1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The basis of preparation and accounting policies of the company are the same as that of the group, as set out in the group financial statements. These financial statements should be read in conjunction with the group financial statements.

	2016 Rm	2015 Rm
2 EQUIPMENT		
Cost	1	1
Accumulated depreciation	(1)	(1)
Carrying amount[1]	–	–

[1] Amount in prior year rounds down to less than R1 million.

Equipment comprises furniture and fittings and computer equipment.

	2016 Rm	2015 Rm
3 INTEREST IN SUBSIDIARY COMPANIES		
Cost less impairment	20 667	19 659
Loans to subsidiary companies (Annexure A)	1 125	1 478
	21 792	21 137
Opening balance	21 137	19 969
Cost of interest in subsidiaries acquired	1 008	110
Plus: reversal of impairment charge	–	136
Movements in loans to subsidiary companies	(353)	922
Closing balance	21 792	21 137

General

Details of interests in subsidiary companies are disclosed in Annexure A.

Loans to subsidiary companies

The loans to subsidiary companies are not of a commercial nature and are therefore interest-free, with no fixed repayment terms. These loans are intended to provide the subsidiaries with a long-term source of additional capital. The company can recall these loans when cash is required.

Additional shares in subsidiaries acquired

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R374 million during the current year (2015: R70 million).

MMI Strategic Investments (Pty) Ltd (MMISI): The company acquired additional shares in MMISI for R179 million during the current year (2015: R40 million).

Eris Property Group (Pty) Ltd (Eris): The company acquired additional shares in Eris for R145 million during the current year.

Metropolitan Health (Pty) Ltd (MH): The company acquired additional shares in MH for R300 million during the current year.

Momentum Retirement Administrators (Pty) Ltd (MRA): The company acquired additional shares in MRA for R10 million during the current year.

Impairment

The company reversed the impairment of R136 million of the capitalised loan to MMI Finance Company (Pty) Ltd in the prior year.

		2016 Rm	2015 Rm
4	**LOANS AND RECEIVABLES**		
	Accounts receivable	4	2
	Loans to related parties	1 408	1 202
	Loans to subsidiary companies (Annexure A)	1 182	982
	Less: provision for impairment on loans to subsidiary companies	(225)	(271)
	Loans to associates	11	11
	Less: provision for impairment on loans to associates	(3)	(3)
	Preference shares	58	64
	Empowerment partners	385	419
	Strategic unsecured loans	1	1
		1 413	1 205
	Current	1 360	1 147
	Non-current	53	58
		1 413	1 205
	Reconciliation of provision for impairment		
	Opening balance	274	166
	(Reversals)/additional provisions for current year (refer to note 14)	(46)	108
	Closing balance	228	274

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. When the company is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The loans to associates include a loan to C Shell 448 (Pty) Ltd for R10 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods. The carrying value approximates fair value.
- Preference shares:
  MMI Holdings Ltd acquired preference shares in Eris for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R7 million (2015: R7 million). The preference shares have a term of five years from issue date. The carrying value approximates fair value.
- Loans to empowerment partners consist of:
  - A loan of R33 million to Business Venture Investments No 1796 (Pty) Ltd (BVI), a wholly owned subsidiary of KTH. The loan is interest-free and repayable on written notice by MMI Holdings or BVI at anytime of the year from 26 February 2016.
  - An unsecured loan of R66 million (2015: R83 million) to a subsidiary of KTH, with a repayment date of between five and ten years from date of issue (January 2005), on which interest is charged at 80% of the prime interest rate.
  - The loans to empowerment partners include R285 million (2015: R303 million) at 30 June 2016, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.

  The fair value of loans to empowerment partners approximates the carrying value as the repayment dates are within one year.

Impairment

Impairment of R46 million on loans to subsidiary companies was reversed in the current year. In the prior year the loans to subsidiary companies were impaired by R108 million.

		2016 Rm	2015 Rm
5	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	**33**	69

The carrying value approximates fair value due to its short-term nature.

6 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital of MMI Holdings Ltd

2 billion ordinary shares of 0.0001 cents each

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

Issued share capital of MMI Holdings Ltd

1.6 billion ordinary shares of 0.0001 cents each

30 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue

Number of shares in issue (million)	2016	2015
Opening balance	**1 572**	1 570
Conversion of preference shares	**2**	2
Closing balance	**1 574**	1 572

Share capital and share premium	Rm	Rm
Opening balance	**17 563**	17 543
Conversion of preference shares	**17**	20
Closing balance	**17 580**	17 563

On 1 October 2015 and 5 April 2016, 992 371 and 891 064 A3 preference shares, respectively, were converted into ordinary shares.

Further details of the preference shares are disclosed in note 19.1 of the group financial statements.

		2016 Rm	2015 Rm
7	**FINANCIAL LIABILITIES AT AMORTISED COST**		
	Cumulative redeemable convertible preference shares	**275**	293
	Current	**275**	11
	Non-current	**–**	282
		275	293

Details of the cumulative redeemable convertible preference shares are disclosed in note 19.1 of the group financial statements.

The estimated fair value of the cumulative redeemable preference shares is R687 million (2015: R972 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2016, the expected cash flows were discounted at a current market rate of 11% (2015: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder (*level 2*).

		2016 Rm	2015 Rm
8	**DEFERRED INCOME TAX**		
	Deferred tax asset	4	3
	Tax losses and credits	4	3
	Deferred tax liability	(4)	(3)
	Revaluations	(4)	(3)
		–	–
	Movement in deferred tax		
	Balance at beginning	–	–
	Charge to income statement	–	–
	Revaluations	(78)	(148)
	Tax losses and credits	78	148
	Balance at end	–	–

Creation of deferred tax asset

Tax losses have been provided for as a deferred tax asset where, at year-end, there was certainty as to their recoverability.

A deferred tax asset of R17 million (2015: R14 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

		2016 Rm	2015 Rm
9	**EMPLOYEE BENEFIT OBLIGATIONS**		
	Cash-settled scheme	4	15
	Subsidiary share scheme	11	–
	Leave pay	1	1
	Staff and management bonuses	7	7
		23	23
	Current	10	16
	Non-current	13	7
		23	23
	Cash-settled scheme – long-term incentive plan		
	Balance at beginning	15	27
	Unutilised amounts reversed	(7)	(1)
	Benefits paid	(4)	(11)
	Balance at end	4	15
	Subsidiary share schemes		
	Balance at beginning	–	–
	Interest expense	1	–
	Actuarial gains	(5)	–
	Current service costs	15	–
	Balance at end	11	–

9 **EMPLOYEE BENEFIT OBLIGATIONS** *continued*

MMI Long-term Incentive Plan (MMI LTIP)

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

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

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

	2016 MMI LTIP '000	2015 MMI LTIP '000
Number of units outstanding		
At beginning of year	924	1 843
Units granted during year	198	347
Units transferred from/(to) other companies	23	(108)
Units exercised/released during year	(179)	(299)
Units cancelled/lapsed during year	(651)	(859)
At end of year	315	924
Performance units	181	650
Retention units	134	274
	315	924
Inputs used in valuation of the MMI LTIP		
Current vesting rate	100%	100%
Share price at reporting date	R22.64	R30.15
Inputs used in valuation of the subsidiary share scheme		
Risk-free rates	10.1%	8.6%
Growth rate	12.3%	10.4%
Forfeiture rate	5%	5%

		2016 Rm	2015 Rm
10	**OTHER PAYABLES**		
	Other payables	26	62
	Loans from subsidiary companies (Annexure A)	501	–
		527	62
	Current	527	62

For accounts payable, the carrying value approximates fair value due to its short-term nature.

The loans from subsidiary companies are interest-free, unsecured and payable on demand. The carrying value therefore approximates fair value.

		2016 Rm	2015 Rm
11	**INCOME TAX**		
11.1	**Current income tax (asset)/liability**		
	Movement in (asset)/liability		
	Balance at beginning	**1**	(1)
	Charged to income statement	**11**	20
	Paid during year	**(13)**	(18)
	Balance at end	**(1)**	1
11.2	**Income tax expense**		
	Current taxation		
	Current year		
	South African normal tax	**2**	5
	Foreign countries – withholding tax	**9**	15
		11	20

	2016 %	2015 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Foreign tax	**0.3**	0.4
Non-taxable items	**(27.9)**	(30.3)
Non-deductable expenses	**–**	2.4
Effective rate	**0.4**	0.5

		2016 Rm	2015 Rm
12	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividends received – listed equities	**–**	35
	Dividends received – subsidiary companies	**2 827**	3 688
	Interest income	**78**	85
	Loans and receivables	**70**	69
	Cash and cash equivalents	**8**	16
	Other income	**–**	3
		2 905	3 811
13	**NET REALISED AND FAIR VALUE GAINS**		
	Designated at fair value through income	**–**	35

The equity securities were sold in the prior year.

		2016 Rm	2015 Rm
14	**IMPAIRMENT (REVERSALS)/EXPENSES**		
	Impairment of loans to subsidiary companies	**43**	108
	Reversal of impairment of loans to subsidiary companies	**(89)**	–
	Reversal of impairment of loans capitalised to subsidiary companies	**–**	(136)
		(46)	(28)
15	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	**26**	52
	Defined contribution retirement fund	**1**	1
	Cash-settled share-based payment expenses	**(7)**	(1)
	Subsidiary share scheme expenses	**11**	–
	Training costs	**–**	1
		31	53
	Executive directors' emoluments included above.	**22**	38
	Details of the staff share schemes are disclosed in note 21.2 of the group financial statements.		
16	**OTHER EXPENSES**		
	Asset management fees[1]	**–**	3
	Auditors' remuneration[1]	**–**	–
	Consulting fees	**3**	3
	Management fees	**9**	169
	Marketing costs	**3**	3
	Office costs[1]	**–**	32
	Other expenses	**15**	19
	Other indirect taxes	**4**	3
		34	232
	Non-executive directors' emoluments included in other expenses above.	**15**	12
	[1] Amount rounds down to less than R1 million.		
17	**FINANCE COST**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	**41**	41

		2016 Rm	2015 Rm
18	**CASH FLOW FROM OPERATING ACTIVITIES**		
18.1	**Cash utilised in operations**		
	Profit before tax	**2 845**	3 545
	Adjusted for		
	Items disclosed elsewhere		
	Dividend received	**(2 827)**	(3 723)
	Interest received	**(78)**	(85)
	Finance costs	**41**	44
	Non-cash-flow items		
	Reversal of impairment	**(46)**	(28)
	Net realised and fair value gains	**–**	(35)
	Employee benefit obligations	**4**	(1)
	Changes in operating assets and liabilities		
	Loans and receivables	**(2)**	(2)
	Employee benefit obligations	**(4)**	(4)
	Other operating liabilities	**(36)**	40
		(103)	(249)
18.2	**Income tax paid**		
	Due at beginning	**(1)**	1
	Charged and provided	**(11)**	(20)
	Due at end	**(1)**	1
		(13)	(18)
18.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(21)**	(22)
	Paid 31 March	**(20)**	(22)
		(41)	(44)

19 RELATED PARTY TRANSACTIONS

19.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 247 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include KTH, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 25% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

19.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 41.2 of the group financial statements.

19.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates were included in note 4.

19 **RELATED PARTY TRANSACTIONS** *continued*

19.3 **Transactions with related parties** *continued*

Details of other transactions with subsidiaries included in the financial statements are listed below.

	2016 Rm	2015 Rm
Administrative charges – MMI Group Ltd	**9**	166
Asset management fee expense – Momentum Asset Management (Pty) Ltd	**3**	3
Dividends from subsidiaries – MMI Group Ltd	**2 723**	3 548
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	**8**	–
Dividends from subsidiaries – Metropolitan Lesotho Ltd	**55**	90
Dividends from subsidiaries – Metropolitan Asset Managers Ltd	**4**	13
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	**37**	–
Dividends from subsidiaries – Metropolitan Collective Investments Ltd	**–**	5
Dividends from subsidiaries – Momentum Retirement Administrators (Pty) Ltd	**–**	2
Dividends from subsidiaries – Metropolitan Life International Ltd	**–**	30
Interest received – MMI Group Ltd	**33**	31
Interest received – Eris Property Fund (Pty) Ltd	**7**	7
Interest received – KTH	**5**	6
Interest received – Off the Shelf Investments (Pty) Ltd	**25**	25
Finance cost – KTH	**41**	44

Refer to note 4 for loans and receivables with related parties.

Refer to note 41 of the group financial statements for further details on related party transactions with directors and key management personnel.

20 **CONTINGENT LIABILITIES**

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

21 **CAPITAL COMMITMENTS**

The company has given a guarantee in favour of Rand Merchant Bank (RMB) that MMISI will repay its obligations due to RMB.

22 **RISK MANAGEMENT POLICIES**

Details of financial instruments and risk management strategies are disclosed in note 43 of the group financial statements. The more important financial risks to which the company is exposed are credit risk and interest rate risk.

The company's capital is managed with that of the group. The capital management of the group is discussed in note 44 of the group financial statements.

22 RISK MANAGEMENT POLICIES *continued*

22.1 Classes of assets and liabilities

The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates.

	2016 Rm	2015 Rm
Assets		
Loans and receivables	1 413	1 205
Loans	1 409	1 203
Accounts receivable	4	2
Cash and cash equivalents	33	69
Other assets	21 793	21 137
Total assets	23 239	22 411
Liabilities		
Amortised cost	275	293
Cumulative redeemable preference shares	275	293
Other payables	527	62
Loans from subsidiary companies	501	–
Other payables	26	62
Other liabilities	23	24
Total liabilities	825	379

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The credit risk of the company is managed similarly to that of the group as disclosed in note 50 in the group financial statements.

The company's maximum exposure to credit risk is through the following classes of assets:

	2016 Rm	2015 Rm
Loans and receivables	1 413	1 205
Loans	1 409	1 203
Accounts receivable	4	2
Cash and cash equivalents	33	69
Total assets bearing credit risk	1 446	1 274

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the group's credit risk exposure policy described in the group financial statements.
- Security held on loans is disclosed in note 4.

Using Fitch ratings (or the equivalent thereof when Fitch ratings are not available), cash and cash equivalents have an AA (2015: AA) credit rating. Loans and receivables consist mainly of loans to related parties and is unrated.

22.3 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, arising from the possibility that the company could be required to pay its liabilities earlier than expected.

22 **RISK MANAGEMENT POLICIES** *continued*

22.3 **Liquidity risk** *continued*

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

Other payables include loans from subsidiary companies which are payable on demand.

The following table indicates the maturity analysis of the liabilities:

		Undiscounted cash flows		
2016	**Carrying value Rm**	**Total Rm**	**0 to 1 year Rm**	**1 to 5 years Rm**
Amortised cost				
Cumulative redeemable preference shares	**275**	**315**	**315**	**–**
Other payables	**527**	**527**	**527**	**–**
Other liabilities	**23**	**23**	**10**	**13**
Total liabilities	**825**	**865**	**852**	**13**
2015				
Amortised cost				
Cumulative redeemable preference shares	293	378	43	335
Other payables	62	62	62	–
Other liabilities	24	24	17	7
Total liabilities	379	464	122	342

22.4 **Market risk**

Introduction

- Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key component of market risk applicable to the company is interest rate risk.

22.4.1 **Interest rate risk**

Interest rate risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in interest rates.

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The company is exposed to floating interest rates that result in cash flow interest rate risk. Loans and receivables (empowerment loans) have a weighted average interest rate of 8.5% (2015: 8.5%). Cash and cash equivalents have a weighted average interest rate of 5% (2015: 5%).

22.4.2 **Sensitivity to market risks**

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates have the most significant effect on earnings and equity.

The company is exposed to floating interest rate changes only. Cash requirements fluctuate during the course of the year and are therefore of a short-term nature. Interest rate changes with respect to cash and cash equivalents will therefore not have a significant impact on earnings.

The company has no foreign currency exposure.