Momentum Retail

Momentum Retail offers a wide range of financial solutions to middle and affluent market segments.

Our product range spans all major insurance lines (life, disability, health, motor, property, and all-risks) and a wide range of savings and investment products. We differentiate our business through the quality of our advice channels and our commitment to high levels of client engagement to encourage our clients to make choices that optimise their financial and physical wellness.

Momentum Retail presently has 1.1 million clients who hold two million separate products. Our most popular product solutions are retirement savings and life insurance, both with around 500 000 policies in issue. Our fastest growing product segments are our open medical scheme (Momentum Health) and motor insurance sold by Momentum Short-term Insurance. Momentum Retail continuously scores high for client service and we are proud of the dedication of our 500 client service employees. Momentum Health recently took first place in the Product Supplier of the year – Healthcare category at the Financial Intermediaries Association Awards.

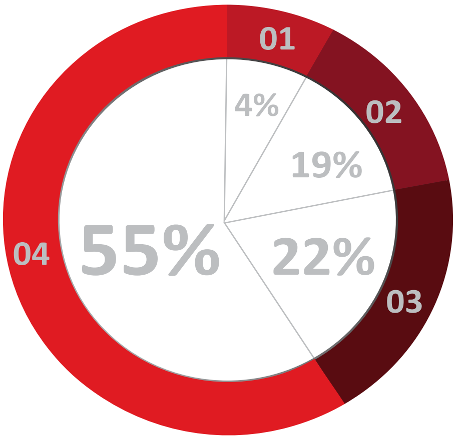
Khanyi Nzukuma
Chief executive Momentum Retail

"Momentum Retail presently has 1.1 million clients who hold two million separate products. Our most popular product solutions are retirement savings and life insurance, both with around 500 000 policies in issue."

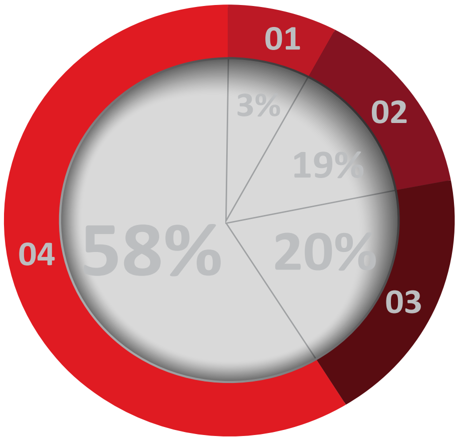
We secure roughly 55% of our new business through independent financial advisor (IFA) channels, with the remaining 45% secured predominantly through our agent channels. We also secure small volumes of new business through call centres and online channels. While we are pleased with our strong IFA market share, we are bolstering this channel with a greater presence in the agent channels and in alternative channels; we currently have 800 agents operating under the Momentum brand, a number that we plan to double in the next four years. The average productivity of Momentum agents is well above industry averages, but our sales force is too small when compared to our main competitors. We also believe that our client engagement strategy ("recipe for success") is best delivered through distribution channels where we control the advice model.

Momentum Retail is closely associated with Multiply, our client engagement programme. At present, 80 000 Momentum Retail clients have activated Multiply, which increases to 130 000 lives if we include the spouses of clients who also enjoy Multiply benefits. Clients who have Multiply active on their policies enjoy premium discounts, partner rewards, and access to personal financial management tools. The scope of the discounts and partner rewards is a function of their Multiply status, which is in turn driven by positive physical (such as exercise) and financial (such as seeing a financial planner) behaviours by the client.

New business mix F2017



New business mix F2016



We plan to grow our Multiply membership significantly over the coming years. We are already seeing around 40% of new risk and savings business coming in with Multiply activated as part of the advice and sales process.

The figure above shows the split of sales volumes and new business profit by product segment (for covered business – ie business written on the life insurance licence).

Financial performance

As shown on the following page, all our profits still stem from our core life insurance operations. We are making significant investments to build competitive short-term insurance and health insurance operations, which should lead to more diversified earnings streams in due course. We also believe that we are currently not operating at our potential market share in the investments and savings space, where we aim to get traction through our Outcomes-based Investment offering.

Profits from life insurance underwriting activities have declined year-on-year due to higher than expected discounts offered to Myriad clients and a strengthening of the reserves.

Investment and annuity products reflect profits mainly from "spread business"; as such, decent credit spread income aided the result. The large volumes of guaranteed endowments sold in F2016 means that the asset base on which the spreads are earned are significantly higher in F2017 than previously. We also experienced positive mortality variance on the annuity book. The substantial decline in other life profits reflects the approximate R100 million discretionary margin releases of F2016 not recurring in the current year. Most of these discretionary margins relate to legacy books of business, and the releases of these liabilities flow through as part of the legacy profits. Besides the distortion from discretionary margin releases, the earnings were also negatively affected by lower profits on some savings plans with loyalty bonus features where we are now accruing more accurately for the future cost of these bonus features.

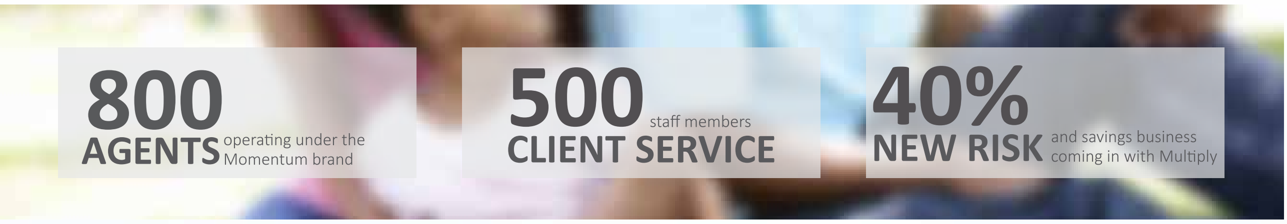
The non-covered Investment and Savings relates largely to our Momentum branded unit trust operations and part of the Momentum Wealth platform earnings. While Momentum SP Reid also reports as part of Momentum Retail, its contribution remains small. The earnings of Investment and Savings have declined due to weak asset growth, which in turn is a function of both muted investment markets and small net client outflows. We are also investing in the Momentum Wealth platform to improve the client and advisor experience, which has added to expenses for the year.

Health scheme administration refers to the Momentum Health open scheme, which has grown by more than 20 000 families in the past year to over 150 000 as of June 2017. The fast growth comes through in the narrowing of the losses for the health scheme; however, the scheme is still some way from operating at full scale, particularly with respect to distribution costs. Our short-term insurance business, Momentum Short-term Insurance, has grown the number of policyholders from 50 000 in June 2016 to 55 000 in June 2017. Similarly to Momentum Health, the short-term insurance business operates in an environment which is static, and as such, we are pleased with the double digit growth rates achieved by both operations. Momentum Short-term Insurance’s losses are tracking to business plan, the increase in the loss shown below is due to the write off of the deferred tax asset in our short-term insurance administration company (MSTIA) largely offset by improved claims experience. Loss ratios are reducing as the book matures towards the ultimate loss ratios. The claims ratio for F2017 came in at 73% compared to 82% in F2016. We are particularly pleased that vintage curves for the claims ratios show that each subsequent update of our rating model is generating an improved claims experience.

Client Engagement Solutions’ loss of R66 million is Momentum Retail’s share of the expenses incurred in that Centre of Excellence. Although Multiply is the most visible component of Client Engagement Solutions, the programme is close to

Segmental **reviews** (continued)

Core headline earnings	**F2017**	**F2016**	**Year-on-year (%)**
Pure risk products (Myriad)	289	343	(16)
Investment and annuity products	418	305	37
Other life products (including legacy)	760	956	(21)
Life profits	**1 467**	**1 604**	**(9)**
Investment and savings	61	136	(55)
Health scheme administration	(29)	(43)	33
Short-term insurance	(162)	(151)	(7)
Client Engagement Solutions	(66)	(53)	(25)
Momentum Retail core earnings	**1 271**	**1 493**	**(15)**



self-funding. The R66 million loss mainly reflects significant investments into capabilities to differentiate Momentum from its competitors. We are particularly excited by the possibilities of the capabilities relating to data analytics, personal finance management tools, money management solutions, and significant improvements in how we leverage technology to enhance both the client and advisor experience.

In terms of embedded value profits, new business profits are down year-on-year and this was driven by lower new business volumes as well as a change in mix to lower margin products. The impact of the lower volumes was limited to some extent by changes in the risk assumptions and good expense management. The "unwind of the discount rate" item increased marginally due to the growth in the in-force book being offset by the run-off of the closed book business and corporate reserves. Experience variances declined year on year, mainly due to premium discounts offered to Multiply clients, strengthening of the reserves as well as lower critical illness and income protection profits. This decline was offset to some extent by positive expense variances, mortality profits and lump sum disability profits. Assumption changes contributed significantly to the EV earnings and relates to our actual morbidity experience being better than the current basis. The implementation of the yield curve in the valuation basis versus the previous point estimate also had a large positive impact, especially on our Myriad product. Investment income on shareholder funds has been relatively stable but the poor performance of investment markets severely impacted our expected future fees on investment business resulting in the large negative investment variance. The sharp decrease in the non-covered earnings reflect a lower directors valuation of our investment subsidiaries.

Embedded value profit (Rm)	**F2017**	**F2016**	**Year-on-year (%)**
New business profit	228	251	(9)
Unwind of discount rate	1 465	1 423	3
Experience variance	–	284	< (100)
Assumption Changes	537	(140)	> 100
Operating EV Profit	**2 230**	**1 818**	**23**
Investment income on net worth	269	269	–
Investment variance	(932)	(91)	< (100)
Economic assumption changes	(54)	(87)	38
Covered EV profit	**1 513**	**1 909**	**(21)**
Non-covered earnings	(479)	479	< (100)
Embedded value profit	**1 034**	**2 388**	**(57)**

Looking ahead

We are investing money and management time in the two primary areas of distribution and client engagement. We will continue to support both independent and agent/captive channels, but our way of working will change significantly in both channels going forward. We plan to recruit aggressively for agents who are aligned to our client engagement model, which will see those agents operating more consistently with our "Success Recipe for Financial Wellness" over time.

We are investing significant resources (in both people and technology) to move towards a model that seeks to maximise a client's Financial Wellness rather than product sales. One example of a tool that we are providing to our clients is the Financial Wellness wheel (see below), which pulls client data from various internal and external databases to provide an almost real-time view of their current financial plan. The wheel is available to both the client and the financial advisor, and helps them decide on the next steps in the financial planning process. Over time, the wheel will evolve to provide "next best opportunity" advice for our clients in optimising their Financial Wellness.

Besides our focus on making client engagement simple and seamless, we are assessing how we remunerate financial advisers operating under the Momentum brand. We are investigating broadening remuneration beyond selling to include the agent's success in further engaging clients through the Multiply programme and other Financial Wellness offerings.

We are also assessing our processes and practices in the independent distribution channel to encourage independent intermediaries to choose Momentum as their preferred partner. The revised model will need to work for intermediaries that fully embrace our engagement strategy and those that only want to use us as a product provider.

In addition to the distribution channel changes and the launch of the Financial Wellness wheel, we are introducing new value-added solutions and services in the coming year, including:

- Money Management – a personal financial management tool offering convenient budgeting tools and spending and savings tips.
- Safe Dayz – a feature on Momentum Short-term Insurance that rewards policyholders for responsible driving behaviour monitored via telematics.
- An online self-fulfilment capability for risk products – where purchases can be completed online rather than being directed to call centre.
- Multiply integration on investment and savings products.
- An improved website for both Momentum and Multiply.
- World-class mobile applications for clients to interact with us.

Despite the tough economic conditions and subdued earnings, Momentum Retail continues to focus on client experience and product enhancements that will improve our position in the middle and affluent market segment in the coming years.

Metropolitan Retail

Metropolitan Retail has 2.2 million clients across South Africa and across all industries.

In servicing its market for over a century, Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments. Metropolitan Retail's most popular products include funeral plans, savings policies, underwritten life cover policies, and annuities. Our funeral plans are low sum insured whole life policies designed to pay for funeral costs, and our success in this area has been achieved through our business model where underwriting is limited at inception and where claims can be paid out quickly. To extend our distribution channels and expand our solutions basket, Metropolitan recently partnered with African Bank to offer insurance and lending products to the existing Metropolitan client base. African Bank and Metropolitan only have about 20% existing client overlap based in the same segment they serve, which illustrates an upside on client acquisition for Metropolitan.

Khanyi Nzukuma
Acting chief executive Metropolitan Retail

> "We have recently rolled out a number of modernised branches and plan to reinvigorate our branch sales through further refurbishments and opening additional points of presence."

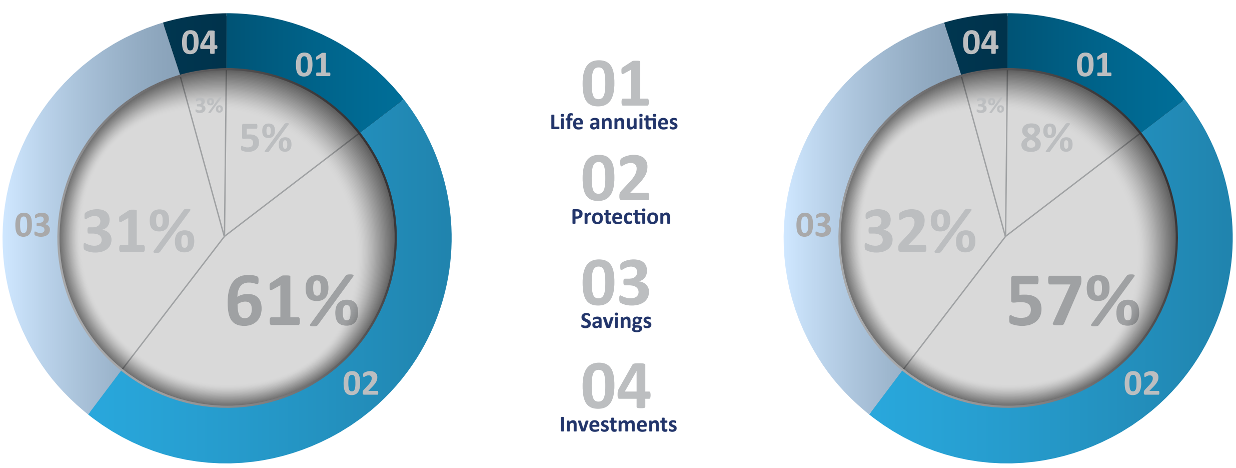
Metropolitan Retail has 2.2 million clients across South Africa and across all industries. There is a historical bias in our business towards serving public servants (such as teachers, nurses and the army) but our success in expanding our agent footprint and worksite presence is giving us greater traction in the private sector. At present, more than 80% of our clients hold only one Metropolitan product, making improved cross-sell one of the key priorities for the business. We are also proud of the quality of our client service. The South African Customer Satisfaction Index (SAcsi) results showed Metropolitan as the best insurance brand in South Africa for 2015 and 2016 in terms of customer service.

About 78% of our business is secured through our own agents. Our agency force consists of field agents, telesales agents and supporting brokers, totalling 5 395. The field agents operate across 360 branches (with more than 360 branch managers looking after the large and widespread teams) and we have more than 110 unique points of presence across the country. We have recently rolled out a number of modernised branches and plan to reinvigorate our branch sales through further refurbishments and opening additional points of presence. Through our African Bank partnership, an additional 390 sales points/kiosks will open up for Metropolitan through our partner's branch network.

A key strategy to modernise our channels has been to align MMI's Financial Wellness strategy by transitioning our channels into an Omni-channel that focuses on life goal financial planning instead of product push. We are

New business mix F2017

New business mix F2016



transitioning our processes and systems into one integrated system that will facilitate client engagement for sales and service across all channels, whether it is face-to-face, contact centres or web portals and mobi devices. The focus will be to create sustainable, long-term relationships with each client interaction. We are also modernising all our processes by removing all paper.

Figures above show the split of sales volumes by product segment. In the last year there has been a shift from annuity to protection business, the reason for this is twofold. The agent headcount has grown substantially during the last year and new agents tend to sell more protection business. Also from 1 March 2016, the compulsory preservation limit increased from R75 000 to R247 500. This signifies that members who retire with savings less than R247 500 are no longer obliged to invest their money in compulsory annuities, but are allowed to take the full amount in cash.

Financial performance

Almost all Metropolitan Retail's earnings are from life insurance activities – from underwriting death and disability risk, and from managing client assets held through endowment policies and personal pension policies (known as retirement annuities). The small loss shown as "Other" reflects our share of development costs around Multiply and Short-term Insurance. We believe that the lending joint venture recently launched with African Bank will result in growing non-covered earnings over the coming few years.

The biggest earnings driver was our "Legacy" book, which includes many of the older generation savings products and most of the universal life profits for Metropolitan. While the in-force expected profit on that book is shrinking slowly, profits from the annuity book improved partially due to favourable annuitant mortality experience. The credit risk variance for the period was also pleasing.

However, risk profits were down year-on-year, with lower profits reflected in three main items:

- The lapse experience weakened over the past year, moving from a small profit in F2016 to a small loss in F2017.
- The profit share arrangements on some group schemes have changed from an as-and-when basis to an upfront mechanism, which increases new business strain on these arrangements.
- As the risk book grows relative to other lines of business, it carries a larger share of overall segment expenses, with the increase in expense allocations resulting in weaker expense variance compared to what was achieved in the prior period. This can be considered as a contra-entry to the strong expense variances on Legacy products for the period.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Pure risk products	251	325	(23)
Investment and annuity products	124	105	18
Other life products (including legacy)	310	293	6
Life profits	**685**	**723**	**(5)**
Other	(25)	(23)	(9)
Metropolitan Retail core earnings	**660**	**700**	**(6)**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	178	191	(7)
Unwind of discount rate	578	535	8
Experience variance	20	81	(75)
Assumption changes	184	82	> 100
Operating EV profit	**960**	**889**	**8**
Investment income on net worth	157	155	1
Investment variance	(193)	41	< (100)
Economic assumption changes	(14)	(85)	84
Covered EV profit	**910**	**1 000**	**(9)**
Non-covered earnings	6	(84)	> 100
Embedded value profit	**916**	**916**	**–**

For embedded value profits, new business profits have declined slightly, which largely reflects a deterioration in early duration lapses, commission currently growing by more than volumes and a change in the mix of risk business sold. The "unwind of discount rate" line item has increased due to growth in the in-force book after strong sales performance in the prior year. Experience variance decreased year-on-year. In light of the tough economic environment, our lapse experience has weakened, although this was partially offset by excellent expense management and an improved mortality experience. The experience variance line also includes the impairment of an administration system asset. Investment income on shareholder funds is stable, and reflects both the high pay-out ratio and low risk investment strategy deployed. The sharp drop in investment variances reflects the negative effect of equity markets on current and future fee income, whereas the economic assumption change reflects the implementation of the yield curve in the valuation basis versus the previous point estimate.

Looking ahead

We have made great strides in rebuilding our agency force to nearly 5 000 agents after the distribution channel restructure started in 2014, and are now changing our focus to improving productivity across our sales force. At present, our agents sell around two policies per week, which we believe can be increased to around four policies per week. We will still recruit and train as required to enable the African Bank distribution channel.

Additional initiatives are also planned to improve productivity. We are enhancing our branch infrastructure to move it closer to the consumers it aims to serve. For example, many of our branches are in the centre of towns, rather than closer to residential areas. We are also looking to open branches that are more conveniently located for clients, for example in shopping malls, and will be refurbishing branches that are already well located.

To improve the efficiency of our branch managers, we will be investing in training and recruitment to ensure they have the requisite approach and coaching skills to support new agents for success. With each manager looking after around 15 agents, we have seen that the quality of the branch manager has a direct correlation on the likely success of new recruits and on the overall productivity of the agents.

We will also be making an investment into improving the management reporting tools for measuring the contribution of our worksite marketing sites. With over 1 000 worksites, it is an area that is gaining more traction and is an important point of presence where Metropolitan can market its products and where it has access to stop order facilities to collect premiums.

As seen in our initiatives for the coming year, our focus represents a shift from volumes, be that in sales force or opening new worksites, to a focus on productivity in driving higher policy sales, improving the skills of our managers, better locating branches, and assessing productivity in each of our worksites. Our core focus is on a Financial Wellness advice business, which will concentrate on assisting clients to meet their immediate planned and unforeseen expenses while achieving their medium-to long-term financial goals.

Corporate and Public Sector

We cover around 1.7 million employees across all industry segments and receive annual premiums in excess of R4 billion per year through this line of business.

Corporate and Public Sector provides insurance, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market. We cover around 1.7 million employees across all industry segments and receive annual premiums in excess of R4 billion per year through this line of business. We also have a strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions. Our umbrella fund product range (called FundsAtWork) has more than 300 000 members from nearly 5 000 employers, which makes us a leader in this area, particularly in the small and medium enterprise (SME) segment. The umbrella fund product range has almost R50 billion of assets under management and is strongly net client cash flow positive.

Most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers. However, our strong SME market share is mainly due to the strong support we get from smaller intermediaries that also support our retail business. We have been successful in sustaining support from our retail channels for our umbrella fund products, but will continue to develop and implement improvements.

Thinus Alsworth-Elvey
Chief executive Corporate and Public Sector, UK and Momentum Investments

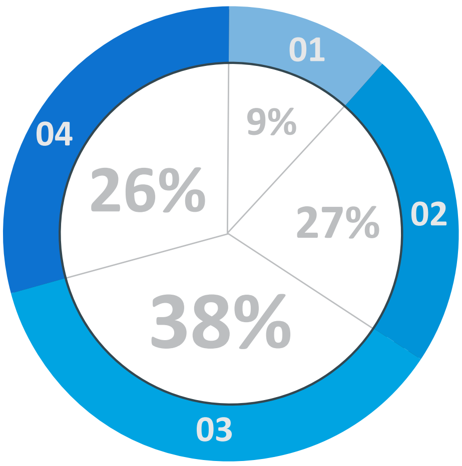
"Most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers."

In discussing new business mix for Corporate and Public Sector, stakeholders should be aware that large deals can skew sales figures significantly from year to year. For example, our annuity sales are currently running below historical averages, mainly due to limited activity in the pensioner outsourcing market. The percentages shown in the diagram on the following page could thus change quite materially in time. Overall, we believe that our business is overweight in our protection market share but underweight in investments and savings. Our annuity market share has also tended to be strong during periods of high pensioner outsourcing activity.

Financial performance

Corporate and Public Sector's earnings are derived from a diverse range of activities, where life insurance profits, short-term insurance, and health scheme administration all make material contributions to the segmental income statement (see diagrams on following page).

New business mix F2017



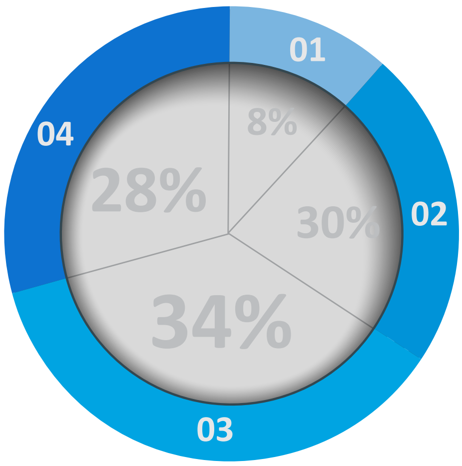
01 Life annuities

02 Protection

03 Savings

04 Investments

New business mix F2016



Life insurance profitability improved significantly during the year, mainly due to improved mortality underwriting profits as well as minimal expense growth. The positive mortality experience was still offset by underwriting losses on disability business. Disability experience tends to be pro-cyclical with economic conditions; as such, many of our competitors are also struggling in this area. We estimate that current underwriting profits are running at around R200 million below mid-cycle underwriting condition levels. Investors should note that annuity profits (mainly spread profits) are also recognised as part of the life insurance profit line, and these profits remain strong. Profits from our FundsAtWork umbrella range are included in the life insurance profit line as well.

Short-term insurance refers to the activities of Guardrisk, which derives most of its earnings from cell captive administration. The level of underwriting risk taken by Guardrisk is being increased incrementally over the coming years, but administrative (ie stable) profits should continue to be the main source of profit for the foreseeable future.

Health scheme administration refers to claims handling and other administrative services that we provide to large employer sponsored medical schemes. The largest client on our books is government, where we manage medical scheme records for nearly 700 000 families. Profits have declined year-on-year due to the loss of two large schemes during the prior year. We have completed the rightsizing of the business to reflect the loss of those clients and earnings are already showing good recovery.

Property management refers to our 76% interest in Eris Properties. Eris is active in property management, asset management and property development. Earnings in F2017 have benefited from some participation profits in property investments, and are likely to normalise somewhat in the coming years.

Retirement fund administration refers to administration work we do for large stand-alone retirement funds that outsource administration of member record keeping, member communications and other administrative tasks. We are a market leader in this field and one of few players who are profitable in stand-alone administration. We have approximately 34 stand-alone pension fund clients representing more than 500 000 members, on whose behalf we administer more than R200 billion of assets.

Our investment management profits have declined materially over the past year. One volatile item is performance fee income in Momentum Alternative Investments, which has declined significantly year-on-year. Average funds under management has also declined marginally for the institutional asset management operations. Finally, we are also incurring some start-up losses via our investments in Aluwani and RMI Investment Managers.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Life insurance	387	279	39
Short-term insurance	200	143	40
Health scheme administration	136	157	(13)
Property management	99	62	60
Retirement fund administration	18	15	20
Investment management	20	46	(57)
Client Engagement Solutions	(25)	(22)	(14)
Corporate and Public Sector core earnings	**835**	**680**	**23**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	68	199	(66)
Unwind of discount rate	595	612	(3)
Experience variance	(178)	(364)	51
Assumption changes	(295)	(729)	60
Operating EV profit	**190**	**(282)**	**> 100**
Investment income on net worth	145	115	26
Investment variance	(203)	(88)	< (100)
Economic assumption changes	(103)	98	< (100)
Covered EV profit	**29**	**(157)**	**> 100**
Non-covered earnings	786	771	2
Embedded value profit	**815**	**614**	**33**

For embedded value profits, new business profits are sharply down compared to the prior year. The main contributors to this were low margins on some large corporate risk schemes due to the competitive current environment and low sales for the period. We have taken corrective action in certain areas of the institutional sales environment to improve sales, but in those areas sales have been minimal, while trying to rebuild the relevant distribution teams. The "unwind of discount rate" line item has decreased due to the impact of additional group expenses being allocated to the segment and this reduced the opening value of in-force. We are pleased to show improvements in experience profits due to slightly better morbidity and retrenchment experience as well as some positive expense variances. Investment income on net worth stayed more or less flat, whereas investment variances reflect the impact of poor performance of investment markets as well as the impact of the credit downgrade on the cost of capital. Economic assumption changes decreased substantially compared to the prior year due to the widening of the gap between salary inflation and the risk discount rate. We project premiums forward with salary inflation, hence if the gap widens, the present value will be lower. The positive non-covered earnings reflect the ongoing growth of Guardrisk.

Looking ahead

Underwriting profitability is an urgent focus for Corporate and Public Sector management. We have been applying above-inflationary increases to close the gap on specifically group disability premium rates and current experience. Almost all risk premiums are annually renewable, which means that we have a contractual right to adjust premiums annually. We recognise that premium rate increases must strike a balance between reflecting recent experience and projections for longer-term experience.

We are also working hard to improve claims management. In disability insurance, this requires improving rehabilitation rates for current claimants, and we have been investing money and time to improve skills and processes in the claims handling teams.

We are continuously refining our product offering and service standards in our umbrella funds business. With the recent arrival of entrants into this market (whose value proposition is largely around costs), our focus is to ensure that our low-cost offerings remain competitive. We are also investing heavily in digitising and improving the on-boarding, off-boarding, claims and retirement experience for both members and administrative staff at employers (for example, their human resources teams).

Our investment management business has largely bedded down the Outcome-based Investment process and product offering. We are now focusing on converting our good investment track record to inflows, with plans to raise the profile of the investment offering with targeted marketing campaigns. In our health business, we continue to improve client experience following the migration to more modern systems during F2017.

As a strategic workstream, client engagement is critical for our long-term success. We are targeting greater levels of interaction and involvement with members and employers to deepen their relationship with us by integrating corporate products with Multiply, for example, topping up retirement savings via healthy living choices and providing useful information to employers such as our research on the impact of financial wellness on employee productivity. Success in client engagement initiatives will greatly improve our ability to introduce a wider range of MMI solutions to our membership base.

INTRODUCTION
ABOUT US
PERFORMANCE
GOVERNANCE
REMUNERATION
FINANCIAL STATEMENTS

International

MMI International operates in the rest of Africa, India and the United Kingdom (UK).

We offer a wide range of solutions in these areas, with a focus on life insurance and health insurance products. In Africa, life insurance is offered in nine countries and health insurance offered in seven as well as in India. We recently launched our mobile life insurance joint venture with MTN (aYo) and so far the pilot businesses have been rolled out in Uganda and Ghana. At present our Multiply wellness programme is only active in India, where it complements the health insurance offering. We offer short-term insurance in Kenya, Swaziland and Tanzania and mainly asset management in the UK.

MMI International has just over 500 000 individual life insurance policies in issue in Africa and we cover around 600 000 lives in the group life insurance space. In terms of our health administration business in Namibia we have nearly 400 000 lives on the books, making us the biggest player in that market. In the short space of time since the launch in November 2016, the Indian health offering has over 200 000 lives on the books. The map to the right shows our international footprint.

Innocent Dutiro
Chief executive International

"MMI International has just over 500 000 individual life insurance policies in issue in Africa and we cover around 600 000 lives in the group life insurance space."

Our operations in each country tailor the distribution model to the needs of the market across tied agents, independent brokers, call centres, and mobile technology (employed through our joint venture with MTN). Most of our life insurance business is secured in Namibia and the southern African region, where agents are the main source of new business. In terms of premium income market share, we are the market leader in Lesotho, second in Botswana and third in Namibia.

In Kenya and Nigeria, we have a small market share. Our business in Kenya is weighted towards short-term insurance, whereas the Nigerian business mainly sells life insurance to companies wanting cover for their employees. Our Ghana business is more diversified and has sufficient scale to be operating profitably.

In India, Aditya Birla's strong presence has helped to expand the footprint of the joint venture, already including nine branches in seven cities and an agency force of close to 2 000 agents. We aim to increase the number of agents to 10 000 by the end of the next financial year. We are providing digital solutions to Indian consumers to improve their access to products and increase our reach in the market.

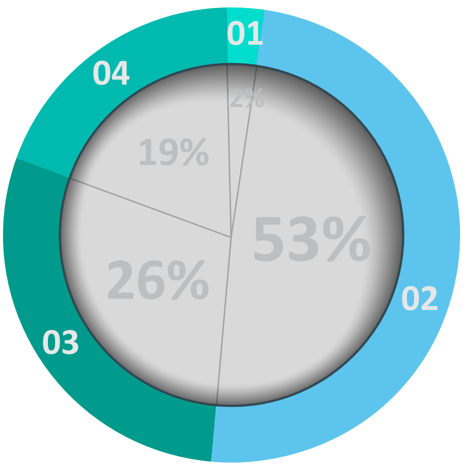
OUR SOLUTIONS

- Long-term insurance
- Health solutions
- Health administration
- Asset management
- Pension fund administration
- Short-term insurance

OUR SOLUTIONS IN THE UNITED KINGDOM

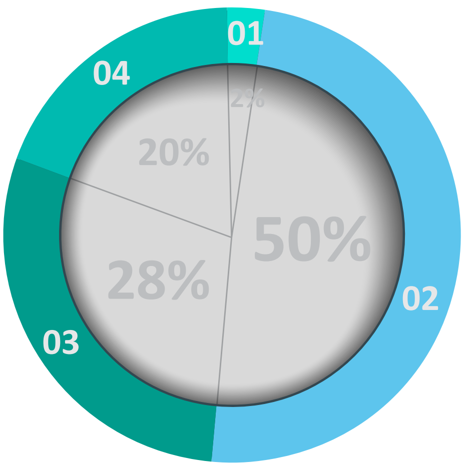
- Investment solutions
- Investment administration
- Engagement solutions
- Investment consulting

New business mix F2017



01 Swaziland
02 Namibia
03 Botswana
04 Lesotho

New business mix F2016



The figures above show the split of life sales volumes by country.

Financial performance

MMI International's life and health insurance activities in Africa and the asset management business in the UK were responsible for most of our earnings. However, our earnings were offset by losses in the non-covered life insurance and short-term insurance businesses, investments in new initiatives (in India and aYo), as well as expenses incurred at the centre to support in-country activities. The health joint venture in India will require ongoing investment over the coming years and is only expected to be profitable in five to seven years from now.

Covered life insurance earnings improved slightly, mainly due to steady growth in earnings in the covered life operations in Botswana and Southern Africa. The UK Investments business is also showing healthy profits after the previous year's loss. The non-covered life operations' losses increased mainly due to poorer claims experience on group life business in Kenya and higher effective taxes in Ghana. The health insurance operations include increased expenses on the India joint venture which is now fully operational. Ignoring this, the health business improved their earnings substantially following a premium rate increase on under-performing schemes and the adding back of the losses of our business exits. The short-term insurance business showed an increased loss mostly due to higher administration support costs, as well as losses in Kenya. Our centre expenses, included in other operations below, increased quite significantly this year.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Life insurance	92	101	(9)
Covered	203	185	10
Non-covered	(74)	(46)	(61)
aYo	(37)	(38)	3
Health scheme administration	(82)	(68)	(21)
Health (excluding India)	66	(12)	> 100
India	(148)	(56)	< (100)
Short-term insurance	(80)	(54)	(48)
Client Engagement Solutions	(24)	(23)	(4)
Investment and savings	82	(19)	> 100
Other operations	(154)	(93)	(66)
MMI International core earnings	**(166)**	**(156)**	**(6)**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	73	71	3
Unwind of discount rate	227	231	(2)
Experience variance	65	59	10
Assumption changes	(23)	(147)	84
Operating EV profit	**342**	**214**	**60**
Investment income on net worth	63	100	(37)
Investment variance	(21)	12	< (100)
Economic assumption changes	(29)	3	< (100)
Covered EV profit	**355**	**329**	**8**
Other	(833)	(197)	< (100)
Embedded value profit	**(478)**	**132**	**< (100)**

For embedded value profits, new business profits increased slightly, reflecting the underlying new business volume growth. The "unwind of discount rate" line item remained relatively flat as a result of muted growth of the in-force book. Experience variance increased slightly year-on-year mostly due to an improvement in persistency in Namibia and Lesotho.

Investment income on shareholder funds has declined and reflects capital depreciation on some of the assets. Asset values have also declined due to the rise in interest rates as most of the assets are held in bonds. The decline in investment variances mainly reflects the strengthening of the rand versus most currencies, decreasing the investment in rand terms in most of the territories. The non-covered earnings include the centre expenses. This has increased partly due to costs for short-term insurance and client engagement allocated to International increasing substantially from the previous year. Losses in our new initiatives and smaller life insurance operations are also included in this line item.

Looking ahead

MMI International recently performed a country-by-country assessment to determine our position in each market; we have decided to exit African countries where we are making continued losses or with limited growth opportunities. By narrowing our geographic footprint, we will be focusing on the profitable businesses with potential for long-term growth. Our main focus will be on the southern african region, where we are already seeing significant growth potential. The rationalisation of our Africa portfolio should also enable us to reduce the centre expenses in due course.

We aim to maintain our strong market leadership in Namibia by leveraging our brand strength to improve persistency and cross-selling, improving efficiencies to support margin growth and maintaining our strong agency network. We are also in the process of establishing a short-term insurance company in Namibia.

In Botswana and Lesotho we plan to double earnings by 2022 and to this end we will expand our product offering, broker network and the service and administration capacity. As part of this goal, we will also diversify distribution and service channels.

We will continue to invest in our India health joint venture over the next five to six years and remain excited by the potential of this business. We are fortunate to have a strong partner in Aditya Birla and are gaining traction in this market faster than expected. The business is currently weighted to group business but we intend to gain more retail clients as we build the business and consumer brand awareness improves.

Investment in our mobile insurance venture (aYo), will also continue and if the pilot shows promise the business could be scaled up quite rapidly.

In the UK, we are planning to strengthen our distribution capability in South Africa to regain market share in the flows originating from South Africa. On the other hand, we are reducing our ambitions in the domestic UK retail market.

Our investment philosophy

OUTCOMES-BASED INVESTING

Introduction

MMI has followed an Outcomes-based Investment (OBI) philosophy from 2006 on some of our assets under management. In 2014, we formally launched it as our core investment management offering, and we have started to manage segment assets on this basis from 2017 onwards.

What is OBI?

The key features of OBI are setting the appropriate investment target over the time frame and with consideration for customer's risk tolerance, matching these with the outcomes-based portfolio management process, and then providing meaningful and regular feedback in order to keep the customer on course to the financial targets set initially. This contrasts with a more generic investment strategy that is set relative to benchmarks and peer comparisons without specific reference to an investor's particular needs.

Why has MMI implemented OBI?

MMI has selected the OBI approach, as it is a well-aligned and complementary enabler of the client-centric strategy. This centres on our core fundamental purpose to enhance the lifetime Financial Wellness of all our clients.

Outcome of MMI's OBI approach

The focus of the OBI philosophy of Momentum Investments is to deliver on clients' expectations. The performance track record of the relevant portfolios has been very good. Our Enhanced Factor 7 funds, which target CPI + 7% p.a. returns over a seven year investment horizon, have generated annualised returns of 14.5% p.a. over the past seven years – thus beating the target return by 2% p.a. Similarly our Enhanced Factor 5 funds have generated 11.0% pa returns over the past five years, thus exceeding the CPI + 5% target return over the period.

Momentum MoM Enhanced Factor portfolio range returns as at 30 June 2017

Portfolio	One year	Three years	Four years	Five years	Six years	Seven years
Momentum MoM Enhanced Factor 7	2.7%	7.3%	11.6%	14.0%	14.0%	14.5%
CPI +7%	12.5%	12.4%	12.7%	12.7%	12.7%	12.5%
Strategic benchmark	2.0%	7.6%	11.6%	14.0%	14.0%	14.7%
Momentum MoM Enhanced Factor 6	2.6%	7.3%	11.1%	13.1%	13.1%	13.5%
CPI +6%	11.5%	11.4%	11.7%	11.7%	11.7%	11.5%
Strategic benchmark	2.6%	7.8%	11.1%	13.3%	13.5%	13.8%
Momentum MoM Enhanced Factor 5	2.5%	7.4%	9.9%	11.0%	11.3%	11.9%
CPI +5%	10.5%	10.4%	10.7%	10.7%	10.7%	10.5%
Strategic benchmark	2.8%	7.6%	9.8%	11.2%	11.8%	12.3%
Momentum MoM Enhanced Factor 4	2.6%	7.0%	9.2%	9.8%	10.0%	10.5%
CPI +4%	9.5%	9.4%	9.7%	9.7%	9.7%	9.5%
Strategic benchmark	3.4%	7.3%	9.0%	10.1%	10.7%	11.0%
Momentum MoM Enhanced Factor 3	2.1%	6.6%	8.5%	8.7%	9.2%	9.1%
CPI +3%	8.5%	8.4%	8.7%	8.7%	8.7%	8.5%
Strategic benchmark	3.7%	7.1%	8.5%	9.3%	9.8%	9.7%

Notes

1. *Returns for periods exceeding one year are annualised.*
2. *All returns quoted are before the deduction of fees, except where a portfolio includes underlying investments where fees are deducted from the return, but after the deduction of performance-based fees.*
3. *The inception date of the combined local and global portfolios is 1 July 2011. Actual portfolio and benchmark returns have been used since 1 July 2011. Portfolio and benchmark returns for longer periods are based on mappings from certain old portfolios to the new portfolios. Further details on these mappings can be located on each portfolios respective fund fact sheet.*