

GROUP CHIEF EXECUTIVE OFFICER'S OVERVIEW

NICOLAAS KRUGER



MOVING FORWARD

In our chairman's letter to shareholders he refers to the successful completion of the MMI merger. The merger integration has been an exciting journey of three years, culminating in the creation of a much stronger entity than its individual component parts. I am very pleased that the merger integration is complete and that we achieved our annual merger-related expense savings of R522 million (R22 million above target). The MMI management team is equally as excited about the opportunity to focus on the stronger new entity's future prospects.

A merger integration with the complexity and size of MMI inevitably has an opportunity cost in respect of management time and focus. Our efforts have been rewarded by a strong foundation for growth and the ability to move beyond the integration phase is in itself something to look forward to. During the past year, we have already been able to spend more time considering the future environment and MMI's strategic response, which resulted in the formulation of a new client-centric strategy, supporting operating model and new operating structure.

GROWTH THROUGH CLIENT-CENTRICITY

A client-centric approach to doing business was already a key theme of the strategy we formulated for MMI shortly after our listing on the JSE on 1 December 2010. Since then, global trends and developments in South Africa have elevated the importance of client-centricity.

Consumer advocacy has increased significantly, fuelled by the increasing role of social media and a much more active and highly informed consumer. Regulatory scrutiny and compliance requirements are becoming more onerous, with a greater emphasis on market conduct, including fairness, the elimination

of conflict of interests and driving professionalism. Rapid technological advances increasingly empower consumers, and make it possible to gain insights into consumer behaviour and needs. New technology makes new client engagement models viable and may change the future distribution landscape.

In response to the above high-level trends, MMI formulated a client-centric strategy comprising the following principles to achieve growth:

- Putting the client at the centre of everything we do
- Providing holistic and lifetime financial wellness solutions
- Creating capability to truly understand the circumstances, needs, preferences and behaviour of clients
- Helping solve society's problem of financial insecurity, under-saving, under-insurance and poor financial literacy
- Maintaining a lean cost base

MMI's new strategy expression is consistent with our previous strategy statements, mirrors these principles and aligns the organisation with the evolving strategic context. We have also given greater prominence to the concept of financial wellness. Our new vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. MMI's strategic focus areas are growth, client-centricity and excellence. All our strategic objectives and the initiatives required to realise these objectives are linked to one of the three strategic focus areas.

NEW OPERATING MODEL

From 1 July 2014, we implemented a new operating model and structure, in support of MMI's new client-centric strategy. The new structure comprises four Client Segment businesses, a Products and Solutions business and a number of group-wide functions.

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The Client Segment businesses focus on understanding the needs of the clients in their respective segments, and constructing appropriate client value propositions based on this understanding:

- Momentum Retail focuses on the upper-income, middle-income and SMME market segments in South Africa
- Metropolitan Retail operates in the lower-income market segment in South-Africa
- Corporate and Public Sector focuses on the corporate and public sector market segments in South Africa
- International is responsible for all MMI's efforts outside of South Africa, including Africa, the United Kingdom and Southeast Asia.

Our Products and Solutions business develops the requisite products to deliver on the Client Segments' respective client value propositions. The MMI Group Executive Committee has been reconstituted accordingly and we have embarked on a comprehensive strategy implementation process.

PROGRESS WITH STRATEGIC OBJECTIVES

The client-centricity theme of our previous strategy has been elevated to the primary driving force of MMI's new strategy. All three our new strategic focus areas (growth, client-centricity and excellence) align with the strategic pillars of the previous strategy. Therefore, our strategic diversification objectives remain fully relevant going forward. We made good progress with MMI's diversification objectives during the past year.

Geographical diversification

Our African business has grown earnings by 13% and we continue looking for acquisitive and organic growth opportunities on the African continent. We successfully concluded the acquisition of Cannon in Kenya. We have also made good progress with building our UK business. We are investigating opportunities in India and have expanded the scope of our investigations to the broader Southeast Asian region.

Product diversification

Short-term insurance represents our main product diversification initiative. Following the acquisition of the remaining 50% stake in Momentum Short-term Insurance, we have built capacity in this business and implemented our own short-term insurance system. We have also acquired Guardrisk, a well-known specialist short-term insurer. We plan to increase our market share significantly in the South African short-term insurance market and have also invested in the ability to provide short-term insurance solutions to our African business.

Segment diversification

MMI's middle-income initiative is our primary segment diversification initiative. The middle-income business was successfully launched in July 2014. We remain optimistic about our strategic goal to increase MMI's representation in the South African middle-income segment.

Channel diversification

The global and local trends in respect of social media and self-direction require new thinking in respect of electronic distribution channels. We have created dedicated functions to ensure we capitalise on these opportunities.

Financial wellness

Financial wellness now holds a central position in MMI's strategy. Our Momentum Retail business leads the practical implementation of financial wellness and already has more than 35 000 registered users for their financial wellness tools and solutions. The third Household Financial Wellness Index (a collaborative effort between Momentum and Unisa) has also been released.

FINANCIAL PERFORMANCE

Our focus on value creation was rewarded with an excellent return on embedded value of 19% over the past year, as well as an increase in the value of new business of 14%. Profits from

operating divisions grew strongly by 22%, while diluted core headline earnings increased by 12% to R3.6 billion. New business sales (on a present value of premiums basis) increased by 18% to R42 billion. All MMI's operating divisions increased their profits, led by Momentum Employee Benefits' increase of 51%.

- The value of new business for Momentum Retail increased by 18%, supported by an increase in sales volumes and the focus on quality risk business. Momentum Retail increased its earnings by 18%, due to strong experience profits, higher asset-based fees and good expense management.
- Metropolitan Retail's value of new business increased by 13%, also driven by good sales growth. Earnings grew by 15% supported by a solid operational performance.
- Momentum Employee Benefits had another excellent year, increasing earnings by 51% and value of new business by 19%. Strong SMME segment inflows helped the value of new business result, while mortality profits and an increase in investment fees supported the earnings increase.
- Metropolitan International continued leading MMI's geographical diversification growth into Africa and increased core earnings by 13%, despite very tough operating conditions. Value of new business reduced marginally to R49 million.
- Momentum Investments was able to increase its earnings by 13% and made progress to put the right investment building blocks in place.

During the year, Fitch Ratings upgraded MMI's credit rating following the successful completion of the merger and kept our outlook at stable.

TRANSFORMATION

There is no doubt that transformation is both a business imperative and an important part of our duty to be a responsible corporate citizen. We are very pleased with our current level 2 contributor level. The revised future Department of Trade and Industry targets will reduce the contributor levels across the financial services industry. We are embracing this challenge and a number of projects are already underway to improve our contributor level in the future.

Thanks

I would like to thank the MMI board, management team and employees for their significant contributions during the past year. In particular, I would like to thank our chairman, JJ Njeke, for his valuable strategic guidance. The completion of the merger is a significant milestone for MMI. We are grateful for the enthusiasm our management team and employees have shown in designing our new future. I would also like to thank our shareholders for their support and especially all MMI's clients for relying on us to deliver on our promises.



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