DEFINITION OF EMBEDDED VALUE

The embedded value report sets out the diluted embedded value, taking into account all shares issued by MMI Holdings Ltd. This report has been prepared in accordance with the embedded value guidance from the Actuarial Society of South Africa (Advisory Practice Note 107). From 1 July 2015 the MMI group embarked on a new segmental reporting view that is aligned with the new client-centric goals of the group. The analysis of changes in group embedded value has been disclosed on this new internal structure and the prior year has been restated.

An embedded value represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- plus the write-up to directors' value of the non-covered business.

Adjusted net worth (ANW)

The ANW is the excess of assets over liabilities on the statutory basis, but where certain deductions for disregarded assets and impairments are added back.

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.

MMI Group Ltd required capital

Stochastic modelling techniques are applied on an ongoing basis to determine and confirm the most appropriate capital levels for covered business. The target is set to maintain supporting capital at such a level that will ensure, within a 95% confidence level, it will at all times cover at least a multiple of the minimum statutory capital adequacy requirement (CAR) over the ensuing five years. The required capital supporting existing covered business excludes capital required in respect of future new business.

Other covered business

A multiple of statutory CAR has been used.

Assets backing required capital

The assumed composition of the assets backing the required capital is consistent with the long-term mandates of the shareholder assets.

Risk discount rate

The risk discount rate 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 risk discount rate 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 the current financing costs.

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EMBEDDED VALUE RESULTS	2016 Rm	2015 Rm
Covered business		
Reporting excess – long-term insurance business	**17 699**	17 465
Reclassification to non-covered business	**(1 262)**	(1 204)
	16 437	16 261
Disregarded assets[1]	**(531)**	(575)
Difference between statutory and published valuation methods	**(575)**	(839)
Dilutory effect of subsidiaries[2]	**(51)**	(38)
Consolidation adjustments[3]	**(40)**	(5)
Value of MMI Group Ltd preference shares issued	**(500)**	(500)
Diluted adjusted net worth – covered business	**14 740**	14 304
Net value of in-force business	**21 668**	21 696
Diluted embedded value – covered business	**36 408**	36 000
Non-covered business		
Net assets – non-covered business within life insurance companies	**1 262**	1 204
Net assets – non-covered business outside life insurance companies	**2 939**	3 256
Consolidation adjustments and transfers to covered business[3]	**(2 776)**	(3 024)
Adjustments for dilution[4]	**690**	819
Diluted adjusted net worth – non-covered business	**2 115**	2 255
Write-up to directors' value	**4 466**	2 075
Non-covered business	**5 573**	4 143
Holding company expenses[5, 6]	**(557)**	(1 578)
International holding company expenses[5]	**(550)**	(490)
Diluted embedded value – non-covered business	**6 581**	4 330
Diluted adjusted net worth	**16 855**	16 559
Net value of in-force business	**21 668**	21 696
Write-up to directors' value	**4 466**	2 075
Diluted embedded value	**42 989**	40 330
Required capital – covered business (adjusted for qualifying debt)[7]	**6 484**	7 306
Surplus capital – covered business	**8 256**	6 998
Diluted embedded value per share (cents)	**2 680**	2 514
Diluted adjusted net worth per share (cents)	**1 051**	1 032
Diluted number of shares in issue (million)[8]	**1 604**	1 604

1 Disregarded assets include Sage intangible assets of R491 million (2015: R518 million), goodwill and various other items.

2 For accounting purposes, Metropolitan Health has been consolidated at 100%, while MMI Holdings Namibia, Metropolitan Kenya and Cannon have been consolidated at 96% in the statement of financial position, for the current year. For embedded value purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated.

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

4 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 3): R123 million (2015: R103 million)
- Treasury shares held on behalf of contract holders: R292 million (2015: R424 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R275 million (2015: R292 million)

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

6 The holding company expense adjustment reduced in the current year due to a reallocation of expenses to the operating life company covered business as part of the implementation of the client-centric model. For further detail refer to note N of the Analysis of Changes in the Group Embedded Value.

7 The required capital for covered business amounts to R10 041 million (2015: R10 604 million) and is adjusted for qualifying debt of R3 557 million (2015: R3 298 million).

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

ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS	2016 Rm	Restated 2015 Rm
Momentum Retail	**11 409**	11 331
Gross value of in-force business	**12 803**	12 818
Less: cost of required capital	**(1 394)**	(1 487)
Metropolitan Retail	**3 692**	3 582
Gross value of in-force business	**4 376**	4 288
Less: cost of required capital	**(684)**	(706)
Corporate and Public Sector	**4 341**	4 657
Gross value of in-force business	**5 120**	5 354
Less: cost of required capital	**(779)**	(697)
International	**2 157**	2 108
Gross value of in-force business	**2 444**	2 310
Less: cost of required capital	**(287)**	(202)
Shareholder Capital	**69**	18
Gross value of in-force business	**69**	18
Less: cost of required capital	**–**	–
Net value of in-force business	**21 668**	21 696

EMBEDDED VALUE DETAIL	Adjusted net worth Rm	Net value of in-force Rm	2016 Rm	2015 Rm
Covered business				
South African life licences	**12 517**	**19 511**	**32 028**	32 040
MMI Group Ltd	**12 348**	**18 851**	**31 199**	31 391
Guardrisk Life Ltd	**169**	**660**	**829**	649
International	**2 223**	**2 157**	**4 380**	3 960
MMI Holdings Namibia Ltd	**800**	**1 358**	**2 158**	1 972
Metropolitan Life of Botswana Ltd	**452**	**224**	**676**	571
Metropolitan Lesotho Ltd	**372**	**386**	**758**	847
Other international businesses[1]	**599**	**189**	**788**	570
Total covered business	**14 740**	**21 668**	**36 408**	36 000

	Adjusted net worth Rm	Write-up to directors' value Rm	2016 Rm	2015 Rm
Non-covered business				
Momentum Investments[2]	**734**	**2 087**	**2 821**	2 165
Health businesses[3, 4]	**62**	**1 364**	**1 426**	1 660
Momentum Retail (Wealth)[3]	**391**	**578**	**969**	817
Guardrisk business[3, 5]	**597**	**1 144**	**1 741**	1 446
Momentum Short-term Insurance (MSTI)	**299**	**81**	**380**	377
International[4, 6, 7]	**(752)**	**(407)**	**(1 159)**	(805)
MMI Holdings Ltd (after consolidation adjustments)[4, 7, 8]	**784**	**(381)**	**403**	(1 330)
Total non-covered business	**2 115**	**4 466**	**6 581**	4 330
Total embedded value	**16 855**	**26 134**	**42 989**	40 330
Diluted adjusted net worth – non-covered business	**(2 115)**			
Adjustments to covered business – adjusted net worth	**2 959**			
Reporting excess – long-term insurance business	**17 699**			

1 African life and health businesses are included in covered business for embedded value purposes.
2 The material Momentum Investments subsidiaries are valued using a discounted cash flow methodology applied to projections of future earnings.
3 The Health businesses, Momentum Retail (Wealth off-balance sheet) and Guardrisk are valued using embedded value methodology.
4 The increase in the adjusted net worth for the holding company is offset by the decrease in the International and Health adjusted net worth. These movements were due to intergroup transactions and alignment in the treatment of intercompany loans.
5 This excludes Guardrisk Life which is included under covered business.
6 Cannon is included within International's non-covered business.
7 The holding company expenses reflect the present value of projected recurring head office expenses. The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses.
8 The holding company expense adjustment reduced in the current year due to a reallocation of expenses to the operating life company covered business as part of the implementation of the client-centric model. For further detail refer to note N of the Analysis of Changes in the Group Embedded Value.

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ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business ANW Rm	Gross VIF Rm	Cost of CAR Rm	12 months to 30.06.2016 Total EV Rm	12 months to 30.06.2015 Total EV Rm
Profit from new business		(1 438)	2 569	(180)	951	1 054
Embedded value from new business	A	(1 438)	2 468	(180)	850	954
Expected return to end of period	B	–	101	–	101	100
Profit from existing business		3 766	(2 166)	(24)	1 576	3 063
Expected return – unwinding of risk discount rate	B	–	2 697	(345)	2 352	2 213
Release from the cost of required capital	C	–	–	457	457	445
Expected (or actual) net of tax profit transfer to net worth	D	4 310	(4 310)	–	–	–
Operating experience variances	E	(236)	148	(42)	(130)	501
Development expenses	F	(99)	–	–	(99)	(79)
Operating assumption changes	G	(209)	(701)	(94)	(1 004)	(17)
Embedded value profit from operations		2 328	403	(204)	2 527	4 117
Investment return on adjusted net worth	H	893	–	–	893	664
Investment variances	I	33	(306)	147	(126)	(406)
Economic assumption changes	J	(39)	(112)	19	(132)	58
Exchange rate movements	K	(31)	16	2	(13)	(7)
Embedded value profit – covered business		3 184	1	(36)	3 149	4 426
Transfer of business (to)/from non-covered business	L	30	23	(16)	37	723
Changes in share capital	M	117	–	–	117	202
Dividend paid		(2 895)	–	–	(2 895)	(3 744)
Change in embedded value – covered business		436	24	(52)	408	1 607
Non-covered business						
Change in directors' valuation and other items	N				1 065	(357)
Holding company expenses	N				961	(275)
Embedded value profit – non-covered business					2 026	(632)
Changes in share capital	M				(117)	(202)
Dividend paid					420	649
Finance costs – preference shares					(41)	(44)
Transfer of business to covered business	L				(37)	(723)
Change in embedded value – non-covered business					2 251	(952)
Total change in group embedded value					2 659	655
Total embedded value profit					5 175	3 794
Return on embedded value (%) – internal rate of return					12.8	9.6

A. VALUE OF NEW BUSINESS

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business. In determining the value of new business for retail and traditional corporate business:

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

In determining the value of new business for cell captive business:

- A cell is recognised as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting period.
- Increases in business from new cells or new benefits in existing cells are included as new business; but new members or salary-related increases under existing cells are allowed for in the value of in-force covered business.

RECONCILIATION OF LUMP SUM INFLOWS	12 months to 30.06.2016 Rm	12 months to 30.06.2015 Rm
Total lump sum inflows	**29 784**	33 023
Inflows not included in value of new business	**(6 632)**	(8 966)
Term extensions on maturing policies	**342**	558
Retirement annuity proceeds invested in living annuities	**1 008**	822
Non-controlling interests and other adjustments	**150**	110
Single premiums included in value of new business	**24 652**	25 547

A. VALUE OF NEW BUSINESS *continued*

VALUE OF NEW BUSINESS 12 months to 30.06.2016	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector[1] Rm	International Rm	Total Rm
Value of new business	**290**	**191**	**298**	**71**	**850**
Gross	**362**	**244**	**341**	**83**	**1 030**
Less: cost of required capital	**(72)**	**(53)**	**(43)**	**(12)**	**(180)**
New business premiums	**19 365**	**2 343**	**7 665**	**906**	**30 279**
Recurring premiums	**1 292**	**1 087**	**2 790**	**458**	**5 627**
Single premiums	**18 073**	**1 256**	**4 875**	**448**	**24 652**
New business premiums (APE)	**3 099**	**1 213**	**3 278**	**503**	**8 093**
New business premiums (PVP)	**25 950**	**4 936**	**34 699**	**2 579**	**68 164**
Profitability of new business as a percentage of APE	**9.4**	**15.7**	**9.1**	**14.1**	**10.5**
Profitability of new business as a percentage of PVP	**1.1**	**3.9**	**0.9**	**2.8**	**1.2**

Restated 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector[1] Rm	International Rm	Total Rm
Value of new business	276	185	427	66	954
Gross	340	232	518	78	1 168
Less: cost of required capital	(64)	(47)	(91)	(12)	(214)
New business premiums	18 726	2 450	7 773	686	29 635
Recurring premiums	1 283	1 035	1 368	402	4 088
Single premiums	17 443	1 415	6 405	284	25 547
New business premiums (APE)	3 027	1 177	2 009	430	6 643
New business premiums (PVP)	25 458	5 091	17 683	2 164	50 396
Profitability of new business as a percentage of APE	9.1	15.7	21.3	15.3	14.4
Profitability of new business as a percentage of PVP	1.1	3.6	2.4	3.0	1.9

1 The Corporate and Public Sector recognises cell captive business as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting period.
2 Value of new business and new business premiums are net of non-controlling interests.
3 The value of new business has been calculated on closing assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business, for other business the investment yields at the end of the year have been used.

ANALYSIS OF NEW BUSINESS PREMIUMS **12 months to 30.06.2016**	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector[1] Rm	International Rm	Total Rm
New business premiums	19 365	2 343	7 665	906	30 279
Recurring premiums	1 292	1 087	2 790	458	5 627
Risk	560	703	390	–	1 653
Savings/investments	732	384	315	–	1 431
Annuities	–	–	1	–	1
Cell captives	–	–	2 084	–	2 084
International	–	–	–	458	458
Single premiums	18 073	1 256	4 875	448	24 652
Savings/investments	17 091	312	3 499	–	20 902
Annuities	982	944	1 162	–	3 088
Cell captives	–	–	214	–	214
International	–	–	–	448	448
New business premiums (APE)	3 099	1 213	3 278	503	8 093
Risk	560	704	391	–	1 655
Savings/investments	2 441	415	665	–	3 521
Annuities	98	94	117	–	309
Cell captives	–	–	2 105	–	2 105
International	–	–	–	503	503

Restated **12 months to 30.06.2015**	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector[1] Rm	International Rm	Total Rm
New business premiums	18 726	2 450	7 773	686	29 635
Recurring premiums	1 283	1 035	1 368	402	4 088
Risk	550	658	575	–	1 783
Savings/investments	733	377	556	–	1 666
Cell captives	–	–	237	–	237
International	–	–	–	402	402
Single premiums	17 443	1 415	6 405	284	25 547
Savings/investments	16 787	277	4 283	–	21 347
Annuities	656	1 138	2 122	–	3 916
International	–	–	–	284	284
New business premiums (APE)	3 027	1 177	2 009	430	6 643
Risk	550	658	575	–	1 783
Savings/investments	2 412	405	984	–	3 801
Annuities	65	114	213	–	392
Cell captives	–	–	237	–	237
International	–	–	–	430	430

[1] The Corporate and Public Sector recognises cell captive business as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting year.

A. VALUE OF NEW BUSINESS *continued*

Changes in bases and assumptions

The group constantly reviews its embedded value methodologies to align them with evolving practice and to ensure consistency with current practices.

Assumptions

The main assumptions used in the embedded value calculations are described below.

Principal assumptions (South Africa)[1]	2016 %	2015 %
Pre-tax investment return		
Equities	**12.7**	12.1
Properties	**10.2**	9.6
Government stock	**9.2**	8.6
Other fixed-interest stocks	**9.7**	9.1
Cash	**8.2**	7.6
Risk-free return[2]	**9.2**	8.6
Risk discount rate (RDR)	**11.4**	10.9
Investment return (before tax) – balanced portfolio[2]	**11.4**	10.8
Expense inflation base rate[3]	**7.4**	6.8

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

2 The risk-free return was determined with reference to the market interest rate on South African government bonds at the valuation date. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

3 An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.

Non-economic

The embedded value calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation.

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

B. EXPECTED RETURN

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

C. RELEASE FROM THE COST OF REQUIRED CAPITAL

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

D. EXPECTED (OR ACTUAL) NET OF TAX PROFIT TRANSFER TO NET WORTH

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

E. OPERATING EXPERIENCE VARIANCES

	12 months to 30.06.2016 ANW Rm	Net VIF Rm	Embedded value Rm	Restated 12 months to 30.06.2015 Embedded value Rm
Momentum Retail	103	130	233	381
Mortality and morbidity[1]	214	16	230	365
Terminations, premium cessations and policy alterations[2]	(109)	120	11	(75)
Expense variance[3]	(52)	–	(52)	(101)
Other[4]	50	(6)	44	192
Metropolitan Retail	97	26	123	6
Mortality and morbidity[1]	80	8	88	85
Terminations, premium cessations and policy alterations	3	7	10	(20)
Expense variance[3]	(9)	–	(9)	(61)
Other[4]	23	11	34	2
Corporate and Public Sector	(178)	(62)	(240)	27
Mortality and morbidity[5]	(258)	–	(258)	24
Terminations[6]	13	(66)	(53)	9
Expense variance[3]	(94)	(4)	(98)	(67)
FNB Life – share of profits	37	–	37	38
Other[4, 7]	124	8	132	23
International	(26)	54	28	119
Mortality and morbidity[1, 8]	89	50	139	202
Terminations, premium cessations and policy alterations	(13)	(5)	(18)	(11)
Expense variance[8]	(100)	1	(99)	(86)
Other	(2)	8	6	14
Shareholder Capital[3]	(232)	–	(232)	(11)
Opportunity cost of required capital	–	(42)	(42)	(21)
Total operating experience variances	(236)	106	(130)	501

1 Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.
2 Better than expected termination experience on whole life insurance contracts as well as clients choosing lower fee products.
3 Overall experience was worse than expected due to proportionally higher internal cost allocations to covered segments in line with the new client-centric model. This is offset by lower non-covered expenses. Refer to note N for further detail.
4 Various smaller items including credit-enhancing activities.
5 The negative variance is a result of disability-in-payment experience.
6 Higher than expected terminations on risk business.
7 Includes a release of discretionary liabilities held in respect of data and systems no longer deemed necessary following completion of investigations.
8 Higher expenses than assumed partly offset by morbidity profits on health businesses.

F. DEVELOPMENT EXPENSES

Business development expenses within Momentum Retail and Metropolitan Retail.

G. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2016			Restated 12 months to 30.06.2015
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	**(104)**	**(22)**	**(126)**	63
Mortality and morbidity assumptions[1]	198	(174)	24	235
Termination assumptions[2]	(124)	156	32	(19)
Renewal expense assumptions	77	17	94	(28)
Holding company expenses[3]	(228)	(97)	(325)	–
Modelling, methodology and other changes	(27)	76	49	(125)
Metropolitan Retail	**68**	**14**	**82**	60
Mortality and morbidity assumptions[4]	265	6	271	95
Termination assumptions	7	(37)	(30)	(21)
Renewal expense assumptions	(45)	(1)	(46)	30
Holding company expenses[3]	(397)	52	(345)	–
Modelling, methodology and other changes[5]	238	(6)	232	(44)
Corporate and Public Sector	**(124)**	**(609)**	**(733)**	(104)
Mortality and morbidity assumptions[6]	66	(129)	(63)	(81)
Termination assumptions	–	6	6	63
Renewal expense assumptions[7]	(99)	(36)	(135)	(155)
Holding company expenses[3]	56	(281)	(225)	–
Modelling, methodology and other changes[8]	(147)	(169)	(316)	69
International	**(20)**	**(95)**	**(115)**	86
Mortality and morbidity assumptions	10	33	43	48
Termination assumptions	(2)	(20)	(22)	(4)
Renewal expense assumptions[3]	(34)	1	(33)	22
Modelling, methodology and other changes[9]	6	(109)	(103)	20
Shareholder Capital	**(29)**	**(18)**	**(47)**	(111)
Methodology change: cost of required capital	–	(65)	(65)	(11)
Total operating assumption changes	**(209)**	**(795)**	**(1 004)**	(17)

1 Refinement of the mortality valuation and reinsurance basis.
2 Strengthening of the persistency assumptions mainly on risk business.
3 Allowance for increased cost allocation to covered business. Refer to note N.
4 Allowance for better than assumed mortality on risk business.
5 Introduction of the risk product tax fund partially offset by modelling and methodology changes.
6 Strengthening of the mortality and morbidity basis.
7 Impact of lower than expected sales volumes on expense recoveries.
8 Various modelling and methodology changes, including refinements to disability-in-payment, annuity business as well as Guardrisk Life assumptions.
9 Valuation modelling and methodology changes including updating for the expected new taxation basis in Lesotho.

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2016 Rm	12 months to 30.06.2015 Rm
Investment income	**680**	618
Capital appreciation and other	**246**	77
Preference share dividends paid and change in fair value of preference shares	**(33)**	(31)
Investment return on adjusted net worth	**893**	664

I. INVESTMENT VARIANCES

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

J. ECONOMIC ASSUMPTION CHANGES

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

K. EXCHANGE RATE MOVEMENTS

The impact of foreign currency movements on International covered businesses.

L. TRANSFER OF BUSINESS (TO)/FROM NON-COVERED BUSINESS

This transfer represents the alignment of net assets and value of in-force of subsidiaries between covered and non-covered.

M. CHANGES IN SHARE CAPITAL

Changes in share capital include the recapitalisation of some of the International subsidiaries.

N. HOLDING COMPANY EXPENSES

Certain expenses previously accounted for as recurring shareholder expenses (disclosed as a negative write-up to the directors' value for MMI Holdings) have been charged to expenses within the SA covered business. These two changes mostly offset resulting in a slight increase in Embedded Value. The new expense methodology was not implemented as an opening basis change resulting in the expense variance for covered business being worse than expected and the non-covered experience being better than expected.

SENSITIVITY OF THE IN-FORCE VALUE AND THE VALUE OF NEW BUSINESS

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

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

COVERED BUSINESS: SENSITIVITIES – 30.06.2016	Adjusted net worth Rm	In-force business Net VIF Rm	Gross VIF Rm	Cost of required capital[3] Rm	New business written Net VNB Rm	Gross VNB Rm	Cost of required capital[3] Rm
Base value	14 740	21 668	24 812	(3 144)	850	1 030	(180)
1% increase in risk discount rate		19 959	23 493	(3 534)	698	891	(193)
% change		(8)	(5)	12	(18)	(13)	7
1% reduction in risk discount rate		23 621	26 329	(2 708)	1 023	1 187	(164)
% change		9	6	(14)	20	15	(9)
10% decrease in future expenses		22 947	26 091	(3 144)	975	1 155	(180)
% change[1]		6	5	–	15	12	–
10% decrease in lapse, paid-up and surrender rates		22 468	25 613	(3 145)	1 013	1 207	(194)
% change		4	3	–	19	17	8
5% decrease in mortality and morbidity for assurance business		23 194	26 366	(3 172)	1 010	1 190	(180)
% change		7	6	1	19	16	–
5% decrease in mortality for annuity business		21 368	24 483	(3 115)	841	1 021	(180)
% change		(1)	(1)	(1)	(1)	(1)	–
1% reduction in gross investment return, inflation rate and risk discount rate	14 760	22 275	25 369	(3 094)	924	1 104	(180)
% change[2]	–	3	2	(2)	9	7	–
1% reduction in inflation rate		22 457	25 601	(3 144)	928	1 108	(180)
% change		4	3	–	9	8	–
10% fall in market value of equities and properties	14 368	20 560	23 640	(3 080)			
% change	(3)	(5)	(5)	(2)			
10% reduction in premium indexation take-up rate		21 357	24 492	(3 135)	811	991	(180)
% change		(1)	(1)	–	(5)	(4)	–
10% decrease in non-commission-related acquisition expenses					949	1 129	(180)
% change					12	10	–
1% increase in equity/property risk premium		22 021	25 160	(3 139)	889	1 069	(180)
% change		2	1	–	5	4	–

1 No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.
2 Bonus rates are assumed to change commensurately.
3 The change in the value of the cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.