MMI's established businesses were resilient 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 and segmental details can be found in the group financial statements.

The results of MMI for the financial year ended 30 June 2016 are characterised by weak earnings and strong performance in the rest of the main financial metrics, with the following being the key themes of these results:

- Significantly lower than expected underwriting profits, especially in the Corporate and International businesses.
- Muted equity market growth in the prior year impacting negatively on asset based fees and discretionary margin releases.
- The group's investment in a number of strategic initiatives that do not yet contribute positively to group earnings.
- Actions taken to address the above challenges starting to impact positively on the return on embedded value (ROEV), most notably through the impact of cost efficiencies and an improved outlook for non-covered businesses.
- Good new business volumes overall, with the retail and International businesses generating solid new business growth, and excellent growth in the Corporate business due to Guardrisk securing new sources of business.

GROUP PERFORMANCE 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 includes both short-term and long-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 2016, the following set of short-term deliverables applied to the group as a whole:

PERFORMANCE SCORECARD 2016

	Weight	F2015 target	Actual	Achieved
Return on embedded value	20%	**11.6%**	12.8%	↑↑
Core headline earnings	20%	**10% growth**	(16%)	↓↓
Value of new business	15%	**R905m**	R850m	↓
Optimisation and expense savings programme	10%	**R100m**	R104m	↑↑
Strategic initiatives	35%		on target	↔

The above relates to group-wide targets and deliverables. In addition specific targets are set for individual business units. This report only discusses the financial metrics of the group performance scorecard. The progress on key strategic initiatives is discussed in the group CEO's overview.

The group delivered an excellent ROEV of 12.8% well ahead of the group's targeted growth of Risk Free + 3% (10-year government bond yield at the start of the reporting period plus 3% i.e. 11.6%). Investment variances are included in the ROEV for the Long-Term Incentive Plan to achieve alignment between shareholders and management.

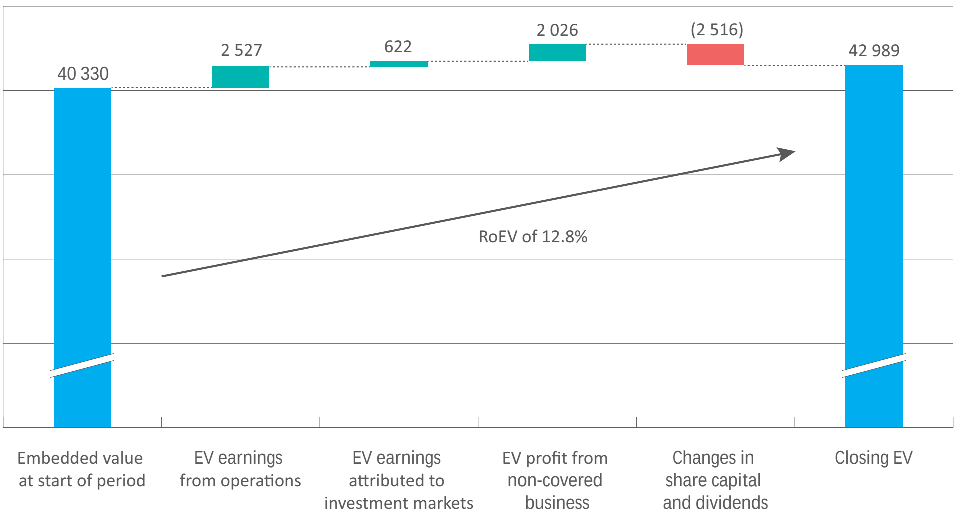
The group secured strong overall new business growth of 35% on a present value of premiums (PVP) basis and 22% on an annual premium equivalent (APE) basis. The value of new business (VNB) declined due to higher interest rates and the allocation of expenses that were previously treated as part of the shareholder segment. On a consistent basis VNB increased by 13% against a target of 15%.

The core headline earnings decline of 16% was disappointing with the main reasons for this being the significantly lower than expected underwriting profits, especially in the Corporate and International businesses as well as the impact of flat equity markets on our asset based fees.

Expense control was very good with the group achieving R104 million against a target of R100 million for the 2016 financial year as part of the cost efficiency programme to take out R750 million of operating expenses by the 2019 financial year. The group also delivered on a number other optimisation initiatives which are not part of the R750 million cost programme.

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

RETURN ON EMBEDDED VALUE (ROEV)

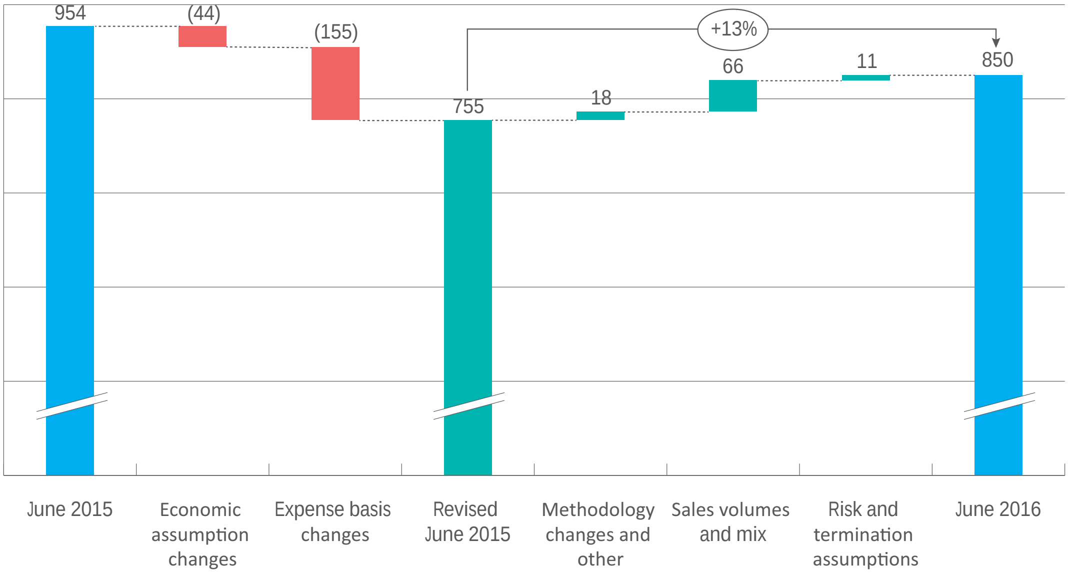


The diluted embedded value of the MMI Group amounts to R42 989 million (R26.80 per share) as at 30 June 2016. Adding back the payment of dividends and other capital movements (R2 516 million) the overall return on embedded value (ROEV) amounts to R5 175 million, an annualised return of 12.8% on the opening embedded value. This is 1.2% above the targeted return on embedded value of Risk Free plus 3%, being 11.6% for the year to 30 June 2016.

Significant items impacting positively on the ROEV include strong operational contributions from Momentum Wealth and Guardrisk as well as taking a less conservative approach to valuing our investment businesses. These items were offset to some extent by poor underwriting results in the Corporate and Public Sector and International Segments as well as the loss of the Polmed health scheme.

VALUE OF NEW BUSINESS (VNB)

The graph below shows an attribution between the VNB of the current and previous financial year:



The overall VNB for the 12 months to June 2016 amounts to R850 million at a PVP margin of 1.2%, compared with a margin of 1.9% for the comparative period. The decline in VNB from the prior year comparative is largely attributed to the negative impact of the increase in interest rates of 60 basis points (R44 million) and the inclusion of additional Holding Company expense allocations to the operating segments (R155 million) in the current year.

On a consistent basis compared with the prior year, VNB increased by 13% from R755 million to R850 million, and the PVP margin would have decreased from approximately 1.5% to 1.2%, mainly due to a change in mix.

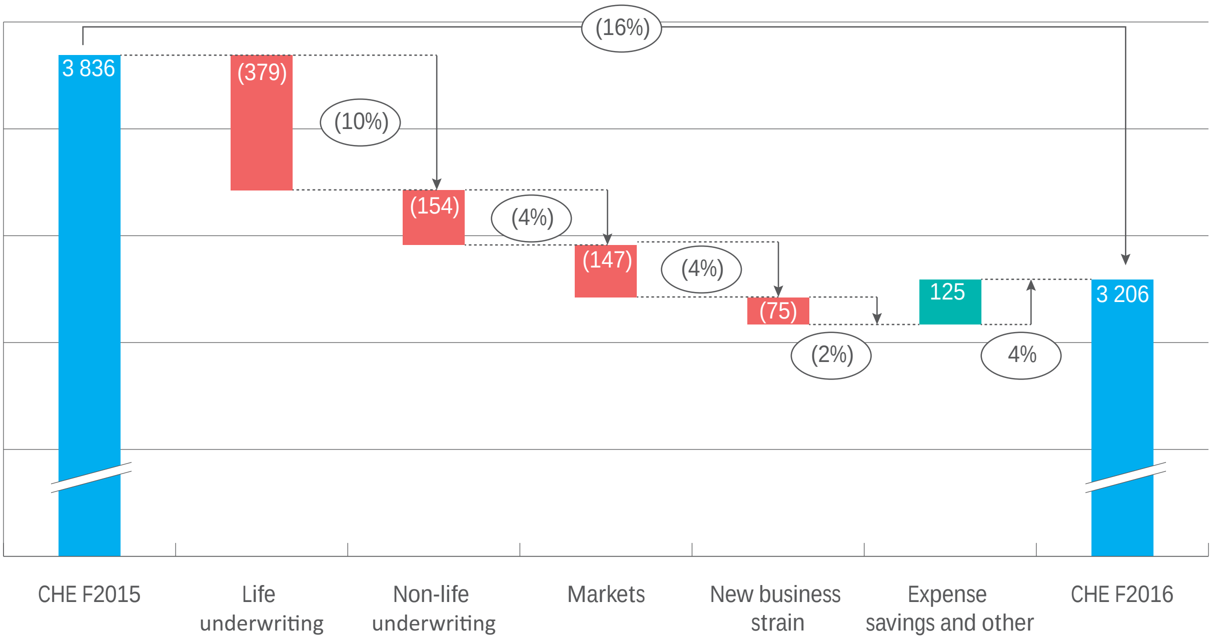
Value of new business per segment

	Restated 30 June 2015 Rm	On a consistent basis 30 June 2015 Rm	30 June 2016 Rm	1 year change	PVP margin
Momentum Retail	276	226	**290**	28%	1.1%
Metropolitan Retail	185	106	**191**	80%	3.9%
Corporate and Public Sector	427	360	**298**	(17%)	0.9%
International	66	63	**71**	13%	2.8%
Total	954	755	**850**	13%	
New business margin (PVP)	1.9%	1.5%	**1.2%**		

The group had pleasing growth in VNB to R850 million in total. The Metropolitan Retail VNB improved significantly on a consistent basis, largely due to the impact of benefit and pricing changes relating to the new sales remuneration model. The Momentum Retail VNB also improved on a consistent basis due to higher volumes of more profitable business sold during the current financial year. Highly competitive market conditions in the current financial year resulted in significant pressure on sales volumes for traditional large corporate business in Corporate and Public Sector. This had an adverse impact on VNB for the segment, but was partly offset by a significant increase in sales volumes for Guardrisk covered business. The International VNB was positively impacted by increased sales in Namibia and Botswana.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

The graph below highlights the significant factors impacting on the decline on core headline earnings.



The core headline earnings for the group for the current year was impacted by weaker underwriting results in the life business in South Africa, poor results from the International Health and Short-term businesses, lacklustre investment market growth and new business strain due to good new business growth in certain businesses. Excellent expense management contributed positively to core earnings over the year.

Higher interest rates and subdued equity markets had an adverse impact on discretionary margin balances and consequently lower releases from these reserves, in line with the approved release profile.

The table below sets out the segmental split of the core earnings.

MMI Group core headline earnings

	12 months to 30 June 2016 Rm	12 months to 30 June 2015 Rm	Change
Momentum Retail	**1 600**	1 756	(9%)
Metropolitan Retail	**667**	604	10%
Corporate and Public Sector	**617**	861	(28%)
International	**28**	152	(82%)
Operating Divisions	**2 912**	3 373	(14%)
Shareholder Capital	**294**	463	(37%)
Total MMI	**3 206**	3 836	(16%)

Momentum Retail's core headline earnings declined by 9% compared with the prior year largely due to significantly lower mortality experience compared to the prior year which showed excellent experience. It should be noted that mortality experience, largely driven by Myriad, has however recovered from the low levels reported in the first half of the financial year.

Metropolitan Retail's core headline earnings increased by 10%. This is partly attributed to good experience on risk business in the current financial year as well as excellent expense management. The change in the mix of business from savings to more profitable risk also had a positive impact on new business strain relative to the prior year comparative.

The Corporate and Public Sector core headline earnings, which declined by 28% compared to the prior year, was adversely impacted by the significant decline in group risk experience profits in the current financial year. Disability underwriting profits were particularly disappointing but not unexpected given the poor economic climate and a very competitive market. An increase in disability claims due to stress, strokes and heart attacks, especially among high earners in the Financial Services and IT sectors has been observed in the current financial year. Competition in the market remains fierce especially for large group risk schemes. Consequently an increase in scheme terminations has been observed in the current year. The segment is monitoring this closely, increasing rates where appropriate and premiums are expected to harden over the next 12 months, all which will support more normalised earnings going forward.

International's decrease in core headline earnings is largely due to the worse than expected short-term and health insurance experience in a number of countries. The group has made a decision to focus on a few regional growth areas which will result in the exit of certain business lines and a disposal of some small subscale operations.

The **Shareholder Capital** core headline earnings declined by 37%, mainly as a result of the impact of continued investment in start-up strategic initiatives and an increase in the effective tax rate. The group has taken a decision to narrow its focus on a few growth initiatives going forward, with the key initiatives being Momentum Short-term Insurance, the India joint venture with Aditya Birla, the aYo joint venture with MTN and the MMI Exponential disruptive innovation initiative.

CAPITAL MANAGEMENT

The table below sets out the group's capital position at 30 June 2016:

	Rbn
Net asset value as per embedded value statement	**16.9**
Qualifying debt	**3.5**
Less: net asset value of strategic subsidiaries	**(2.7)**
Less: required capital	**(10.0)**
Capital before deployment	**7.7**
Deployed	**(3.7)**
Final dividend	**(1.5)**
Strategic initiatives	**(2.2)**
Capital buffer after deployment	**4.0**

Group Balance Sheet Management continued with the focus on capital sources, capital efficiency and the validation of the target capital range under SAM during F2016. The results of the investigations indicated that a targeted range of 1.3 to 1.6 times the Solvency Capital Ratio (SCR) for MMI Holdings would be appropriate and in line with the stated capital at risk appetite.

At 30 June 2016, the solvency position of MMI Holdings remained very strong with a capital buffer of R4 billion after allowing for deployment for strategic initiatives.

DIVIDEND

Despite the reduction in earnings during the year, the strong capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity, supports MMI's ability to declare a dividend that is marginally higher than the prior year. The total dividend for the year amounts to 157 cents per share, an increase of 1% over the prior year dividend of 155 cents per share.

The group remains committed to maintaining a good dividend pay-out ratio in light of the strong capital position and future growth prospects, evidenced by the willingness to drop the current year dividend cover to below the targeted dividend cover ratio of between 1.5 and 1.7 times.

The table below shows the group's dividend declarations over the last few years.

Dividend per share (cents)

	2016	2015	2014	Change
Interim ordinary dividend	**65**	63	57	3%
Final ordinary dividend	**92**	92	85	0%
Total ordinary dividend	**157**	155	142	1%
Special dividend			50	

CONCLUSION

The group experienced very tough operating conditions over the past year that manifested in lower than expected earnings. Despite the challenging conditions the group was able to secure strong new business flows while keeping a strong control over expense growth.

The group has done well in showing progress on a number of key growth initiatives that will strengthen our traditional core business, which is important for the future sustainability of the group.

However, tough operating conditions are likely to persist and revenue is likely to remain under pressure for the foreseeable future.

MARY VILAKAZI
Group finance director