangible assets as a result of past business combinations	**19**	43
Deferred revenue liability	**–**	(122)
Difference between published and statutory policyholder liabilities	**–**	(945)
Negative rand reserves	**131**	333
Deferred acquisition costs	**–**	540
Deferred assessed losses	**39**	(431)
Prepayments	**–**	16
Other	**(11)**	(11)
Charge to other comprehensive income (refer to note 16)	**(7)**	59
Balance at end	**(981)**	(1 399)
Deferred tax asset on available tax losses and credits not provided for	**–**	–

13 Deferred income tax continued

Deferred assessed losses

Management performed projections in the prior year and indicated on the earnings profile that utilisation of the Return Transfer Credit (RTC) on the IPF will commence in 2021. However, the utilisation will be further accelerated as an additional R1.8 billion of Negative Rand Reserves will be phased-in over six years which transfer tax will have to be paid on and therefore will assist in utilising the RTC.

Creation of deferred tax assets

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

Critical accounting estimates and judgements

There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The company 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 the Covid-19 pandemic. The company reviewed its 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.

		2020 Rm	2019 Rm
14	**Employee benefit obligations**		
14.1	**Post-retirement medical benefits**	**105**	147
14.2	**Cash-settled arrangements**	**267**	252
	Other employee benefit obligations	**386**	419
		758	818
	Current	**577**	547
	Non-current	**181**	271
		758	818

Employee benefit expenses are included in the income statement. Refer to note 24.

		2020 Rm	2019 Rm
14.1	**Post-retirement medical benefits**		
	Balance at beginning – unfunded	**147**	151
	Current service costs	**6**	2
	Interest expense	**8**	14
	Actuarial gains – other comprehensive income	**(34)**	(15)
	Benefits paid	**(4)**	(5)
	Settlements	**(21)**	–
	Loss on settlements	**3**	–
	Balance at end – unfunded	**105**	147
	Current	**8**	10
	Non-current	**97**	137
		105	147

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

14.1 Post-retirement medical benefits continued

The post-retirement medical benefits include both the Metropolitan and Momentum funds respectively, and the key valuation assumptions for each fund are indicated respectively:

Assumptions	Base assumption 2020	Base assumption 2019	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	**7.50%**	7.50%			
	7.95%	8.75%	1.00%	(10)	12
Valuation rate of interest/discount rate	**10.85%**	9.45%			
	10.6%	13.05%	1.00%		
Administration fee inflation	**6.00%**	6.00%			
	6.45%	7.25%			
Normal retirement age	**60 years**				
	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 by 10 years				

The weighted average duration of the post-retirement medical benefits obligation is 9.6 years (2019: 11.0 years) for the Metropolitan fund, and 12 years for the Momentum fund (2019: 13.5 years).

	2020 Rm	2019 Rm
14.2 Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**252**	242
Additional provisions	**145**	80
Benefits paid	**(130)**	(70)
Balance at end	**267**	252
Current	**183**	117
Non-current	**84**	135
	267	252

Share schemes

Long-term Incentive Plan (LTIP)

Certain key senior staff members were identified as vital to the future success of the company, and its ability to compete in an ever changing environment. The purpose of the LTIP is to incentivise and retain these key senior staff members. The 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 embedded value (ROEV) of the company. The units will therefore vest after a period of three years, and the company'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 the vesting date, subject to the employee remaining in the employ of the company, and not being subject to disciplinary action during the period between the award date and the vesting 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 company 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).

14 Employee benefit obligations continued

14.2 Cash-settled arrangements continued

Share schemes continued

Outperformance Plan (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 company's targeted Return on Embedded Value (ROEV) of Nominal GDP + 6%. Participants are primarily awarded performance units (vesting subject to certain company 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 an 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.

Share Appreciation Rights Scheme (SAR)

The 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 VWAP price up to payment date.

Reconciliation of units in force:

	LTIP Performance units '000	LTIP Retention units '000	LTIP Deferred bonus units '000	OP Performance units '000	OP Retention units '000	SAR Total units '000
Units in force at 1 July 2018	21 303	16 349	–	7 098	225	–
Units granted during year	361	332	5 903	36	5	19 009
Units transferred from/(to) other group companies during year	(342)	(164)	(17)	–	–	–
Units exercised/released during year	–	(3 648)	(92)	–	–	–
Market value of range at date of exercise/ release (cents)	–	1 602 – 1 810	1 700 –1 810	–	–	–
Units cancelled/lapsed during year	(8 463)	(2 019)	(408)	(5 498)	–	(2 449)
Units in force at 30 June 2019	**12 859**	**10 850**	**5 386**	**1 636**	**230**	**16 560**
Units granted during year	**8 651**	**430**	**5 509**	**–**	**4**	**–**
Units transferred from/(to) other group companies during year	**713**	**164**	**192**	**–**	**–**	**700**
Units exercised/released during year	**–**	**(4 067)**	**(1 893)**	**–**	**(234)**	**–**
Market value of range at date of exercise/ release (cents)	**–**	**1 604 – 1 815**	**1 604 – 1 796**	**–**	**1 796**	**–**
Units cancelled/lapsed during year	**(5 245)**	**(630)**	**(555)**	**(1 636)**	**–**	**(817)**
Units in force at 30 June 2020	**16 978**	**6 747**	**8 639**	**–**	**–**	**16 443**

Shares outstanding (by expiry date) for the LTIP, OP and SAR are as follows:

2020	LTIP Performance units '000	LTIP Retention units '000	LTIP Deferred bonus units '000	OP Performance units '000	OP Retention units '000	SAR Total units '000
Financial year 2020/2021	**7 541**	**6 639**	**3 470**	**–**	**–**	**–**
Financial year 2021/2022	**508**	**108**	**3 471**	**–**	**–**	**–**
Financial year 2022/2023	**3 125**	**–**	**1 698**	**–**	**–**	**5 481**
Financial year 2023/2024	**3 124**	**–**	**–**	**–**	**–**	**5 481**
Financial year 2024/2025	**2 680**	**–**	**–**	**–**	**–**	**5 481**
Total outstanding shares	**16 978**	**6 747**	**8 639**	**–**	**–**	**16 443**

14 Employee benefit obligations continued

14.2 Cash-settled arrangements continued

Share schemes continued

Inputs used in the valuation of the share schemes:

LTIP	Valuation assumptions include			
	Outstanding tranche period in months	Take-up rate on units outstanding	Current vesting rate	Share price at year-end
Award date 01/10/2017 and vesting date 01/10/2020 – performance units	3	94%	15%	R17.61
Award date 01/10/2017 and vesting date 01/10/2020 – retention units	3	94%	100%	R17.61
Award date 01/04/2018 and vesting date 01/04/2021 – performance units	9	94%	15%	R17.61
Award date 01/04/2018 and vesting date 01/04/2021 – retention units	9	94%	100%	R17.61
Award date 09/04/2018 and vesting date 31/10/2021 – performance units	16	88%	33%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – performance units	15	88%	33%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – retention units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2022 – performance units	27	82%	67%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2023 – performance units	39	76%	67%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 and settlement date 01/10/2024 – performance units	51	70%	67%	R17.61
Award date 01/10/2018 and vesting date 01/10/2020 – deferred bonus units	3	94%	100%	R17.61
Award date 01/10/2018 and vesting date 01/10/2021 – deferred bonus units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2020 – deferred bonus units	3	94%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2021 – deferred bonus units	15	88%	100%	R17.61
Award date 01/10/2019 and vesting date 01/10/2022 – deferred bonus units	27	82%	100%	R17.61

SAR	Valuation assumptions include			
	Outstanding tranche period in years	Take-up rate on units outstanding	Current vesting rate	Share price at year end
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2022 – performance units	27	82%	63%	R17.61
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2023 – performance units	39	76%	63%	R17.61
Award date 01/10/2018 and vesting date 01/10/2022 and settlement date 01/10/2024 – performance units	51	70%	63%	R17.61

14 Employee benefit obligations continued

14.2 Cash-settled arrangements continued

Vesting rate assumptions regarding performance units in the previous tables

Long-term Incentive Plan (LTIP)

There are currently two generations of LTIPs in issue, the old LTIPs awarded up to October 2018 and the latest LTIP tranche awarded in October 2019.

The performance criterion under the old LTIP compares MMH's return on embedded value (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 LTIP in 2021 will depend on the actual ROEV performance over the period and might differ from current estimates.

The October 2019 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 LTIP liability for the October 2019 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 Group's financial performance.

The ex-gratia payment under the 2017 LTIP and the recalibration of the 2019 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 LTIP liability calculation, an additional two percentage point increase in the future ROEV is not expected to result in any change in the LTIP cost, for LTIP tranches in force at 30 June 2020. This is because the ROEV performance impacting the 2018 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 LTIP liability is relatively insensitive to modest improvements in ROEV.

Outperformance Plan (OP)

This scheme which was restricted to a few key employees, targeted a return on embedded value 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.

Share Appreciation Rights (SAR)

The 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%
- Total Shareholder Return (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.

14 **Employee benefit obligations** continued

14.2 **Cash-settled arrangements** continued

Vesting rate assumptions regarding performance units in the previous tables continued

Share Appreciation Rights (SAR) continued

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 IFRS2 cost of R0.8 million.

Share scheme

Momentum Sales Phantom Scheme (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 company will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the company and therefore the scheme is cash-settled.

Reconciliation of units/options in force:

	MSPS '000
Units/Options in force at 1 July 2018	5 549
Granted at prices ranging between (cents)	1 702 – 2 615
Units/Options granted during year	708
Granted at prices ranging between (cents)	1 702 – 1 702
Units/Options exercised/released during year	(1 447)
Market value of range at date of exercise/release	1 602 – 1 769
Units/Options cancelled/lapsed during year	(414)
Granted at prices ranging between (cents)	1 702 – 3 298
Units/Options in force at 30 June 2019	4 396
Granted at prices ranging between (cents)	**1 702 – 2 650**
Units/Options granted during year	**661**
Granted at prices ranging between (cents)	**1 966 – 1 966**
Units/Options exercised/released during year	**(1 769)**
Market value of range at date of exercise/release	**1 822 – 1 991**
Units/Options cancelled/lapsed during year	**(387)**
Granted at prices ranging between (cents)	**1 702 – 2 650**
Units/Options in force at 30 June 2020	**2 901**

Shares outstanding (by expiry date) for the MSPS are as follows:

2020	**MSPS '000**
Financial year 2020/2021	**816**
Financial year 2021/2022	**803**
Financial year 2022/2023	**683**
Financial year 2023/2024	**402**
Financial year 2024/2025	**197**
Total outstanding shares	**2 901**

Valuation assumptions:

Assumptions	**2020**	**2019**
Share price	**1 702 – 2 438**	1 702 – 3 298
Forfeiture rate	**5.0%**	5.0%

Share based payment expense

The share based payment expense relating to cash settled schemes is R145 million (2019: R80 million) for the company and is disclosed under employee benefit expenses in note 24.

		2020 Rm	2019 Rm
15	**Share capital and share premium**		
	Authorised share capital		
	225 million ordinary shares of 5 cents each		
	50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each		
	Issued share capital		
	Balance at beginning	**1 041**	1 041
	Balance at end	**1 041**	1 041
	Share capital	**9**	9
	Share premium	**1 032**	1 032
		1 041	1 041

Momentum Metropolitan Life Ltd had 190 million ordinary shares in issue at 30 June 2020 (2019: 190 million).

Dividends

For detail of dividends declared and paid during the year, refer to the directors' report and to note 30.3 on related party transactions.

		2020 Rm	2019 Rm
16	**Other components of equity**		
16.1	**Land and building revaluation reserve**	**373**	370
16.2	**Revaluation of subsidiaries reserve**	**65**	(43)
16.3	**Employee benefit revaluation reserve**	**260**	100
16.4	**Common control reserve**	**4 729**	4 729
		5 427	5 156
	Movements in other reserves		
16.1	**Land and building revaluation reserve**		
	Balance at beginning	**370**	545
	Earnings directly attributable to other components of equity	**20**	(142)
	Revaluation	**25**	(203)
	Deferred tax on revaluation	**(5)**	61
	Transfer to retained earnings	**(17)**	(33)
	Balance at end	**373**	370

The transfer of R17 million (2019: R33 million) to retained earnings relate to the difference between the depreciation charge on the revalued amount and the amount which would have been charged under the historic cost model, net of any related deferred tax.

		2020 Rm	2019 Rm
16.2	**Revaluation of subsidiaries reserve**		
	Balance at beginning	**(43)**	62
	Fair value movement on subsidiaries	**108**	(61)
	Transfer to retained earnings	**–**	(44)
	Balance at end	**65**	(43)

There is no deferred tax consequences relating to the revaluation of the subsidiaries classified as fair value through other comprehensive income. The company does not provide for deferred taxation where the timing of the reversal of temporary differences are controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. As the company does not foresee the subsidiaries held as available for sale to be disposed of in the foreseeable future, no deferred tax is raised on the revaluation thereof.

		2020 Rm	2019 Rm
16	**Other components of equity** continued		
16.3	**Employee benefit revaluation reserve**		
	Balance at beginning	**100**	100
	Remeasurement of post-employment benefit obligations	**162**	2
	Deferred tax on remeasurement of post-employment benefit obligations	**(2)**	(2)
	Balance at end	**260**	100
16.4	**Common control reserve**		
	Balance at beginning	**4 729**	4 729
	Balance at end	**4 729**	4 729

The company acquired the long-term insurance business of Metropolitan Life Ltd with effect from 31 May 2013. This reserve reflects the difference between the purchase consideration and the book value of the assets and liabilities of a common control business combination.

		2020 Rm	2019 Rm
17	**Preference shares**		
	Non-redeemable, non-cumulative, non-participative preference shares issued		
	Balance at beginning	**500**	500
	Total comprehensive income	**34**	34
	Dividend paid	**(34)**	(34)
	Repurchase of preference shares	**(500)**	–
	Balance at end	**–**	500

This represented 50 000 non-redeemable, non-cumulative, non-participating preference shares issued by the company to Momentum Metropolitan Holdings Ltd. The declaration of preference dividends was calculated at a rate of 68% of the prime interest rate. The dividends in the current year amounted to R34 million (2019: R34 million).

The company repurchased the R500 million preference shares from Momentum Metropolitan Holdings Ltd for R381 million during the year. The difference between the carrying value and the consideration paid was recognised directly in retained earnings.

		2020 Rm	Restated 2019 Rm
18	**Net insurance premiums**		
	Premiums received	**23 811**	27 693
	Long-term insurance contracts	**22 100**	25 931
	Investment contracts with DPF	**1 711**	1 762
	Premiums received ceded to reinsurers	**(2 615)**	(2 405)
		21 196	25 288
19	**Fee income**		
	Contract administration	**2 740**	2 498
	Investment contract administration	**2 675**	2 433
	Release of deferred front-end fees	**65**	65
	Trust and fiduciary services	**463**	445
	Asset management	**–**	8
	Retirement fund administration	**463**	437
	Other fee income	**132**	145
		3 335	3 088

Revenue disaggregation

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

20 Investment income

	2020 Rm	2019 Rm
At fair value through profit and loss	**4 616**	4 404
Dividend income – listed	**2 628**	3 365
Dividend income – unlisted	**1 988**	1 039
Dividends received from subsidiary companies	**186**	273
Interest income	**11 704**	11 528
At fair value through profit and loss	**10 944**	10 984
At amortised cost using the effective interest rate method		
Financial assets at amortised cost	**115**	111
Cash and cash equivalents	**643**	431
Non-financial assets	**2**	2
Rental income	**996**	1 021
Investment properties	**987**	1 012
Owner-occupied properties	**9**	9
	17 502	17 226

21 Net realised and unrealised fair value gains

	2020 Rm	Restated 2019 Rm
Financial assets	**(9 768)**	2 303
Designated at fair value through profit and loss	**(2 156)**	1 101
Mandatorily at fair value through profit and loss	**(4 880)**	946
Derivative financial instruments – (losses)/income	**(2 772)**	251
Net realised and unrealised foreign exchange differences on financial instruments not at fair value through profit and loss	**40**	5
Financial liabilities	**(74)**	(56)
Designated at fair value through profit and loss	**(74)**	(56)
Investment property	**(421)**	204
Valuation (losses)/gains	**(392)**	210
Change in accelerated rental income	**(29)**	(6)
Investments in subsidiaries at fair value through profit and loss	**(1 900)**	807
Subsidiary companies	**10**	68
Collective investment schemes	**(1 910)**	739
Other investments	**16**	11
	(12 147)	3 269

22 Net insurance benefits and claims

	2020 Rm	Restated 2019 Rm
Long-term insurance contracts	**20 426**	20 267
Death and disability claims	**9 674**	9 160
Maturity claims	**4 104**	4 486
Annuities	**4 492**	4 170
Surrenders	**1 962**	2 213
Terminations, disinvestments and withdrawal benefits	**57**	134
Other	**137**	104
Investment contracts with DPF	**3 231**	2 637
Death and disability claims	**100**	83
Maturity claims	**446**	407
Annuities	**88**	142
Surrenders	**1 015**	247
Terminations, disinvestments and withdrawal benefits	**1 572**	1 749
Other	**10**	9
	23 657	22 904
Amounts recovered from reinsurers	**(2 433)**	(2 112)
	21 224	20 792

	2020 Rm	2019 Rm
23 Depreciation, amortisation and impairment expenses		
Depreciation	206	86
Owner-occupied properties (refer to note 3.1)	31	31
Right-of-use assets (refer to note 3.2)	82	–
Equipment	93	55
Amortisation (refer to note 2)	72	77
Value of in-force business acquired	41	43
Customer relationships	–	3
Computer software	31	31
Impairment of intangible assets (refer to note 2)	49	–
Value of in-force business acquired	25	–
Computer software	24	–
Impairment	15	89
Owner-occupied properties (refer to note 3.1)	15	67
Equipment	–	22
Impairment of financial assets (refer to note 6.2)	659	(115)
Financial assets at amortised cost	659	(115)
	1 001	137
24 Employee benefit expenses		
Salaries	2 890	2 931
Contributions to medical aid funds	121	118
Defined contribution retirement fund	210	202
Post-retirement medical benefits	14	11
Retirement fund assets	(54)	(46)
Share-based payment expenses (refer to note 14)	145	80
Training costs	49	53
Other	8	18
	3 383	3 367

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

	2020 Rm	Restated 2019 Rm
25 Sales remuneration		
Commission incurred for the acquisition of insurance contracts	1 987	1 896
Commission incurred for the acquisition of investment contracts with DPF	26	27
Commission incurred for the acquisition of investment contracts	863	889
Amortisation of deferred acquisition costs	316	328
Impairment of amounts due from agents, brokers and intermediaries (refer to note 6.2)	(36)	(36)
	3 156	3 104

26 Other expenses

	2020 Rm	2019 Rm
Asset management fees	**620**	649
Auditors' remuneration	**44**	40
Audit fees	**44**	39
Fees for other services	**–**	1
Bank charges	**31**	47
Consulting fees	**242**	255
Direct property operating expenses on investment property	**419**	410
Information technology expenses	**375**	389
Lease charges[1]	**31**	123
Marketing costs	**278**	257
Office costs	**298**	306
Other indirect taxes	**275**	317
Policy services	**36**	38
Travel expenses	**93**	155
Other expenses	**94**	81
Expenses recovered from subsidiaries and fellow MMH subsidiaries	**(736)**	(685)
	2 100	2 382

1 Included in Lease charges are R16 million relating to short-term leases, R8 million relating to lease of low-value assets, and R7 million relating to variable lease payments in the current year.

27 Finance costs

	2020 Rm	2019 Rm
Interest expense on financial liabilities		
Unsecured subordinated call notes	**440**	418
Carry positions	**288**	286
Lease liabilities	**40**	–
Other	**45**	49
	813	753
Designated at fair value through profit and loss	**728**	704
Amortised cost	**85**	49
	813	753

28 Income tax expenses

	2020 Rm	2019 Rm
Current taxation	**1 325**	979
Shareholder tax		
South African normal tax – current year	**846**	423
South African normal tax – prior year	**3**	8
Foreign withholding tax	**3**	4
Contract holder tax		
Tax on contract holder funds – current year	**473**	544
Deferred tax	**(422)**	557
Shareholder tax		
South African normal tax – current year	**(259)**	619
Contract holder tax		
Tax on contract holder funds – current year	**(163)**	(62)
	903	1 536

	2020 %	2019 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Prior year adjustments	**0.2**	0.2
Taxation on contract holder funds	**21.8**	10.8
Foreign tax differential	**0.2**	0.1
Capital gains tax	**(0.7)**	0.1
Non-taxable income[1]	**(2.6)**	(5.5)
Non-deductible expenses[2]	**16.6**	0.6
Effective rate	**63.5**	34.3

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

2 Non-deductible expenses comprise shareholder 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 Rm
29	**Cash flow from operating activities**		
29.1	**Cash utilised in operations**		
	Profit before tax	**1 421**	4 480
	Adjusted for		
	Items disclosed in other notes		
	Dividends received	**(4 802)**	(4 677)
	Interest received	**(11 704)**	(11 528)
	Finance costs	**813**	753
	Adjustments to reconcile profit before tax to net cash flows		
	Net realised and unrealised fair value gains	**12 118**	(3 275)
	Depreciation and amortisation expenses	**278**	163
	Impairment charges and bad debt written off	**723**	(26)
	Deferred acquisition costs amortisation	**316**	328
	Share-based payment arrangements	**145**	80
	Bonus expense	**170**	254
	Leave pay expense	**69**	28
	Provision for impairment of commission debtors	**(36)**	(36)
	Change in reinsurance contract assets	**(25)**	(259)
	Deferred revenue liability change expense	**(65)**	(65)
	Accelerated rental income	**29**	6
	Post retirement medical benefit expense	**(3)**	15
	Fair value adjustments on investment contract liabilities	**5 616**	8 855
	Change in insurance contract liabilities	**(6 734)**	5 736
	Change in investment contracts with DPF liabilities	**(2 069)**	(476)
	Changes in operating assets and liabilities		
	Net insurance and investment liabilities	**1 151**	(7 116)
	Deferred acquisition costs	**(287)**	(288)
	Assets at fair value through profit and loss	**(10 592)**	(6 615)
	Financial assets at amortised cost	**470**	(1 075)
	Insurance and other receivables	**(123)**	91
	Reinsurance assets	**(49)**	(102)
	Change in employee benefit assets	**–**	1
	Change in employee benefit obligations	**(407)**	(239)
	Other operating liabilities	**4 025**	1 003
	Cash utilised in operations	**(9 552)**	(13 984)
29.2	**Income tax paid**		
	Due at beginning	**(276)**	(78)
	Charged to income statement	**(1 325)**	(979)
	Due at end	**41**	276
		(1 560)	(781)
29.3	**Interest paid**		
	Unsecured subordinated call notes	**(440)**	(418)
	Carry positions	**(288)**	(286)
	Lease liabilities	**(40)**	–
	Other	**(45)**	(49)
		(813)	(753)
29.4	**Liabilities arising from financing activities**		
	Due at beginning	**10 007**	8 347
	Recognised on 1 July 2019 on adoption of IFRS 16	**475**	–
	Additions	**39**	–
	Subordinated call notes issued	**750**	750
	Subordinated call notes repaid	**(755)**	(749)
	Proceeds from borrowings	**6 313**	5 576
	Repayment of borrowings	**(5 576)**	(3 973)
	Payment of principal portion of lease liability	**(96)**	–
	Lease modifications	**(40)**	–
	Accrued interest	**813**	753
	Fair value movement	**74**	56
	Interest paid	**(813)**	(753)
	Own credit gains included in other comprehensive income	**(69)**	–
	Due at end	**11 122**	10 007

30 Related party transactions

30.1 Major shareholders and group companies

The holding company of Momentum Metropolitan Life Limited is Momentum Metropolitan Holdings Limited, and the major shareholder in Momentum Metropolitan Holdings Limited is Rand Merchant Investment Holdings Limited (RMIH).

The most significant related parties of the company are Momentum Asset Management (Pty) Ltd, Momentum Short-term Insurance Company Ltd, MMI Short-term Insurance Administration (Pty) Ltd, Momentum Multiply (Pty) Ltd, 102 Rivonia Road (Pty) Ltd, Momentum Wealth International Ltd, Momentum Wealth (Pty) Ltd, Momentum Ability Ltd and Momentum Alternative Investments (Pty) Ltd, all subsidiaries of the company. Subsidiaries and associated companies of these companies are also related parties.

Significant subsidiaries of the company are listed in note 5, along with loans due to or from these entities.

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

Other related parties include directors, key management personnel and their families. Key management personnel for the company 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 company 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.

30.2 Transactions with directors and key management personnel and their families

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

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

	2020 Rm	2019 Rm
Salaries and other short-term employee benefits	**25**	18
Post-employment benefits	**–**	1
Share-based payments	**7**	10
Director's fees	**14**	9
	46	38

The company's executive directors are members of the staff pension schemes and participate in the company's long-term retention schemes, the details of which are in note 14.2.

Aggregate details of insurance and investment transactions between the company and key management personnel and their families are as follows:

	2020		2019	
	Insurance Rm	Investment Rm	Insurance Rm	Investment Rm
Fund value	**1**	**149**	1	143
Aggregate life and disability cover	**37**	**–**	680	–
Deposits/premiums for the year	**2**	**9**	1	7
Withdrawals/claims for the year	**–**	**(7)**	–	-

30 Related party transactions continued

30.3 Dividends

The company declared a final ordinary dividend of R633.2 million (R3.34 per ordinary share) to Momentum Metropolitan Holdings Limited for the year ended 30 June 2019, which was only provided for during the 2020 financial year, compared to a final ordinary dividend of R702.4 million (R3.70 per ordinary share) for the year ended 30 June 2018, which was only provided for during the 2019 financial year.

The company also declared R708.6 million (2019: R833.4 million) in interim ordinary dividends being R3.74 (2019: R4.39) per ordinary share to Momentum Metropolitan Holdings Limited in March 2020 (2019: March 2019).

In addition, the company declared a special dividend of R950 million (R5.01 per ordinary share) to Momentum Metropolitan Holdings Limited for the year ended 30 June 2019 and a dividend in specie of R615.7 million (R3.25 per ordinary share), which was provided for during the 2020 financial year. The dividend was a non-cash transaction used to settle a loan amount. The special dividend was used by the Group for the acquisition of Momentum Insurance (previously Alexander Forbes Insurance).

No ordinary dividend will be declared in September 2020. The company will also not declare a special dividend in the current year again.

The declaration of preference dividends was calculated at a rate of 68% of the prime interest rate. The dividends declared to Momentum Metropolitan Holdings Ltd in the current year amounted to R34 million (2019: R34 million). The company repurchased the preference shares from Momentum Metropolitan Holdings Ltd during the year. Refer to note 17 for further information.

	2020 Rm	2019 Rm
31 Capital and lease commitments		
Capital commitments		
Authorised and contracted	**325**	17
	325	17
The above commitments, which are in respect of building refurbishments of R199 million for the next two years and building development costs of R126 million, will be financed from internal sources.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	**4**	133
Between 1 and 5 years	**–**	344
More than 5 years	**–**	138
	4	615
The prior year 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**	363
Between 1 and 5 years	**800**	926
More than 5 years	**1 000**	1 138
	2 157	2 427

32 Contingent liabilities

The company 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 company'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 government in response to the pandemic. These effects are continuing and the company is expected 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 company 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 company will continue to monitor the progression of the pandemic and its impact on the company and will consider these on significant estimates and judgements going forward.

No 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 company 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 endeavour 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 company simultaneously seeks to achieve higher levels of responsibility to all stakeholders.

The company is currently exposed to the following financial risks:

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.

Liquidity risk: Liquidity risk is the risk that the company, 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 company 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 company.

35 Financial risk inherent in investment in collective investment schemes

The company classifies a number of collective investment schemes and fund of alternative funds as subsidiaries. Refer to Annexure A for further information.

As a result of exercising control over these schemes and other investment products, the company'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 portfolios' 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 collective investment portfolios.

The collective investment schemes and other investment products not classified as subsidiaries are included in Annexure B as Investments in associates. These are designated at fair value through profit and loss.

36 Capital management

36.1 Capital management objectives

The Board has the ultimate responsibility for the efficient management of capital within the company. 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 company'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 company. The capital management programme is underpinned by appropriate links to the company's risk appetite framework and governance processes whilst focusing on effective implementation and execution of the principles.

36 Capital management continued

36.2 Capital management framework

The company'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 company 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 company to support its business strategy.

  Within the company, 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.

- **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 the company.

- **Capital coverage**: The company specifies capital coverage ratios and ranges, which are defined under its risk appetite framework.

- **Capital allocation:** As a general principle, the company is capitalised to ensure medium-term regulatory solvency while additional capital is held to support the long-term regulatory solvency of the entity.

- **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 company's shareholders. The company invests the assets backing its shareholder capital portfolios in line with its approved risk appetite and mandates.

- **Capital planning process:** The company's capital planning process facilitates value creation by aligning corporate strategy, capital allocation and performance measurement. The company'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 company, as the custodian of shareholder funds within Momentum Metropolitan Holdings (MMH), aims to declare dividends that supports the external dividend declarations, capital structure optimisation and strategic investments undertaken by the MMH.

  MMH's dividend policy is to grow dividends in line with MMH's diluted normalised headline earnings growth. MMH targets a 2.5x Diluted 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 MMH's diluted normalised headline earnings per annum.

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

36.3 Overview of capital management developments

36.3.1 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 and is performed within the PA.

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

36 Capital management continued

36.3 Overview of capital management developments continued

36.3.2 Changes in capital structure

Preference share buyback

The company had 50 000 non-redeemable, non-cumulative, non-participating preference shares issued to Momentum Metropolitan Holdings Ltd. On 24 February 2020, the company repurchased all of the outstanding preference shares from MMH.

Subordinated debt raising

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

36.3.3 Subordinated debt profile

The table below shows a summary of the company's subordinated debt programme, unsecured callable notes currently in issue at 30 June 2020:

Instrument Code	Amount issued (Rm)	Coupon rate	Original tenor (years)	Term to first call (years)	Date issued	Interest rate
MMIG02	750	10.07%	7	<1	17-Mar-2014	Fixed
MMIG04	270	11.30%	10	5	12-Aug-2015	Fixed
MMIG05	980	10.86%	7	2	12-Aug-2015	Fixed
MMIG06	750	JIB03 + 220bps	6	3	19-Oct-2017	Floating
MMIG07	750	JIB03 + 175bps	5.5	4	18-Mar-2019	Floating
MML01	290	JIB03 +175	7	6.5	10-Dec-2019	Floating
MML02	460	9.29%	7	6.5	10-Dec-2019	Fixed
Total	4 250					

The company believes that the current capital mix is adequate and will continue to pursue strategies to optimise the capital mix within the Prudential Standards.

36.4 Capital coverage

The company has adopted a target range for regulatory solvency cover of 1.7 to 2.1 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.

36.5 Credit ratings

On 1 April 2020, Moody's amended the company's credit rating and maintained a negative outlook on the rating. The change in the credit rating 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 company's credit ratings as at 30 June 2020 and 30 June 2019.

		National scale		Global scale		
	Type	2020	2019	2020	2019	Outlook
MML	Insurer Financial Strength	Aaa.za (AAA)	Aaa.za (AAA)	Baa3 (BBB-)	Baa2 (BBB)	Negative
MML	Issuer rating	Aa1.za (AA+)	Aaa.za (AAA)	Ba1 (BB+)	Baa3 (BBB-)	Negative
Subordinated debt	N/A	Aa3.za (AA-)	Aa2.za (AA)	Ba2 (BB)	Ba1 (BB+)	Negative

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

On the company, 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 company from stress related to credit pressures at the sovereign level. The company'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 company'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 company to meet its profitability targets under its "Reset and Grow" strategy.

37 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	47 557	2 452	156 060	206 069
Market-related business	16 451	958	153 607	171 016
Smoothed bonus business	21 997	573	813	23 383
Smoothed bonus – fully vesting	–	921	1 640	2 561
Conventional with-profit business	9 109	–	–	9 109
Group contracts with market exposure	12 525	13 928	75 207	101 660
Market-related business	(28)	–	75 159	75 131
Smoothed bonus business	(46)	13 316	–	13 270
Smoothed bonus – fully vesting	–	584	–	584
With-profit annuity business	12 599	28	48	12 675
Other business	43 417	183	10 391	53 991
Non-profit annuity business	35 445	–	1 827	37 272
Guaranteed endowments	11	–	8 564	8 575
Other non-profit business	7 961	183	–	8 144
Total contract holder liabilities	103 499	16 563	241 658	361 720
2019				
Individual contracts with market exposure	52 723	2 539	148 743	204 005
Market-related business	18 886	1 012	146 193	166 091
Smoothed bonus business	24 233	646	803	25 682
Smoothed bonus – fully vesting	–	881	1 747	2 628
Conventional with-profit business	9 604	–	–	9 604
Group contracts with market exposure	13 905	15 913	74 768	104 586
Market-related business	(11)	–	74 718	74 707
Smoothed bonus business	65	15 153	–	15 218
Smoothed bonus – fully vesting	–	722	–	722
With-profit annuity business	13 851	38	50	13 939
Other business	43 605	180	11 437	55 222
Non-profit annuity business	35 206	–	2 083	37 289
Guaranteed endowments	20	–	9 354	9 374
Other non-profit business	8 379	180	–	8 559
Total contract holder liabilities	110 233	18 632	234 948	363 813

37 Insurance and investment business continued

37.1 Classes of insurance and investment business continued

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 company holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the company 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 policyholders' expectations. These risks are managed through the rigorous investment research process applied by the company'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.
- The company has issued principles and practices of financial management (PPFM) for all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports are submitted to the discretionary participation committee (a sub-committee of the 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. The full value of the underlying assets 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 statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The company 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.

37 Insurance and investment business continued

37.1 Classes of 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 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)

Insurance

- 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 APN 110 – Allowance for embedded investment derivatives. Refer to note 11.
- 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.

37 **Insurance and investment business** continued

37.2 Insurance risk

Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of insurance contracts. This can be through the realisation of a loss, or a 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.

Insurance risk management

The Head of the Actuarial Function (HAF) has a duty under the Insurance Act 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, including 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 HAF reports on these matters to the board, audit committee and the Prudential Authority. The actuarial committee supports the HAF in his 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, 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 the extreme, actual claims and benefits may exceed the liabilities. 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 company's risk appetite.

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

37.2.1 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:

- Premium rates are required to be certified by the HAF as being actuarially sound.
- 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 an 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 increase 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 due to exposure to a large number of claims from a single event or to a particular geographical area.

37 Insurance and investment business continued

37.2 Insurance risk continued

37.2.1 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 company 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 these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the company 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.
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - 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 retain 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 for fully underwritten and limited underwriting products, but excludes funeral products which are not reinsured.
  - 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. The company'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 sum 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	**2 427 478**	**19 086**	**18 657**	2 348 931	20 572	20 137
20 001 – 50 000	**795 772**	**32 018**	**31 155**	848 200	32 810	31 872
50 001 – 100 000	**319 240**	**28 006**	**25 671**	314 723	25 830	23 437
100 001 – 200 000	**109 835**	**17 838**	**13 077**	116 721	18 843	13 823
200 001 – 500 000	**180 820**	**62 034**	**42 588**	191 607	64 293	44 719
500 001 – 1 000 000	**213 144**	**117 270**	**86 736**	221 404	121 193	89 395
>1 000 000	**471 144**	**1 027 437**	**575 394**	469 103	994 523	556 028
	4 517 433	**1 303 689**	**793 278**	4 510 689	1 278 064	779 411

37 Insurance and investment business continued

37.2 Insurance risk continued

37.2.1 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.
  - 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 plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 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 company 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, for example 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	**7 189**	7 505
1 001 – 5 000	**221**	223
>5 000	**131**	119

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37 Insurance and investment business continued

37.2 Insurance risk continued

37.2.1 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. The mortality 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 annum:

	2020		2019	
Annuity amount per annum Rands	Number of annuitants	Total amount per annum Rm	Number of annuitants	Total amount per annum Rm
0 – 10 000	**63 782**	**280**	66 966	292
10 001 – 50 000	**43 485**	**1 029**	44 082	1 036
50 001 – 100 000	**11 252**	**791**	11 236	786
100 001 – 200 000	**6 693**	**926**	6 272	865
>200 000	**4 437**	**1 703**	3 983	1 512
	129 649		132 539	

Permanent health insurance business

The company 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. Ongoing claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

37.2.2 Contract persistency risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.

- 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 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, e.g. contract holders whose health has 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.

37 Insurance and investment business continued

37.2 Insurance risk continued

37.2.2 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 company'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, 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.

37.2.3 Expense risk

There is a risk that the company 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.

The company 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.

37.2.4 Business volume risk

There is a risk that the company 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 are variable and relate 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 company.

37.2.5 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 company 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 company has a risk seeking attitude. When writing retrenchment risk, the company carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

38 Liquidity risk

Liquidity risk is the risk that the company, although solvent, has inadequate liquid financial resources to meet its financial obligations when due, or can only secure these resources at excessive cost. The company 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 company is managed in terms of the company liquidity risk management policy, which is a policy of the enterprise risk management function.

The Capital and Investment Committee is responsible for the company's liquidity and funding risk management with the Board Risk Capital and Compliance committee providing oversight for funding and liquidity risk assumed in the company'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.

38 Liquidity risk continued

Liquidity risk management

The principal risk relating to liquidity comprises the company's exposure to policyholder behaviour, e.g. unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 92% (2019: 94%) of the liabilities of the company. 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 company'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 company 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.

38 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.

Shareholder funds

The significant shareholder liabilities of the company are the carry positions and the subordinated call notes.

The company 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 Capital and Investment Committee. The regular reports take the expected shareholder cash flows (e.g. 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 company's assets are fairly liquid in order to meet the liquidity needs of obligations if the company should be required to settle earlier than expected:

	2020		Restated 2019	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**76%**	**305 044**	75%	304 870
Medium[2]	**21%**	**87 000**	22%	87 468
Low/illiquid[3]	**3%**	**10 449**	3%	10 582
Other assets not included above				
Employee benefit assets		**649**		466
Assets relating to disposal groups held for sale		**633**		622
Total assets		**403 775**		404 008

1 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.

2 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), financial assets at amortised cost, insurance receivables, reinsurance contracts).

3 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).

38 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	Carrying amount Rm	Total Rm	Open-ended[1] Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	>10 years Rm
Insurance contracts (discounted cash flows)[2]	103 499	103 499	17 144	12 830	26 776	20 298	26 451
Market-related business							
Individual	16 451	16 451	2 040	1 222	3 969	4 095	5 125
Employee benefits	(28)	(28)	(4)	(2)	(10)	(12)	–
Smoothed bonus business							
Individual	21 997	21 997	624	2 830	6 854	5 101	6 588
Employee benefits	(46)	(46)	(46)	–	–	–	–
Conventional with-profit business	9 109	9 109	5 458	301	480	178	2 692
Guaranteed endowments	11	11	–	9	2	–	–
Non-profit business							
Individual	5 451	5 451	1 292	1 150	1 029	513	1 467
Employee benefits	2 510	2 510	281	1 699	195	110	225
Annuity business	48 044	48 044	7 499	5 621	14 257	10 313	10 354
Investment contracts with DPF (discounted cash flows)[2]	16 563	16 563	15 038	264	567	296	398
Market-related business							
Individual	958	958	6	184	337	188	243
Smoothed bonus business							
Individual	573	573	–	80	230	108	155
Employee benefits	13 316	13 316	13 316	–	–	–	–
Smoothed bonus – fully vesting							
Individual	921	921	921	–	–	–	–
Employee benefits	584	584	584	–	–	–	–
Non-profit business							
Employee benefits	183	183	183	–	–	–	–
Annuity business	28	28	28	–	–	–	–
Investment contracts (undiscounted cash flows)	241 658	242 489	115 707	8 237	11 921	16 474	90 150
Market-related business							
Individual	153 607	153 607	39 545	4 312	4 624	16 336	88 790
Employee benefits	75 159	75 159	73 719	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	8	11	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)
Total policyholder liabilities under insurance and investment contracts	361 720	362 551	147 889	21 331	39 264	37 068	116 999
Financial liabilities at fair value through profit and loss	15 754	11 876	–	7 419	3 315	1 142	–
Subordinated call notes	4 431	5 563	–	1 106	3 315	1 142	–
Carry positions	6 313	6 313	–	6 313	–	–	–
Derivative financial liabilities[3]	5 010						
Financial liabilities at amortised cost – lease liabilities	378	480	–	131	255	94	–
Other payables[4]	10 353	10 353	–	10 353	–	–	–
Other liabilities[5]	2 762						
Total liabilities	390 967	385 260	147 889	39 234	42 834	38 304	116 999

38 **Liquidity risk** continued

Maturity profile of liabilities continued

Restated 2019	Carrying amount Rm	Total Rm	Open-ended[1] Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	>10 years
Insurance contracts (discounted cash flows)[2]	110 233	110 233	20 846	12 058	25 918	21 059	30 352
Market-related business							
Individual	18 886	18 886	4 591	1 713	3 482	3 612	5 488
Employee benefits	(11)	(11)	–	(1)	(4)	(6)	–
Smoothed bonus business							
Individual	24 233	24 233	1 073	3 211	7 156	5 818	6 975
Employee benefits	65	65	65	–	–	–	–
Conventional with-profit business	9 604	9 604	5 638	371	496	210	2 889
Guaranteed endowments	20	20	–	10	10	–	–
Non-profit business							
Individual	5 790	5 790	1 416	493	816	612	2 453
Employee benefits	2 589	2 589	204	1 268	400	231	486
Annuity business	49 057	49 057	7 859	4 993	13 562	10 582	12 061
Investment contracts with DPF (discounted cash flows)[2]	18 632	18 632	16 980	238	706	312	396
Market-related business							
Individual	1 012	1 012	6	110	446	199	251
Smoothed bonus business							
Individual	646	646	–	128	260	113	145
Employee benefits	15 153	15 153	15 153	–	–	–	–
Smoothed bonus – fully vesting							
Individual	881	881	881	–	–	–	–
Employee benefits	722	722	722	–	–	–	–
Non-profit business							
Employee benefits	180	180	180	–	–	–	–
Annuity business	38	38	38	–	–	–	–
Investment contracts (undiscounted cash flows)	234 948	236 903	115 454	6 872	16 251	13 021	85 305
Market-related business							
Individual	146 193	146 193	39 719	4 400	5 276	12 867	83 931
Employee benefits	74 718	74 718	73 301	16	75	125	1 201
Smoothed bonus business							
Individual	803	803	790	–	–	2	11
Smoothed bonus – fully vesting							
Individual	1 747	1 747	1 450	12	15	35	235
Guaranteed endowments	9 354	11 009	143	1 726	9 139	1	–
Annuity business	2 133	2 433	51	718	1 746	(9)	(73)
Total policyholder liabilities under insurance and investment contracts	363 813	365 768	153 280	19 168	42 875	34 392	116 053
Financial liabilities at fair value through profit and loss	12 226	11 275	–	6 738	3 453	1 084	–
Subordinated call notes	4 431	5 699	–	1 162	3 453	1 084	–
Carry positions	5 576	5 576	–	5 576	–	–	–
Derivative financial liabilities[3]	2 219						
Financial liabilities at amortised cost	–	–	–	–	–	–	–
Other payables[4]	9 254	9 254	–	9 254	–	–	–
Other liabilities[5]	3 404						
Total liabilities	388 697	386 297	153 280	35 160	46 328	35 476	116 053

[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.

38 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, i.e. 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 11.
- 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:

- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by the company. 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.

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the 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 company's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

	Carrying amount Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm	>5years Rm
2020					
Derivatives held for trading					
Equity derivatives	**(1 434)**	**(787)**	**(714)**	**(73)**	**–**
Interest rate derivatives	**121**	**202**	**1 188**	**(327)**	**(659)**
Bond derivatives	**(20)**	**(106)**	**(106)**	**–**	**–**
Credit derivatives	**33**	**33**	**11**	**28**	**(6)**
Currency derivatives	**(928)**	**(683)**	**(113)**	**17**	**(587)**
Total net undiscounted cash flow projections	**(2 228)**	**(1 341)**	**266**	**(355)**	**(1 252)**
Derivative financial instruments					
Assets	**2 782**				
Liabilities	**(5 010)**				
	(2 228)				
2019					
Derivatives held for trading					
Equity derivatives	(4)	(13)	–	(13)	–
Interest rate derivatives	852	286	17	1 748	(1 479)
Bond derivatives	46	16 686	–	(3 839)	20 525
Credit derivatives	12	–	–	–	–
Currency derivatives	(750)	(539)	74	(269)	(344)
Total net undiscounted cash flow projections	156	16 420	91	(2 373)	18 702
Derivative financial instruments					
Assets	2 375				
Liabilities	(2 219)				
	156				

39 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 company are subject to the components of market risk as follows:

	Carrying amount				
	2020 Rm	Restated 2019 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value through profit and loss					
Equity securities	**32 929**	43 114	✓✓		✓
Debt securities	**92 473**	88 371	✓	✓✓	✓
Funds on deposit and other money market instruments	**10 597**	11 741	✓	✓✓	✓
Unit-linked investments	**150 115**	149 057	✓✓	✓	✓
Derivative financial assets	**2 782**	2 375	✓✓	✓✓	✓
Interest in subsidiaries	**76 871**	73 128			✓
Carried at amortised cost					
Financial assets at amortised cost					
Accounts receivable	**795**	848		✓	✓
Unsettled trades	**1 485**	801			✓
Loans	**3 943**	5 667		✓✓	✓
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 515**	2 469		✓	✓
Cash and cash equivalents	**15 112**	12 478		✓✓	✓
Other non-financial assets	**14 158**	13 959	N/A	N/A	N/A
Total assets	**403 775**	404 008			
Liabilities					
Carried at fair value through profit and loss					
Investment contracts					
Designated at fair value through profit and loss	**241 658**	234 948	✓✓	✓✓	✓
At fair value through profit and loss					
Subordinated call notes	**4 431**	4 431	✓	✓✓	
Carry positions	**6 313**	5 576	✓	✓✓	
Derivative financial liabilities	**5 010**	2 219	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities at amortised cost	**378**	–			
Other payables (excluding premiums in advance and deferred revenue liability)					
Payables arising from insurance contracts and investment contracts with DPF	**4 116**	4 443			✓
Payables arising from investment contracts	**1 125**	875			✓
Commission creditors	**769**	758		✓	✓
Unsettled trades	**1 754**	640			✓
Other	**2 589**	2 538		✓	✓
Insurance contract liabilities	**103 499**	110 233	*	*	*
Investment contracts with DPF	**16 563**	18 632	✓✓	✓✓	✓✓
Other non-financial liabilities	**2 762**	3 404	N/A	N/A	N/A
Total liabilities	**390 967**	388 697			

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 37.

39 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 company 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 company 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 Capital Investment Committee (CIC) is responsible for the company'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 company's exposure to equity, interest rate, currency and property price risks are discussed and disclosed in this note.

39.1 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 company 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 may 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 extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

39 Market risk continued

39.1 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 company 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 company's investment managers.

Individual contracts offering investment guarantees

The company 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 company 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.

39 Market risk continued

39.1 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 company 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 profit of R32.8 million (2019: R23.9 million) for the company.

The liability valuation calculation for the company's annuities is based on the risk-free yield curve. The average rate that produces the same result is 11.7% (2019: 10.1%).

Guaranteed endowments and structured products

The company 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 company's reinsurance policies.

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 company 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.

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.

39 Market risk continued

39.2 Market risk management per risk factor

39.2.1 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 systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systematic risk cannot.

The company 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 39.2.5.

39.2.2 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 company's investment portfolios are subject to changes in prevailing market interest rates. The table below 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. Loans and receivables 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.

39 **Market risk** continued

39.2 **Market risk management per risk factor** continued

39.2.2 **Interest rate risk** continued

Exposure of financial instruments to interest rates 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	**92 473**	**27 521**	**59 201**	**5 751**	**7.0**
Funds on deposit and other money market instruments	**10 597**	**7 806**	**2 791**	**–**	**5.0**
Derivative financial assets	**2 782**	**–**	**2 782**	**–**	**N/A**
Derivative financial liabilities	**(5 010)**	**–**	**(5 010)**	**–**	**N/A**
At amortised cost					
Loans and receivables at amortised cost	**6 223**	**1 054**	**–**	**5 169**	**8.0**
Cash and cash equivalents	**15 112**	**13 887**	**–**	**1 225**	**3.0**
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 515**	**–**	**–**	**2 515**	**N/A**
	124 692	**50 268**	**59 764**	**14 660**	
Restated					
2019					
At fair value through profit and loss					
Debt securities	88 371	27 825	55 546	5 000	8.0
Funds on deposit and other money market instruments	11 741	8 921	2 817	3	8.0
Derivative financial assets	2 375	–	2 375	–	N/A
Derivative financial liabilities	(2 219)	–	(2 219)	–	N/A
At amortised cost					
Loans and receivables at amortised cost	7 316	1 053	–	6 263	11.0
Cash and cash equivalents	12 478	12 087	–	391	5.0
Insurance and other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 469	–	–	2 469	N/A
	122 531	49 886	58 519	14 126	

39.2.3 **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 company'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 South African Reserve Bank.

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 below as the look-through principle was not applied.

39 Market risk continued

39.2 Market risk management per risk factor continued

39.2.3 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 company. The geographical area of Africa includes Botswana, Ghana, Kenya, Mauritius, Nigeria, Tanzania, Uganda and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the company, are included in the company's statement of financial position at 30 June:

	Africa Rm	UK Rm	US Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
2020							
Closing exchange rate		**21.4519**	**17.3610**	**19.5045**			
Investment securities							
At fair value through profit and loss							
Equity securities	**–**	**130**	**1 036**	**110**	**35**	**80**	**1 391**
Debt securities	**–**	**13**	**1 387**	**1**	**–**	**–**	**1 401**
Unit-linked investments	**–**	**3 896**	**29 847**	**284**	**23**	**39**	**34 089**
Derivative financial assets	**–**	**7**	**4**	**–**	**–**	**–**	**11**
Interest in subsidiaries	**26**	**512**	**–**	**–**	**–**	**–**	**538**
At amortised cost							
Loans and accounts receivable	**5**	**60**	**2**	**–**	**–**	**–**	**67**
Cash and cash equivalents	**–**	**106**	**2 309**	**40**	**2**	**6**	**2 463**
	31	**4 724**	**34 585**	**435**	**60**	**125**	**39 960**
Restated							
2019							
Closing exchange rate		17.9473	14.1084	16.0651			
Investment securities							
At fair value through profit and loss							
Equity securities	–	112	688	80	17	43	940
Debt securities	–	21	1 600	–	–	–	1 621
Unit-linked investments	–	4 096	30 745	324	17	34	35 216
Derivative financial assets	–	–	1	–	–	–	1
Interest in subsidiaries	26	349	–	–	–	–	375
At amortised cost							
Loans and accounts receivable	–	–	–	–	–	–	–
Cash and cash equivalents	–	67	1 349	35	1	3	1 455
	26	4 645	34 383	439	35	80	39 608

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**	**0.0448**
2019	1.3290	2.5818	0.1382	0.0392

39 Market risk continued

39.2 Market risk management per risk factor continued

39.2.4 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 company's exposure to property holdings at 30 June is as follows:

	2020 Rm	Restated 2019 Rm
Investment properties	**6 797**	7 163
Owner-occupied properties	**1 056**	750
Collective investment schemes > 55% property exposure	**6 604**	10 628
	14 457	18 541
Percentage of total assets	**3.6%**	4.6%

Refer to note 4 for the concentration risk regarding types of properties relating to investment properties. Owner-occupied properties mainly comprise office buildings.

The company is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants as at 30 June 2020. The carrying amount of unlet and vacant investment property as at 30 June 2020 was R766 million (2019: R636 million).

39.2.5 Sensitivity to market risk

The company's earnings and net asset value are exposed to market risks. The company 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 per income statement	**172**	**(367)**	(190)	(180)
Increase/(decrease) in equity	**578**	**(467)**	(49)	55
2019				
Increase/(decrease) in earnings per income statement	**89**	**(90)**	48	(52)
Increase/(decrease) in equity	**476**	**(394)**	(214)	106

39 Market risk continued

39.2 Market risk management per risk factor continued

39.2.5 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 company's current practice and accounting policy, the investment variances from insurance contracts were stabilised. As at 30 June 2020, the company'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 company is not considered to be material. Refer to note 39.2.3 for more details on the company's currency exposure.

40 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 policyholders 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.

Credit risk governance

The governance of credit risk is comprehensively set out in the Capital and Investment Committee (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 company in respect of shareholders. The CIC charter forms part of the overall enterprise risk management (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 company executive committee. This committee reports to the company's executive committee on the effectiveness of credit risk management and provides an overview of the company'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 company 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 company'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 company 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.

40 Credit risk continued

Impact of Covid-19

The high quality credit investment portfolio continues to perform well. The company has minimal exposure in the shareholder portfolio to those sectors hardest hit by Covid-19, like airlines, hospitality, tourism and consumer finance. There were no defaults due to Covid-19 in the current year. The company 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 company is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the company invests. The company's exposure to these funds is classified at fund level 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 company 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 company counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the company's credit risk exposure policy. For OTC interest rate swaps, the company 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 company is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

Scrip lending agreements are governed by the 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 company 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 borrowers. Where the borrower default risk is mitigated by means other than collateral, the company monitors the counterparty credit exposure to be within approved limits and the company ensures that credit risk capital is held against counterparty credit exposure.

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 company'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.

40 Credit risk continued

Financial assets at amortised cost continued

Policy loans

The company'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 company. In terms of the regulations applicable to the company, 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 company owns.

Reinsurance

The company 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 company 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 company'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 1 April 2020, Moody's amended the company's credit rating (IFS international scale rating of Baa3 and national scale rating of Aaa.za) and maintained a negative outlook on the rating. The change in the credit rating 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 company's credit risk exposure policy described in this note.

Linked notes

The company 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 assets

The company 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 R837 million (2019: R982 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.

SIGNIFICANT SUBSIDIARY COMPANIES

At 30 June the following collective investment schemes (CIS) were subsidiaries of the company:

	Country of incorporation, where not South Africa	Interest held 2020 %	Interest held 2019[1] %	Carrying amount 2020 Rm	Carrying amount 2019[1] 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		
Subtotal				**17 741**	18 129

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

	Interest held 2020 %	Interest held 2019[1] %	Carrying amount 2020 Rm	Carrying amount 2019[1] Rm
Momentum GF Global Equity Fund (previously Momentum IF Global Equity Fund)	**78**	61	**16 990**	12 092
Momentum Money Market Fund	**60**	59	**6 127**	5 760
Momentum MF Global Aggressive Fund	**100**	94	**5 833**	5 657
Momentum Bond Fund	**93**	94	**5 366**	4 316
Momentum GF Global Enhanced Index Fund	**78**	**	**4 508**	**
Momentum Income Plus Fund	**47**	43	**4 479**	2 466
Momentum Focus 6 Fund of Funds	**84**	84	**4 259**	4 830
Momentum SA Defensive Growth Fund	**100**	100	**3 924**	4 569
Momentum SA Flexible Fixed Interest Fund	**91**	90	**3 861**	2 293
Momentum MF Global Balanced	**100**	95	**3 762**	4 324
Momentum Global Growth Fund IC Ltd	**95**	98	**3 297**	3 233
Momentum Trending Equity Fund	**99**	99	**2 848**	2 357
Momentum Enhanced Yield Fund	**48**	42	**2 698**	2 342
Momentum IF Global Emerging Markets Equity	**92**	95	**2 556**	1 143
Momentum MoM Ultra Long-Term Value Fund	**92**	88	**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 MoM Specialist Equity Fund	**100**	100	**1 989**	3 276
Momentum Capped SWIX Index Fund	**100**	100	**1 957**	2 209
Momentum IF Global Fixed Income	**94**	96	**1 886**	1 479
Momentum MoM Opportunistic Equity Fund	**100**	100	**1 661**	2 020
Momentum MoM Emerging Manager Growth Fund	**100**	100	**1 430**	1 634
Momentum Focus 7 Fund of Funds	**79**	75	**1 371**	1 432
Momentum Property Equity Fund	**95**	96	**1 185**	2 360
Momentum Equity Fund	**37**	39	**1 158**	1 501
Momentum Diversified Income Fund	**57**	53	**1 148**	963
Momentum Focus 5 Fund of Funds	**69**	65	**826**	924
Momentum Macro Growth Fund	**100**	100	**778**	82
Momentum Rubix QI	**100**	100	**718**	841
Momentum – Global Managed Fund IC Ltd	**78**	81	**677**	469
Momentum RCIS Multi-Managed ZAR Equity Hedge QI Hedge Fund	**100**	100	**649**	688
Momentum Real Growth Property Fund	**79**	81	**648**	1 297

* 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.

**** No longer a subsidiary.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

	Interest held		Carrying amount	
	2020 %	2019[1] %	**2020 Rm**	2019[1] Rm
Momentum Real Growth Property Fund	**79**	81	**648**	1 297
Momentum SA Real Growth Property Fund	**63**	74	**593**	1 920
Momentum Value Equity Fund	**97**	96	**592**	714
Momentum RCIS Multi Managed ZAR Capi Alpha QI Hedge Fund	**99**	100	**555**	855
Momentum Inflation Linked Bond Portfolio	**60**	64	**529**	743
Momentum RCIS ZAR Diversified QI Fund of Hedge Funds	**98**	100	**487**	615
Momentum MF International Equity	**102**	100	**461**	568
Momentum Core Equity Fund	**25**	*	**431**	*
Momentum Focus 4 Fund of Funds	**61**	60	**398**	458
Momentum Real Return Fund	**100**	100	**387**	580
Momentum International Equity Feeder Fund	**39**	68	**386**	1 208
Fintax International Balanced Fund IC Ltd	**89**	89	**335**	294
Momentum – Global Cautious Fund IC Ltd	**69**	77	**320**	618
Momentum Private Equity 2008 Feeder	**100**	87	**305**	329
Momentum Active Bond Fund	**40**	39	**303**	308
FGAM Global Growth Fund IC Ltd	**30**	28	**296**	269
Momentum Focus 3 Fund of Funds	**63**	59	**286**	304
Momentum Managed Bond Fund	**100**	100	**283**	227
Momentum International Balanced Feeder Fund of Funds	**46**	37	**258**	150
Momentum Private Equity 2008 Master	**91**	100	**244**	338
Caleo Global Flexible Fund IC Limited	**21**	21	**232**	179
Chrysalis Enhanced Yield Credit Fund	**95**	100	**228**	150
Momentum Optimal Yield Fund	**71**	93	**225**	233
Momentum Global Balanced Fund IC Limited	**48**	52	**206**	200
Momentum Real Growth Property Index Fund	**100**	100	**179**	332
Fintax International Growth Fund IC Ltd	**85**	63	**172**	119
Momentum Outcome-Based Money Market Fund	**100**	100	**171**	81
Engelberg Global Fund IC Ltd	**40**	**	**164**	**
Momentum MF Global Moderate	**95**	37	**155**	333
PMK Wealth Global Growth Fund IC Limited	**37**	**	**152**	**
Momentum Defensive Growth Fund	**37**	42	**144**	179
Flagship International Flexible Fund IC Ltd	**26**	23	**137**	110
FGAM Global Cautious Fund IC Ltd	**32**	37	**119**	188
Momentum Harmony Portfolios Australian Dollar Growth Fund	**26**	*	**105**	*
ALUWANI Top 25 Fund	**27**	27	**104**	117
Momentum Top 40 Index Fund	**30**	*	**74**	*
Momentum Small/Mid-Cap Fund	**44**	42	**54**	75
PMK Wealth Global Cautious Fund IC Limited	**71**	**	**42**	**
Momentum Target 7 Fund of Funds	**86**	81	**40**	27
Momentum Target 6 Fund of Funds	**24**	23	**35**	31
Momentum International Conservative Feeder Funds	**40**	88	**27**	307
Momentum Target 5 Fund of Funds	**81**	84	**26**	29
Momentum Mid & Small Cap Index Fund	**39**	*	**25**	*
Momentum Target 4 Fund of Funds	**88**	83	**21**	22
Momentum Flexible Income Fund	**81**	*	**18**	*
Momentum Industrial Fund	**24**	28	**11**	14
Momentum Target 3 Fund of Funds	**90**	84	**11**	11
ALUWANI Africa Equity Ringfenced Fund	**43**	**	**–**	**
Momentum International Income Fund	***	21	***	21
MI Momentum Focus 3 Fund A ACC	**48**	*	**110**	*
			105 947	96 681

* 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.

**** No longer a subsidiary.

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Fund name	Domicile
FGAM Global Growth Fund IC Ltd	**Guernsey**
Momentum Global Growth Fund IC Ltd	**Guernsey**
Momentum GF Global Equity Fund	**Luxembourg**
Momentum GF Global Enhanced Index Fund	**Luxembourg**

At 30 June the following collective investment schemes (CIS) were subsidiaries of the company:

	Interest held		Carrying amount	
	2020 %	Restated 2019 %	2020 Rm	Restated 2019 Rm
Momentum MF Global Aggressive	**100.0**	93.7	**5 834**	5 657
Momentum Money Market Fund	**56.5**	58.0	**5 763**	5 689
Momentum Bond Fund	**83.2**	87.9	**4 820**	4 051
Momentum Income Plus Fund	**46.9**	43.1	**4 479**	2 466
Momentum GF Global Equity Fund	**20.8**	0.0	**4 512**	–
Momentum Focus 6 Fund of Funds	**84.2**	84.1	**4 259**	4 830
Momentum SA Defensive Growth Fund	**100.0**	100.0	**3 924**	4 569
Momentum MF Global Balanced	**100.0**	94.6	**3 762**	4 324
Momentum SA Flexible Fixed Interest Fund	**63.2**	57.4	**2 688**	1 461
Momentum Trending Equity Fund	**81.7**	73.9	**2 345**	1 756
Momentum Enhanced Yield Fund	**37.9**	28.0	**2 138**	1 546
Momentum MoM Macro Value Fund	**100.0**	100.0	**2 089**	1 903
Momentum Ultra Long Term Value Fund	**75.0**	67.1	**2 053**	2 216
Momentum MOM Specialist Equity Fund	**100.0**	100.0	**1 989**	3 276
Momentum MoM High Growth Fund	**85.2**	77.8	**1 980**	1 611
Momentum Capped SWIX Index Fund	**84.0**	80.5	**1 645**	1 776
Momentum MoM Emerging Manager Growth Fund	**100.0**	100.0	**1 430**	1 634
Momentum Focus 7 Fund of Funds	**78.5**	74.6	**1 371**	1 432
Momentum MoM Property Equity Fund	**95.4**	96.5	**1 185**	2 360
Momentum Equity Fund	**37.2**	38.7	**1 156**	1 501
Momentum Opportunistic Equity Fund	**65.7**	68.6	**1 091**	1 386
Momentum IF Global Fixed Income	**53.2**	44.3	**1 069**	681
Momentum Diversified Income Fund	**46.0**	42.8	**929**	770
Momentum Focus 5 Fund of Funds	**69.2**	65.2	**826**	924
Momentum RCIS Multi Managed ZAR Rubix Alpha QI Hedge Fund	**100.0**	100.0	**718**	841
Momentum RCIS Multi-Managed ZAR Equity Hedge QI Hedge Fund	**99.6**	100.0	**649**	688
Momentum Real Growth Property Fund	**78.8**	76.3	**648**	1 224
Momentum Value Equity Fund	**97.1**	95.8	**592**	714
Momentum RCIS Multi Managed ZAR Capi Alpha QI Hedge Fund	**99.4**	100.0	**555**	855
Momentum RCIS ZAR Diversified QI Fund of Hedge Funds	**97.6**	100.0	**487**	615
Momentum MF International Equity	**100.0**	100.0	**460**	568
Momentum Focus 4 Fund of Funds	**61.2**	60.4	**398**	458
Momentum MoM Real Return Fund	**99.9**	100.0	**387**	580
Momentum International Equity Feeder Fund	**38.8**	21.2	**386**	375
Fintax International Balanced Fund IC Ltd	**88.5**	89.1	**334**	294
Momentum Mom Active Bond Fund	**40.4**	40.0	**303**	308
Momentum Private Equity 2008 Feeder	**98.7**	87.0	**302**	329
Momentum Focus 3 Fund of Funds	**62.8**	58.8	**286**	304
Momentum MoM Managed Bond Fund	**99.6**	100.0	**283**	227
FGAM Global Growth Fund IC Ltd	**28.6**	28.1	**278**	269
Momentum SA Real Growth Property Fund	**28.4**	33.2	**267**	867
Momentum International Balanced Feeder Fund of Funds	**46.2**	37.5	**258**	150
Caleo Global Flexible Fund IC Limited	**21.2**	21.3	**232**	179
Chrysalis Enhanced Yield Credit Fund	**95.5**	100.0	**228**	150
Momentum Global Balanced Fund IC Limited	**47.7**	51.7	**204**	200
Momentum Real Growth Property Index Fund	**97.4**	95.8	**175**	318
Momentum Outcome-Based Money Market Fund	**100.0**	99.8	**171**	80
Engelberg Global Fund IC Ltd	**39.7**	0.0	**164**	–
Fintax International Growth Fund IC Ltd	**78.7**	62.7	**158**	119
Momentum MF Global Moderate	**94.8**	37.1	**155**	333
PMK Wealth Global Growth Fund IC Limited	**36.4**	0.0	**149**	–
Momentum Defensive Growth Fund	**37.0**	42.0	**144**	179
Momentum Optimal Yield Fund	**43.2**	87.9	**137**	219
Flagship International Flexible Fund IC Ltd	**25.7**	22.8	**137**	110
FGAM Global Cautious Fund IC Ltd	**30.7**	36.9	**114**	188
ALUWANI Top 25 Fund	**26.7**	27.3	**104**	117
Momentum Top 40 Index Fund	**29.7**	0.0	**74**	–
Momentum Small/Mid-Cap Fund	**44.4**	42.3	**54**	75
Momentum Target 7 Fund of Funds	**83.9**	81.0	**39**	27
PMK Wealth Global Cautious Fund IC Limited	**66.7**	0.0	**39**	–
Momentum Target 6 Fund of Funds	**22.9**	22.5	**34**	31
Momentum International Conservative Feeder Funds	**39.9**	0.0	**27**	–
Momentum Target 5 Fund of Funds	**77.7**	84.1	**25**	29
Momentum Mid & Small Cap Index Fund	**39.0**	0.0	**25**	–
Momentum Target 4 Fund of Funds	**83.9**	83.3	**20**	22
Momentum Flexible Income Fund	**76.3**	0.0	**17**	–
Momentum Industrial Fund	**24.3**	28.3	**11**	14
Momentum Target 3 Fund of Funds	**81.6**	84.4	**10**	11
Momentum MoM Macro Growth Fund	**0.0**	100.0	**–**	82
Momentum International Income Fund	**0.0**	20.6	**–**	21
Total investment in CIS subsidiaries			**73 575**	69 989

UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is one that has been designed so that voting or similar rights are not the dominant factors in deciding who controls it. The Group considers certain collective investment schemes 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 collective investment schemes as well as other unit-linked investments. Collective investment schemes 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	2019[1] Rm
Collective investment schemes		
Local and foreign	**143 563**	153 530
Equity	**90 378**	100 577
Interest-bearing	**23 363**	20 086
Property	**4 634**	5 948
Mixed	**22 513**	25 184
Money market	**2 351**	1 728
Commodity	**324**	7
Other unit-linked investments	**12 312**	10 924
Local and foreign		
Equity	**7 785**	5 939
Interest-bearing	**2 015**	1 835
Mixed	**2 287**	2 979
Commodity	**225**	171
	155 875	164 454

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

UNCONSOLIDATED STRUCTURED ENTITIES continued

Detail on investments in associates at fair value through income

The group holds a significant investment in the following associates at fair value through profit or loss:

2020	Carrying amount Rm	% interest held	Nature of relationship	Principal place of business
Momentum Harmony Portfolios Sterling Growth Fund	**264**	**12.5%**	**Standard investment**	**Luxembourg**
Momentum Africa Real Estate Fund	**162**	**26.7%**	**Standard investment**	**London**
2019[1]				
Momentum Africa Real Estate Fund	213	31.8%	Standard investment	London
Momentum Harmony Portfolios Sterling Growth Fund	211	9.1%	Standard investment	Luxembourg
Momentum Core Equity Fund	267	17.1%	Standard investment	Guernsey

Summarised financial information relating to the associates above:

2020	Momentum Harmony Portfolios Sterling Growth Fund Rm	Momentum Africa Real Estate Fund Rm
Current assets	**18**	**369**
Non-current assets	**2 104**	**255**
Current liabilities	**10**	**11**
Non-current liabilities	**2 112**	**613**
Revenue	**30**	**12**
Earnings	**(203)**	**(198)**

2019	Momentum Africa Real Estate Fund Rm	Momentum Harmony Portfolios Sterling Growth Fund Rm	Momentum Core Equity Fund Rm
Current assets	290	32	75
Non-current assets	382	2 291	1 522
Current liabilities	3	5	31
Non-current liabilities	669	2 318	1 566
Revenue	9	20	53
Earnings	93	12	129

[1] Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

UNCONSOLIDATED STRUCTURED ENTITIES continued

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[4] Rm	Income received[2] 2020 Rm	Income received[2] 2019[4] 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	**624**	828	**40**	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	**513**	469	**34**	24
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	**	470	**	4
The Thekwini Warehousing Conduit (RF) Ltd	Fixed-rate notes	Asset Backed Commercial Paper set up by South African Home Loans (Pty) Ltd to fund pools of home loans pursuant to a securitisation scheme	The issuance of fixed and/ or floating rate, asset-based commercial paper	**454**	*	**4**	*
				1 591	1 767	**78**	182

* 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.

4 Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

At 30 June the following collective investment schemes (CIS) were associates of the company:

	Interest held		Carrying amount	
	2020 %	Restated 2019 %	2020 Rm	Restated 2019 Rm
Momentum Real Growth Core Equity Fund	**19.1**	10.5	**332**	165
Momentum IF Global Emerging Markets Equity	**7.4**	13.5	**205**	162
Momentum Africa Real Estate Fund	**26.7**	11.4	**162**	76
Momentum – Global Managed Fund IC Ltd	**15.2**	12.5	**132**	73
Momentum Macro Growth Fund	**10.5**	0.0	**82**	–
Momentum – Global Growth Fund IC Ltd	**2.3**	1.9	**79**	64
Momentum – Global Cautious Fund IC Ltd	**16.8**	4.4	**77**	35
Brenthurst Global Balanced A Fund IC Ltd	**9.1**	7.7	**60**	41
Brenthurst Global Equity Fund IC Ltd	**13.6**	11.2	**58**	32
Momentum Inflation Linked Bond Portfolio	**5.2**	3.7	**46**	43
PB Global Flexible Fund IC Limited	**2.8**	2.9	**41**	36
Momentum International Income Fund	**19.7**	0.0	**30**	–
Momentum Financials Fund	**10.5**	12.3	**26**	53
VPFP International Growth Fund IC Ltd	**4.0**	2.8	**23**	19
Momentum – Sterling Balanced Fund IC Limited	**9.5**	5.4	**16**	10
VPFP International Cautious Fund IC Ltd	**3.1**	1.3	**16**	8
Momentum Resources Fund	**10.9**	10.7	**12**	12
Renaissance Global Best Ideas Fund IC Limited (USD shares)	**0.5**	0.7	**4**	16
Aluwani Africa Equity Fund	**17.8**	10.0	**3**	6
Momentum Harmony Portfolios Sterling Balanced Fund	**0.2**	0.0	**2**	–
Renaissance Global Best Ideas Fund IC Limited (GBP shares)	**0.1**	0.0	**1**	–
Momentum IF Global Equity	**0.0**	18.1	**–**	3 582
Momentum Top 40 Index Fund (A)	**0.0**	19.1	**–**	52
Momentum Mid & Small Cap Index Fund	**0.0**	12.9	**–**	24
Momentum International Conservative Feeder Funds	**0.0**	5.5	**–**	19
PSG Mutual Fund ICC Limited Global Flexible Fund IC Limited Class A	**0.0**	2.9	**–**	3
PSG Mutual Fund ICC Limited Global Equity Sub-Fund USD	**0.0**	0.3	**–**	1
Total investment in CIS associates			**1 407**	4 532

CASH-SETTLED ARRANGEMENTS VALUATION ASSUMPTIONS & DIRECTORS REMUNERATION

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 Remco 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		Performance bonus		Retention payments		Long-term incentive payments		Expense allowance	
	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
Hillie Meyer[1]	**6 756**	7 033	**3 025**	1 050	**–**	–	**345**	–	**–**	–
Jeanette Marais[2]	**4 042**	3 820	**2 050**	675	**–**	–	**209**	–	**–**	–
Risto Ketola[3]	**3 772**	3 447	**2 138**	1 925	**–**	–	**2 208**	–	**–**	–
Executive directors	**14 570**	14 300	**7 213**	3 650	**–**	–	**2 762**	–	**–**	–

	Medical aid		Pension fund		Contractual payment		Total remuneration		Value of shares granted	
	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
Hillie Meyer[1]	**–**	–	**–**	–	**–**	–	**10 126**	8 083	**21 010**	11 406
Jeanette Marais[2]	**55**	51	**224**	212	**–**	–	**6 580**	4 758	**11 425**	6 587
Risto Ketola[3]	**122**	141	**235**	278	**–**	–	**8 475**	5 791	**11 597**	7 911
Executive directors	**177**	192	**459**	490	**–**	–	**25 181**	18 632	**44 032**	25 904

	Fees		Ad hoc fees		Total fees	
	2020 R'000	2019* R'000	2020 R'000	2019* R'000	2020 R'000	2019* R'000
Fatima Jakoet	**981**	994	**–**	–	**981**	994
Frans Truter	**2 292**	2 223	**–**	–	**2 292**	2 223
JJ Njeke	**2 126**	2 197	**–**	–	**2 126**	2 197
Louis von Zeuner[4]	**–**	1 447	**–**	–	**–**	1 447
Stephen Jurisich	**1 570**	1 595	**–**	–	**1 570**	1 595
Lisa Chiume[5]	**1 492**	366	**–**	–	**1 492**	366
Sello Moloko[5]	**1 692**	280	**–**	–	**1 692**	280
Sharron Mc Pherson[5]	**854**	248	**–**	–	**854**	248
KG Legoabe-Kgomari[6]	**806**	–	**–**	–	**806**	–
Linda de Beer[7]	**1 330**	–	**–**	–	**1 330**	–
DJ Park[8]	**805**	–	**–**	–	**805**	–
Non-executive directors	**13 948**	9 350	**–**	–	**13 948**	9 350

1 Appointed February 2018. The Group CEO's contract has been extended until 31 October 2023.

2 Appointed in March 2018 as executive director and deputy CEO. The contractual payment relates to a sign-on award that she was required to invest directly in MMH shares, and is subject to a clawback should she resign from the employ of the group within the next two years.

3 Appointed as financial director in January 2018.

4 Resigned February 2019.

5 Appointed March 2019.

6 Appointed June 2019.

7 Appointed January 2020.

8 Appointed December 2019.

* Consolidated financial statements were not prepared in the prior year. Corresponding information is therefore unaudited. Please refer to Annexure H for further details.

Abbreviations

ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
BSA	Bonus stabilisation accounts
CAR	Capital adequacy requirement
CGU	Cash-generating unit
DCF	Discounted cash flow
DPF	Discretionary participation features
ESA	Employer Surplus Account
EV	Embedded value
FSCA	Financial Sector Conduct Authority
FSV	Financial soundness valuation
GCR	Global Credit Ratings
GLTD	Group long-term disability table
Group	Momentum Metropolitan Holdings Limited and its subsidiaries
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IFS	Insurer Financial Strength
IMA	Investment management agreement
MMH	Momentum Metropolitan Holdings Limited
MML	Momentum Metropolitan Life Limited
OTC	Over-the-counter
PA	Prudential Authority
PPFM	Principles and practices of financial management
PVP	Present value of future premiums
RDR	Risk discount rate
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
VIF	Present value of in-force covered business
VNB	Value of new business

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 FSV 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.

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.

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 recognised in the MMH group integrated report. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the company.

Discretionary margins

In addition to compulsory margins, insurance companies may hold further discretionary margins where the head of the actuarial function believes that:

- the compulsory margins are insufficient for prudent reserving; or
- company practice or policy design justifies the deferral of profits.

Definitions continued

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 Group's discounted value of expected after-tax future profits from the current business. The embedded value 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.

Embedded value earnings

Embedded value earnings are defined as the Group's change in embedded value (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 capital adequacy 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.

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 value of new business 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 Group's 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 embedded value is also adjusted to allow for future holding company and international support expenses.

Definitions continued

Normalised headline earnings

Normalised headline earnings comprise operating profit and investment income on shareholder assets. It excludes the amortisation of intangible assets relating to business combinations as well as dividends received from subsidiaries and intercompany loan impairments, which are eliminated on consolidation of the holding company group. 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 becoming 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 company 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 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 company, directly or indirectly, including any director (whether executive or otherwise) of the company.

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 embedded value

Return on embedded value is the Group's embedded value earnings over the period expressed as a percentage of the Group's embedded value at the beginning of the period, adjusted for capital movements during the year.

Definitions continued

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 value of new business. 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 subordinate 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 collective investment schemes, private equity fund investments and other investments where the value is determined based on the value of the underlying investments.

Unrated

The company 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 company.

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 1 January 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 license 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 our 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 our 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 – MML separate financial statements

Acquisition of subsidiaries or businesses under common control

Common control is defined as a business combination in which all the combining entities (subsidiaries or businesses) are ultimately controlled by the same party both before and after the business combination, and control is not transitory. The cost of an acquisition of a subsidiary under common control is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange. On acquisition the carrying amount of the assets and liabilities are not restated at fair value. The acquirer incorporates assets and liabilities at their pre-combination carry amounts. Any excess/deficit of the purchase price over the pre-combination carrying amounts of the subsidiary is adjusted directly to equity, in a separate common control reserve. Adjustments to achieve harmonisation of accounting policies will be adjusted on consolidation at the holding company level. Under this approach comparatives are not restated.

2 **Consolidation** continued

2.1 **Subsidiaries** continued

Investments in subsidiaries at fair value through profit and loss

Investment in each subsidiary is evaluated to consider whether it is appropriate to measure the carrying amount at fair value through profit and loss. Where this is deemed appropriate, the fair value movements are recorded in net realised and unrealised fair value gains and losses in the income statement. This policy choice is made once-off and is not revised subsequently.

Investments in subsidiaries at fair value through other comprehensive income

Investment in each subsidiary is evaluated to consider whether it is appropriate to measure the carrying amount at fair value through other comprehensive income. Where this is deemed appropriate, the fair value movements of these investments in subsidiaries are recorded directly against other comprehensive income. This policy choice is made once-off and is not revised subsequently.

Investments in subsidiaries that will be disposed of in the near future

Investments in subsidiaries held exclusively with the view of disposal in the near future (12 months) are accounted for at the lower of fair value less the cost to sell and its carrying amount in terms of the requirements of IFRS 5.

Disposal of investments in subsidiaries

Gains or losses on disposal of investments in subsidiaries carried at fair value through profit and loss are included in the income statement as net realised fair value gains and losses. When investments in subsidiaries carried at fair value through other comprehensive income are sold, the cumulative amount that was accounted for against other comprehensive income is transferred directly to retained earnings.

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.

Investments in collective investment schemes 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 collective investment schemes 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 – MML separate financial statements

Investments in collective investment schemes where the company has significant influence are carried as investments 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 collective investment schemes are recognised in the income statement. The related income from these schemes is recognised as interest or dividends received, as appropriate.

2 Consolidation continued

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.

4 Intangible assets continued

4.1 Goodwill continued

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the synergy of the combination in which the goodwill arose. *Cash-generating units* 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 *cash-generating unit* 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 *cash-generating unit* 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.

4.4 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 straight line 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.

4 **Intangible assets** continued

4.4 **Deferred acquisition costs (DAC)** continued

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 value 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.

5 Owner-occupied properties continued

Measurement continued

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.

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.

6 Investment properties continued

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 OCI. 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.

- **Equity instruments – MML separate financial statements**
  The company subsequently measures all equity investments at fair value. The company's management has elected to not present fair value gains and losses on equity instruments in other comprehensive income, except for investments in subsidiaries elected to be measured at fair value through other comprehensive income. All other 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 – MML 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 their 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.

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 fair value through profit and loss 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 over-the-counter 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.

10 Long-term and non-life insurance and investment contracts continued

Long-term insurance contracts and investment contracts with DPF continued

Measurement continued

- Provision is made for the estimated cost of incurred but not yet reported (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.

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.

10 Long-term and non-life insurance and investment contracts continued

Long-term insurance contracts and investment contracts with DPF continued

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.

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.

10 Long-term and non-life insurance and investment contracts continued

Long-term insurance contracts and investment contracts with DPF continued

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.

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 (DRL)

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

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.

10 Long-term and non-life insurance and investment contracts continued

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.

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

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 previous Short-term Insurance Act.

11 Financial liabilities

Recognition and measurement

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.

Financial liabilities at fair value through profit and loss

This category has two sub-categories: financial liabilities held for trading and those designated at fair value through profit and loss 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.

11 **Financial liabilities** continued

Recognition and measurement continued

Financial liabilities at fair value through profit and loss continued

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.

Financial liabilities, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below) and collective investment schemes 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 fair value through profit and loss. 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 fair value through profit and loss.

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*.

11 Financial liabilities continued

Recognition and measurement continued

Financial liabilities at amortised cost continued

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.

- **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 5 – 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.

15 Leases: accounting by lessee continued

- **Lease liabilities** continued
  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.

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 collective investment schemes 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. 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.

23 **Expense 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 have 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
- Derivative financial instruments, excluding over-the-counter (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.

Valuation techniques

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 5.7 (Company: 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
Debt securities		
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, swap curve, real bond curve, consumer price index, credit spread, volatility, forward equity, currency rates
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):

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% and 9.85% (2019: 8.26% and 10.69%); 5.41% and 11.41% (2019: 8.43% and 11.55%)	The higher the discount rate, the lower the fair value of the assets
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 NAV, 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 NAV, 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 fair value varies on distributions/net cash flows and period since last valuation
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

Valuation techniques

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Interest in subsidiaries				
Established businesses	DCF model	Projected cash flows according to management's best estimate expectations	The assumed revenue and expense growth paths are specific to each entity.	The higher the projected rate of revenue growth over projected expense growth (i.e. the projected profit margin), the greater the fair value.
			Revenue growth assumptions are subject to a ceiling. For 30 June 2020, the ceiling (upper limit to projected revenue growth) was 8% per annum.	The higher the revenue ceiling, the greater the fair value.
			An upper limit is also applied to the assumed rate of real revenue growth (excess over projected expense growth). For 30 June 2020, this ceiling was set at 2% per annum.	The higher the real growth limit, the greater the fair value
		Earnings growth assumptions post the planning horizon	A terminal value at the end of the five-year planning horizon assumes perpetual earnings growth at a rate that is linked to price inflation. For 30 June 2020, the assumed rate of growth from SA subsidiaries was 6% per annum.	The higher the terminal growth assumption, the greater the fair value.
		Risk discount rate (RDR)	The risk discount rate is linked to the 10-year government bond yield, plus entity-specific margins for risk. For 30 June 2020, the risk discount rate on SA subsidiaries ranged between 13% and 18% per annum.	The higher the RDR, the lower the fair value.
Start-up ventures, recent acquisitions and venture capital investments	Recent transactions and historical cost	Historical capital expenditure on the venture under consideration	Historical cost is known with certainty, but future value is uncertain	For start-up ventures, the relationship between historical cost and future value is highly uncertain (speculative). The younger the business, the greater the uncertainty.
		Prices from recent transactions	Prices from recent transactions are known with certainty, but their relationship to fair value diminishes over time.	For recent acquisitions and for transactions on venture capital investments, transaction prices between a willing buyer and willing seller designate fair value. The more recent the transaction, the stronger the relationship between price and fair value.
Smaller subsidiaries	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee, although in practice the book value tends to be reasonably stable and predictable over the shorter term.	The higher the NAV, the greater 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, except for transfers between levels.

IFRS 16 transitional adjustments

The Group has applied IFRS 16 retrospectively from 1 July 2019, using the modified retrospective approach. Comparatives are not restated.

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 R320 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 R297 million (company: R418 million) was recognised at 1 July 2019. The cost of the right-of-use assets was measured retrospectively based on the lease liability measured at lease commencement date, using the discount rate based on the lessee's incremental borrowing rate at 1 July 2019. The weighted average IBR applied to lease liabilities recognised on 1 July 2019 was 9.2%. R225 million (company: R352 million) is disclosed as part of Owner-occupied properties, R9 million (company: R10 million) is disclosed as part of Intangible assets, R7 million (company: R0 million) is disclosed as part of Investment properties and R56 million (company: R56 million) is disclosed as part of Property and equipment on the statement of financial position. The difference between the lease liability and right-of-use asset was recognised as an adjustment to retained earnings. There was also a R4 million (company: R3 million) increase in deferred tax.

	MML Company Rm	MML Group Rm
Owner-occupied properties	**352**	225
Intangible assets	**10**	9
Investment properties	**–**	7
Property and equipment	**56**	56
	418	297

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:

	MML Company Rm	MML Group Rm
Operating lease commitments disclosed as at 30 June 2019	**615**	396
Commitments relating to short-term leases	**(7)**	(7)
Commitments relating to low-value assets	**–**	–
Operating lease liability before discounting	**608**	389
Discounting using weighted average incremental borrowing rate as at 1 July 2019	**(164)**	(100)
Operating lease liability before discounting	**444**	289
Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	**31**	31
Lease liability as at 1 July 2019	**475**	320

MML Group

Momentum Metropolitan Life Limited ("MML") is an issuer of listed debt and therefore is required to prepare consolidated financial statements in terms of IFRS 10 – Consolidated Financial Statements. In the past, MML considered themselves exempt from this requirement due to the reverse acquisition set-up, as a result of the merger between Momentum Group Limited (now MML) and Metropolitan Holdings Limited (now Momentum Metropolitan Holdings Limited). MML reconsidered this view and deemed this approach inappropriate. MML has therefore prepared consolidated financial statements for F2020. Accordingly, the financial information for the comparative periods for the consolidated AFS are presented for the first time since the merger. These include:

- Opening statement of financial position as at 30 June 2018;
- Statement of financial position for the year ended 30 June 2019;
- F2019 statement of changes in equity for the period;
- F2019 statement of profit and loss and other comprehensive income;
- F2019 statement of cashflow; and
- Any related notes thereto.

The listed debt issued by MML is unconditionally and irrevocably guaranteed by its parent, Momentum Metropolitan Holdings Limited, which is listed on the Johannesburg Stock Exchange.

MML Company

The following restatements were made to the statement of financial position and income statement for the following periods:

Statement of financial position	Before restatement Rm	Decluttering[1] Rm	CIS subsidiaries and associates[2] Rm	IFRS 4[3] Rm	After restatement Rm
as at 30 June 2019					
Intangible assets	2 570	–	–	(32)	2 538
Interest in subsidiaries	70 593	–	2 535	–	73 128
Financial assets at fair value through profit and loss	273 547	23 646	(2 535)	–	294 658
Investments in associates at fair value through profit and loss	21 271	(21 271)	–	–	–
Derivative financial assets at fair value through profit and loss	2 375	(2 375)	–	–	–
Financial assets at amortised cost	7 343	–	–	(27)	7 316
Insurance and other receivables	2 600	–	–	27	2 627
Insurance contract liabilities					
Long-term insurance contracts	(104 435)	–	–	(5 798)	(110 233)
Investment contracts					
– with discretionary participation features	(21 859)	–	–	3 227	(18 632)
– designated at fair value through profit and loss	(237 550)	–	–	2 602	(234 948)
Financial liabilities at fair value through profit and loss	(10 007)	(2 219)	–	–	(12 226)
Derivative financial liabilities at fair value through profit and loss	(2 219)	2 219	–	–	–
Other payables	(10 166)	–	–	1	(10 165)
as at 1 July 2018					
Intangible assets	2 678	–	–	(31)	2 647
Interest in subsidiaries	68 273	–	857	–	69 130
Financial assets at fair value through profit and loss	269 456	20 023	(857)	–	288 622
Investments in associates at fair value through profit and loss	17 253	(17 253)	–	–	–
Derivative financial assets at fair value through profit and loss	2 770	(2 770)	–	–	–
Financial assets at amortised cost	6 132	–	–	(21)	6 111
Insurance and other receivables	2 683	–	–	21	2 704
Insurance contract liabilities					
Long-term insurance contracts	(98 009)	–	–	(6 488)	(104 497)
Investment contracts					
– with discretionary participation features	(22 752)	–	–	3 644	(19 108)
– designated at fair value through profit and loss	(235 777)	–	–	2 874	(232 903)
Financial liabilities at fair value through profit and loss	(8 347)	(2 013)	–	–	(10 360)
Derivative financial liabilities at fair value through profit and loss	(2 013)	2 013	–	–	–
Other payables	(9 391)	–	–	1	(9 390)
Income statement					
for the year ended 30 June 2019					
Insurance premiums	27 510	–	–	183	27 693
Fee income					
Contract administration	2 615	–	–	(117)	2 498
Insurance benefits and claims	(22 533)	–	–	(371)	(22 904)
Change in actuarial liabilities and related reinsurance					
Change in insurance contract liabilities	(6 426)	–	–	690	(5 736)
Change in investment contracts with DPF liabilities	893	–	–	(417)	476
Fair value adjustments on investment contract liabilities	(8 888)	–	–	33	(8 855)
Sales remuneration	(3 103)	–	–	(1)	(3 104)
Earnings for year	2 943	–	–	–	2 943

[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 correction assists in decluttering of the financial statements. 30 June 2019 and 1 July 2018 have been restated accordingly.

[2] A reassessment of control over collective investment schemes under IFRS 10 – Consolidated Financial Statements resulted in additional funds that are managed by asset managers owned by the company being consolidated and all funds that are managed by external asset managers being unconsolidated. Where the funds are managed fund managers owned by MML and MML 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. 30 June 2019 and 1 July 2018 have been restated accordingly.

[3] In preparation of the upcoming new standard, IFRS 17 – Insurance Contracts, MML reviewed its product reclassification, which resulted in the following corrections:

- 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.
- 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 DPF and Investment contracts designated at fair value through profit and loss, both which ultimately reflect decreases due to the first effect. 30 June 2019 and 1 July 2018 have been restated accordingly.

SHAREHOLDER DIARY AND ADMINISTRATION

Financial year-end	30 June 2020	
Reporting	Annual financial statements published	30 October 2020
	Annual general meeting	26 November 2020

ADMINISTRATION

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