

REMUNERATION POLICY

MMI's remuneration policy is one of the key components of the group's overall human resources (HR) strategy. It supports the HR strategy by helping to build a high-performance, values-driven culture with a view to capitalising on growth and expansion opportunities, raising the group's levels of innovation and entrenching its entrepreneurial approach to business. The full MMI remuneration policy is available on the MMI website www.mmiholdings.com.

Key elements of MMI's remuneration policy

The Remuneration Committee, which is responsible to the board, oversees the setting and administration of the remuneration policy, subject to constant monitoring and regular review. The full terms of reference of the committee are available on the MMI website www.mmiholdings.com. Directors' attendance at committee meetings is available on page 61. The activities of the committee for the year under review are detailed on pages 54 and 55. The remuneration policy is based fundamentally on the following principles:

- The remuneration policy is aligned with the overall business strategy, objectives and values of the group without being detrimental to the interests of its policyholders.
- Metrics to assess performance will take into account not only the level of achievement, but also the risks taken in achieving that level of performance, ie performance measures will be risk-adjusted where appropriate.
- Employees are offered a competitive total remuneration package, benchmarked to the market.
- All remuneration (guaranteed and variable) is differentiated based on performance.
- Guaranteed remuneration is normally set at the median market level. However, it can be targeted at levels in the upper quartile for key positions where a premium is payable due to the scarcity and/or technical nature of skills.
- Three performance components are appraised, based on a robust performance management system – group, divisional and individual performance.
- Subjective and objective measures are used for individual performance appraisal purposes.
- The policy takes into account the level of accountability (related to the diversity and complexity of decisions made plus the degree of responsibility and/or level of authority involved in the job). Pay bands will take into account the going market rate for the particular job.
- Pay bands are broad and allow flexibility.
- Individuals are remunerated for their unique individual contribution (individual worth), as well as for their contribution to/collaboration in meeting team objectives.
- The short-term incentive (or performance bonus) scheme is used to promote goal attainment (mutually agreed, strategically aligned outcomes/targets that contribute to the successful implementation of the group's strategic business plans) over a one-year period.

- A long-term incentive plan focuses on the realisation of the group's vision for the future and aligning performance with longer-term value-adding objectives over a three-year period.
- Pay-for-performance incentive systems have also been instituted based on predefined quantitative and qualitative measures.
- The remuneration of employees in the risk and compliance functions is determined independently of the various divisions in MMI, with performance measures based principally on the achievement of their function's current objectives.
- Incentives are based on targets that are stretching, verifiable and relevant. Multiple performance measures are used to avoid manipulation of results or poor business decisions.
- Incentive awards are made on a sliding scale to avoid an "all or nothing" vesting profile and start at a level that is not significant in comparison with base pay. Full vesting requires significant value creation.

Areas reviewed by Remuneration Committee in 2015

Based on a best practice review and recommendations from an independent remuneration consultant, namely PwC Reward Services, the Remuneration Committee considered and approved the following –

Minimum shareholding requirements

The introduction of a minimum shareholding requirement is intended to encourage executive directors to retain vested shares received in terms of the long-term incentive plan (LTIP) and to be personally invested in the company, thus increasing executive ownership and encouraging alignment between executive and stakeholder interests.

The introduction of the minimum shareholding requirement is in line with emerging best practice in South Africa, and is in line with international corporate governance standards.

The approved minimum shareholding requirements provide that:

- For the CEO: 150% of the value of his guaranteed remuneration should be held as MMI shares.
- For other executives: 50% of the value of their guaranteed remuneration should be held as MMI shares.
- A period of five years is provided to enable the CEO and executives to build up the required shareholding.
- Shareholding should be built up using the proceeds of the LTIP upon vesting to purchase MMI shares.
- The Remuneration Committee will monitor levels of shareholding and compliance with the minimum shareholding requirements.

Review of MMI's long-term incentive


LTIP with longer vesting period

- In line with MMI's operating structure and its client-centric strategy the need was recognised for one-off LTIPs with a longer vesting period of five years.
- Vesting of the one-off LTIP is dependent on the group's return on embedded value (ROEV), measured against the country's growth in gross domestic product (nominal GDP).

The targeted ROEV is nominal GDP growth + 6% per annum. This was chosen as the performance metric as it supports MMI's cumulative client embedded earnings targets.

Review of vesting quantum and performance conditions for vesting

For the annual LTIP awards the stretch vesting of 250% was amended to allow for 200% vesting at stretch. The performance conditions for the LTIP were reviewed and amended as follows:

Prior performance condition	Current performance condition
 Target ROEV of nominal GDP growth + 3% per annum (100% vesting)	Target ROEV of nominal GDP growth + 3% per annum (100% vesting)
Stretch ROEV of nominal GDP growth + 3% per annum PLUS relative ROEV measure, namely: ROEV outperformance compared to four other financial services companies (250% vesting)	Stretch ROEV of nominal GDP growth + 6% per annum (200% vesting)
<p>The relative ROEV measure applicable to prior years was removed by the Remuneration Committee and replaced by an absolute ROEV measure. This was done after the Remuneration Committee carefully considered the concerns posed by the relative ROEV measure, such as:</p> <ul style="list-style-type: none"> • The comparator group is considered too small, and the comparator companies were not considered adequately comparable to MMI and its business model. • Testing of the relative performance measure was considered to be a complex exercise. • The market is moving away from relative performance measures towards absolute performance targets. 	

Remuneration structure

Guaranteed remuneration/package

- The key objective is to provide the base element of remuneration that reflects the person's role/position at MMI and is payable for doing the expected job.
- Guaranteed remuneration is paid monthly on a cost to company basis.
- Guaranteed remuneration is generally targeted at the median/50th percentile level.
- Guaranteed remuneration is normally benchmarked against the financial services market.
- Guaranteed remuneration is set at a level that aligns with expected operational performance.
- All employees, including executive directors, managing executives, heads of control functions and other employees, who may have a material impact on the risk exposure of MMI, are eligible for the guaranteed remuneration.

MMI's short-term incentive (performance bonus) scheme

The group's key short-term incentive scheme is a non-guaranteed performance bonus, paid annually as a percentage of an individual's total guaranteed remuneration package.

Why a performance bonus?

- Performance bonuses are awarded for the attainment of preset, business-aligned performance objectives.
- Bonuses serve as both motivation and reward for scheme participants who achieve or exceed these performance objectives.

Who qualifies for a performance bonus?

- All employees are eligible to participate in the performance bonus scheme.

What performance objectives have to be met?

- Performance objectives are set at three levels: group, divisional and individual.
- To strengthen the link between pay and individual performance, strategic objectives, as set out in the group and divisional operating plans, are translated into individual goals, including knowledge, skills and competence to be acquired.
- Individual goals are agreed upfront, ie at the start of each performance period.

Who approves the performance objectives?

- All group and divisional targets have to be approved by the Remuneration Committee of the board.
- Individual goals/targets have to be agreed with the employee's line manager or team leader.

How is performance appraised?

- The group and divisional components of performance are appraised based on a balanced scorecard comprising metrics of a financial and non-financial nature. The same metrics apply in part to individual performance in line with the individual's level of accountability.
- Group performance is evaluated by the Remuneration Committee, divisional performance by the group chief executive officer and individual performance in terms of MMI's performance management system.

How are performance bonuses paid?

Provided all relevant group, divisional and personal performance criteria are met, performance bonuses are determined annually and paid as set out below:

- Performance bonuses above a certain threshold level are paid out in two tranches, depending on the overall amount involved. Bonuses below the threshold level are paid in cash by way of a lump sum payment once the bonus has been determined.
- Performance bonuses above a certain second threshold are paid out in three tranches with a percentage of the final tranche deferred into retention units of the long-term incentive plan, vesting after two years.
- Bonus amounts not yet paid can be withheld if the performance of the group, division or individual deteriorates significantly prior to the payout dates of the remaining tranches.

Long-term incentive plan (LTIP)

- The purpose of the LTIP is to attract, motivate, reward and thus help in retaining employees who are able to influence the performance of the group on a basis that aligns their interests with those of the group's shareholders.
- The LTIP is a cash-settled share scheme. On vesting participants are paid a cash amount, calculated using the value of a MMI Holdings Ltd share on the JSE.
- Each tranche of shares (allocated on an annual basis) contains a combination of performance (acting as a performance driver) and retention (acting as a retention mechanism) units, all of which vest after three years.

- For each tranche of shares, performance criteria are measured and averaged over the three-year vesting period, thus eliminating short-term fluctuations and focusing on long-term value creation.
- The primary metric under the LTIP is the group's ROEV, measured against the country's growth in nominal GDP. The targeted ROEV is nominal GDP growth + 3% per annum (100% vesting at this target) and the stretch target for ROEV is nominal GDP growth + 6% per annum (200% vesting at stretch).
- ROEV is a risk-cognisant metric, because it references economic and other capital consumed by the business. Economic capital is determined on a risk-based manner.
- The vesting of performance units is determined in accordance with performance levels, namely threshold performance (30% vesting), target performance (100% vesting) and stretch performance (200% vesting).
- The Remuneration Committee may, at its sole discretion, waive or amend the performance criteria for performance units should extraordinary circumstances arise.
- If the Remuneration Committee deems it appropriate, the performance criteria for the award of future performance units may be different, taking into account the prevailing economic conditions.

Balanced scorecard

The balanced scorecard incorporates five key performance indicators/metrics of which all are reviewed annually.

For 2015, the following metrics applied:

- Three financial metrics
 - Core headline earnings
 - ROEV
 - Embedded value of new business
- Two non-financial metrics
 - Strategic projects
 - Transformation (FSC scorecard)

MMI's scorecard contains the group's objectives. In addition to that, each division has its own scorecard that aligns with the group scorecard, but contains division-specific targets and objectives.

Meeting the group's objectives is paramount. Performance against the group's targets determines the size of the aggregate bonus pool. The performance of each division against its scorecard determines how the aggregate bonus pool is allocated between divisions.

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.

STRATEGIC INITIATIVES

The strategic initiatives listed below have been identified as essential to the ongoing success of MMI. They have been included to ensure that the focus of the scorecard is not exclusively on short-term profitability but gives due recognition to initiatives expected to add value over the longer term by improving the group's strategic positioning in areas other than purely financial:

- Expand the middle-market business (client solutions and distribution channels) in line with the group's strategy.
- Implement appropriate strategies in terms of merger and acquisition capabilities.
- Enhance geographical diversification in Africa, India and Southeast Asia by implementing agreed-upon strategies.

- Implement MMI's growth strategy for short-term insurance.
- Establish and implement an integrated Financial Wellness and Rewards capability.
- Align operating structure to the group's client-centric strategy.

TRANSFORMATION

Overall B-BBEE scorecard

The Financial Sector Charter (FSC) takes into account the various pillars of broad-based black economic empowerment, including all labour and transformation-related policies and practices: eg ownership, employment equity, skills development, procurement, socio-economic development and enterprise development.

LONG-TERM INCENTIVE SCHEME (PERFORMANCE TO DATE)

Return on embedded value (ROEV)	Target (GDP+3%)	ROEV*
Notional shares issued 2012 and vesting 2015		
Annualised performance for the 36 months 1 July 2012 to 30 June 2015	10.4%	15.2%
Notional shares issued 2013 and vesting 2016		
Annualised performance for the 24 months 1 July 2013 to 30 June 2015	10.2%	14.2%
Notional shares issued 2014 and vesting 2017		
Annualised performance for the 12 months 1 July 2014 to 30 June 2015	9.2%	9.6%

* Average annualised percentages, measured since inception of each tranche up to 30 June 2015.

DISCLOSURE OF DIRECTORS' REMUNERATION

King III and the Companies Act require that the individual remuneration of all prescribed officers should be disclosed. The identified prescribed officers of MMI are Nicolaas Kruger, Ngao Motsei and Preston Speckmann. Their remuneration is set out on pages 66 to 68.



Details of the remuneration of executive and non-executive directors are provided on pages 66 to 68.



DIRECTORS' EMOLUMENTS

Non-executive directors are paid an all-inclusive retainer, which is annually benchmarked by participation in various market surveys. The non-executive directors' fees are not linked to the performance of the company in any way.

REMUNERATION REPORT CONTINUED

DIRECTORS' EMOLUMENTS

Directors	Months		Fees R'000		Salary R'000		Performance bonus R'000	
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014
Nicolaas Kruger	12	12	–	–	5 562	5 082	5 404	7 104
Wilhelm van Zyl ¹	–	12	–	–	25 000	4 695	–	6 256
Preston Speckmann ⁵	12	12	–	–	4 485	3 270	2 758	3 798
Ngao Motsei ⁶	12	12	–	–	12 489	1 897	2 014	2 027
Morris Mthombeni ²	–	–	–	–	–	4 107	–	–
Ben van der Ross	12	12	1 553	1 097	–	–	–	–
Blignault Gouws ³	–	5	–	868	–	–	–	–
Fatima Jakoet	12	12	1 155	1 456	–	–	–	–
Frans Truter	12	12	2 302	2 249	–	–	–	–
Jabu Moleketi	12	12	819	683	–	–	–	–
JJ Njeke	12	12	1 681	1 604	–	–	–	–
Johan Burger	12	12	1 169	1 043	–	–	–	–
Johan van Reenen	12	12	910	850	–	–	–	–
Khehla Shubane	12	12	731	614	–	–	–	–
Leon Crouse	12	12	732	652	–	–	–	–
Louis von Zeuner	12	6	1 442	518	–	–	–	–
Mary Vilakazi ⁴	–	5	–	907	–	–	–	–
Niel Krige	12	12	581	543	–	–	–	–
Sizwe Nxasana	12	12	822	839	–	–	–	–
Syd Muller	12	12	1 262	1 215	–	–	–	–
Vuyisa Nkonyeni	12	12	761	739	–	–	–	–
			15 920	15 877	47 536	19 051	10 176	19 185

Directors	Long-term incentive payments		Expense allowances R'000		Pension fund R'000		Total R'000	
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014
Nicolaas Kruger	13 380	12 339	–	–	319	298	24 665	24 823
Wilhelm van Zyl ¹	–	12 364	–	–	–	343	25 000	23 658
Preston Speckmann ⁵	5 295	7 728	–	–	225	207	12 763	15 003
Ngao Motsei ⁶	2 792	–	–	–	319	288	17 614	4 212
Morris Mthombeni ²	–	–	–	–	–	–	–	4 107
Ben van der Ross	–	–	–	–	–	–	1 553	1 097
Blignault Gouws ³	–	–	–	–	–	–	–	868
Fatima Jakoet	–	–	–	–	–	–	1 155	1 456
Frans Truter	–	–	–	–	–	–	2 302	2 249
Jabu Moleketi	–	–	–	–	–	–	819	683
JJ Njeke	–	–	–	–	–	–	1 681	1 604
Johan Burger	–	–	–	–	–	–	1 169	1 043
Johan van Reenen	–	–	–	–	–	–	910	850
Khehla Shubane	–	–	–	–	–	–	731	614
Leon Crouse	–	–	–	–	–	–	732	652
Louis von Zeuner	–	–	–	–	–	–	1 442	518
Mary Vilakazi ⁴	–	–	–	–	–	–	–	907
Niel Krige	–	–	–	–	–	–	581	543
Sizwe Nxasana	–	–	–	–	–	–	822	839
Syd Muller	–	–	–	–	–	–	1 262	1 215
Vuyisa Nkonyeni	–	–	–	–	–	–	761	739
	21 467	32 431	–	–	863	1 136	95 962	87 680

¹ Resigned 30 June 2014 (included in the salary figure is a loss of office payment of R25 000 000)

² Resigned 31 August 2012 (included in the salary figure is a loss of office payment of R4 106 521)

³ Resigned 27 November 2013

⁴ Resigned 27 November 2013

⁵ Resigned 30 June 2015

⁶ Resigned 30 June 2015 (included in the salary figure is a loss of office payment of R10 000 000)

EXECUTIVE DIRECTORS' INCENTIVISATION

	MomCSP ¹		MMI LTRAS ²	
	N Kruger	N Kruger	W van Zyl	P Speckmann
	'000	'000	'000	'000
Units in force at 1 July 2013 (thousands)	30	458	489	305
Units exercised/released during year (thousands)	(30)	(458)	(489)	(305)
Market value of range at date of exercise/release	2 515	2 530	2 530	2 530
Units in force at 30 June 2014 (thousands)	–	–	–	–
Units in force at 30 June 2015 (thousands)	–	–	–	–

¹ Momentum Conditional Share Plan (MomCSP)

² MMI Long-term Retention Award Scheme (MMI LTRAS)

	MMI LTIP ³							
	N Kruger		W van Zyl		P Speckmann		N Motsei	
	Retention	Performance	Retention	Performance	Retention	Performance	Retention	Performance
	units	units	units	units	units	units	units	units
	'000	'000	'000	'000	'000	'000	'000	'000
Units in force at 1 July 2013 (thousands)	112	742	95	498	68	271	37	150
Units granted during year (thousands)	50	333	42	222	30	120	29	117
Granted at prices ranging between (cents)	2 444	2 444	2 444	2 444	2 444	2 444	2 444	2 444
Units in force at 30 June 2014 (thousands)	162	1 075	137	720	98	391	66	267
Units granted during year (thousands) ⁴	155	405	–	–	63	135	33	85
Granted at prices ranging between (cents)	2 826 – 2 833	2 833	–	–	2 826 – 2 833	2 833	2 826 – 2 833	2 833
Units exercised/released during year (thousands)	(61)	(398)	–	–	(36)	(146)	(19)	(77)
Market value of range at date of exercise/release	2 907	2 907	–	–	2 907	2 907	2 907	2 907
Units cancelled/lapsed during year (thousands)	–	–	(137)	(720)	–	–	(80)	(275)
Units in force at 30 June 2015 (thousands)	256	1 082	–	–	125	380	–	–

³ MMI Long-term Incentive Plan (MMI LTIP)

⁴ For performance units, this represents 100% of the units granted. The actual number of units that will ultimately vest will depend on the extent to which the performance criteria are met at the end of the vesting period.

REMUNERATION REPORT CONTINUED

Units outstanding (by expiry date) for the MMI LTIP are as follows:

	N Kruger		W van Zyl		P Speckmann		N Motsei	
	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000
2015								
Financial year 2015/2016	57	381			35	139		
Financial year 2016/2017	145	337			60	121		
Financial year 2017/2018	54	364			30	120		
Total outstanding shares	256	1 082	–	–	125	380	–	–
2014								
Financial year 2014/2015	61	399	51	268	36	146	19	77
Financial year 2015/2016	53	359	45	240	33	130	19	76
Financial year 2016/2017	48	317	41	212	29	115	28	114
Total outstanding shares	162	1 075	137	720	98	391	66	267

	MMI OP ⁵ N Kruger Performance units '000
2015	
Units in force at 30 June 2014 (thousands)	–
Units granted during year (thousands) ⁴	1 498
Granted at prices ranging between (cents)	2 833
Units in force at 30 June 2015 (thousands)	1 498

⁴ For performance units, this represents 100% of the units granted. The actual number of units that will ultimately vest will depend on the extent to which the performance criteria are met at the end of the vesting period.

⁵ MMI Outperformance Plan (MMI OP)

Units outstanding (by expiry date) for the MMI OP are as follows:

	N Kruger Performance units '000
2015	
Financial year 2018/2019	899
Financial year 2019/2020	599
Total outstanding shares	1 498