



MMI GROUP LIMITED



Financial Results

Unaudited interim results for the six months ended 31 December 2018

MMI GROUP LIMITED

DIRECTORS' STATEMENT

The directors take pleasure in presenting the unaudited summarised interim results of MMI Group Ltd for the period ended 31 December 2018. The preparation of the company's results was supervised by the finance director, Risto Ketola (FIA, FASSA, CFA).

Basis of preparation of financial information

These summarised interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS); International Accounting Standard 34 (IAS 34) – Interim financial reporting; the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council; the JSE Listings Requirements and the South African Companies Act, 71 of 2008. The accounting policies applied in the preparation of these financial statements are in terms of IFRS and are consistent with those adopted in the previous years, except as described below. Critical judgements and accounting estimates are disclosed in detail in the company's annual financial statements for the year ended 30 June 2018, including changes in estimates that are an integral part of the insurance business. The company is exposed to financial and insurance risks, details of which are also provided in the company's annual financial statements.

New and revised standards effective for the period ended 31 December 2018 and relevant to the company

The following amendments to standards and interpretations became effective for the first time in the current period and had no impact on the company's earnings or net asset value: Amendments to IFRS 2 Share-based payments, IFRS 4 Insurance contracts, IAS 40 Investment property, and IFRIC 22 Foreign currency transactions and advance consideration. IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers also became effective for the first time in the current period. The effect of these is described below.

IFRS 15 Revenue from contracts with customers

IFRS 15 is effective from periods beginning on or after 1 January 2018. The company has implemented IFRS 15 on 1 July 2018, retrospectively without restating comparative figures. IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The company has assessed the impact of the adoption of IFRS 15 to determine the impact on the opening balance and concluded that there was no significant impact for the company. The opening retained earnings as at 1 July 2018 has therefore not been adjusted for any change in revenue recognition.

IFRS 9 Financial instruments

The company has implemented IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 July 2018 has been adjusted for any differences in the carrying amounts of financial instruments.

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The standard introduces an approach to the classification of financial instruments that is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). The standard amends the previous requirements in three main areas: (a) classification and measurement of financial assets, (b) impairment of financial assets, mainly by introducing a forward-looking expected credit loss (ECL) impairment model and (c) hedge accounting including removing some of the restrictions on applying hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost
- Fair value through other comprehensive income
- Fair value through income

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

No significant changes were introduced for the classification and measurement of financial liabilities, except for financial liabilities that are designated at fair value where entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The standard has introduced a new ECL impairment model that will require more timely recognition of ECLs than under IAS 39. An impairment loss may now be recognised prior to a loss event occurring. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The company has elected not to apply the general hedge accounting principles under IFRS 9 and will continue to apply IAS 39 hedge accounting, where applicable.

Impact on adoption of IFRS 9

Prior to the implementation of IFRS 9, the company designated a significant majority of its financial assets at fair value through income to IAS 39. The application of the business model in the life business of the company resulted in the designation of all policyholder assets at fair value through income (due to accounting mismatch) and shareholder assets being classified mandatorily at fair value through income. Within the rest of the company there were no significant changes in the classification of financial assets with majority of the assets remaining at fair value through income due to designation or mandatorily. All equity securities remain at fair value through income and assets previously disclosed as held-to-maturity will continue to be carried at amortised cost.

With majority of the company's financial assets measurement remaining at fair value through income these assets are not subjected to the new impairment model. The significant impacts from changes in the measurement basis of impairment provisions are limited to the company's assets that were previously classified as held-to-maturity and loans and receivables which are carried at amortised cost. The impact of applying the ECL model resulted in a decrease in equity of R17 million on 1 July 2018 which primarily relates to loans and receivables.

For the company's financial liabilities that are designated at fair value through income, there were no significant changes in its own credit risk to recognise in other comprehensive income.

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The application of IFRS 9 impairment methodology had an insignificant impact on the company's equity accounted associates and joint ventures.

All insurance and reinsurance receivables are recognised in terms of IFRS 4 and will be included in the IFRS 17 assessment.

The effects of the adoption of IFRS 9 on the statement of financial position as at 1 July 2018 are shown in the financial instruments section.

The International Accounting Standards Board (IASB) made amendments to various standards as part of their annual improvements project. These amendments had no impact on the company's earnings.

Segmental report

A simplified operating model was announced in June 2018, effective 1 July 2018. The product Centre of Excellence structure was dissolved and a number of empowered end-to-end value chain business units were created, supported by shared distribution channels and company support functions.

In order to align internal and external reporting to the new operating business unit structures, the reporting units have also changed. The prior periods have been restated to provide meaningful comparison for these new segments.

The company's reporting view now reflects the following segments:

Momentum Life: Momentum Life includes protection, savings and life insurance products focused on the middle and affluent client segments.

Momentum Investments: Momentum Investments consists of the Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments.

Metropolitan Retail: Metropolitan Retail focusses on the lower and middle income retail market segment, with a range of protection and savings products.

Momentum Corporate: Momentum Corporate offers group risk, annuities, pension savings, and umbrella fund (FundsAtWork) products.

Africa: This segment includes allocations relating to African operations.

Non-life Insurance: This segment includes allocations relating to Momentum Short-term Insurance and Momentum Short-term Insurance Administration.

New Initiatives: This segment includes allocations relating to India, aYo, Money Management, Lending, Exponential Ventures and Momentum Consult.

Shareholders: The Shareholders segment reflects investment income on capital held to support local operations and some costs not allocated to operating segments.

MMI GROUP LIMITED

Corporate governance

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

Changes to the directorate and secretary

On 30 September 2018, the company secretary, Maliga Chetty, resigned from the board. On the same date, Leon Basson was appointed as acting company secretary. On 1 March 2019, CorpStat Governance Services (Pty) Ltd was appointed as interim company secretary. Leon Basson will relinquish his role as acting company secretary on that date.

Contingent liabilities and capital commitments

The company is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The company had no material capital commitments at 31 December 2018 that were not in the ordinary course of business.

Events after the reporting period

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

Directors' responsibility

The preparation of these results are the responsibility of the directors. The summarised interim results have not been reviewed or audited by the external auditors.

Signed on behalf of the board

JJ Njeke

Chairman

Hillie Meyer

Group chief executive officer

Centurion

7 March 2019

DIRECTORS: MJN Njeke (chairman), LL von Zeuner (deputy chairman), HP Meyer (chief executive officer), JC Cilliers (Marais) (deputy chief executive officer), RS Ketola (finance director), F Daniels (Jakoet), Prof SC Jurisich, FJC Truter

INTERIM COMPANY SECRETARY: CorpStat Governance Services (Pty) Ltd

WEBSITE: www.mmiholdings.com

AUDITORS: PricewaterhouseCoopers Inc

REGISTERED OFFICE: 268 West Avenue, Centurion, 0157

MMI GROUP LIMITED – IFRS FINANCIAL INFORMATION

SUMMARISED STATEMENT OF FINANCIAL POSITION

	31.12.2018	31.12.2017	30.06.2018
	Rm	Rm	Rm
ASSETS			
Intangible assets	2 617	2 743	2 678
Owner-occupied properties	1 342	1 590	1 642
Property and equipment	144	117	128
Investment properties	7 528	6 069	6 321
Interest in subsidiary companies	62 695	63 243	68 273
Employee benefit assets	449	419	433
Financial assets at fair value through income ¹	261 580	275 394	269 456
Investments in associates at fair value through income ¹	19 856	17 329	17 253
Derivative financial assets at fair value through income	2 341	2 849	2 770
Loans and receivables	-	7 854	6 132
Financial assets at amortised cost	4 853	-	-
Reinsurance contracts	1 882	1 795	1 872
Insurance and other receivables	3 888	2 672	2 683
Current income tax assets	3	81	-
Cash and cash equivalents	11 902	14 422	12 478
Total assets	381 080	396 577	392 119
EQUITY			
Equity attributable to owners of the parent	14 016	15 066	13 657
Non-redeemable, non-cumulative, non-participative preference shares	500	500	500
Total equity	14 516	15 566	14 157
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	99 553	100 364	98 009
Investment contracts	245 798	257 173	258 529
- with discretionary participation features (DPF)	21 490	23 435	22 752
- designated at fair value through income	224 308	233 738	235 777
Financial liabilities at fair value through income ¹	8 679	11 006	8 347
Derivative financial liabilities at fair value through income	2 068	1 695	2 013
Deferred income tax	1 070	1 285	901
Employee benefit obligations	599	604	694
Other payables	8 797	8 884	9 391
Current income tax liabilities	-	-	78
Total liabilities	366 564	381 011	377 962
Total equity and liabilities	381 080	396 577	392 119

¹ For prior reporting periods, this line item was classified as designated at fair value through income ito IAS 39 and has not been restated.

MMI GROUP LIMITED – IFRS FINANCIAL INFORMATION

SUMMARISED INCOME STATEMENT	6 mths to 31.12.2018	6 mths to 31.12.2017	12 mths to 30.06.2018
	Rm	Rm	Rm
Net insurance premiums	14 328	9 487	19 086
Fee income ¹	1 667	1 518	2 787
Investment income	8 470	7 756	15 697
Net realised and fair value (losses)/gains	(13 487)	17 289	15 894
Net income	10 978	36 050	53 464
Net insurance benefits and claims	9 846	9 631	21 738
Change in actuarial liabilities and related reinsurance	272	4 356	1 240
Change in insurance contract liabilities	1 544	3 752	1 396
Change in investment contracts with DPF liabilities	(1 262)	685	2
Change in reinsurance contracts	(10)	(81)	(158)
Fair value adjustments on investment contract liabilities	(6 216)	14 714	17 466
Depreciation, amortisation and impairment expenses	174	444	557
Employee benefit expenses	1 677	1 474	3 014
Sales remuneration	1 631	1 623	3 068
Other expenses	1 167	1 067	2 383
Expenses	8 551	33 309	49 466
Results of operations	2 427	2 741	3 998
Finance costs ²	(371)	(405)	(802)
Profit before tax	2 056	2 336	3 196
Income tax expense	(619)	(1 156)	(1 618)
Earnings for the period	1 437	1 180	1 578
Attributable to:			
Owners of the parent	1 420	1 162	1 543
MMI Group Ltd preference shares	17	18	35
	1 437	1 180	1 578

¹ Fee income consists of the following:

Investment contracts	1 374	1 213	2 254
Trust and fiduciary services	226	205	404
Other fee income	67	100	129
	1 667	1 518	2 787

² Finance costs consist of the following:

Subordinated debt	(210)	(190)	(397)
Cost of carry positions	(135)	(195)	(363)
Other finance costs	(26)	(20)	(42)
	(371)	(405)	(802)

MMI GROUP LIMITED – IFRS FINANCIAL INFORMATION

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME	6 mths to 31.12.2018 Rm	6 mths to 31.12.2017 Rm	12 mths to 30.06.2018 Rm
Earnings for the period	1 437	1 180	1 578
Other comprehensive loss, net of tax	(343)	(696)	(989)
Items that may subsequently be reclassified to income	-	(698)	(1 096)
Revaluation of subsidiaries	-	(698)	(1 096)
Items that will not be reclassified to income	(343)	2	107
Land and buildings revaluation	(229)	16	54
Revaluation of subsidiaries	(157)	-	-
Change in non-distributable reserve	-	-	51
Remeasurements of post-employee benefit funds	(9)	(11)	13
Income tax relating to items that will not be reclassified	52	(3)	(11)
Total comprehensive income for the period	1 094	484	589
Total comprehensive income attributable to:			
Owners of the parent	1 077	466	554
MMI Group Ltd preference shares	17	18	35
	1 094	484	589

MMI GROUP LIMITED – IFRS FINANCIAL INFORMATION

SUMMARISED STATEMENT OF CHANGES IN EQUITY	6 mths to 31.12.2018 Rm	6 mths to 31.12.2017 Rm	12 mths to 30.06.2018 Rm
Changes in share capital			
Balance at the beginning and end	9	9	9
Changes in share premium			
Balance at the beginning and end	1 032	1 032	1 032
Changes in other reserves			
Balance at beginning	5 436	6 947	6 947
Total comprehensive loss	(343)	(696)	(1 339)
Transfer to retained earnings	(25)	(35)	(172)
Balance at end ¹	5 068	6 216	5 436
Changes in retained earnings			
Balance at beginning	7 180	8 512	8 512
IFRS 9 opening adjustment	(16)	-	-
Restated opening balance	7 164	8 512	8 512
Total comprehensive income	1 420	1 162	1 543
Dividend paid	(702)	(1 900)	(3 047)
Transfer from other reserves	25	35	172
Balance at end	7 907	7 809	7 180
Equity attributable to the owners of the parent	14 016	15 066	13 657
Non-redeemable, non-cumulative, non-participative preference shares			
Balance at the beginning	500	500	500
Total comprehensive income	17	18	35
Dividend paid	(17)	(18)	(35)
Balance at end	500	500	500
Total equity	14 516	15 566	14 157
¹ Other reserves consist of the following:			
Land and buildings revaluation reserve	343	651	545
Revaluation of subsidiaries	(95)	810	62
Employee benefit revaluation reserve	91	77	100
Common control reserve	4 729	4 678	4 729
	5 068	6 216	5 436

MMI GROUP LIMITED – IFRS FINANCIAL INFORMATION

SUMMARISED STATEMENT OF CASH FLOWS	6 mths to 31.12.2018 Rm	6 mths to 31.12.2017 Rm	12 mths to 30.06.2018 Rm
Cash flow from operating activities			
Cash utilised in operations	(5 618)	(14 054)	(7 338)
Interest received	5 767	5 431	11 049
Dividends received	2 199	1 781	3 701
Income tax paid	(479)	(650)	(1 346)
Interest paid	(371)	(405)	(802)
Net cash inflow/(outflow) from operating activities	1 498	(7 897)	5 264
Cash flow from investing activities			
Additional investment in subsidiary	(435)	(3 489)	(907)
Disposal of subsidiary	-	12 914	393
Purchase of owner-occupied properties	(31)	(13)	(58)
Disposal of owner-occupied properties	21	174	174
Purchase of investment properties	(940)	562	(302)
Disposal of investment properties	241	62	102
Purchase of property and equipment	(47)	(24)	(67)
Disposal of property and equipment	1	1	10
Purchase of intangible assets	(271)	(168)	(553)
Disposal of intangible assets	-	-	1
Net cash (outflow)/ inflow from investing activities	(1 461)	10 019	(1 207)
Cash flow from financing activities			
Increase / (Decrease) in financial liabilities at fair value through income	106	(186)	(3 048)
Dividend paid to equity holders	(702)	(1 550)	(2 550)
Preference share dividends paid	(17)	(18)	(35)
Net cash outflow from financing activities	(613)	(1 754)	(5 633)
Net cash flow	(576)	368	(1 576)
Cash resources and funds on deposit at beginning	12 478	14 054	14 054
Cash resources and funds on deposit at end	11 902	14 422	12 478

MMI GROUP LIMITED – SEGMENTAL INFORMATION

6 mths to 31.12.2018	Momentum Life	Momentum Investments	Metropolitan Retail	Momentum Corporate	Non-life Insurance	Africa	New initiatives	Shareholders	Segmental total	Reconciling items ¹	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue											
Net insurance premiums	4 447	10 186	3 575	11 776	-	-	-	-	29 984	(15 656)	14 328
Recurring premiums	4 313	221	3 072	5 743	-	-	-	-	13 349	(5 260)	8 089
Single premiums	134	9 965	503	6 033	-	-	-	-	16 635	(10 396)	6 239
Fee income	443	709	73	435	-	-	-	7	1 667	-	1 667
External fee income	443	709	73	435	-	-	-	7	1 667	-	1 667
Expenses											
Net payments to contract holders											
External payments	4 752	14 614	2 876	7 147	-	-	-	-	29 389	(19 543)	9 846
Other expenses	1 404	698	1 270	593	-	1	25	211	4 202	528	4 730
Sales remuneration	654	391	536	50	-	-	-	-	1 631	-	1 631
Administration expenses	750	307	734	543	-	1	25	184	2 544	-	2 544
Amortisation due to business combinations and impairments	-	-	-	-	-	-	-	23	23	-	23
Direct property expenses	-	-	-	-	-	-	-	-	-	224	224
Asset management and other fee expenses	-	-	-	-	-	-	-	4	4	304	308
Normalised headline earnings	495	116	333	286	(1)	(2)	(19)	294	1 502	-	1 502
Actuarial liabilities	71 079	150 038	34 171	90 063	-	-	-	-	345 351	-	345 351

¹ The 'Reconciling items' column includes: investment contract business premiums and claims; non-recurring items included in administration expenses; direct property and asset management fees that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; and other minor adjustments to expenses and fee income.

MMI GROUP LIMITED – SEGMENTAL INFORMATION

Restated 6 mths to 31.12.2017	Momentum Retail	Momentum Investments	Metropolitan Retail	Momentum Corporate	Non-life Insurance	Africa	New Initiatives	Shareholders	Segmental total	Reconciling items ¹	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue											
Net insurance premiums	4 434	11 123	3 788	6 913	-	-	-	-	26 258	(16 771)	9 487
Recurring premiums	4 287	193	3 120	5 394	-	-	-	-	12 994	(4 928)	8 066
Single premiums	147	10 930	668	1 519	-	-	-	-	13 264	(11 843)	1 421
Fee income	366	699	45	409	-	-	-	(1)	1 518	-	1 518
External fee income	366	699	45	409	-	-	-	(1)	1 518	-	1 518
Expenses											
Net payments to contract holders											
External payments	4 970	13 519	2 781	6 365	-	-	-	-	27 635	(18 004)	9 631
Other expenses	1 673	317	1 191	581	-	4	15	332	4 113	495	4 608
Sales remuneration	733	301	538	50	-	-	-	-	1 622	-	1 622
Administration expenses	940	16	653	531	-	4	15	304	2 463	-	2 463
Amortisation due to business combinations and impairments	-	-	-	-	-	-	-	23	23	-	23
Direct property expenses	-	-	-	-	-	-	-	-	-	197	197
Asset management and other fee expenses	-	-	-	-	-	-	-	5	5	298	303
Normalised headline earnings	423	117	364	254	(2)	(4)	(16)	432	1 568	-	1 568
Actuarial liabilities	75 477	157 105	34 879	90 076	-	-	-	-	357 537	-	357 537

¹ The 'Reconciling items' column includes: investment contract business premiums and claims; non-recurring items included in administration expenses; direct property and asset management fees that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; and other minor adjustments to expenses and fee income.

MMI GROUP LIMITED – SEGMENTAL INFORMATION

Restated 12 mths to 30.06.2018	Momentum Life	Momentum Investments	Metropolitan Retail	Momentum Corporate	Non-life insurance	Africa	New initiatives	Shareholders	Segmental total	Reconciling items ¹	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue											
Net insurance premiums	8 916	20 783	7 389	14 645	-	-	-	-	51 733	(32 647)	19 086
Recurring premiums	8 565	403	6 085	10 989	-	-	-	-	26 042	(10 024)	16 018
Single premiums	351	20 380	1 304	3 656	-	-	-	-	25 691	(22 623)	3 068
Fee income	517	1 357	139	775	-	-	-	(1)	2 787	-	2 787
External fee income	517	1 357	139	775	-	-	-	(1)	2 787	-	2 787
Expenses											
Net payments to contract holders											
External payments	9 389	24 309	5 726	15 906	-	-	-	-	55 330	(33 592)	21 738
Other expenses	3 281	658	2 475	1 226	-	5	29	391	8 065	957	9 022
Sales remuneration	1 261	644	1 060	102	-	-	-	-	3 067	-	3 067
Administration expenses	2 020	14	1 415	1 124	-	5	29	339	4 946	-	4 946
Amortisation due to business combinations and impairments	-	-	-	-	-	-	-	46	46	-	46
Direct property expenses	-	-	-	-	-	-	-	-	-	395	395
Asset management and other fee expenses	-	-	-	-	-	-	-	6	6	562	568
Normalised headline earnings	573	(4)	201	753	(5)	(6)	(30)	505	1 987	-	1 987
Actuarial liabilities	75 091	158 076	34 913	88 458	-	-	-	-	356 538	-	356 538

¹ The 'Reconciling items' column includes: investment contract business premiums and claims; non-recurring items included in administration expenses; direct property and asset management fees that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; and other minor adjustments to expenses and fee income.

MMI GROUP LIMITED – EARNINGS PER ORDINARY SHARE

EARNINGS PER ORDINARY SHARE	Basic earnings		
	6 mths to 31.12.2018 Rm	6 mths to 31.12.2017 Rm	12 mths to 30.06.2018 Rm
Attributable to owners of the parent			
Earnings (cents per share)	747	612	812
Normalised headline earnings (cents per share)	791	825	1 046
Weighted average number of shares (million)	190	190	190
Reconciliation of normalised headline earnings attributable to owners of the parent			
Earnings - equity holders of the company	1 420	1 162	1 543
Loss on sale of subsidiary	-	54	54
Amortisation of intangible assets relating to business combinations	17	17	33
Impairment of group loans and investments in subsidiaries	18	307	319
Impairment of owner-occupied buildings below cost	47	-	-
Impairment of internally developed computer software	-	28	38
Normalised headline earnings ¹	1 502	1 568	1 987

¹Normalised headline earnings consist of operating profit, investment income, net realised and fair value gains, investment variances and basis and other changes. It excludes amortisation of intangibles relating to business combinations.

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS SUMMARISED BY MEASUREMENT CATEGORY ITO IFRS 9 AS AT 31.12.2018

	Fair Value Through Income			Amortised cost ¹	Other measurement basis ¹	Total
	Mandatorily	Designated	Total Fair Value			
	Rm	Rm	Rm	Rm	Rm	Rm
Equity securities	38 459	-	38 459	-	-	38 459
Debt securities	7 764	76 858	84 622	-	-	84 622
Funds on deposit and other money market instruments	1 080	9 234	10 314	-	-	10 314
Unit-linked investments	128 185	-	128 185	-	-	128 185
Investments in associates at fair value through income	19 856	-	19 856	-	-	19 856
Investments in subsidiaries at fair value through income	59 649	-	59 649	-	-	59 649
Derivative financial instruments	2 341	-	2 341	-	-	2 341
Loans and receivables	-	-	-	4 853	-	4 853
Insurance and other receivables (excl prepayments and accelerated rental) ²	-	-	-	-	3 615	3 615
Cash and cash equivalents	-	-	-	11 902	-	11 902
Total financial assets	257 334	86 092	343 426	16 755	3 615	363 796
Investment contracts with DPF ³	-	-	-	-	21 490	21 490
Investment contracts designated at fair value through income	-	224 308	224 308	-	-	224 308
Derivative financial instruments	2 068	-	2 068	-	-	2 068
Subordinated call notes	-	4 391	4 391	-	-	4 391
Carry positions	-	4 287	4 287	-	-	4 287
Other payables (excl premiums in advance and deferred revenue liability)	-	-	-	3 851	4 027	7 878
Total financial liabilities	2 068	232 986	235 054	3 851	25 517	264 422

¹ The carrying value of financial assets and liabilities carried at amortised cost approximates fair value due to their short-term nature.

² With the adoption of IFRS 9 policy loans have been reallocated to insurance and other receivables on the balance sheet. Policy loans are not within the scope of IFRS 9.

³ The value of investment contracts with discretionary participation features (DPF) is the retrospective accumulation of the fair value of the underlying assets, which has been used as an approximation for the fair value of this financial liability as the fair value cannot be measured reliably. There is no intention to dispose of these financial instruments.

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FINANCIAL ASSETS SUMMARISED BY MEASUREMENT CATEGORY ITO IAS 39	31.12.2017	30.06.2018
	Rm	Rm
Financial assets designated at fair value through income	355 871	355 010
Securities designated at fair value through income	275 394	269 456
Investment in associates designated at fair value through income	17 329	17 253
Investment in subsidiaries designated at fair value through income	60 299	65 531
Derivative financial instruments	2 849	2 770
Financial assets carried at amortised cost ¹	24 792	21 141
Loans and receivables	7 854	6 132
Insurance and other receivables	2 516	2 531
Cash and cash equivalents	14 422	12 478
Total financial assets	380 663	376 151

¹ The carrying value of financial assets carried at amortised cost approximates fair value.

FINANCIAL LIABILITIES SUMMARISED BY MEASUREMENT CATEGORY ITO IAS 39	31.12.2017	30.06.2018
	Rm	Rm
Investment contracts with DPF ¹	23 435	22 752
Financial liabilities designated at fair value through income	246 439	246 137
Investment contracts designated at fair value through income	233 738	235 777
Liabilities designated at fair value through income	11 006	8 347
Derivative financial instruments	1 695	2 013
Financial liabilities carried at amortised cost		
Other payables ²	8 884	9 391
Total financial liabilities	278 758	278 280

¹The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which has been used as an approximation for the fair value of this financial liability as the fair value cannot be measured reliably. There is no intention to dispose of these financial instruments.

²The carrying value of other payables approximated fair value due to their short-term nature.

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

ADOPTION OF NEW STANDARDS

IFRS 9 TRANSITIONAL ADJUSTMENTS

Statement of financial position	30.06.2018 as per IAS 39 Rm	IFRS 9 class- ification Rm	IFRS 9 ECL adjustment Rm	01.07.2018 as per IFRS 9 Rm
ASSETS				
Financial assets <i>designated</i> at fair value through income	269 456	(269 456)	-	-
Financial assets at fair value through income	-	269 456	-	269 456
Investments in associates <i>designated</i> at fair value through income	17 253	(17 253)	-	-
Investments in associates at fair value through income	-	17 253	-	17 253
Investments in subsidiaries <i>designated</i> at fair value through income	65 531	(65 531)	-	-
Investments in subsidiaries at fair value through income	-	65 531	-	65 531
Derivative financial assets	2 770	-	-	2 770
Loans and receivables	6 074	(6 074)	-	-
Financial assets at amortised cost	-	6 074	(16)	6 058
Cash and cash equivalents	12 478	-	-	12 478
Other assets	18 557	-	-	18 557
Total assets	392 119	-	(16)	392 103
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	13 657	-	(16)	13 641
Non-redeemable, non-cumulative, non-participative preference shares	500	-	-	500
Total equity	14 157	-	(16)	14 141
Financial liabilities <i>designated</i> at fair value through income	8 347	(8 347)	-	-
Financial liabilities at fair value through income	-	8 347	-	8 347
Other liabilities	369 615	-	-	369 615
Total liabilities	377 962	-	-	377 962
Total equity and liabilities	392 119	-	(16)	392 103

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

The different valuation method levels have been defined as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices).
- **Level 3:** Input for the asset or liability that is not based on observable market data (that is, unobservable input).

FINANCIAL ASSETS	Level 1	Level 2	Level 3	Total
31.12.2018	Rm	Rm	Rm	Rm
Securities at fair value through income	182 247	76 365	2 968	261 580
Equity securities				
Local listed	37 214	1	1	37 216
Foreign listed	1 206	-	-	1 206
Unlisted	-	4	33	37
Debt securities				
Stock and loans to government and other public bodies				
Local listed	27 668	9 248	-	36 916
Foreign listed	-	24	-	24
Unlisted	-	3 757	-	3 757
Other debt instruments				
Local listed	-	19 648	8	19 656
Foreign listed	-	351	-	351
Unlisted	-	22 629	1 289	23 918
Funds on deposit and other money market instruments	-	10 314	-	10 314
Unit-linked investments				
Collective investment schemes ¹				
Local unlisted or listed quoted	82 410	1 093	-	83 503
Foreign unlisted or listed quoted	33 582	55	-	33 637
Foreign unlisted unquoted	-	394	148	542
Other unit-linked investments				
Local unlisted or listed quoted	167	3 008	-	3 175
Local unlisted unquoted	-	5 839	1 300	7 139
Foreign unlisted unquoted	-	-	189	189
Investments in associates at fair value through income ¹	19 570	-	286	19 856
Investments in subsidiaries at fair value through income ¹	59 312	-	337	59 649
Derivative financial instruments - Held for trading	-	2 341	-	2 341
	261 129	78 706	3 591	343 426

¹ Collective investment schemes and Investment in associates and subsidiaries designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

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

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FINANCIAL ASSETS	Level 1	Level 2	Level 3	Total
31.12.2017	Rm	Rm	Rm	Rm
Securities designated at fair value through income	192 342	78 603	4 449	275 394
Equity securities				
Local listed	47 194	8	-	47 202
Foreign listed	664	-	-	664
Unlisted	-	-	40	40
Debt securities				
Stock and loans to government and other public bodies				
Local listed	23 234	10 241	-	33 475
Foreign listed	-	21	-	21
Unlisted	-	3 608	-	3 608
Other debt instruments				
Local listed	-	19 650	8	19 658
Foreign listed	-	6	-	6
Unlisted	-	20 712	1 703	22 415
Funds on deposit and other money market instruments	-	11 713	-	11 713
Unit-linked investments				
Collective investment schemes ¹				
Local unlisted or listed quoted	91 574	26	1	91 601
Foreign unlisted or listed quoted	26 887	16	72	26 975
Foreign unlisted unquoted	-	373	192	565
Other unit-linked investments				
Local unlisted or listed quoted	528	7 197	-	7 725
Local unlisted unquoted	2 261	5 032	2 319	9 612
Foreign unlisted unquoted	-	-	114	114
Investments in associates designated at fair value through income ¹	17 328	1	-	17 329
Investments in subsidiaries designated at fair value through income ¹	59 962	-	337	60 299
Derivative financial instruments - Held for trading	10	2 839	-	2 849
	269 642	81 443	4 786	355 871

¹ Collective investment schemes and Investment in associates and subsidiaries designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

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

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FINANCIAL ASSETS	Level 1	Level 2	Level 3	Total
30.06.2018	Rm	Rm	Rm	Rm
Securities designated at fair value through income	190 230	76 496	2 730	269 456
Equity securities				
Local listed	43 066	1	1	43 068
Foreign listed	970	-	-	970
Unlisted	-	15	33	48
Debt securities				
Stock and loans to government and other public bodies				
Local listed	20 223	9 827	-	30 050
Foreign listed	-	23	-	23
Unlisted	-	3 680	-	3 680
Other debt instruments				
Local listed	-	18 915	8	18 923
Foreign listed	-	331	-	331
Unlisted	-	21 017	1 604	22 621
Funds on deposit and other money market instruments	-	12 188	-	12 188
Unit-linked investments				
Collective investment schemes ¹				
Local unlisted or listed quoted	89 398	653	-	90 051
Foreign unlisted or listed quoted	36 322	15	65	36 402
Foreign unlisted unquoted	-	415	148	563
Other unit-linked investments				
Local unlisted or listed quoted	251	3 252	21	3 524
Local unlisted unquoted	-	6 164	727	6 891
Foreign unlisted unquoted	-	-	123	123
Investments in associates designated at fair value through income ¹	17 253	-	-	17 253
Investments in subsidiaries designated at fair value through income ¹	64 998	-	533	65 531
Derivative financial instruments - Held for trading	8	2 762	-	2 770
	<u>272 489</u>	<u>79 258</u>	<u>3 263</u>	<u>355 010</u>

¹ Collective investment schemes and Investment in associates and subsidiaries designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

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

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

FINANCIAL LIABILITIES	Level 1	Level 2	Level 3	Total
31.12.2018	Rm	Rm	Rm	Rm
Investment contracts designated at fair value through income	-	224 278	30	224 308
Financial liabilities at fair value through income	-	8 679	-	8 679
Subordinated call notes	-	4 392	-	4 392
Carry positions	-	4 287	-	4 287
Derivative financial instruments	-	2 068	-	2 068
Held for trading	-	2 068	-	2 068
	-	235 025	30	235 055

FINANCIAL LIABILITIES	Level 1	Level 2	Level 3	Total
31.12.2017	Rm	Rm	Rm	Rm
Investment contracts designated at fair value through income	-	233 716	22	233 738
Financial liabilities designated at fair value through income	-	11 006	-	11 006
Subordinated call notes	-	4 381	-	4 381
Carry positions	-	6 625	-	6 625
Derivative financial instruments	-	1 695	-	1 695
Held for trading	-	1 695	-	1 695
	-	246 417	22	246 439

FINANCIAL LIABILITIES	Level 1	Level 2	Level 3	Total
30.06.2018	Rm	Rm	Rm	Rm
Investment contracts designated at fair value through income	-	235 752	25	235 777
Financial liabilities designated at fair value through income	-	8 347	-	8 347
Subordinated call notes	-	4 374	-	4 374
Carry positions	-	3 973	-	3 973
Derivative financial instruments	-	2 013	-	2 013
Held for trading	-	2 013	-	2 013
	-	246 112	25	246 137

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

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

RECONCILIATION OF THE FAIR VALUE OF LEVEL 3 FINANCIAL ASSETS

6 mths to 31.12.2018	At fair value through income					Total Rm
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Investments in subsidiaries Unit-linked investments	
	Rm	Rm	Rm	Rm	Rm	
Opening balance	34	1 612	1 084	-	533	3 263
Transfer from/(to) other asset classes	-	-	-	259	(105)	154
Total (losses)/gains in net realised and fair value gains in the income statement						
Realised (losses)/gains	(3)	15	65	-	(3)	74
Unrealised gains/(losses)	4	(12)	48	8	(26)	22
Accrued interest in investment income in the income statement	-	47	-	-	-	47
Purchases	-	296	488	19	-	803
Sales	(1)	(622)	(210)	-	(62)	(895)
Settlements	-	(79)	(1)	-	-	(80)
Transfers into level 3	-	40	248	-	-	288
Transfers out of level 3	-	-	(85)	-	-	(85)
Closing balance	34	1 297	1 637	286	337	3 591

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

RECONCILIATION OF THE FAIR VALUE OF LEVEL 3 FINANCIAL ASSETS

6 mths to 31.12.2017	Designated at fair value through income				Total Rm
	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Investments in subsidiaries Unit-linked investments Rm	
	Opening balance	101	1 737	2 299	
Total (losses)/gains in net realised and fair value gains in the income statement					
Realised gains	3	11	12	3	29
Unrealised (losses)/gains	(26)	15	82	(13)	58
Accrued interest in investment income in the income statement	-	9	-	-	9
Purchases	-	280	375	31	686
Sales	(38)	(502)	(109)	(42)	(691)
Transfers into level 3	-	389	39	-	428
Transfers out of level 3	-	(228)	-	-	(228)
Closing balance	40	1 711	2 698	337	4 786

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

RECONCILIATION OF THE FAIR VALUE OF LEVEL 3 FINANCIAL ASSETS

12 mths to 30.06.2018	Designated at fair value through income				Total Rm
	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Investments in subsidiaries Unit-linked investments Rm	
	Opening balance	101	1 737	2 299	
Total (losses)/gains in net realised and fair value gains in the income statement					
Realised gains	3	39	868	25	935
Unrealised (losses)/gains	(12)	6	50	32	76
Accrued interest in investment income in the income statement	-	14	-	-	14
Purchases	-	549	1 060	466	2 075
Sales	(58)	(735)	(3 232)	(348)	(4 373)
Settlements	-	(187)	-	-	(187)
Transfers into level 3	-	289	39	-	328
Transfers out of level 3	-	(100)	-	-	(100)
Closing balance	34	1 612	1 084	533	3 263

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions:

At fair value through income						
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Investments in subsidiaries Unit-linked investments	Total
	Rm	Rm	Rm	Rm	Rm	Rm
31.12.2018						
Carrying value	34	1 297	1 637	286	337	3 591
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	10% increase/ (decrease) in unit price	10% increase/ (decrease) in markets	
Effect of increase in assumption	3	(13)	164	29	34	217
Effect of decrease in assumption	(3)	13	(164)	(29)	(34)	(217)
Designated at fair value through income						
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Investments in subsidiaries Unit-linked investments	Total
	Rm	Rm	Rm	Rm	Rm	Rm
31.12.2017						
Carrying value	40	1 711	2 698	-	337	4 786
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	10% increase/ (decrease) in unit price	10% increase/ (decrease) in markets	
Effect of increase in assumption	4	(17)	270	-	34	290
Effect of decrease in assumption	(4)	17	(270)	-	(34)	(290)
Designated at fair value through income						
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Investments in subsidiaries Unit-linked investments	Total
	Rm	Rm	Rm	Rm	Rm	Rm
30.06.2018						
Carrying value	34	1 612	1 084	-	533	3 263
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	10% increase/ (decrease) in unit price	10% increase/ (decrease) in markets	
Effect of increase in assumption	3	(16)	108	-	53	149
Effect of decrease in assumption	(3)	16	(108)	-	(53)	(149)

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

RECONCILIATION OF THE FAIR VALUE OF LEVEL 3 FINANCIAL LIABILITIES

	At fair value through income	
	Investment contracts Rm	Total Rm
31.12.2018		
Opening Balance	25	25
Total unrealised losses in net realised and fair value gains in the income statement	5	5
Closing Balance	<u>30</u>	<u>30</u>

	Designated at fair value through income	
	Investment contracts Rm	Total Rm
31.12.2017		
Opening Balance	35	35
Contract holder movements		
Benefits paid	(13)	(13)
Closing Balance	<u>22</u>	<u>22</u>

30.06.2018

Opening Balance	35	35
Total unrealised losses in net realised and fair value gains in the income statement	2	2
Contract holder movements		
Benefits paid	(12)	(12)
Closing Balance	<u>25</u>	<u>25</u>

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R3.0 million (December 2017: R2.2 million and June 2018: R2.5 million) and R3.0 million (December 2017: R2.2 million and June 2018: R2.5 million) respectively.

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

VALUATION TECHNIQUES USED IN DETERMINING THE FAIR VALUE OF LEVEL 2 FINANCIAL ASSETS AND LIABILITIES

Company's valuation processes

The company's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the company's bi-annual reporting dates.

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
<ul style="list-style-type: none"> Listed, local and foreign 	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
Stock and loans to other public bodies		
<ul style="list-style-type: none"> Listed, local 	Yield of benchmark (listed government) bond	Market input
<ul style="list-style-type: none"> Listed, foreign 	Discounted cash flow (DCF), benchmarked against similar instrument with the same issuer	Market input
<ul style="list-style-type: none"> Unlisted 	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread
Other debt securities		
<ul style="list-style-type: none"> Listed, local 	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
<ul style="list-style-type: none"> Listed, foreign 	Published price quotations, external valuations that are based on published market input	Market input
<ul style="list-style-type: none"> Unlisted 	DCF (market-related nominal and real discount rates, prime and dividend return rate, bank and credit default swap curves, three-month JIBAR plus fixed spread), external valuations	Market input and appropriate spread
Funds on deposit and other money market instruments		
<ul style="list-style-type: none"> Listed 	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
<ul style="list-style-type: none"> Unlisted 	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

Instrument	Valuation basis	Main assumptions
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
Subordinated call notes (Liability)	Price quotations on JSE interest rate market (which are based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input

There were no significant changes in the valuation methods applied since the prior period.

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets				
Securities designated at fair value through income				
Equity securities				
Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
	Mark to model	Adjusted price earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities				
Other debt instruments				
Local listed	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets the greater the fair value
Unlisted	Discounted cash flow	Nominal interest rate	7.95% to 11.42%; 5.45% to 15.40% (December 2017: 7.57% to 11.15%; 7.34% to 15.59%) (June 2018: 7.56% to 11.43%; 6.90% to 15.12%)	The higher the nominal interest rate the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
Unit linked investments				
Collective investment schemes				
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value

MMI GROUP LIMITED – FINANCIAL INSTRUMENTS

Other unit-linked investments					
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value	
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation	
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value	
Investments in associates at fair value through income	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value	
Investments in subsidiaries at fair value through income	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value	

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Financial liabilities				
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability

There were no significant changes in the valuation methods applied since the prior period.