

MMI Holdings Limited Group
Incorporated in South Africa
(Registration number 2000/031756/06)
JSE share code (primary listing): MMI
NSX share code: MIM
ISIN NO. ZAE000149902
"MMI Holdings" or "the Company"



MMI HOLDINGS SUMMARISED & AUDITED GROUP RESULTS for the year ended 30 June 2014

New business **PVP** up 18% to R42 billion
Comparable **VALUE OF NEW BUSINESS** up 14% to R779 million
Annualised **RETURN on EMBEDDED VALUE** of 19% to R40 billion
Profit from **OPERATING DIVISIONS** up 22% to R3.0 billion
HEADLINE EARNINGS up 27% to R3.2 billion
CORE HEADLINE EARNINGS up 12% to R3.6 billion
Total DIVIDEND (including special) up 51% to R3.0 billion

OVERVIEW OF OPERATIONS GROUP RESULTS

MMI delivered strong financial results for the year under review.

- Embedded value increased to R40 billion (2 474 cents per share), driven by an excellent 19% return on embedded value.
- Diluted core headline earnings of R3.6 billion reflected a 12% increase on the prior year.
- Growth in diluted headline earnings of 27%.
- The contribution from operating divisions rose 22% to R3.0 billion.
- Actual merger expense savings of R522 million achieved (target R500 million). A total dividend of 192 cents per share was paid for the year, including the special dividend, an increase of 51%.
- MMI invested in excess of R2.5 billion in growth initiatives during the year.

OPERATING ENVIRONMENT

Local operating conditions were economically challenging and highly competitive. Equity markets increased strongly throughout the year, while interest rate volatility continued. Consumer confidence remained fragile with ongoing labour challenges, unemployment, indebtedness and inflation reducing disposable and investible income. GDP growth in many African countries, however, is proving to be resilient. Despite the tough environment, MMI has delivered very good financial results for the year, as the need for and provision of investment and protection products within MMI's client base remains an important part of financial wellness and planning.

CAPITAL STRENGTH

- MMI actively manages its capital resources within a defined risk appetite and balances the interests of all stakeholders.
- The investment mandate for shareholder capital is restricted to lower-risk investments.
- MMI successfully issued R1.5 billion subordinated debt during March 2014 on the back of an improved credit rating.
- A strong capital buffer of R3.2 billion was reported at 30 June 2014, after allowing for capital requirements, growth initiatives and dividends. This level is considered to be appropriate taking into account the expected impact of Solvency Assessment and Management and other strategic initiatives.

OVERVIEW OF OPERATIONS

MOMENTUM RETAIL

- New insurance business, on a present value of premiums (PVP) basis, increased by 17% to R20.4 billion for the year.
- The value of new business increased strongly by 18% to R240 million, boosted by excellent single premium sales.
- Good risk experience continued, confirming the benefits of focusing on good quality new business.
- Operating expenses were well contained during the year.
- Asset-based fees boosted the profitability of the division.
- Operating profit for the year increased by 18% to R1 372 million.

METROPOLITAN RETAIL

- Single premium new business continued to perform very well, ending 22% higher, while recurring premiums increased 9%.
- The profit-sharing arrangement with FNB Life reduced from 10% to 4% from 1 July 2013.
- The value of new business for the year increased 13% to R236 million, supported by well contained expenses.
- Good risk experience and higher asset levels during the year, together with disciplined expense management, all contributed to the increase in profits while a slight deterioration in grouped individual persistency reduced profit growth.
- Operating profit for the year increased by 15% to R587 million.

MOMENTUM EMPLOYEE BENEFITS

- New business, on a PVP basis, increased by 25% to R14.5 billion for the year.
- Good risk and investment recurring premium new business were secured, particularly in the small, medium and micro enterprise (SMME) space, while increased retirement fund single premiums further boosted volumes.
- Value of new business exceeded expectations, increasing 19% to R254 million.

- Client retention interventions resulted in better persistency, while stable risk profit performance jointly contributed to positive operating experience variances.
- The inclusion of Guardrisk, with effect from March 2014, further enhanced the results. As part of MMI's diversification strategy, Guardrisk is an important acquisition. This business is performing well and further benefits are expected as the inherent synergies are unlocked.
- Operating profit for the year increased by 51% to R516 million.

METROPOLITAN INTERNATIONAL

- New business increased by 14% to R1.9 billion on a PVP basis, with improved contributions from most operations.
- The value of new business came under pressure, decreasing 13% to R49 million as the mix of business favoured lower-margin products.
- Lives under administration in the health business increased by 5% to 415 000, while claims ratios remained within acceptable limits.
- International expansion is key to MMI's strategy. The acquisition of Cannon Assurance in Kenya became unconditional when we received the Competition Authority's approval during August 2014.
- Operating profit for the year increased by 13% to R122 million.

MOMENTUM INVESTMENTS

- Focus on investment excellence is starting to pay off, with equity and balanced fund performance showing satisfactory improvement.
- The longer-term outlook for the investment management business remains positive as the alignment with the group is strengthened.
- Operating profit, including investment income, for the year increased by 13% to R197 million.

METROPOLITAN HEALTH

- Total members under administration remain steady at 1.2 million principal members or three million lives.
- As part of a revenue and capability diversification strategy, the group acquired Providence Healthcare Risk Managers.
- Operating profit, including investment income, for the year increased by 22% to R171 million.

SHAREHOLDER CAPITAL

- Shareholder capital includes investment income on shareholder assets, operating profit from the balance sheet management operation, the investment in MMI Wellness and Rewards Programme, the results of Momentum Short-Term Insurance businesses, shareholder expenses and investments in other new ventures.
- The prior year results include a value added tax refund and the reversal of income tax provisions that were no longer required.

- Investment income in the current year has been impacted as a result of the R1.6 billion paid to acquire Guardrisk as well as the interest paid on the R1.5 billion debt issued in March 2014.

TRANSFORMATION AND SUSTAINABILITY

- MMI is currently rated a level two broad-based black economic empowerment (B-BBEE) contributor.
- The group is a member of the JSE Sustainability Index, and remains committed to a strategy that promotes sustainable businesses.

CLIENT-CENTRIC OPERATING MODEL

- MMI is implementing a new client-centric operating model under a restructured group executive committee.

PROSPECTS

- The strategic focus areas of the MMI group are firmly focused on growth, client-centricity and excellence.
- Each segment is implementing plans and processes to identify and optimise structures, operations, target markets, distribution channels and product offerings through innovation and collaboration, in order to grow the group through client-centricity.
- Growth in new business volumes will also be influenced by a tougher economic environment.
- The board of MMI Holdings believes that the group has identified and is implementing innovative strategies to continue unlocking value and generating the required return on capital for shareholders over time.