METROPOLITAN RETAIL

PRINCIPLES AND PRACTICES

OF FINANCIAL MANAGEMENT

(PPFM)

in respect of

discretionary participation products

NOVEMBER 2011

TABLE OF CONTENTS

1. INTRODUCTION

1.1. Company Information
1.2. Purpose of the PPFM
1.3. Governance
1.4. Business covered by the PPFM

2. INDIVIDUAL LIFE SMOOTHED BONUS BUSINESS

2.1. Background
2.2. The amount payable under a smoothed bonus policy
2.3. Investment Policy
2.4. Charges and Fees
2.5. New Business

3. INDIVIDUAL LIFE CONVENTIONAL WITH-PROFIT BUSINESS

3.1. Background
3.2. Surplus
3.3. Risks and Charges
3.4. Bonus Declarations
3.5. New Business
3.6. Investment Policy

1. INTRODUCTION

This document sets out the principles and practices of financial management ('PPFM') of the discretionary participation business of Metropolitan Life Limited that is managed by Metropolitan Retail.

1.1. Company Information

Metropolitan Life Limited is a life assurance company based in South Africa. It is over 100 years old, having started life in 1898, and is currently a wholly owned subsidiary of MMI Holdings Ltd. Metropolitan Retail is one of the divisions of MMI Holdings Ltd. The term 'Metropolitan' as used hereafter means Metropolitan Life Limited and, where appropriate, the Metropolitan Retail division, or Momentum Retail division for 'Ex-CU Life Smoothed Bonus' and 'Ex-Odyssey Smoothed Bonus'.

1.2. Purpose of the PPFM

1.2.1. Metropolitan is required to meet all its contractual obligations to policyholders. We also seek to provide our discretionary participation policyholders with competitive returns over and above these minimum obligations. In seeking to achieve these objectives, we make decisions that we believe are in the interests of our discretionary participation policyholders, having regard to their reasonable expectations and to the requirement to treat policyholders fairly.

1.2.2. The PPFM defines the principles and practices the company follows when making these decisions. It describes the nature of the discretion retained by the Board and the parameters within which this discretion would be used.

1.2.3. The principles are the enduring statements of the overarching standards adopted by Metropolitan in managing its discretionary participation business. They also describe the business model used by Metropolitan for managing the discretionary aspects of this business and in responding to longer-term changes in the business and economic environment.

1.2.4. The practices aim to set out in more detail how Metropolitan seeks to manage its discretionary participation business. Together with the principles they aim to provide sufficient detail to enable our clients to understand the possible risks and rewards of investing in a discretionary participation portfolio with Metropolitan.

1.2.5. Management of discretionary participation business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined rules, guidelines or criteria. Rather, it requires Metropolitan to make many judgements about the actions it should take in endeavouring to meet the objectives that are described in this document. These judgements are made by Metropolitan in good faith, although it cannot be guaranteed that they will result in the objectives described in this document being achieved.

1.2.6. Discretionary participation business is long term in nature. Whilst Metropolitan wishes its policyholders to have as clear an understanding as practicable of how Metropolitan will manage this business, it is not in the policyholders' interest for Metropolitan to do so by reference to rigid and inflexible criteria. Metropolitan therefore seeks to respond to events in managing this business, and may adjust accordingly the principles and practices by reference to which it seeks to carry on that business. Metropolitan will inform policyholders of changes to the principles at least three months advance of such changes taking effect, and will strive to inform policyholders of changes to the practices within a reasonable period after such changes take effect.

1.2.7. The PPFM is not intended to alter the rights and obligations that Metropolitan or its policyholders have under any policy documents that Metropolitan has issued. Should there be any conflict between the PPFM and what is said in any such policy documents, the latter shall prevail.

1.2.8. This PPFM is available on the Metropolitan website (www.metropolitan.co.za). Printed copies will be made available to interested parties on request, although a fee may be charged for this service.

1.2.9. A summary of this PPFM is also available on the Metropolitan website (www.metropolitan.co.za). Printed copies will be made available to interested parties on request, although a fee may be charged for this service.

1.2.10. It should be noted that the PPFM should not be read as a document providing advice on whether or not to invest in discretionary participation products. This document is intended only to provide information regarding the management of these products and any individual/group considering this as an investment opportunity should still seek financial advice in this regard.

1.2.11. Given the fact that these principles and practices can be changed, as mentioned above, and that this document has been written in simple language, policyholders and prospective policyholders should not treat the statements in this document as binding commitments or representations by Metropolitan as to how it manages discretionary participation business or as to how it will do so in the future.

1.3. Governance

The responsibility for the governance of discretionary participation business lies with Metropolitan Life's Board of Directors, who must approve any changes to principles or practices. The Metropolitan Life Board appointed a Discretionary Participation Committee and its function is to provide the Metropolitan Life Board with an assessment of the insurer's compliance with the principles and practices set out in this document.

1.4. Business covered by the PPFM

The PPFM applies to the following products:
1.4.1. Individual Life smoothed bonus business.
1.4.2. Conventional with-profit business.

2. INDIVIDUAL LIFE SMOOTHED BONUS BUSINESS

2.1. Background

2.1.1. The purpose of this section is to define the principles and practices of financial management that currently apply to Individual Life Smoothed Bonus business, which is made up of the following business lines:

- Metropolitan Smoothed Bonus
- Ex-CU Life Smoothed Bonus
- Ex-Odyssey Smoothed Bonus
- Voluntary Group Retirement Savings

2.1.2. With effect from 31 December 1998, the Commercial Union Life Assurance Company of South Africa Limited ('CU Life') was acquired by and became a wholly owned subsidiary of Metropolitan Life Limited. In December 2001, Metropolitan effected a corporate restructuring and both Metropolitan and CU Life became wholly owned subsidiaries of a newly created holding company, New Africa Capital, subsequently renamed Metropolitan Holdings Limited ('MHL').

With effect from 1 January 2002, the business, assets and liabilities of CU Life were transferred into a ring-fenced fund within Metropolitan.

With effect from 1 January 2004 the business lying within the ring-fenced fund ('the ex-CU Life business') was amalgamated with the balance of the Metropolitan business lying outside the ring-fenced fund.

The smoothed bonus component of the ex-CU Life business is referred to as 'Ex-CU Life Smoothed Bonus'.

2.1.3. With effect from 31 December 1998, Protea Life was acquired by and became a wholly owned subsidiary of Metropolitan. On 1 July 1999 Protea Life was renamed to Metropolitan Odyssey. In December 2001, Metropolitan effected a corporate restructuring and both Metropolitan and Metropolitan Odyssey became wholly owned subsidiaries of a newly created holding company, New Africa Capital, subsequently renamed Metropolitan Holdings Limited ('MHL').

With effect from 1 January 2006, the business, assets and liabilities of Metropolitan Odyssey were transferred into Metropolitan.

The smoothed bonus component of the ex-Metropolitan Odyssey business is referred to as 'Ex-Odyssey Smoothed Bonus'.

2.1.4. Smoothed bonus business refers to recurring premium and single premium investment business where the growth on the policy is achieved through the declaration of regular bonuses. These bonuses do not directly reflect the Investment Returns achieved on the underlying assets, but are smoothed over time to give a more stable investment experience to the policyholder.

2.2. The amount payable under a smoothed bonus policy

Principles

1. Metropolitan will adhere to the contractual obligations as set out in policy contract, as well as to any legal and regulatory requirements. If there are any inconsistencies between these and this document, contractual and legal requirements take precedence.

2. Metropolitan will always pay at least the guaranteed benefits provided by a contract in the event of a contractual claim such as on death, maturity or retirement, irrespective of the state of the investment markets at the time of the claim. Any losses arising from guarantees (investment or non-investment) are borne by shareholders. Examples of a non-investment guarantee are typically guarantees on risk and expense charges.

3. Otherwise, investment profits or losses arising in a smoothed bonus fund are borne by the underlying policyholders.

4. Investment Returns on smoothed bonus assets are passed on to policyholders in the form of bonuses. The overall intention is to provide policyholders with a return that, over time and particularly at maturity date, is smoother (i.e. less volatile) than the actual investment market returns on the underlying assets, but nevertheless reflective of the investment experience of those assets. This means that the declared bonuses may be higher or lower than the actual returns earned on the underlying portfolio. The purpose of smoothing is to protect policyholders against unforeseen negative investment performance in the short term.

5. Metropolitan actively seeks to smooth returns if at all possible. However, at its discretion Metropolitan may choose not to do so, if this is deemed to be in the interests of policyholders. For example, no bonus will be declared that would result in the ongoing viability of a class of smoothed bonus business being knowingly threatened.

6. Declared bonus rates cannot be negative.

7. In a particular Bonus Series, the smoothing of returns is intended to be neutral to policyholders as a group over time, but cross-subsidies can occur between different generations of policyholders within that particular Bonus Series. This is an implicit feature of the product type.

8. All policyholders within a particular Bonus Series receive the bonus rate applicable to that Bonus Series. There is no cross-subsidy between different Bonus Series.

9. As a result of smoothing, bonus rates are rarely the same as the actual Net Investment Return earned in a year. The cumulative effect of past returns not yet reflected in the bonus declaration is called the 'Surplus'. The 'Surplus' in a smoothed bonus fund is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the Individual Policy Funds. The Surplus can be positive or negative. It is an indication of the extent to which bonuses have historically been declared in excess of actual Net Investment Returns (in which case the Surplus will be negative), or below actual Net Investment Returns (in which case the Surplus will be positive). In periods of poor investment performance, a positive Surplus may be used to declare bonuses higher than the actual Net Investment Return. If the Surplus is negative, bonus rates that are lower than the actual Net Investment Return will be declared.

10. The shareholders do not have any claim on this Surplus other than their specified charges. It is retained in the smoothed bonus fund for the benefit of current and/or future smoothed bonus policyholders.

Practices

2.2.1.1. How are polices invested in smoothed bonus portfolios administered?

1. An Individual Policy Fund is held for each policyholder. When a premium is paid charges are deducted in respect of expenses and any risk benefits (e.g. life or disability cover), and the balance (the 'allocation amount') is allocated to this fund. At any point in time this fund represents the accumulation of the allocation amounts plus the bonuses declared to date, less any claim and expense amounts paid from the fund. The 'vesting fund' reflects the accumulation using the Vesting Bonuses declared to date, whilst the 'policy fund' reflects the accumulation using the Total ('vesting' and 'non-vesting') Bonuses declared to date.

2. Smoothed bonus policies are allocated to groups according to criteria such as business line, policy tax status, asset mix and product structure or type. Each such group is called a 'Bonus Series'. Separate asset portfolios are maintained for each Bonus Series and all policies within a Bonus Series receive the same bonus rate.

3. Metropolitan invests the allocation amounts, less any claim and expense amounts paid from the policy fund, in respect of all smoothed bonus policies into the corresponding asset portfolios. Each such asset portfolio is also referred to as a smoothed bonus fund and the total value of the assets in the asset portfolio (less any deferred tax liabilities) is referred to as the 'market value' of the smoothed bonus fund.

4. Investment Returns earned on the assets underlying a smoothed bonus fund (net of management fees and tax charges) are retained in the fund for the benefit of the underlying policies.

5. In the case of Early Terminations of policies invested in a smoothed bonus portfolio, the Individual Policy Fund may also be subject to an adjustment if the total market value of the assets underlying the smoothed bonus portfolio is less than the aggregate of all policies' individual policy accounts. This adjustment is known as a Market Value Adjuster (MVA). The purpose of the MVA is to protect the remaining policyholders, and hence, any MVA applied will be returned to the Bonus Series for the benefit of the remaining policyholders. If policyholders were allowed to take out more than their market value at any time during the term of the contract, they would have the opportunity to select against the fund, at the expense of remaining policyholders. Applying an MVA prevents this.

6. MVAs will apply only at voluntary Early Termination and not in the event of Contractual Claims such as at maturity, death or disability

7. As a result of smoothing, bonuses may be lower than actual Net Investment Returns (realised and unrealised gains and investment income) in periods of good investment performance, and higher than actual Net Investment Returns in periods of poor or negative performance. Declared bonus rates will never be negative. Over time, the bonuses declared should equal returns earned on the underlying assets, after tax and charges, so that policyholders as a group should neither lose, nor gain as a result of smoothing.

8. Depending on the timing of entry into and exit from a particular Bonus Series, cross-subsidisation therefore does take place between different generations of policyholders as a result of smoothing of Net Investment Returns.

2.2.1.2. How are the risks and profits shared between policyholders and shareholders?

1. In the case of all the Bonus Series, policyholders and shareholders share the investment risks. Policyholders receive the total investment performance (after deduction of tax and charges) in the form of bonuses over time, and therefore carry the risk of low bonuses if returns are low over time, and will get the reward of high bonuses if returns are high over time. Policyholders will receive at least the guaranteed minimum maturity benefits. Policyholders carry the risk that Non-Vested Bonuses may be removed in extreme circumstances.

2. When a claim occurs, any difference between the policy fund and the policy's proportional market value (i.e. that policy's share of the Surplus in proportion to its fund value) will remain in the smoothed bonus fund. Therefore, to the extent that the market value of a smoothed bonus fund exceeds the total policy fund value, the Surplus position of the remaining policies will be enhanced. If the market value is less than the total policy fund value, the Surplus position of the remaining policies will be worsened.

3. It may be that the market value of a smoothed bonus fund is less than the total policy fund value at a point in time, for instance if there is a significant reduction in the market value due to a change in the investment markets. In this case the Surplus position of the remaining policies will be worsened if policyholders choose to withdraw funds from their policies (for example by Surrendering) at this point. In these circumstances Metropolitan may apply a 'Market Value Adjuster' ('MVA') if funds are withdrawn, which is an adjustment to the policy fund value with the aim of ensuring that the amount paid out on Surrender does not exceed that policy's proportional market value. This means that the Surrender will leave the amount of Surplus available to remaining policies unchanged. In practice, MVA's will be set on an approximate basis, which means that the impact of Surrenders on the Surplus will be reduced but could still be positive or negative.

4. If the market value of a smoothed bonus fund is less than the total policy fund value, then the Surplus position of the remaining policies will also be worsened by death and maturity claims. Conversely, if the market value is greater than the fund value then the Surplus position of the remaining policies will be improved. However, policyholders do not choose when to make maturity and death claims therefore the overall impact on remaining policies is not likely to be materially negative. Furthermore, a major objective of a smoothed bonus fund is to smooth the Investment Returns at death or maturity. Finally, the presence of guarantees minimum maturity and death values as well as vested benefits in the smoothed bonus funds means that there is limited scope to adjust policy fund values on death or maturity, Therefore Metropolitan does not use the concept of an MVA on death or maturity.

5. If a guaranteed minimum benefit is provided, the shareholder carries the risk that the policy fund (or death benefit payable) is less than the guaranteed minimum amount at maturity (or death). In this case the shareholder needs to fund the difference between these values, i.e. the smoothed bonus fund will reduce by the fund value and the shareholder must provide the additional required amount in order to pay the guaranteed minimum amount. The shareholder does not benefit if the fund value is higher than the guaranteed minimum amount.

6. In other cases, policyholders may carry some of the risks relating to expenses, mortality and disability to the extent that expense and Risk Charges may be increase. Charges for expenses may increase as a result of inflation for example.

2.2.1.3. What kinds of bonuses apply to smoothed bonus policies?

1. The Total Bonus that is declared annually on smoothed bonus funds can be split into two types:
    - A Vesting Bonus. These declared Vesting Bonuses cannot be removed on policy maturity events or death, except in the case of full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination.
    - A Non-Vesting Bonus which is the difference between the declared Total Bonus and the Vesting Bonus. Declared Non-Vesting Bonuses can be removed in certain circumstances including, but not limited to, full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination. These bonuses may, therefore be removed on policy maturity events due to very poor investment market returns.

2. The Non-Vesting Bonus allows Metropolitan to give policyholders more exposure to asset classes with higher Volatility, such as equities and property, which are appropriate for longer term investments as they are expected to perform better in the long term than more conservative asset classes (such as bonds or cash).

3. These bonuses are compound bonuses, which means that the bonus declared in a particular year will also apply to the accumulated bonuses declared in the past.

4. In addition, an Interim Bonus rate is set which will apply to policies claiming prior to the next declaration owing to death, disability, maturity, retirement or Early Termination. Interim Bonus rates apply from the last declaration date (31 December) to the date of the claim event.

5. The Metropolitan Life Board declares the bonuses based on the advice of the Statutory Actuary.

6. Declared bonuses are net of tax and Asset Management Fees.

2.2.1.4. When are bonuses declared?

1. For Metropolitan Smoothed Bonus, Ex-CU Life Smoothed Bonus and Voluntary Group Retirement Savings business, bonuses are declared annually on a retrospective basis. An Interim Bonus is declared at the same time and will apply from the end of the period for which the annual retrospective declaration is made until the next bonus declaration is made.

2. For Ex-Odyssey Smoothed Bonus business, bonuses are declared annually on a prospective basis and are then added to policy funds on a monthly basis.

3. Certain actions can be taken if circumstances change in between bonus declaration dates such that policy payouts become inequitable to policies that claim or policies that remain. These circumstances will most commonly arise in times of very good, or very poor, investment performance. These actions include adjusting the interim or prospective bonus rate so that payouts better reflect investment performance, and paying out a once-off Terminal Bonus to policies that claim.

2.2.1.5. What factors are taken into account when deciding on bonus rates?

1. When setting bonus rates Metropolitan will take into consideration a number of guidelines. Not all these objectives can be met all the time and Metropolitan will use its best judgement to arrive at a bonus declaration that provides a fair balance between all the affected parties. The specific guidelines are as follows:

    a. *We strive for a relatively stable bonus rate, rather than a bonus that follows the market too closely.*

    b. *We aim for long term Surplus of 5% of fund value for funds with a retrospective bonus and 7.5% for funds with a prospective bonus.*
    At any given date the Surplus is likely to be different from these long-term targets, but we use them as the target levels when considering the bonus declaration in a particular year. This Surplus provides us with some scope to smooth bonus declarations over time.

    c. *We strive for a deficit of not more than 7.5% at any given reporting date.*
    This represents the extent to which the fund will smooth bonus declarations for a particular generation of policyholders when considering downside risks. This means that it is not the fund's objective to continue smoothing bonus declarations when market fluctuations result in a deficit of more than 7.5% of fund values.

    d. *We strive to remove any deficit within 3 years from the reporting date first showing a deficit (including the relevant reporting year).*
    This target represents the extent to which the fund will smooth bonus declarations for successive generations of policyholders when considering downside risks.

    e. *We strive to restore the long-term Surplus level within 3 years from the reporting date at which we have removed any deficit (including the relevant reporting year).*
    We would restore the long term Surplus level within a reasonable period of time. The 3-year period is the result of balancing the interests of maturing policies with those of the remaining policies in the smoothed bonus fund.

f. *The maximum Surplus is 25% following a bonus declaration.*
This represents the maximum level to which the fund will withhold excess returns from a particular generation of policyholders.

g. *The Vesting Bonus rate is declared taking into consideration the level of investment income as well as a range of other factors.*
The investment income will be in the form of dividends, rental income, interest and coupon payments. The net income return, after tax and management fees, is used as a benchmark to set the Vesting Bonus rates. Other factors also taken into account include the overall proportion of the total fund that is vested, as this is a major determinant of the resilience of the fund in adverse investment conditions, as well as the asset mix, recent performance and the economic outlook. For certain products and therefore Bonus Series the proportion of bonus that vests is specified in the policy contract.

h. *Interim Bonus rates reflect the best estimate of the bonus rate for the year to come less a margin for prudence.*
The level of the Surplus or deficit in the fund is also taken into account. The Interim Bonus can be adjusted upwards or downwards during a year if it becomes apparent that it is materially different to the best estimate bonus rate for the year.

2.2.1.6. Are bonuses guaranteed once declared?

1. Non-Vesting Bonuses may be removed on death and maturity claims. This is likely to be a rare event and will only be introduced if it is in the interests of the remaining policies in the smoothed bonus fund. Metropolitan also retains the right to remove Non-Vested Bonuses from a smoothed bonus fund if the Surplus (i.e. market value less total policy fund value) is unacceptably negative and the removal of Non-Vested Bonuses is approved by the Statutory Actuary and the Board of Metropolitan Life. The Surplus will be considered 'unacceptably negative' if an injection of shareholder funds would be required if Non-Vested Bonuses were not removed, taking into account any applicable legislation or professional guidance.

2. Metropolitan may review the Interim Bonus rate if there has been a significant change in market conditions.

2.2.1.7. Management actions in adverse conditions

1. If the Surplus becomes increasingly negative, the extent of management action will include some or all of the following remedial steps, taking account of the economic and investment environment:

- Termination values may be reduced by the application of a Market Value Adjuster.
- Interim Bonuses may be reduced or removed.
- Low or zero bonuses may be declared.
- The Non-Vested Bonus (or part thereof) may be removed.
- Shareholders may inject capital.

2.3. Investment Policy

This section describes the approach that Metropolitan follows in seeking to generate competitive Investment Returns for smoothed bonus policyholders.

Principles

2.3.1. Metropolitan seeks to optimise the return to smoothed bonus funds (hereafter referred to as ‘funds’), subject to the investment policies adopted for those funds.

2.3.2. The investment policy for a fund shall have regard to the nature of the liabilities of that fund (including guarantees and vested benefits) and in particular have regard to the reasonable expectations of the policyholders and the duty to treat them equitably.

2.3.3. Fund assets include, but are not limited to, assets such as equities, property, bonds and cash deposits. Some of these assets have an uncertain return and are subject to market and other risks. Within constraints determined and reviewed by the Investment Committee of the Board from time to time, these risks are assumed when Metropolitan believes that they are appropriate to the nature of the portfolio and the returns are commensurate with the level of risk. Derivative instruments may be used to manage portfolio risks or in lieu of exposure to the underlying assets.

2.3.4. The investment policy and practices are reviewed regularly by the Investment Committee to ensure their continued suitability in terms of risks (including market, liquidity, credit and operational risks) and the likely returns.

2.3.5. Prevailing regulatory requirements will nevertheless take precedence over any of these principles or practices.

Practices

2.3.6. Momentum Investments manages the assets for the smoothed bonus fund.

2.3.7. A separate fund is maintained for each Bonus Series. The Investment Return attributed to a particular fund will reflect the Investment Returns on the assets underlying that fund.

2.3.8. Funds may be invested in a wide range of assets, including domestic and foreign equities, property, bonds and cash deposits. As part of the exposure to such asset classes the fund managers may use derivatives as an investment tool, subject to predetermined guidelines.

2.3.9. Each fund has an investment mandate, set by Metropolitan, which specifies benchmarks for the proportion of assets in different asset classes, associated performance targets for investment performance within each asset class relative to appropriate market indices, constraints (for example limits regarding ethical and socially responsible investment) and contingency plans.

2.3.10. The Investment Committee formally approves investment mandates, reviews them periodically, monitors performance against benchmarks and oversees the investment management process. It is assisted in this by management committees which report to and make proposals concerning investment management to the Investment Committee.

2.3.11. Metropolitan takes into account a number of factors in setting investment strategy, including:

- the trade-off between risk and return
- the risk reduction benefits of diversification
- the liquidity requirements of the fund

2.3.12. In normal circumstances changes to the asset mix are made gradually and significant changes are infrequent.

2.3.13. Assets are rebalanced on a regular basis if they move out of the allocation ranges; short-term tactical asset allocation is employed within bounds set in the mandate.

2.3.14. Subject to the principles, investment managers are allowed freedom to invest in any financial instrument as long as it meets predefined minimum criteria. For example, the asset must be capable of being priced and administered and must satisfy the requirements of the various risk policies as well as any other investment guidance.

2.3.15. In addition to the investment mandate, various Risk Policies and Investment Policy Statements together with associated governance arrangements ensure, so far as is reasonable, that the risks taken in managing the funds' assets are identified and managed in a sound and prudent manner.

2.3.16. The internal Risk Policies and Investment Policy Statements, along with associated governance documentation, set limits on the amount of investment in any particular type of asset and impose minimum credit and liquidity standards. These restrictions may vary from time to time, but are designed to ensure that adequate levels of diversification and liquidity are maintained. The restrictions are agreed and reviewed regularly by the Investment Committee. Examples of the types of restrictions include:

- overall currency exposure
- exposure to unlisted investments
- exposure to individual company or property investments
- exposure to investment market sectors and
- exposure to corporate bonds of different credit ratings.

2.3.17. In addition to these asset class specific restrictions, there are limitations on the acceptable aggregation of exposure to any single entity. For example, the total amount that can be invested in any given bank is limited whether this is via equities, bonds, cash deposits or any other type of investment.

2.3.18. Metropolitan has processes in place to set and review exposure limits as defined in the Risk Policies and Investment Policy Statements. Any breach of these exposure limits is reported to the Compliance Committee of Momentum Investments (MI) and/or the Investment Committee.

2.3.19. The MI Investment Risk Committee monitors the use of new types of investment (such as new derivative structures), or investments whose nature has changed, to ensure that they are appropriate. Where investments are channelled via other asset managers the Investment Committee performs this function.

2.3.20. Guidelines relating to the use of derivatives are currently set out in the mandates and Investment Policy Statements and associated governance documentation and are approved at least once a year by the Investment Committee. Derivatives may be employed only in specified circumstances such as:

- to meet contractual obligations or
- if they are an efficient means to reduce either risk or cost.

Hedging may be employed to protect Surplus levels against adverse market movements.

2.3.21. Credit risk is assessed by reference to the counterparties' credit ratings with Fitch, Moody's, Standard & Poor's or other equivalent measure. MI has processes in place to identify and report to the Investment Committee any breaches of the credit limits.

2.3.22. There are no assets in the smoothed bonus funds that would not normally be traded because of their strategic importance to the MMI Group.

2.3.23. Funds are not invested in treasury shares or negative rand reserves.

2.3.24. The mandates permit investment in related parties up to a certain limit. Any investment beyond this limit requires written approval from Metropolitan.

2.4. Charges and Fees

Principles

2.4.1. Policy and fund charges are set explicitly and represent the full extent of shareholder access to profits from the smoothed bonus business. Additional charges may be levied on non-contractual events, such as effecting a Surrender or partial Surrender, making a policy paid-up, taking a policy loan, making additional regular investments or injecting a lump sum. The charges on these events are disclosed at the time of effecting the event. These charges are in certain instances subject to regulatory limits e.g. on Surrender or making a policy paid-up.

2.4.2. Where contractually allowable, charges are revised from time to time to reflect changes in experience.

Practices

2.4.3. Metropolitan incurs expenses in the development, marketing and administration of the business, as well as in the management of the assets. Policyholders pay for these in the form of charges taken off the premiums, the assets and the Investment Returns.

2.4.4. These charges are set allowing for tax relief on an approximate basis. The charges are subject to approval by the Statutory Actuary.

2.4.5. Charges take various forms and the structure and level of charges differ between products and Bonus Series. Charges for the administration of a policy can take the form of a fixed fee and a percentage of the premium taken off the premium before it is invested, an explicit charge against the Individual Policy Fund. For some products, there may also be advice fees.

2.4.6. Asset Management Fees are charged as a percentage of the market value of the assets, and may be deducted from the Investment Returns or as an explicit charge against the Individual Policy Fund. These Asset Management Fees relate to the investment management and administration involved in managing the underlying assets.

2.4.7. For newer generation policies charges are disclosed explicitly in the policy contract, including the extent to which they are guaranteed.

2.4.8. In Metropolitan also deducts tax on policyholders' behalf in accordance with legislation. The income tax and capital gains tax charged to the fund is based on actual Investment Returns (income and capital gains) and according to current tax legislation. Tax relief on expenses is discussed in par. 2.4.4.

2.5. New business

Principles

2.5.1. The smoothed bonus funds will be managed to ensure an equitable distribution of the Surplus or deficit in the smoothed bonus fund to the existing policies.

2.5.2. New Bonus Series can be created for a variety of reasons, such as the need to maintain equity between policy classes or generations, or to allow for differences in premium rates, taxation or product structures.

Practices

2.5.3. Metropolitan can limit the amount of new business it accepts into a smoothed bonus fund if it is in its own interests, or the interests of new or existing policyholders, to do so. This includes either temporary or permanent closure to new business. In particular, a smoothed bonus fund may be temporarily closed to new business if the levels of Surplus are excessively high or low.

2.5.4. The Surplus of each fund is reviewed over rolling two month periods and the opening of new Bonus Series will be considered should pre-defined thresholds be breached. Different thresholds exist for single and recurring premium business as well as for endowments and retirement annuities.

2.5.5. The ability to smooth returns over successive generations of policyholders is improved if the smoothed bonus fund is open to new business, thereby maintaining a sufficiently large and diversified group of policies over which to smooth returns. If a smoothed bonus fund is declining in size, which a closed fund will do after a period of time, then it is likely to be necessary to change the bonus declaration methodology (to make it less smooth) or change the investment strategy (to invest in less volatile assets) or to do both. This will be necessary to ensure that returns in the fund are less volatile and that there is at most a small Surplus or deficit in the funds to support the benefits for the final generations of policyholders.

2.5.6. A closed fund can be opened again to new business if the existing policyholders in the smoothed bonus fund are not excessively advantaged or disadvantaged by doing so. In particular, the level of Surplus in the fund needs to be reasonable given the overall framework set out for managing smoothed bonus funds.

2.5.7. Two or more smoothed bonus funds can be merged into one fund if this doesn't materially disadvantage either group of policyholders. One smoothed bonus fund cannot be disadvantaged in order to protect the interests of another smoothed bonus fund. When merging smoothed onus funds the following criteria will be considered:

- The investment mandates of the smoothed bonus funds must be reconcilable.
- The Surplus levels in the two funds must be similar at the time of merging the funds. Similar in this context is taken to mean within 2.5% of each other (when expressed as a percentage of the fund).
- The approach to bonus declarations must be reconcilable between the two funds.

3. INDIVIDUAL LIFE CONVENTIONAL WITH-PROFIT BUSINESS

3.1. Background

3.1.1. The purpose of this section is to define the PPFM that currently apply to Individual Life Conventional With-Profit business, which is made up of the following business lines:

- Metropolitan Reversionary Bonus
- Ex-CU Life Reversionary Bonus
- Ex-Odyssey Reversionary Bonus
- Conventional With-Profit Funeral
- Group Risk Paid-up policies

The Metropolitan Reversionary Bonus, Ex-CU Life Reversionary Bonus and ex-Odyssey Reversionary Bonus business lines are collectively referred to as 'reversionary bonus'.

3.1.2. With effect from 31 December 1998, the Commercial Union Life Assurance Company of South Africa Limited ('CU Life') was acquired by and became a wholly owned subsidiary of Metropolitan Life Limited ('Metropolitan'). In December 2001, Metropolitan effected a corporate restructuring and both Metropolitan and CU Life became wholly owned subsidiaries of a newly created holding company, New Africa Capital, subsequently renamed Metropolitan Holdings Limited ('MHL').

With effect from 1 January 2002, the business, assets and liabilities of CU Life were transferred into a ring-fenced sub-fund within Metropolitan.

With effect from 1 January 2004 the business lying within the ring-fenced sub- fund ('the ex-CU Life business') was amalgamated with the balance of the Metropolitan business lying outside the ring-fenced sub-fund.

The reversionary bonus component of the ex-CU Life business is referred to as 'Ex-CU Life Reversionary Bonus'.

3.1.3. With effect from 31 December 1998, Protea Life was acquired by and became a wholly owned subsidiary of Metropolitan. On 1 July 1999 Protea Life was renamed to Metropolitan Odyssey. In December 2001, Metropolitan effected a corporate restructuring and both Metropolitan and Metropolitan Odyssey became wholly owned subsidiaries of a newly created holding company, New Africa Capital, subsequently renamed Metropolitan Holdings Limited ('MHL').

With effect from 1 January 2006, the business, assets and liabilities of Metropolitan Odyssey were transferred into Metropolitan.

The reversionary bonus component of the ex-Metropolitan Odyssey business is referred to as 'Ex-Odyssey Reversionary Bonus'.

3.1.4. Conventional with-profit business refers to business where the growth on the policy is achieved through the declaration of regular bonuses. These bonuses do not directly reflect the Investment Returns achieved on the underlying assets, but are smoothed over time to give a more stable investment experience to the policyholder.

3.1.5. The following types of bonuses are declared annually on the reversionary bonus business lines:

- A reversionary bonus expressed as a percentage of the sum assured;
- A reversionary bonus expressed as a percentage of reversionary bonuses accumulated to date;
- A Terminal Bonus expressed as a percentage of reversionary bonuses accumulated to date for Metropolitan Reversionary Bonus and as a percentage of sum assured plus reversionary bonuses accumulated to date for ex-Odyssey Reversionary Bonus and ex-CU Life Reversionary bonus.

3.1.6. Bonuses declared on Conventional With-Profit Funeral policies (with the exception of Industrial Branch policies) and Group Risk Paid-up policies consist only of Terminal Bonuses, expressed as a percentage of sum assured. Bonuses declared on Industrial Branch policies (part of the Conventional With-Profit Funeral business line) consist of reversionary bonuses (expressed as a multiple of premium) and Terminal Bonuses, expressed as a percentage of reversionary bonuses.

3.1.7. The sum assured and reversionary bonuses are vested benefits, i.e. they cannot be removed, other than on full or partial Surrender, in which case declared reversionary bonuses can be fully or partly removed. Terminal Bonuses are non-vested which means that declared Terminal Bonuses can be removed in certain circumstances including, but not limited to, full or partial Surrender. Both reversionary and Terminal Bonus amounts are an addition to the sum assured, payable in full only on a death or maturity claim. They do not reflect a cash value that is immediately available.

3.1.8. The Non-Vesting Terminal Bonus allows Metropolitan to give policyholders more exposure to asset classes with higher Volatility, such as equities and property, which are appropriate for longer term investments as they are expected to perform better in the long term than more conservative asset classes (such as bonds or cash).

3.1.9. The value of liabilities in respect of conventional with-profit business is calculated by discounting all future expected cash flows, including premiums, claims, expenses, Investment Returns, tax and bonuses.

3.2. Surplus

Principles

3.2.1. The 'Surplus' in a conventional with-profit fund is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the value of the liabilities. The Surplus can be positive or negative.

3.2.2. The shareholders do not have any claim on this Surplus other than their specified charges. It is retained in the conventional with-profit fund for the benefit of current and/or future conventional with-profit policyholders.

Practices

3.2.3. Conventional with-profit policies are allocated to groups according to criteria such as business line, policy tax status, entry date, term and product structure or type. Each such group is called a 'Bonus Series'. All policies within a Bonus Series receive the same bonus rate. Separate asset portfolios are maintained for each combination of business line and policy tax status. If deemed necessary or desirable, separate asset portfolios can be set up for Bonus Series within a business line and tax status combination, provided that this can be done in an equitable manner.

3.2.4. Conventional with-profit cash flows are invested in the corresponding asset portfolio. Cash flows consist of premiums less charges and/or payments in respect of risk benefits, claims and expenses. Expenses are net of applicable expense relief, allowed for on an approximate basis. Each such asset portfolio is referred to as a conventional with-profit fund and the total value of the assets in the asset portfolio (less any deferred tax liabilities) is referred to as the market value of the conventional with-profit fund.

3.2.5. Investment Returns earned on the assets underlying a conventional with-profit fund (net of management fees and tax charges) are retained within the fund for the benefit of the underlying policies. For Ex-CU Life Reversionary Bonus business, non-investment profits and losses (for example in respect of mortality, expenses and retention) are also retained within the fund. This is also the case for Group Risk paid-up business, with the exception of expense profits and losses which are not retained within the Group Risk Paid-up fund. For Metropolitan and Ex-Odyssey Reversionary Bonus and Conventional With-Profit Funeral business, Non-investment profits and losses are allocated to shareholders and are not retained within the fund.

3.2.6. Expenses allocated to conventional with-profit business are derived from an analysis that is regularly conducted into the expenses incurred in respect of all aspects of policy administration and company management.

3.3. Risks and charges

Principles

3.3.1. Policy and fund charges are set explicitly. These charges, together with the non-investment profits or losses earned on Metropolitan and Ex-Odyssey Reversionary Bonus, Conventional With-Profit Funeral and Group Risk Paid-up business, represent the full extent of shareholder access to profits from the conventional with-profit business. Additional charges may be levied on Non- contractual events, such as effecting a Surrender or making a policy paid-up, subject to regulatory limits.

3.3.2. Any losses arising from guarantees (investment or non-investment) are borne by shareholders.

3.3.3. Otherwise, investment profits or losses arising within a conventional with- profit fund are borne by the underlying policyholders.

Practices

3.3.4. When a claim occurs, any difference between the policy liability and that policy's proportional market value (i.e. that policy's share of the Surplus in proportion to the policy liability) will remain in the conventional with-profit fund. Therefore, to the extent that the market value of a conventional with-profit fund exceeds the total policy liability, the Surplus position of the remaining policies will be enhanced. If the market value is less than the total policy liability, the Surplus position of the remaining policies will be worsened.

3.3.5. It may be that the market value of a conventional with-profit fund is less than the total policy liability at a point in time, for instance if there is a significant reduction in the market value due to a change in the investment markets. In this case the Surplus position of the remaining policies will be worsened if policyholders choose to Surrender their policies at this point and the policy liability is paid out. In these circumstances Metropolitan may apply a 'market value adjustment' ('MVA') if a policy is Surrendered, which is an adjustment to the policy benefits with the aim of ensuring that the amount paid out on Surrender does not exceed that policy's proportional market value. This means that the Surrender will leave the amount of Surplus available to remaining policies unchanged. In practice, MVA's will be set on an approximate basis, which means that the impact of Surrenders on the Surplus will be reduced but could still be positive or negative.

3.3.6. If the market value of a conventional with-profit fund is less than the total policy liability, then the Surplus position of the remaining policies will also be worsened by death and maturity claims. Conversely, if the market value is greater than the total policy liability then the Surplus position of the remaining policies will be improved. However policyholders do not choose when to make maturity and death claims therefore the overall impact on remaining policies is not likely to be materially negative. Furthermore, a major objective of a conventional with-profit fund is to smooth the Investment Returns at death or maturity. Finally, the presence of guaranteed minimum maturity and death values as well as vested benefits in the conventional with profit funds means that there is limited scope to adjust claim values on death or maturity. Therefore Metropolitan does not use the concept of an MVA on death or maturity.

3.3.7. Terminal Bonuses may be removed on death and maturity claims. This is likely to be a rare event and will only be introduced if it is in the interests of the remaining policies in the conventional with-profit fund. Metropolitan also retains the right to remove Terminal Bonuses from a conventional with-profit fund if the Surplus (i.e. market value less total policy liability) is unacceptably negative and the removal of Terminal Bonuses is approved by the Statutory Actuary and the Board of Metropolitan. The Surplus will be considered 'unacceptably negative' if an injection of shareholder funds would be required if Terminal Bonuses were not removed, taking into account any applicable legislation or professional guidance.

3.3.8. If a guaranteed minimum maturity benefit is provided, the shareholder carries the risk that the maturity value is less than the guaranteed minimum maturity benefit. In this case the shareholder needs to fund the difference between these values, i.e. the conventional with-profit fund will reduce by the maturity value and the shareholder must provide the required additional amount in order to pay the guaranteed minimum amount. The shareholder does not benefit if the maturity value is higher than the guaranteed minimum amount.

3.3.9. The income tax and capital gains tax charged to the fund is based on actual Investment Returns (income and capital gains) and according to current tax legislation. Tax relief on expenses is discussed in par. 3.2.4

3.4. Bonus declarations

Principles

3.4.1. Investment Returns on conventional with-profit assets are passed on to policyholders in the form of bonuses. The overall intention is to provide policyholders with a return that, over time and particularly at maturity date, is smoother (i.e. less volatile) than returns on the underlying assets, but nevertheless reflective of the investment experience of those assets.

3.4.2. Metropolitan actively seeks to smooth returns if at all possible. However, at its discretion Metropolitan may choose not to do so if this is deemed to be in the interests of policyholders.

3.4.3. The smoothing of returns is intended to be neutral to policyholders as a group over time, but cross subsidies can occur between different generations of policyholders. This is an implicit feature of the product type.

3.4.4. All policies within a particular Bonus Series receive the bonus rate applicable to that Bonus Series. Cross subsidies can occur between Bonus Series within the same business line and tax status that share the same asset portfolio.

3.4.5. Bonus rates cannot be negative.

Practices

3.4.6. Reversionary bonus rates are set taking into account a range of factors, namely long-term sustainability, strong smoothing, the term s on which the policies were written, current and expected future income returns (net of tax and management fees), the asset m ix of the fund, recent performance and the economic outlook. Also taken into account is the overall level of vested benefits, as this is a major determinant of the resilience of the fund in adverse investment conditions.

3.4.7. Terminal Bonuses are set with the overall aim of paying out asset shares on average over all policies in a business line, over the long term. A smoothing approach is adopted, with the aim of limiting the extent to which bonus rates fluctuate from year to year. The sustainable level of Terminal Bonus rates, given expected future Investment Returns, is also taken into account. Therefore claim amounts paid out in a particular year can be greater than, or less than, asset shares.

3.4.8. Reversionary bonuses are declared, and added to sums assured, annually. Terminal Bonuses are declared annually and apply to claims arising during a specified period, usually one year. Terminal Bonuses are expressed as a percentage of sum assured plus reversionary bonuses (or reversionary bonuses only for Metropolitan Reversionary Bonus).

3.4.9. At times of very good or very poor investment performance, Terminal Bonuses can be adjusted in between bonus declaration dates to ensure that claim amounts up to the next bonus declaration are equitable given the change in market values and consequent expectation of higher or lower bonuses.

3.5. New business

Principles

3.5.1. The conventional with-profit funds will be managed to ensure an equitable distribution of the Surplus or deficit in the conventional with-profit funds to the existing policies of those funds.

3.5.2. New Bonus Series can be created for a variety of reasons, such as the need to maintain equity between policy classes or generations, or to allow for differences in premium rates, taxation or product structures.

Practices

3.5.3. Metropolitan can limit the amount of new business it accepts into a conventional with-profit fund if it is in its own interests, or the interests of new or existing policyholders, to do so. This includes either temporary or permanent closure to new business. In particular, a fund may be temporarily closed to new business if the levels of Surplus are excessively high or low.

3.5.4. The Surplus of each fund is reviewed over rolling two month periods and the opening of new Bonus Series will be considered should pre-defined thresholds be breached. Different thresholds exist for single and recurring premium business as well as for endowments and retirement annuities.

3.5.5. The ability to smooth returns over successive generations of policyholders is improved if the conventional with-profit fund is open to new business, thereby maintaining a sufficiently large and diversified group of policies over which to smooth returns. If a conventional with-profit fund is declining in size, which a closed fund will do after a period of time, then it is likely to be necessary to change the bonus declaration methodology (to make it less smooth) or change the investment strategy (to invest in less volatile assets) or to do both. This will be necessary to ensure that returns in the fund are less volatile and that there is at most a small Surplus or deficit in the funds to support the benefits for the final generations of policyholders.

3.5.6. A closed conventional with-profit fund can be opened again to new business if the existing policyholders in the fund are not excessively advantaged or disadvantaged by doing so. In particular, the level of Surplus in the fund needs to be reasonable given the overall framework set out for managing conventional with-profit funds.

3.5.7. Two or more conventional with-profit funds can be merged into one fund if this doesn't materially disadvantage either group of policyholders. One conventional with-profit fund cannot be disadvantaged in order to protect the interests of another conventional with-profit fund. When merging conventional with-profit funds the following criteria will be considered:

- The investment mandates of the conventional with-profit funds must be reconcilable.
- The Surplus levels in the two funds must be similar at the time of merging the funds.
- The approach to bonus declarations must be reconcilable between the two funds.

3.6. Investment Policy

This section describes the approach that Metropolitan follows in seeking to generate competitive Investment Returns for conventional with-profit funds.

Principles

3.6.1. Metropolitan seeks to optimise the return to conventional with-profit funds (hereafter referred to as 'funds'), subject to the investment policies adopted for those funds.

3.6.2. Fund assets include, but are not limited to, assets such as equities, property, bonds and cash deposits. Some of these assets have an uncertain return and are subject to market and other risks. Within constraints determined and reviewed by the Investment Committee of the Board from time to time, these risks are assumed when Metropolitan believes that they are appropriate to the nature of the portfolio and the returns are commensurate with the level of risk. Derivative instruments may be used to manage portfolio risks or in lieu of exposure to the underlying assets.

3.6.3. The investment policy for a fund shall have regard to the nature of the liabilities of that fund (including guarantees) and in particular have regard to the reasonable expectations of the policyholders and the duty to treat them equitably.

3.6.4. The investment policy and practices are reviewed regularly by the Investment Committee to ensure their continued suitability in terms of risks (including market, liquidity, credit and operational risks) and the likely returns.

3.6.5. Prevailing regulatory requirements will nevertheless take precedence over any of these principles or practices.

Practices

3.6.6. A separate fund is maintained for each combination of business line and tax status and potentially for one or more Bonus Series within each such combination. The Investment Return attributed to a particular fund will reflect the Investment Returns on the assets underlying that fund.

3.6.7. Funds may be invested in a wide range of assets, including domestic and foreign equities, property, bonds and cash deposits. As part of the exposure to such asset classes the fund managers may use derivatives as an investment tool, subject to predetermined guidelines.

3.6.8. Each fund has an investment mandate, set by Metropolitan, which specifies benchmarks for the proportion of assets in different asset classes, associated performance targets for investment performance within each asset class, constraints (for example limits regarding ethical and socially responsible investment) and contingency plans.

3.6.9. The Investment Committee formally approves investment mandates, reviews them periodically, monitors performance against benchmarks and oversees the investment management process. It is assisted in this by the Asset Liability Management Forum, which meets bi-weekly and reports to and makes proposals concerning investment management to the Investment Committee.

3.6.10. Metropolitan takes into account a number of factors in setting investment strategy, including:

- the trade-off between risk and return
- the risk reduction benefits of diversification
- the liquidity requirements of the fund

3.6.11. Changes to the asset mix are usually made gradually and significant changes are infrequent.

3.6.12. Assets are rebalanced on a regular basis if they move out of the allocation ranges; short-term tactical asset allocation is employed within bounds set in the mandate.

3.6.13. Subject to the principles, investment managers are allowed freedom to invest in any financial instrument as long as it meets predefined minimum criteria. For example, the asset must be capable of being priced and administered and must satisfy the requirements of the various risk policies as well as any other investment guidance.

3.6.14. In addition to the investment mandate, various Risk Policies and Investment Policy Statements together with associated governance arrangements ensure, so far as is reasonable, that the risks taken in managing the funds' assets are identified and managed in a sound and prudent manner.

3.6.15. The internal Risk Policies and Investment Policy Statements, along with associated governance documentation, set limits on the amount of investment in any particular type of asset and impose minimum credit and liquidity standards. These restrictions may vary from time to time, but are designed to ensure that adequate levels of diversification and liquidity are maintained. The restrictions are agreed and reviewed regularly by the Investment Committee. Examples of the types of restrictions include:

- overall currency exposure
- exposure to unlisted investments
- exposure to individual company or property investments
- exposure to investment market sectors and
- exposure to corporate bonds of different credit ratings.

3.6.16. In addition to these asset class specific restrictions, there are limitations on the acceptable aggregation of exposure to any single entity. For example, the total amount that can be invested in any given bank is limited whether this is via equities, bonds, cash deposits or any other type of investment.

3.6.17. Metropolitan has processes in place to set and review exposure limits as defined in the Risk Policies and Investment Policy Statements. Any breach of these exposure limits is reported to the Compliance Committee of Momentum Investments (MI) and/or the Investment Committee of MMI.

3.6.18. The MI Investment Risk Committee monitors the use of new types of investment (such as new derivative structures), or investments whose nature has changed, to ensure that they are appropriate. Where investments are channelled via other asset managers the Investment Committee of MMI performs this function.

3.6.19. Guidelines relating to the use of derivatives are currently set out in the mandates and Investment Policy Statements and associated governance documentation and are approved at least once a year by the Investment Committee. Derivatives may be employed only in specified circumstances such as:

- to meet contractual obligations or
- if they are an efficient means to reduce either risk or cost

Hedging may be employed to protect Surplus levels against adverse market movements.

3.6.20. Credit risk is assessed by reference to the counterparties' credit ratings with Fitch, Moody's, Standard & Poor's or other equivalent measure. MI has processes in place to identify and report to the Investment Committee any breaches of the credit limits.

3.6.21. There are no assets in the conventional with-profit funds that would not normally be traded because of their strategic importance to the Metropolitan Life Group.

3.6.22. Funds are not invested in treasury shares or negative rand reserves.

3.6.23. The mandates permit investment in related parties up to a certain limit. Any investment beyond this limit requires written approval from Metropolitan.

4. Glossary

4.1.1. **Asset Management Fee** is charged as a percentage of the market value of the assets, and may be deducted from the Investment Returns or as an explicit charge against the Individual Policy Fund. These Asset Management Fees relate to the investment management and administration involved in managing the underlying assets.

4.1.2. **Board** means the Board of Directors of Metropolitan Life

4.1.3. **Bonus Series** is a group of smoothed bonus policies allocated according to criteria such as business line, policy tax status, asset mix and product structure or type. Separate asset portfolios are maintained for each Bonus Series and all policies within a Bonus Series receive the same bonus rate.

4.1.4. **Contractual Claims** are the claims payable at Contractual End Date.

4.1.5. **Contractual End Date** of a policy is the maturity date or date of retirement as specified in the contract, or the date of death or disability (if applicable), as described in the contract.

4.1.6. **Discretionary Participation Products** includes products which have features that rely on the ability of the insurer to use discretion to manage them, in particular in the investment, smoothing and onus policies. These products are typically ones where premiums are invested in a pooled fund made up of a range of assets, a significant portion of which are usually in the form of equities, and where allocations to policies are smoothed to cushion policyholders from short-term fluctuations in asset prices or other possible experience variations. Guarantees may furthermore apply, which may increase over the lifetime of a policy.

4.1.7. **Early Termination** refers to the full or partial withdrawal of funds from a policy (including those resulting from Surrenders, early retirement, interest free loans and switches, as well as premiums reduction or cessation) prior to a policy's contractual end date.

4.1.8. **Individual Policy Fund** represents a particular policy's share of the pool of assets held in the smoothed bonus portfolio. It is held for each policyholder. When a premium is paid charges are deducted in respect of expenses and any risk benefits (e.g. life or disability cover), and the balance (the 'allocation amount') is allocated to this fund. At any point in time this fund represents the accumulation of the allocation amounts plus the bonuses declared to date, less any claim and expense amounts paid from the fund.

4.1.9. **Interim Bonus** applies to policies terminating prior to the next declaration owing to death, disability, maturity, retirement or Early Termination. Interim Bonus rates apply form the last declaration date (31 December) to the date of the claim event.

4.1.10. **Investment Committee** performs the role of a governance vehicle between MMI and its investment managers.

4.1.11. **Investment Returns** consist of realised and unrealised gains in the market value of assets, as well as income from assets including interest, dividends and rent. Net Investment Returns are net of tax and fees.

4.1.12. **Market Value Adjuster** (MVA) is the reduction of the Individual Policy Fund on Early Termination if the total market value of the assets underlying the smoothed bonus portfolio is less than the aggregate of all policies' Individual Policy Funds. The MVA depends on the current level of the market and its purpose is to protect policyholders who remain in the Bonus Series.

4.1.13. **Momentum Investments** (MI) is a subsidiary of MMI Holdings Ltd and manages the assets for the smoothed bonus fund.

4.1.14. **Non-Vesting Bonus** is the difference between the declared Total Bonus and the Vesting Bonus. Declared Non-Vesting Bonuses can be removed in certain circumstances including, but not limited to, full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination. Also know as Claim Bonus.

4.1.15. **Risk Charges** are deductions made from the premium or Individual Policy Fund to cover the cost of the benefit payable on life contingencies (such as death or disability).

4.1.16. **Statutory Actuary** is the actuary appointed by a long-term insurance company in terms of section 20(1) of the Long-term Insurance Act 1998 ('The Act'). The Registrar of long-term insurance approves the appointment. The Act sets out the duties of the Statutory Actuary.

4.1.17. **Surplus** is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the Individual Policy Funds. The Surplus can be positive or negative. It is an indication of the extent to which bonuses have historically been declared in excess of actual Net Investment Returns (in which case the Surplus will be negative), or below actual Net Investment Returns (in which case the Surplus will be positive).

4.1.18. **Surrender** is a type of Early Termination that happens if a policyholder takes some or all of the funds from a policy prior to the contractual end date of the policy. In the case of a retirement annuity, it is referred to as 'early retirement'.

4.1.19. **Total Bonus** is declared annually in arrears on smoothed bonus funds.

4.1.20. **Vesting Bonus** is declared annually in arrears on smoothed bonus funds. Vesting Bonuses cannot be removed on policy maturity events or death, except in the case of full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination. Also know as Guaranteed Bonus.

4.1.21. **Volatility** refers to the degree of short-term unpredictable change over time of a certain variable, such as the prices of equities or Investment Returns. This refers to the concept that equity prices or Investment Returns vary upwards and downwards.