MARY VILAKAZI
Group finance director

MMI'S established businesses were resilient and performed well in a market where consumer confidence and spending across the board was negatively impacted by low economic growth and difficult economic conditions.

INTRODUCTION

This review provides a high-level overview of the group results. Additional financial disclosure can be found in the group financial statements from page 72 onwards.

GROUP SCORECARD

MMI assesses its operational performance against a set of key performance indicators that are approved and annually reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives.

Short-term deliverables are measured over a period of 12 months and are reviewed on an annual basis. For the financial year ended 30 June 2015, the following set of short-term deliverables applied to the group as a whole:

PERFORMANCE SCORECARD 2015

	Weight	F2015 target	Actual	Achieved
Return on embedded value*	20%	**GDP plus 3%**	10.6%	↔
Value of new business	20%	**R880 million**	R954 million	↑↑↑
Core headline earnings	25%	**GDP plus 3%**	6%	↓↓
Transformation	15%	**FSC score of 75**	91	↑↑↑
Strategic initiatives	20%	**Self-assessment**		↑↑

* *For short-term incentive scorecard purposes, investment variances are excluded from the return on embedded value.*

The above relates to group-wide targets and deliverables. In addition, specific targets are set for individual business units. This report discusses only the financial metrics of the performance scorecard.

The group delivered excellent new business results with an increase of 22% in the value of new business. The return on embedded value (ROEV) of 10.6% (excluding investment variances) is ahead of the group's targeted growth of nominal GDP + 3% (9.2% for the year ended 30 June 2015). Core headline earnings growth for the year to 30 June 2015 amounted to 6%. The main reasons for the lower than expected core headline earnings growth include lower investment market returns well below the long-term expectation, and a significant investment in strategic initiatives, including the adverse impact of Momentum Short-term Insurance claims experience.

GROUP FINANCE DIRECTOR'S REPORT

VALUE of NEW BUSINESS increased by **22%** to **R954 million**

CORE HEADLINE EARNINGS increased by **6%** to **R3.8 billion**

TOTAL DIVIDEND increased by **9%** to **155 cents** per share

The group's performance in terms of each of the key financial metrics in the scorecard, is discussed below:

RETURN ON EMBEDDED VALUE ("ROEV")

Embedded value summary

	12 months to June 2015 Rm	Annualised ROEV %	12 months to June 2014 Rm	Annualised ROEV %
Embedded value at start of period	**39 675**		**35 148**	
Embedded value earnings from operations	**4 317**	**10.9%**	**4 103**	**11.7%**
Value of new covered business	954	2.4%	779	2.2%
Expected return – unwinding of risk discount rate	2 758	7.0%	2 289	6.5%
Operating experience variances	701	1.8%	544	1.5%
Development expenses	(79)	(0.2%)	–	–
Operating assumption changes (including STC allowances)	(17)	0.0%	491	1.4%
Embedded value attributable to investment markets	**309**	**0.8%**	**2 018**	**5.8%**
Investment return on adjusted net worth	664	1.7%	1 063	3.0%
Investment variances	(406)	(1.0%)	1 278	3.6%
Economic assumption changes and exchange rate movements	51	0.1%	(323)	(0.9%)
Embedded value profit from non-covered business	**(832)**	**(2.1%)**	**543**	**1.5%**
Change in strategic subsidiary valuations	(557)	(1.4%)	718	2.0%
Increase in MMI and International holding company expenses	(275)	(0.7%)	(175)	(0.5%)
Return on embedded value	**3 794**	**9.6%**	**6 664**	**19.0%**
Dividends and other capital movements	**(3 139)**		**(2 137)**	
Embedded value at end of period	**40 330**		**39 675**	

The diluted embedded value of the MMI group amounts to R40 330 million (R25.14 per share) as at 30 June 2015. When the payment of dividends and other capital movements (R3 139 million) are added back, then the overall return on embedded value (ROEV) amounts to R3 794 million, an annualised return of 9.6% on the opening embedded value. This is marginally above the targeted return on embedded value of nominal GDP plus 3%, being 9.2% for the year to 30 June 2015.

Significant items impacting on ROEV include excellent value of new business growth and good overall risk experience, which was offset by the negative impacts of poor investment market conditions during the current financial year and write-downs on the directors' valuations of non-covered businesses. The main reason for the write-down of the directors' valuations of non-covered businesses related to the recent loss of certain medical scheme contracts in the Health business.

VALUE OF NEW BUSINESS

Value of new business summary

	APE			PVP			PVP Margin		VNB		
	30 June 2015 Rm	Restated 30 June 2014 Rm	Change	30 June 2015 Rm	Restated 30 June 2014 Rm	Change	30 June 2015 %	Restated 30 June 2014 %	30 June 2015 Rm	30 June 2014 Rm	Change
Momentum Retail	**2 783**	2 515	10.7%	**22 924**	20 434	12.2%	**1.1%**	1.2%	**246**	240	2.5%
Metropolitan Retail	**1 187**	1 191	(0.3%)	**5 117**	4 948	3.4%	**3.6%**	4.8%	**186**	236	(21.2%)
Momentum Employee Benefits	**2 243**	1 568	43.0%	**20 191**	14 491	39.3%	**2.3%**	1.8%	**456**	254	79.5%
International	**430**	348	23.6%	**2 164**	1 866	16.0%	**3.0%**	2.6%	**66**	49	34.7%
Total	**6 643**	5 622	18.2%	**50 396**	41 739	20.7%	**1.9%**	1.9%	**954**	779	22.5%

APE: Annualised new recurring premiums plus 10% of single premiums.

PVP: Present value of future premiums in respect of new business, using the risk discount rate and net of reinsurance.

VNB: Discounted present value of expected future after-tax profits from new business at point of sale, less cost of capital at risk.

The growth in the overall value of new business to R954 million in the current financial year from R779 in the prior year is very pleasing. MMI continues to reap the benefits of scale and diversification in the portfolio composition, following from the merger and acquisitions made in prior years.

The **Momentum Retail** PVP margin of 1.1% at 30 June 2015 is slightly lower than the margin at June 2014. The margin was impacted negatively by a reduction in investment business volumes. There was also a change in mix, away from more profitable guaranteed endowment sales, towards lower margin Wealth lump sum inflows. The positive impact of good recurring risk business has been dampened by the reduction in recurring savings business.

The **Metropolitan Retail** PVP margin of 3.6% at 30 June 2015 represents a significant reduction from the margin of 4.8% at June 2014. The reduction is mainly due to the impact of the significant restructuring in Metropolitan Retail to improve the productivity of the agency force. The positive impact of good expense management was offset by lower than expected sales volumes, partly due to the introduction of the new financial adviser remuneration model. The change in mix away from stop order or salary deduction business, which has good persistency, to debit order business also impacted the margin.

The **Momentum Employee Benefits** PVP margin increased significantly from 1.8% during the prior year to 2.3% at 30 June 2015. The main contributors to this excellent performance are strong sales of large corporate annuity business, good expense management, scale benefits and the positive impact of a large corporate deal written in the last quarter.

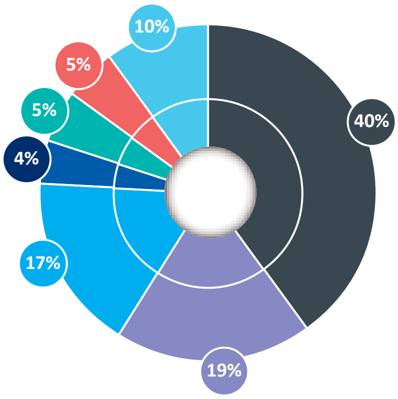
The **International** PVP margin of 3.0% at 30 June 2015 is an improvement from 2.6% at 30 June 2014. The VNB was positively impacted by improved sales in Namibia.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

	June 2015 Rm	June 2014 Rm	Change
Momentum Retail	**1 531**	1 372	12%
Metropolitan Retail	**738**	587	26%
Momentum Employee Benefits	**660**	516	28%
International	**152**	122	25%
Momentum Investments	**181**	197	(8%)
Metropolitan Health	**209**	171	22%
Operating divisions	**3 471**	2 965	17%
Shareholder Capital	**365**	656	(44%)
Total diluted core headline earnings	**3 836**	3 621	6%

CONTRIBUTION TO OPERATING PROFIT

30 JUNE 2015



Momentum Retail	40%
Metropolitan Retail	19%
Momentum Employee Benefits	17%
International	4%
Momentum Investments	5%
Metropolitan Health	5%
Shareholder Capital	10%

The core headline earnings for the operating divisions showed strong growth of 17%, with excellent growth from Metropolitan Retail, Momentum Employee Benefits and Metropolitan Health. Overall core headline earnings growth was more subdued at 6%, largely due to a significant decline in Shareholder Capital earnings.

Momentum Retail's core headline earnings increased by 12% due to the relatively good revenue growth achieved during the current financial year. The increase in revenue from the prior year is largely attributed to growth in the Myriad risk product in-force flows, as well as good investment revenue growth stemming from prior financial year market growth. A significant increase in experience profits in the current year also contributed positively to the year-on-year variance. Current year revenue growth was however partly offset by significant investments in strategic initiatives such as Middle Market, Momentum Consult and the new stockbroking business which includes the recent acquisition of Momentum SP Securities (previously Imara SP Reid).

Metropolitan Retail's core headline earnings increased by 26%, largely due to the higher release of margins on the back of higher asset values in prior years, the one-off impact of phasing in the new sales remuneration model and good expense management. Expenses were very well controlled during the current year, and were below that of the prior year.

The 28% growth in **Momentum Employee Benefits'** core headline earnings can partly be attributed to the inclusion of Guardrisk, which was only included for four months in the prior year. Excluding the impact of Guardrisk, the core headline earnings increased 13% relative to the prior year comparative. The increase from the prior year is largely attributed to the turnaround in the underwriting result of the Income Disability business.

International's increase in core headline earnings of 25% is largely due to an increase in earnings in Namibia and the rest of the Southern region, with good contributions from both the Life and Health businesses in this region. The results from the East African region also improved from the prior year largely due to the inclusion of Cannon (Kenya) results.

Momentum Investment's core headline earnings decline of 8% was adversely impacted by a significant reduction in performance fees and the loss of revenue related to the white labelled collective investment schemes that were transferred out of MMI in July 2014. In addition, net inflows were below expectations while expenses were well controlled.

Metropolitan Health's core headline earnings improved by 22% from the prior year comparative and is largely attributed to the acquisition of CareCross in the current year as well as the reduction of expense levels due to the efficiency initiatives embarked on by management during the second half of 2014. The implementation of various cost saving initiatives throughout the business has had a positive impact on expense levels, which declined marginally relative to the prior year level. Subsequent to the financial year-end, Metropolitan Health, which was party to a competitive tender process regarding the administration contracts of two existing clients, was informed that these two clients had decided not to renew these contracts. The contracts will terminate effective 1 January 2016. We are in the process of assessing the full financial impact of the loss of these contracts on the health business.

The **Shareholder Capital** core headline earnings reduced significantly due to a number of factors. Shareholder capital comprises the following areas:

- Investment income on shareholder assets has shown a decline due to a reduction in the average shareholder asset base. Capital transactions, which reduced the shareholder asset base, include the payment of the R778 million special dividend in October 2014 and the funding of acquisitions during the past year.
- Balance Sheet Management (BSM) results have benefited from enhanced returns on shareholder assets above the benchmark return, as a result of the investment in BEE preference share funding, a new Credit Fund joint venture and other optimisation activities.
- Results of strategic subsidiaries these declined mainly due to the adverse impact of the Momentum Short-term Insurance core headline loss of R169 million in the current year (prior year: loss of R76 million).

CAPITAL MANAGEMENT

South African and global investment markets were under pressure during the reporting period, while business confidence in South Africa also saw a decrease. The economic condition continues to remain volatile and unpredictable. Despite these difficult trading conditions, the group remains satisfactorily capitalised as shown in the current statutory capital adequacy requirement (CAR) covers of the various life businesses, and also evidenced by the fact that the MMI Holdings life entities' solvency requirements are covered 2.7 times, with discretionary margins of R9.8 billion (net of tax).

MMI had a capital buffer of R4.3 billion at 30 June 2015, based on the current economic capital requirements (before SAM). We have also done extensive work to model the impact of the implementation of SAM. We are comfortable that MMI has sufficient capital to comply with SAM, but our capital buffer (after SAM) will be significantly smaller.

On 1 December 2014, MMI Group Ltd (MMIGL) issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes were issued at a floating rate with a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 230 basis points over the three-month JIBAR interest rate. On 15 December 2014, the R500 million subordinated notes issued by Metropolitan Life Ltd in 2006 were redeemed.

Subsequent to the financial year-end, MMIGL successfully completed a further debt capital-raising exercise. MMI Group Ltd subordinated-debt issue received total bids equal to R2 212 million, resulting in a subscription of almost 1.8 times. The allocation of R1 250 million of debt, is as follows:

- R980 million of seven-year fixed rate notes at 273 basis points above risk-free rate;
- R270 million of 10-year fixed rate notes at 305 basis points above risk-free rate.

We participated in the FSB's SAM light parallel run which successfully concluded at the end of 2014. As part of the comprehensive parallel run, which started in January 2015, MMI has successfully submitted all regulatory reports required, implemented the risk and governance requirements as set out in the FSB Board Notice that became effective 1 April 2015, and we are on track with our developments related to the Mock ORSA that will be submitted to the FSB during the second half of the 2015 calendar.

Dividend

MMI's dividend policy is to provide shareholders with relatively stable dividend growth, while allowing the dividend cover to fluctuate. The group's ability to generate strong cash levels has enabled it to continue with its attractive dividend yield.

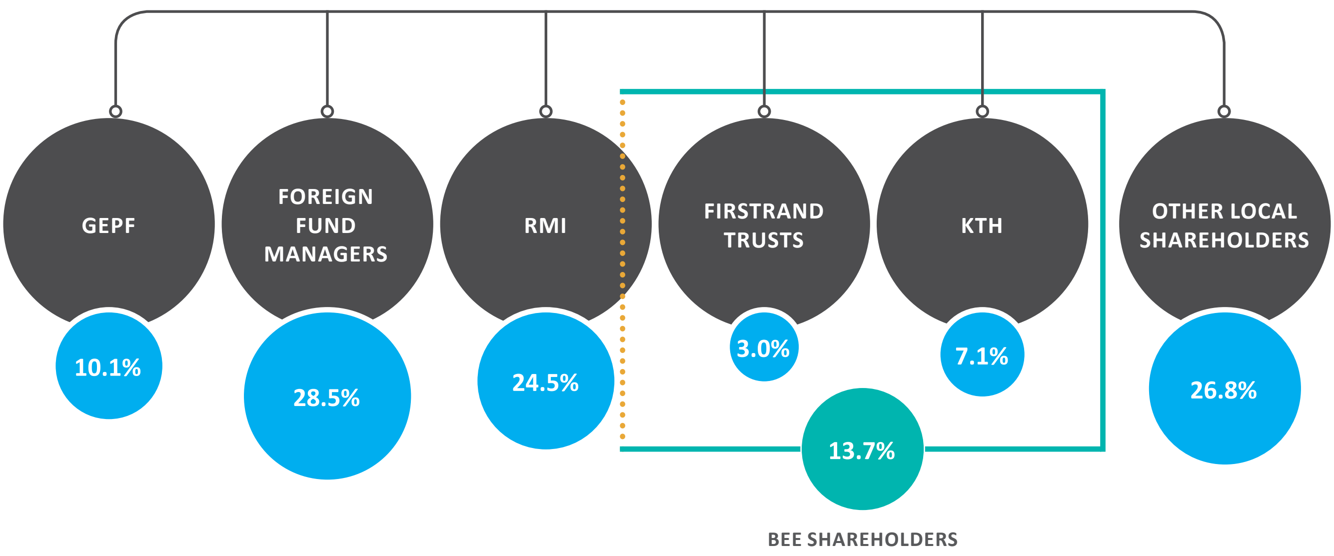
The dividend history table below reflects MMI's commitment to providing shareholders with steady dividend growth. The operational performance of the group over the past 12 months enabled the board to declare a 9% increase in the total dividend to 155 cents per share.

Dividends	2011	2012	2013	2014	2015
Ordinary dividend paid cents per share (cps)	105	113	127	142	**155**
Growth in dividend per share (%)	–	8	12	12	**9**
Dividend cover (times – basic core headline earnings)	1.6	1.7	1.6	1.6	**1.6**
Dividend yield (%)	6.2	6.3	5.7	5.4	**5.1**
Special dividend paid (cps)	21	65		50	

CREATING SHAREHOLDER VALUE

On an embedded value basis, MMI created shareholder value amounting to R3.8 billion during the 2015 financial year. This represents a 9.6% return on embedded value in an environment of poor market returns (the JSE All Share index produced returns of 2% over the period), highlighting MMI's resilience in terms of diversified earnings streams. The embedded value earnings were characterised by excellent risk underwriting results across all divisions. The various group-wide initiatives are starting to contribute to value, most notably Guardrisk, where the group is increasing the amount of risk-taking and gaining market share in the corporate environment.

SHAREHOLDER STRUCTURE



STRATEGIC GROWTH INITIATIVES

In its integrated report for the period ended 30 June 2014, the group announced that R1.9 billion had been earmarked for investments or acquisitions in businesses, which will be complementary to existing ones and its longer-term strategy.

The table below indicates the progress made during the period under review.

Investment made	Size Rm	Equity stake	Type of business
Cannon	308	71%	Kenyan general insurer
CareCross	300	100%	Healthcare
Momentum SP Securities (previously Imara SP Reid)	120	100%	Stockbroking firm

In addition to the above, the group invested an additional R548 million (prior year: R246 million) in organic growth initiatives, including Momentum Short-term Insurance, the Momentum middle-market initiative, client engagement solutions, distribution initiatives and international expansion.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The full results have been prepared in accordance with International Financial Reporting Standards (IFRS); relevant SAICA guides and Pronouncements; JSE Listings Requirements, as well as the South African Companies Act, 71 of 2008. The accounting policies have been applied consistently to all the periods presented, except for any restatements described in the annual financial statements. Critical judgments and accounting estimates are disclosed in detail in the group's integrated report for the year ended 30 June 2015, including changes in estimates that are an integral part of the insurance business. The group is exposed to financial and insurance risk, details of which are also provided elsewhere in this integrated report.

REGULATORY CHANGES

The impact of the introduction of the SAM basis of regulating long-term insurers on the basis of taxation of life companies

During 2016, the Financial Services Board intends to implement Solvency Assessment and Management (SAM), a risk-based supervisory regime for long and short-term insurers. The SAM basis of valuing policyholder liabilities is not necessarily appropriate for tax purposes. The tax authorities have proposed a new valuation method based on International Financial Reporting Standards, with some adjustments for tax purposes. The finer details of the proposal and transitional provisions are being considered by National Treasury.

Retail Distribution Review (RDR)

In November 2014, the FSB issued its proposals for the South African Retail Distribution Review (RDR). The introduction of RDR is expected to have a significant impact on the distribution environment for insurers. The Association for Savings and Investments in South Africa (ASISA) submitted comprehensive feedback on the proposals to the FSB on 23 March 2015. We are pleased that the FSB is following a collaborative approach to the implementation of RDR, similar to that followed for SAM. Six work groups were set up with both FSB and industry representatives to discuss the relevant issues. We expect more clarity on the RDR road map toward the end of the 2015 calendar year.

Taxation – Introduction of the Risk Policyholder Fund

During 2016, a new tax fund, in addition to the existing four tax funds, will be introduced. Risk policies issued after the implementation date will be taxed separately. The new fund will be known as the Risk Policyholder Fund (RPF) and will require extensive adjustments to the group's operational processes. MMI is currently adapting its internal product and operational processes to be ready for the new regime, commencing on 1 July 2017.

LOOKING AHEAD

As MMI broadens its footprint into Africa and other emerging markets we need to remain focused on our client-centric approach to ensure we remain responsive to clients' needs in different territories and markets. While the investment in strategic growth initiatives has an impact on earnings growth in the short term, these investments are key to advance our new strategy, ensuring growth into new markets, further enhancing the financial wellness of our clients and their communities, and to unlock shareholder value over time in an increasingly competitive environment.

Fast-moving progress in technology will require new skills and competencies, which in turn require us to make sure that we stay ahead of the curve. To remain competitive, access to extensive and up-to-date data will be critical as well as tools that will be needed to support, among other, leading actuarial modelling and analysis.

I am pleased to report that MMI is well positioned and equipped to deal with future challenges, which will result in successful outcomes.

CONCLUSION

The past financial year was characterised by the implementation and refinement of MMI's client-centric strategy. As group finance director and member of the executive committee, I am confident and excited about the positive expectations this new strategy holds. The primary focus is to ensure the successful execution of the client-centric strategy.