- Merger ***integration*** progressing well
- R500 million ***merger savings*** on track
- ***Strong capital*** structure
- Group ***embedded value*** of R30.8 billion
- ***Core headline earnings*** up 5% to 81 cents per share
- Interim ***dividend*** up 5% to 44 cents per share

MMI HOLDINGS

OVERVIEW OF OPERATIONS AND PROSPECTS

NATURE OF ACTIVITIES

MMI Holdings is a South African based financial services group that provides a wide range of products and services to clients locally and in selected African countries.

OPERATING ENVIRONMENT

Equity markets remained volatile during the reporting period while long bond interest rates closed slightly lower. Overall consumer confidence stabilised, household disposable income increased marginally in some market segments and employment levels showed pockets of improvement. Despite positive signs, local operating conditions remained challenging.

GROUP RESULTS

The process of merging the operations of Metropolitan and Momentum continues to be a very challenging and complex exercise; however, good progress is being made in this regard and the integration projects are on schedule.

- The embedded value of R30.8 billion (1 920 cents per share) reflects the underlying financial strength and sustainability of the group.
- Diluted core headline earnings, as per the segmental information, increased by 4% to R1 294 million for the period.
- Positive net cash flow from clients was recorded for the period.

CAPITAL MANAGEMENT

- The group actively manages its capital resources within a defined risk appetite and balances the interests of all stakeholders to protect and enhance shareholder wealth.
- Capital is regarded as a scarce resource and a significant driver of shareholder returns.
- Capital management focuses on the investment, level and allocation of capital.
- The investment mandate for shareholder capital was finalised during the period and a less risky mandate has been implemented in Metropolitan, which reduced the capital adequacy requirement (CAR) and increased the CAR multiple from 2.3 times at year-end to 2.7 times. The new mandate also resulted in a once-off increase in the cost of capital in the traditional embedded value calculation, which reduced the embedded value by R523 million.
- The FSB's solvency assessment and management (SAM) project SA QIS1 submissions were completed during the period.
- The group held a capital buffer of R4.0 billion at 31 December 2011.
- The group is comfortable that its present level of capital is appropriate in the current environment; this position is evaluated on an ongoing basis.

MERGER INTEGRATION

- The overarching objective of the integration, overseen by a dedicated chief integration officer, is to incorporate "the best of both".
- The integration has moved from planning to implementation.
- Systems and data migration projects are proceeding according to plan.
- The legal amalgamation of the Metropolitan and Momentum long-term insurance licences has commenced, subject to regulatory approvals.
- Group and divisional strategies have been embedded and merger savings of R500 million have been identified and should emerge over the next three years:
    - Targets have been set per division and firm deadlines are in place.
    - The board is measuring progress against these targets on an ongoing basis.

PROSPECTS

- Each division has implemented strategic plans and integration processes to identify and optimise structures, operations, target markets, distribution channels and product offerings.
- Growth in new business volumes will, however, remain dependent on the economic environment, including a recovery in employment and stronger disposable income levels.
- All divisions face opportunities and threats posed by ongoing changes in the highly regulated environments in which they operate, including the national health insurance and national social security reform proposals.
- Ongoing uncertainties from the eurozone crisis could continue to have a negative impact on business confidence in the markets where we operate.
- The board of MMI Holdings believes that the group has appropriate strategies to unlock value and generate a satisfactory return on capital for shareholders over time.

momentum

MOMENTUM RETAIL

- Trading conditions remained tough, resulting in an 11% decline in new business on an annual premium equivalent (APE) basis.
- The value of new business margin, on a present value of premiums (PVP) basis, came under pressure as a result of decreased production in most lines of business, a change in the business mix as well as further investment into the agency channel.
- The integration of the Odyssey business remains on track.
- Operating profit for the period reduced by 2% to R377 million, largely due to experience profit being below the long-term expectations.

METROPOLITAN RETAIL

- Recurring premium new business ended 18% higher, driven by good production in the traditional agency channels.
- Further investment in the group scheme business resulted in a gratifying 36% improvement in new business from this distribution channel.
- Significant improvements were delivered through the new markets distribution channel.
- The reduction in single premium income was the result of the transfer of certain distribution channels to Momentum Retail.
- The value of new business increased by 4% to R151 million, at a PVP margin of 5.3%, on the back of increased production and good expense management, after allowing for an increase of R11 million in the cost of capital and a R14 million reduction resulting from the narrowing of real yields.
- The size of the in-force book increased to 2.9 million policies through satisfactory retention and good new business volumes.
- At R204 million, operating profit for the period was 23% higher, reflecting the strong operational performance of the division.

MOMENTUM EMPLOYEE BENEFITS

- Total new business for the half-year increased 8% to R599 million on an APE basis.
- Value of risk new business was significantly higher due to improved business mix and increased volumes, in particular risk business from the large corporate market.
- New business flows for investment products were lower than recorded for the corresponding period of the previous year.
- Client retention interventions resulted in better persistency across all product lines.
- Efforts to reduce the division's expense to income ratio through the merger integration are ongoing.
- A satisfactory new business pipeline is in place.
- Disability experience reduced as a result of the impact of the prevailing economic conditions.
- Operating profit for the period reduced by 3% to R99 million.

METROPOLITAN

METROPOLITAN INTERNATIONAL

- New business revenue was very satisfactory and increased by 47% to R129 million on an APE basis.
- Botswana and Lesotho recorded significant increases in single premium business.
- The individual life policy book grew by 4.4%, boosted primarily by the business in Ghana.
- Lives under administration in the health business increased by 7% and claims ratios improved as a result of successful re-pricing.
- The employee benefits environment in Namibia remained highly competitive.
- An operating loss of R3 million was recorded, as risk profits decreased and new business strain increased.

MOMENTUM INVESTMENTS

- During the period under review assets under management remained exposed to volatility in global and local markets.
- Equity performance improved during the period; however, further work is required on the performance of balanced mandates.
- Five Raging Bull awards reflect the improved investment performance of the division.
- The multi-manager business recorded satisfactory investment performance across most product lines.
- The net funds outflow from third parties decreased significantly over the reporting period.
- Although Momentum Collective Investments recorded inflows, the new white label regulations published by the FSB could have a negative impact on this business in future.
- Operating profit for the period reduced by 30% to R62 million.

METROPOLITAN HEALTH

- The new business model of the Government Employees Medical Scheme was implemented successfully and the scheme continued to grow by 350 – 400 principal members per day.
- Revenue was increased by the take-on of two new corporate schemes.
- Metropolitan Health Risk Management continued to deliver good performance.
- Merger savings continued to improve the operational efficiencies.
- The business continued to position itself for national health insurance (NHI) reforms.
- Operating profit increased substantially to R58 million, reflecting the improvement in operational efficiencies.

SHAREHOLDER CAPITAL

- Shareholder capital includes investment income on shareholder funds. The prior reporting period included a once-off interest accrual on an income tax refund.
- Operating profit from the balance sheet management business is included in this segment.
- The investment mandate for shareholder capital was revised during the period and a less risky mandate has been implemented.