



MMI HOLDINGS

# Towards client centricity

2015 year-end results

9 September 2015



# Agenda

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Economic environment

Financial results

Operational summary

Capital management

Client-centric strategy

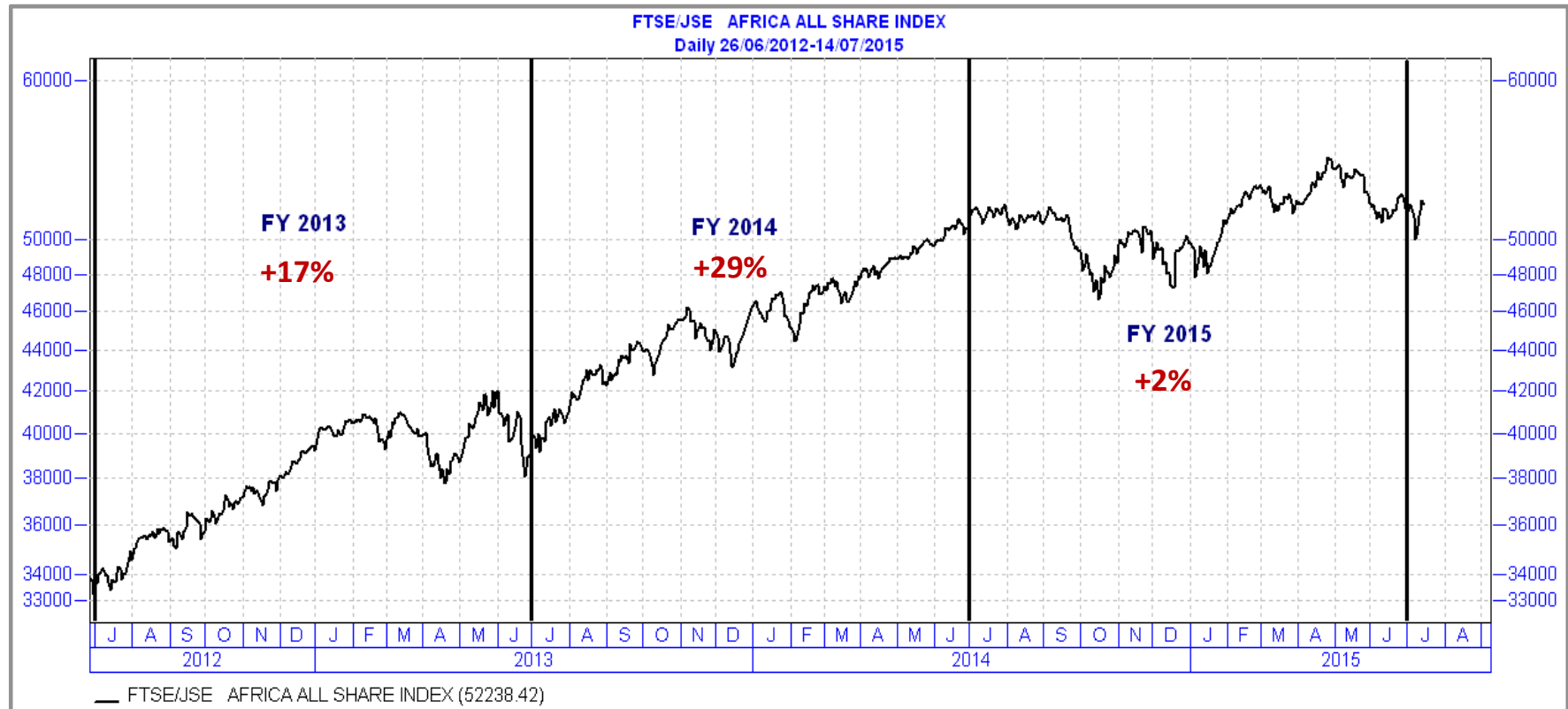
Management incentivisation

Strategic focus areas

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# External environment

## Slow-down in equity market - slower GDP growth



	2013	2014	2015
JSE All Share	+17%	+29%	+2%
Risk discount rate	+10bps	+60bps	+10bps

# Challenging operating environment

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## SA economy facing challenges

- GDP growth
- Credit rating
- Unemployment and labour unrest
- Electricity supply
- Slow growth in household credit extension

## Regulatory changes

- Solvency Assessment and Management
- Retail Distribution Review
- Treating Customers Fairly
- Twin Peaks
- Retirement Reform

## Consumers under pressure

- Inflation and interest rates
  - Weakening rand
  - High indebtedness and cost of debt
  - Higher household taxes
  - Moderation in government wage growth and welfare spending
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# Financial results

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Delivering on our strategy – investing in growth

New  
business  
PVP

+21%  
R50bn

Value of  
new  
business

+22%  
R954m

Return on  
embedded  
value

+10%  
to  
2 514cps

Profits from  
operating  
divisions

+17%  
R3 471m

Total  
dividend

+9%  
R2 435m

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# Financial results

## Diluted core headline earnings per division

	June 2012	June 2013	June 2014	June 2015	1 year change	Comp growth
	<i>Rm</i>	<i>Rm</i>	<i>Rm</i>	<i>Rm</i>		
Momentum Retail	1 064	1 158	1 372	1 531	12%	13%
Metropolitan Retail	438	509	587	738	26%	19%
Momentum Employee Benefits	249	341	516	660	28%	38%
International	57	108	122	152	25%	39%
Momentum Investments	125	175	197	181	(8)%	13%
Metropolitan Health	133	140	171	209	22%	16%
Operating divisions	2 066	2 431	2 965	3 471	17%	19%
Shareholder capital	889	810	656	365	(44)%	(26)%
Total	2 955	3 241	3 621	3 836	6%	9%

Operating profit growth continues

# Financial results

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## Shareholder capital

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Holding Company	(253)	(227)	10%
Strategic initiatives (net)	(196)	(382)	(95)%
Balance Sheet Management	411	588	43%
Investment income	864	549	(36)%
Tax	(170)	(163)	4%
Total	656	365	(44)%

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Investing capital in growth



# Financial results

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## Investments in strategic growth initiatives

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	June 2014	June 2015
	<i>Rm</i>	<i>Rm</i>
Core headline earnings as reported	3 621	3 836
Additional investments in growth initiatives	246	548
Momentum short-term insurance		
Middle-market initiative		
Client-engagement solutions		
Distribution		
International		
Percentage of core headline earnings	6.8%	14.3%

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Strategic investments impacted overall profit growth

# Financial results

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## Covered new business

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Present value of premiums	41 739	50 396	21%
Annual premium equivalent	5 622	6 643	18%
Value of new business	779	954	22%

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Diversification strategy delivering

# Financial results

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## New business per division

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Momentum Retail	20 434	22 924	12%
Metropolitan Retail	4 948	5 117	3%
Momentum Employee Benefits	14 491	20 191	39%
International	1 866	2 164	16%
Total PVP	41 739	50 396	21%
Total APE	5 622	6 643	18%

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Volumes increased strongly in difficult operating environment

# Financial results

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## Value of new business per division

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Momentum Retail	240	246	3%
Metropolitan Retail	236	186	(21)%
Momentum Employee Benefits	254	456	80%
International	49	66	35%
Total	779	954	22%
New business margin (PVP)	1.9%	1.9%	

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Excellent growth, margin maintained

# Financial results

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## New business margin per division

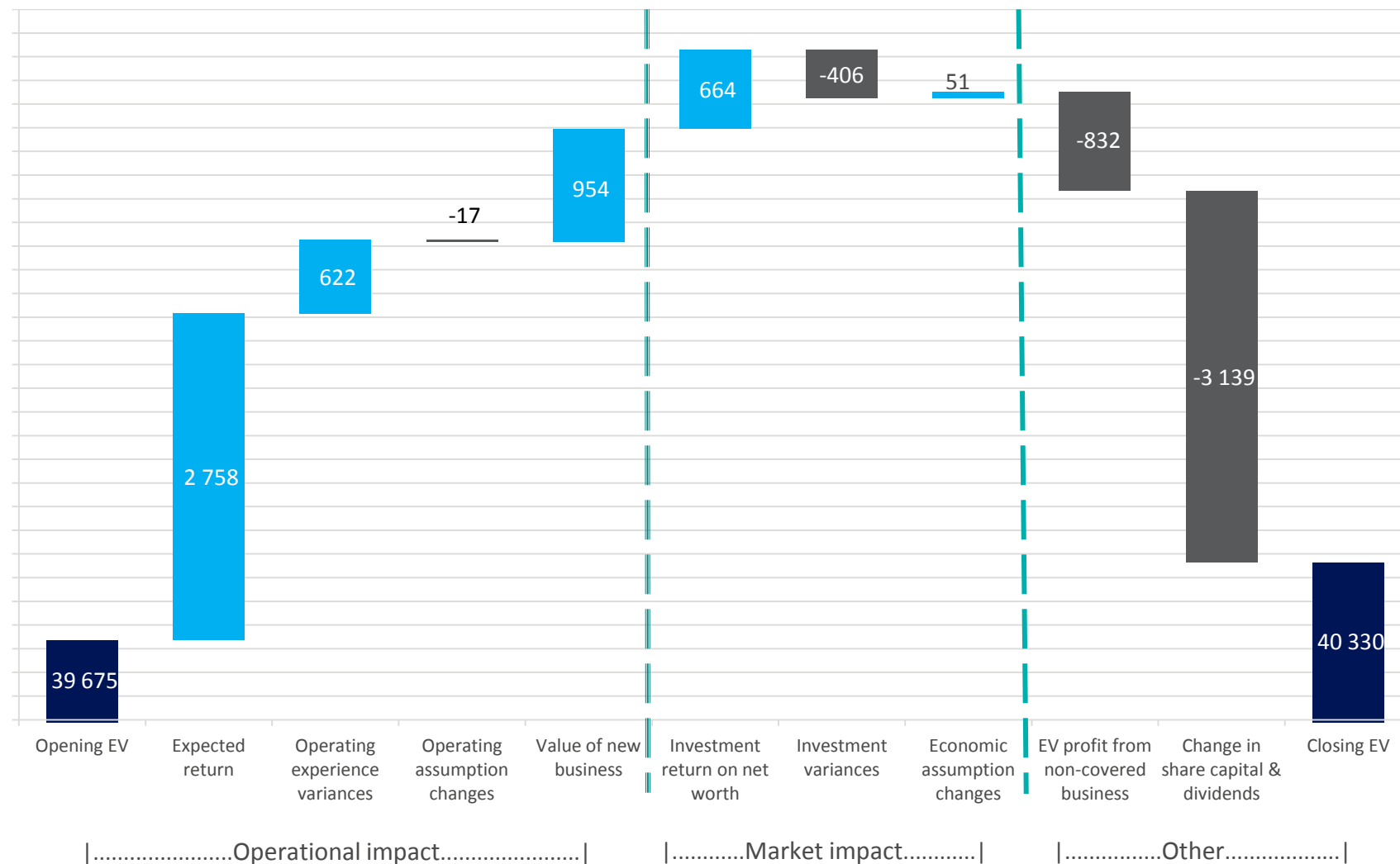
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	June 2014	June 2015
Momentum Retail	1.2%	1.1%
Metropolitan Retail	4.8%	3.6%
Momentum Employee Benefits	1.8%	2.3%
International	2.6%	3.0%
Total	1.9%	1.9%

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Diversification protecting margin

# EV analysis (Rm)



ROEV 10%

# Analysis of return on embedded value (ROEV)

	2014		2015	
	Rm	ROEV	Rm	ROEV
Expected return – unwind of RDR	2 289	6.5%	2 758	7.0%
Operating experience variances	544	1.5%	622	1.6%
Embedded value from new business	779	2.2%	954	2.4%
Investment return on adjusted net worth	1 063	3.0%	664	1.7%
Investment variances	1 278	3.6%	(406)	(1.0)%
Non-covered (excl basis changes)	718	2.0%	(557)	(1.4)%
Total (excl assumption changes)	6 671	19.0%	4 035	10.2%
Operating assumption changes	316	0.9%	(292)	(0.7)%
Economic assumption changes	(323)	(0.9)%	51	0.1%
Total return on embedded value	6 664	19.0%	3 794	9.6%

Strong operational performance

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# Momentum Retail

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Total funds received	33 849	34 185	1%
New business PVP	20 434	22 924	12%
Recurring	1 022	1 077	5%
Single	14 926	17 061	14%
Value of new business	240	246	3%
Operating profit after tax	1 372	1 531	12%

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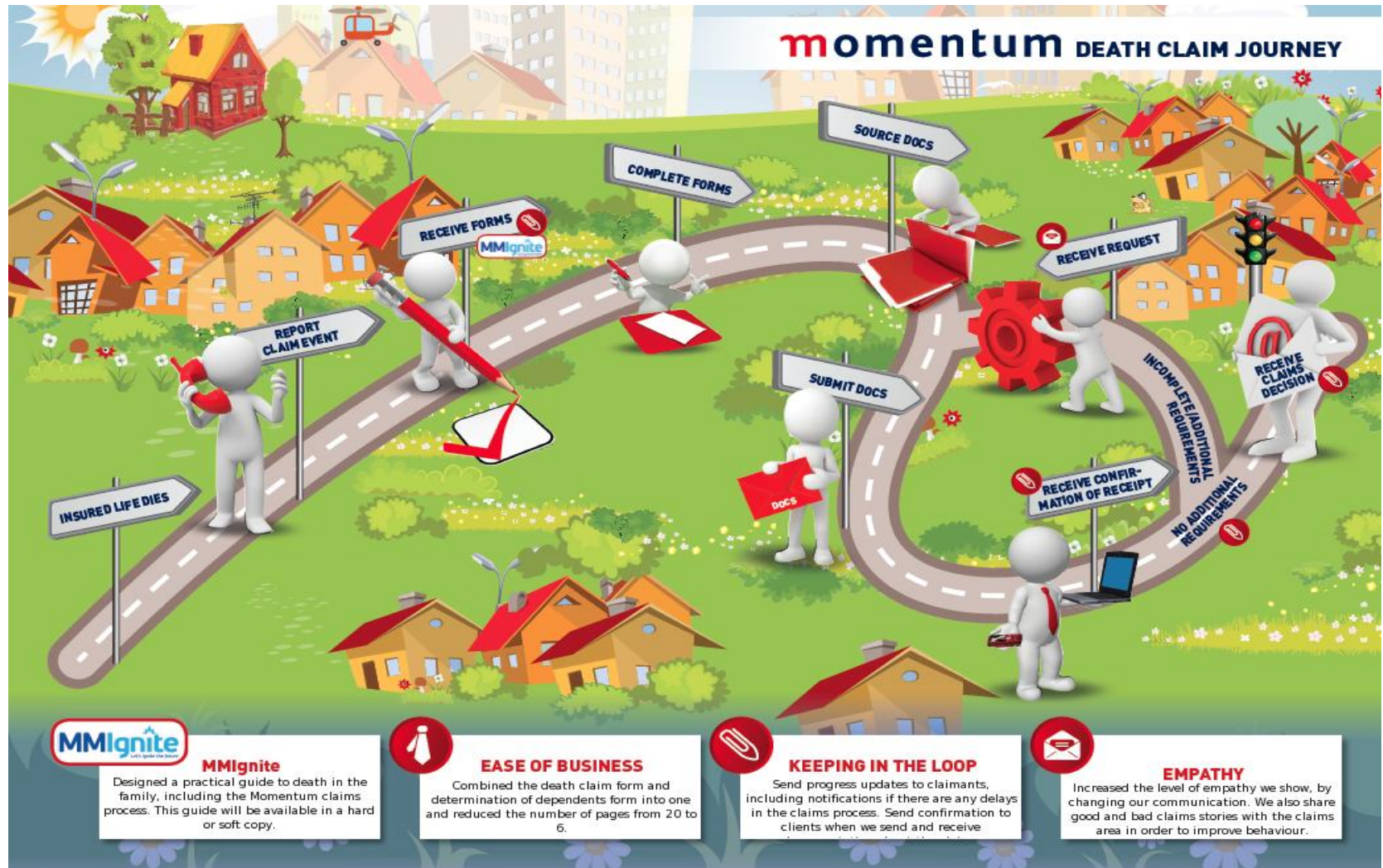
## Key aspects

- Good mortality and morbidity profits
- Increase in single premium sales
- Investing in middle-market and distribution

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Focus on quality new business paying off

# Momentum Retail



# Momentum Retail

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## Strategic initiatives

- Entrench middle-market offering
  - Build and diversify distribution capability
  - Enhance wealth management philosophy and solutions
  - Implement strategic channel and client interaction capabilities
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# Metropolitan Retail

	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Total funds received	6 820	6 910	1%
New business PVP	4 948	5 117	3%
Recurring	1 083	1 045	(4)%
Single	1 077	1 415	31%
Value of new business	236	186	(21)%
Operating profit after tax	587	738	26%

## Key aspects

- New remuneration model impacted sales
- Sales mix and volumes reduced VNB
- Strong single premium sales growth
- Positive mortality experience
- Good expense management

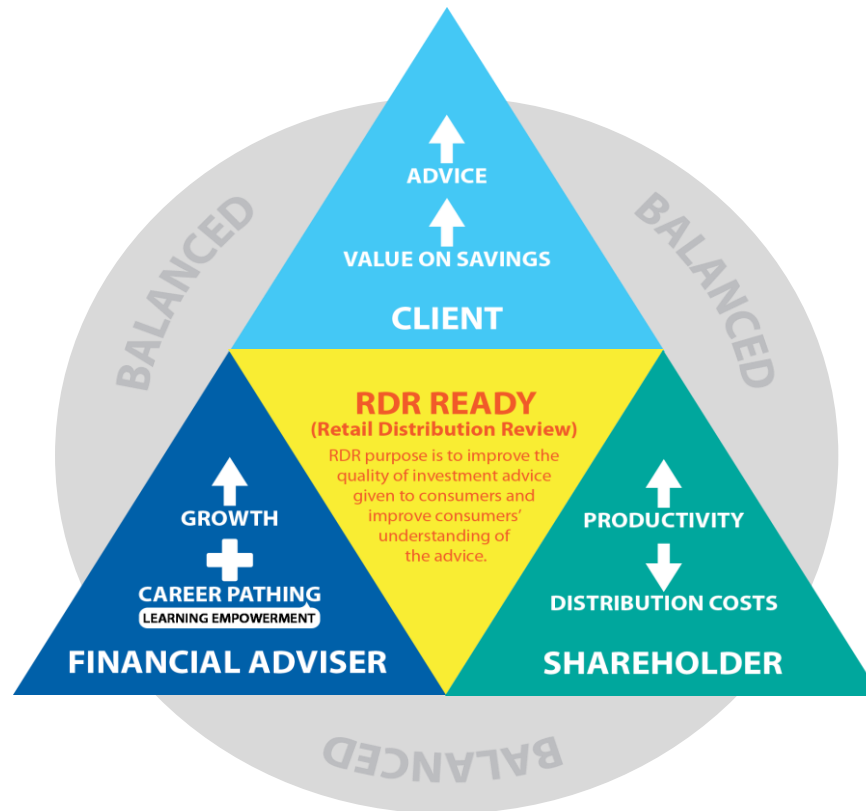
Significant distribution model changes

# Metropolitan Retail

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## Fixing the Adviser Productivity issue

Start with a model that balances the interests of all stakeholders



# Metropolitan Retail

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Personal Financial Advisers	Q4 2014	Q4 2015	Change
Average number of advisers	5 544	3 840	(31)%
APE per adviser	3 947	5 189	31%

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Focus on agent productivity

# Metropolitan Retail

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## Strategic initiatives

- New generation client value proposition
  - Channel productivity
  - Migration to new generation technology platforms
  - Integrated sales and service architecture
  - Channel diversification
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# Momentum Employee Benefits

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	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Total funds received	19 914	24 208	22%
New business PVP	14 491	20 191	39%
Recurring	1 033	1 564	51%
Single	5 351	6 787	27%
Value of new business	254	456	80%
Momentum Open Scheme membership ('000)	117	128	9%
Operating profit after tax	516	660	28%

## Key aspects

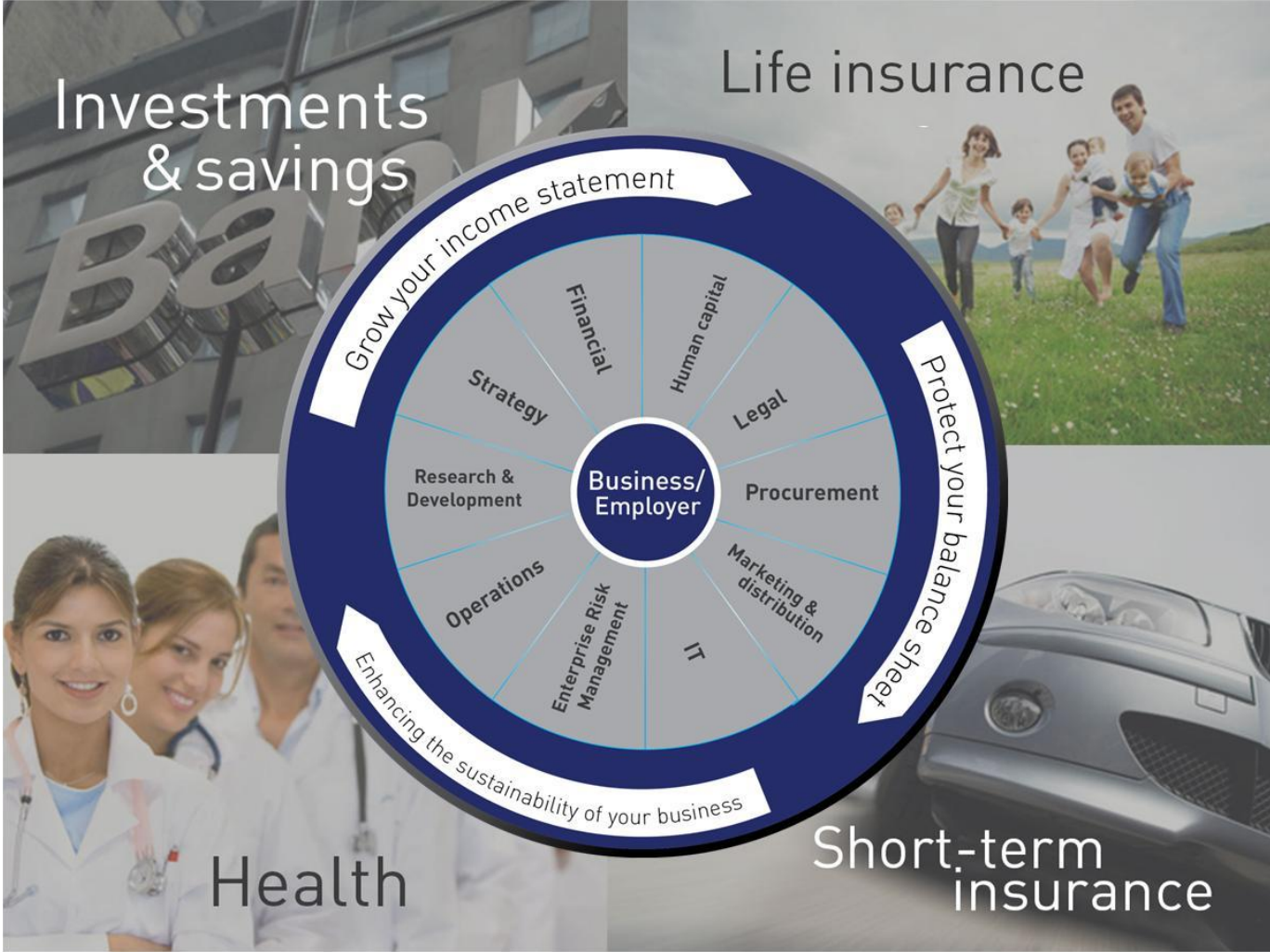
- Positive net cash flow
- Strong new business
- Strong contribution from Guardrisk
- Healthy underwriting margins
- Improved morbidity experience

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Excellent performance



# Momentum Employee Benefits



# Momentum Employee Benefits

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## Strategic initiatives

- Integrated health and risk solutions
  - Ongoing unlocking of Guardrisk synergies
  - Affinity related distribution channels
  - Combined value proposition for corporate clients
  - Focused public sector strategy
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# International

	June 2014	June 2015	Change	Key aspects
	<i>Rm</i>	<i>Rm</i>		
Total funds received	3 740	4 843	29%	<ul style="list-style-type: none"> <li>• Good business growth</li> <li>• Positive mortality experience</li> </ul>
<b>Life insurance</b>				
New business PVP	1 866	2 164	16%	
Value of new business	49	66	35%	<ul style="list-style-type: none"> <li>• Satisfactory medical claims ratios</li> <li>• Growth in profit continues</li> </ul>
<b>Health</b>				
Membership ('000)	415	443	7%	<ul style="list-style-type: none"> <li>• Restructure impacted expenses</li> </ul>
Claims ratio	71%	68%		
Operating profit after tax	122	152	25%	

Solid foundation for value creation

# International

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## Strategic initiatives

- Successfully implement India joint venture
  - Scale East Africa operations
  - Restructure Nigerian operations
  - Grow telco insurance strategy
  - Accelerate product diversification
  - Drive regional hub autonomy and foster collaboration
  - Restructure the centre cost base
-

# Metropolitan Health

	June 2014	June 2015	Change
<b>Total principal members</b>	1 169 045	1 103 126	(6)%
	<i>Rm</i>	<i>Rm</i>	
Revenue	1 560	2 061	32%
Expenses	(1 357)	(1 782)	(31)%
Operating profit after tax	171	209	22%

## Key aspects

- Inclusion of CareCross assisted profit growth
- Industry consolidation continues
- Lost clients / contracts – pressure on revenue
- Efficiency initiatives sustained profitability

Operational efficiencies driving profit growth

# Momentum Short-term Insurance

	June 2014	June 2015	Change
	<i>Rm</i>	<i>Rm</i>	
Premium income	332	506	52%
Claims paid	204	442	117%
Policy count	37 812	56 425	49%
Combined ratio	115.6%	143.0%	(24)%
Solvency ratio	44.8%	43.6%	(3)%
Operating profit after tax	(76)	(169)	(122)%

## Key aspects

- Brand awareness gaining traction
- Significant growth in premium income and policy count
- Aggressive focus on claims experience
- Investing for scale and building capacity

Building capacity

# Momentum Investments

## Key aspects

- Business model clarified
- Reduced performance fees
- R31bn outflow of white-label funds
- Reduced property development profits
- Improved expense ratios

	June 2014	June 2015	Change
	<i>Rbn</i>	<i>Rbn</i>	
Net flows	(7)	(25)	
Insurance	(5)	(3)	
Third-party funds	(2)	8	
White-label CI funds		(31)	
Properties	-	1	
Assets under management	421	430	2%
	<i>Rm</i>	<i>Rm</i>	
Operating profit after tax	197	181	(8)%

Investing in outcomes-based solutions

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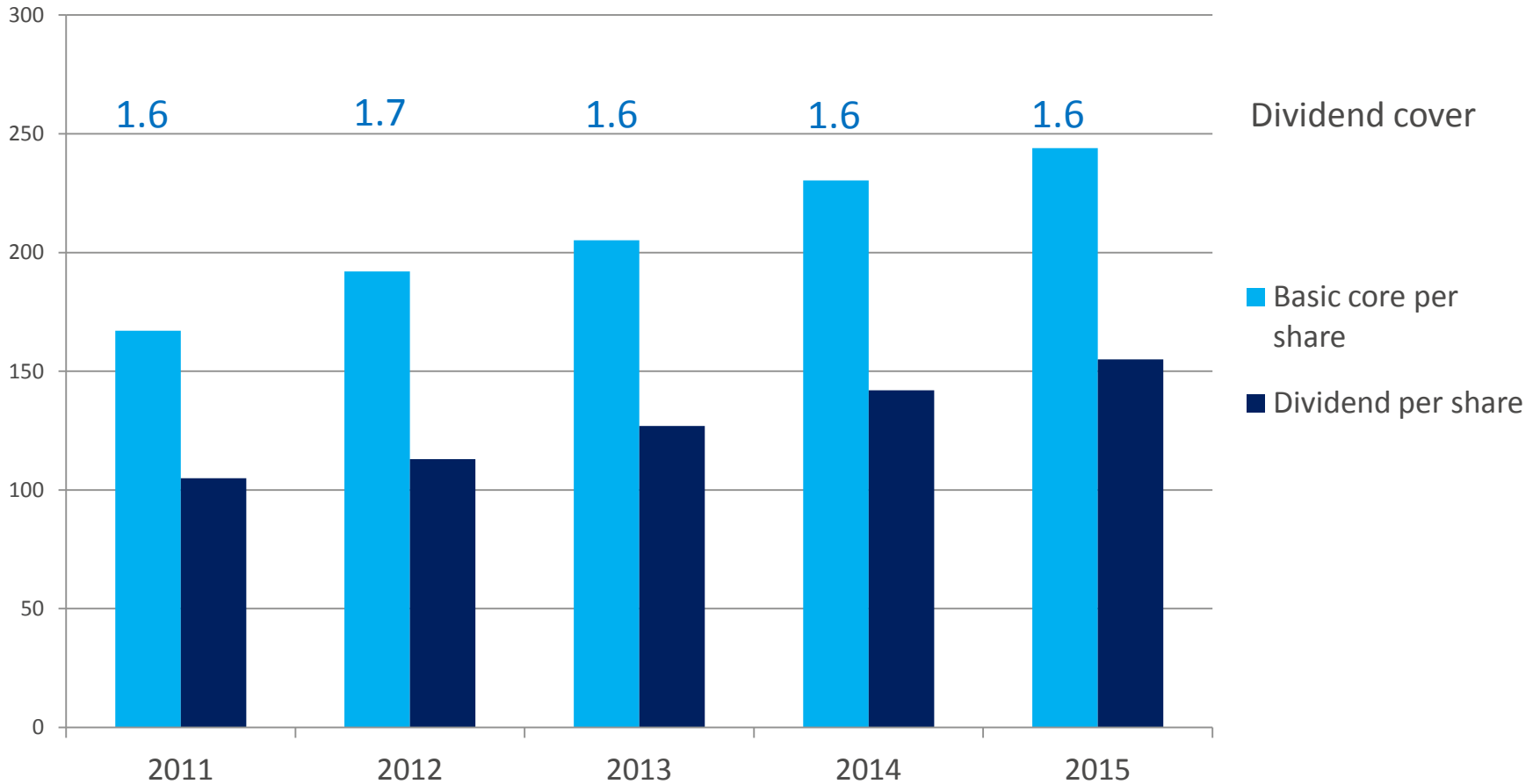
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# Dividend

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## Earnings and dividends



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Consistent dividend track record

# Dividend

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## Dividend policy

- Stable dividend growth
- Long-term view
- Growth in core headline earnings
- Allowance for volatile investment markets, capital requirements and changes in legislation

## Separate dividend policy from capital management

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### Dividend per share (cents)

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	2014	2015	Change
Interim ordinary dividend	57	63	11%
Final ordinary dividend	85	92	8%
Total ordinary dividend	142	155	9%
Special dividend	50		

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# Capital management

## Progress

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### Credit rating

IFS AA+ (zaf)

Sub-debt A+ (zaf)

### Debt

Issue R1.5bn March 2014

Issue R750m Dec 2014

Redeem R500m Dec 2014

Issue R1.25bn Aug 2015

Redeem R1.0bn Sep 2015

### SAM

All projects on track  
for SAM  
implementation

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# Issued debt

June 2015

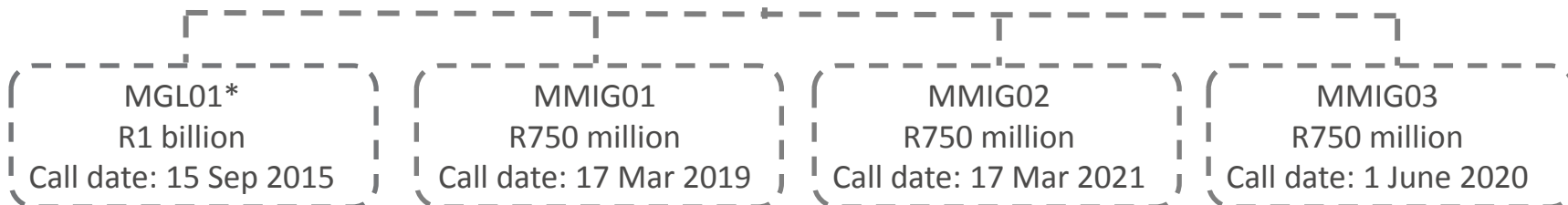
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MMI Group Limited is a 100% owned subsidiary of MMI Holdings Limited. This entity is a registered insurance company that underwrites the long-term insurance policies of Metropolitan and Momentum.



MMI Group Limited - Issuer  
(Long-term insurance license)

Subordinated notes in issue:  
R3.25 billion



\* MGL01 redeemed and replaced by R1.25 billion since year-end

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# Capital strength

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## Economic capital – 30 June 2015

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	Rbn
Net asset value as per embedded value statement	16.5
Qualifying debt	3.3
Less: net asset value of strategic subsidiaries	(2.0)
Less: required capital	(10.6)
Capital before deployment	7.2
Deployed	(2.9)
Final dividend	(1.5)
Debt issue and redemption	0.3
Strategic:      Committed	(0.7)
Growth initiatives	(1.0)
Capital buffer – before SAM	4.3

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Capital strength appropriate under SAM

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# Strategy implementation

## Enablers: Foundation for effective implementation

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### Vision

Preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness

### Purpose

Enhance the lifetime financial wellness of people, their communities and their businesses

Growth

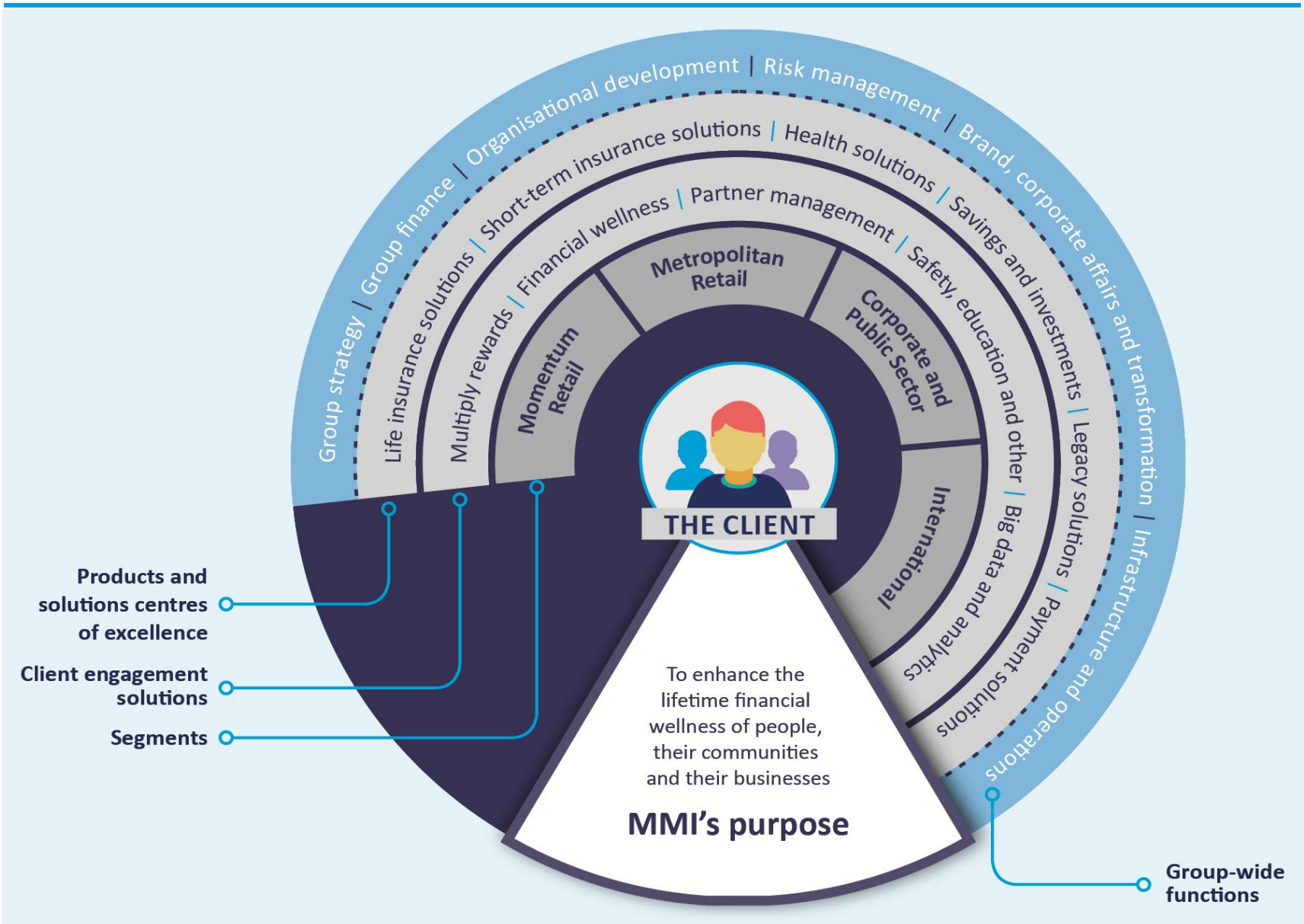
Client centricity

Excellence

### Enablers

- Flexible and modular systems
  - World-class data analytics capability
  - Innovation
  - Collaborative, client-centric and innovative culture
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# MMI operating model





# Investment model objectives

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## Alignment

- Outcome-based investment philosophy across all segments and products
- Access to a comprehensive range of asset strategies

## Optimisation

- Eliminate fragmentation
- Improved client experience
- Improved fee retention and margin

## Stability

- Business model that will be relevant for two decades

## Extract value for shareholders

- Maximise shareholder value



# Aluwani Capital Partners

## The future of empowered investing

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### A leading independent BEE empowered asset manager

- Core black executive and portfolio management team of MAM
- Focus on the strategies required in the BEE market (equity, multi-asset, fixed income and frontier markets)
- Asset book mostly third-party institutional, with additional outsourced mandates

### Partnership

- Independent investment brand
- Mutually aligned objectives between MMI and Aluwani with partner shareholding
- Distribution support



# Strategic focus areas

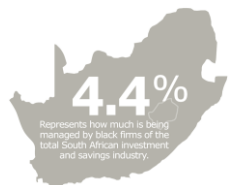
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Restructuring the Investment Centre of Excellence to fulfil on our client-centric business strategy, through a market leading outcome-based investment philosophy



Build internal investment management expertise (eg absolute return and passive strategies)



Reposition in-house investment capabilities to create strategic BEE asset management partner – Aluwani Capital Partners



Explore strategic partnership with best-of-breed boutique asset managers



Evolving our strategic focus to ensure we deliver on our clients' financial wellness aspirations

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# Balanced scorecard

## Weighted for growth

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Key performance indicator (KPI)	2013	2014	2015
Return on embedded value (ROEV)	-	20%	20%
Core headline earnings	30%	25%	25%
Embedded value of new business (VNB)	20%	20%	20%
Integration expense savings	15%	-	-
Transformation	15%	15%	15%
Strategic initiatives	20%	20%	20%
Total	100%	100%	100%

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Align management with shareholders

# Performance management

## Short-term incentive - balanced scorecard 2015

	Weight	F2015 target	Actual	Achieved
Return on embedded value*	20%	11%	11%	↔
Core headline earnings growth	25%	11%	6%	↓↓
Value of new business	20%	R880m	R954m	↑↑↑
Transformation	15%	FSC score of 75	91	↑↑↑
Strategic initiatives	20%	Remco assessment		↑↑
Total	100%			↑

\* Excluding investment variances

Measured against agreed targets

# Performance management

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Long-term performance targets  
– rolling three-year return on embedded value

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Threshold (GDP+3%) 11%

Actual 2013	17%
Actual 2014	19%
Actual 2015	10%

Three-year average 15%

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2016: new threshold

Risk-free + 3%

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Outperformed target

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# Strategic focus areas

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## Growth

- Growth through geographical diversification
- Increase value of existing clients
- Increase client base

## Client centricity

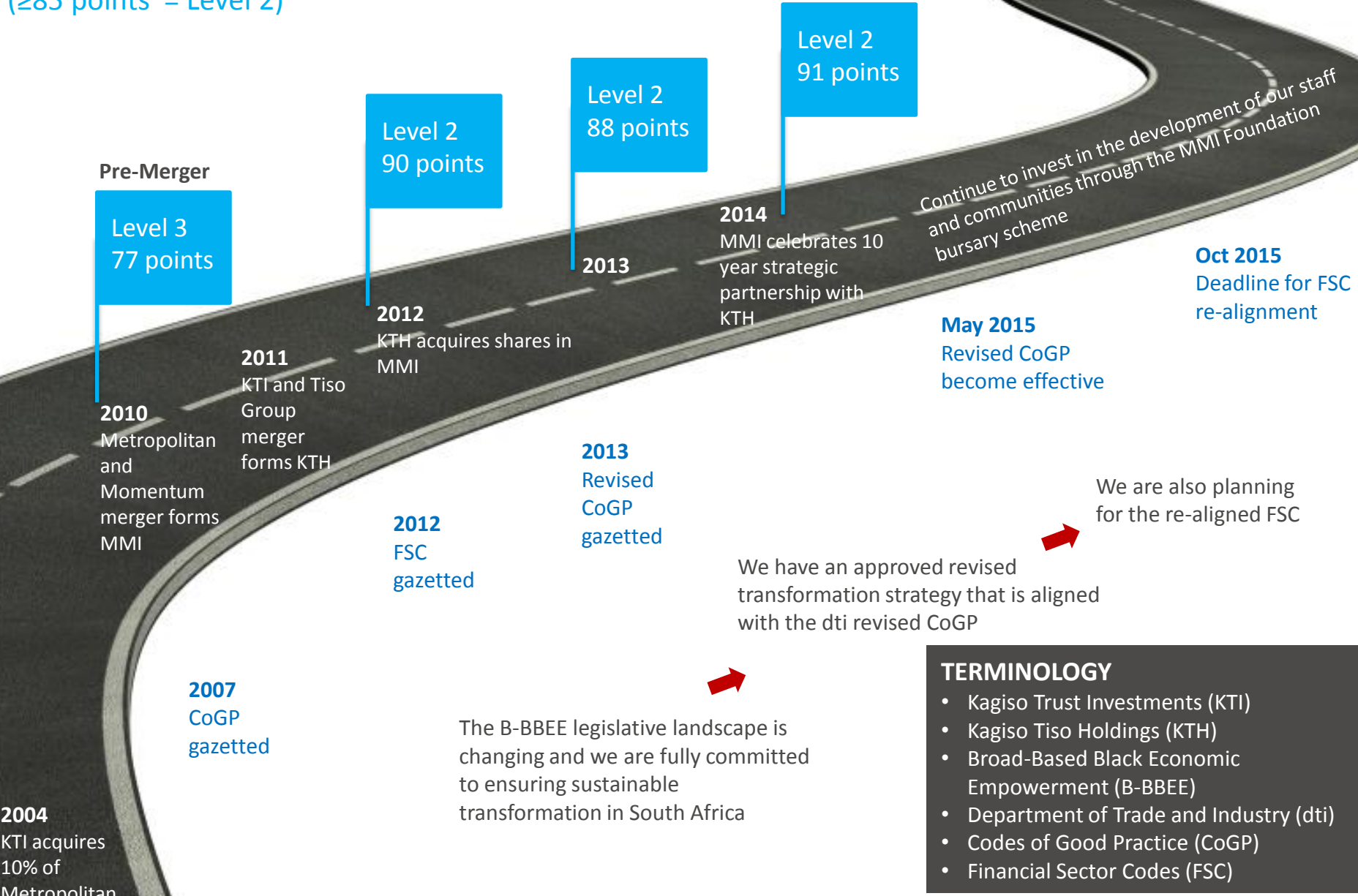
- Increase financial wellness
- Improve client relationships

## Excellence

- Improve efficiency
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# MMI's Transformation Journey – Level 2 since 2012 to date

(≥85 points = Level 2)



**Pre-Merger**

**Level 3**  
77 points

**2010**  
Metropolitan and Momentum merger forms MMI

**2011**  
KTI and Tiso Group merger forms KTH

**2012**  
KTH acquires shares in MMI

**2012**  
FSC gazetted

**2013**

**2013**  
Revised CoGP gazetted

**Level 2**  
88 points

**2014**  
MMI celebrates 10 year strategic partnership with KTH

**Level 2**  
91 points

Continue to invest in the development of our staff and communities through the MMI Foundation bursary scheme

**May 2015**  
Revised CoGP become effective

**Oct 2015**  
Deadline for FSC re-alignment

We have an approved revised transformation strategy that is aligned with the dti revised CoGP

We are also planning for the re-aligned FSC

The B-BBEE legislative landscape is changing and we are fully committed to ensuring sustainable transformation in South Africa

**2004**  
KTI acquires 10% of Metropolitan

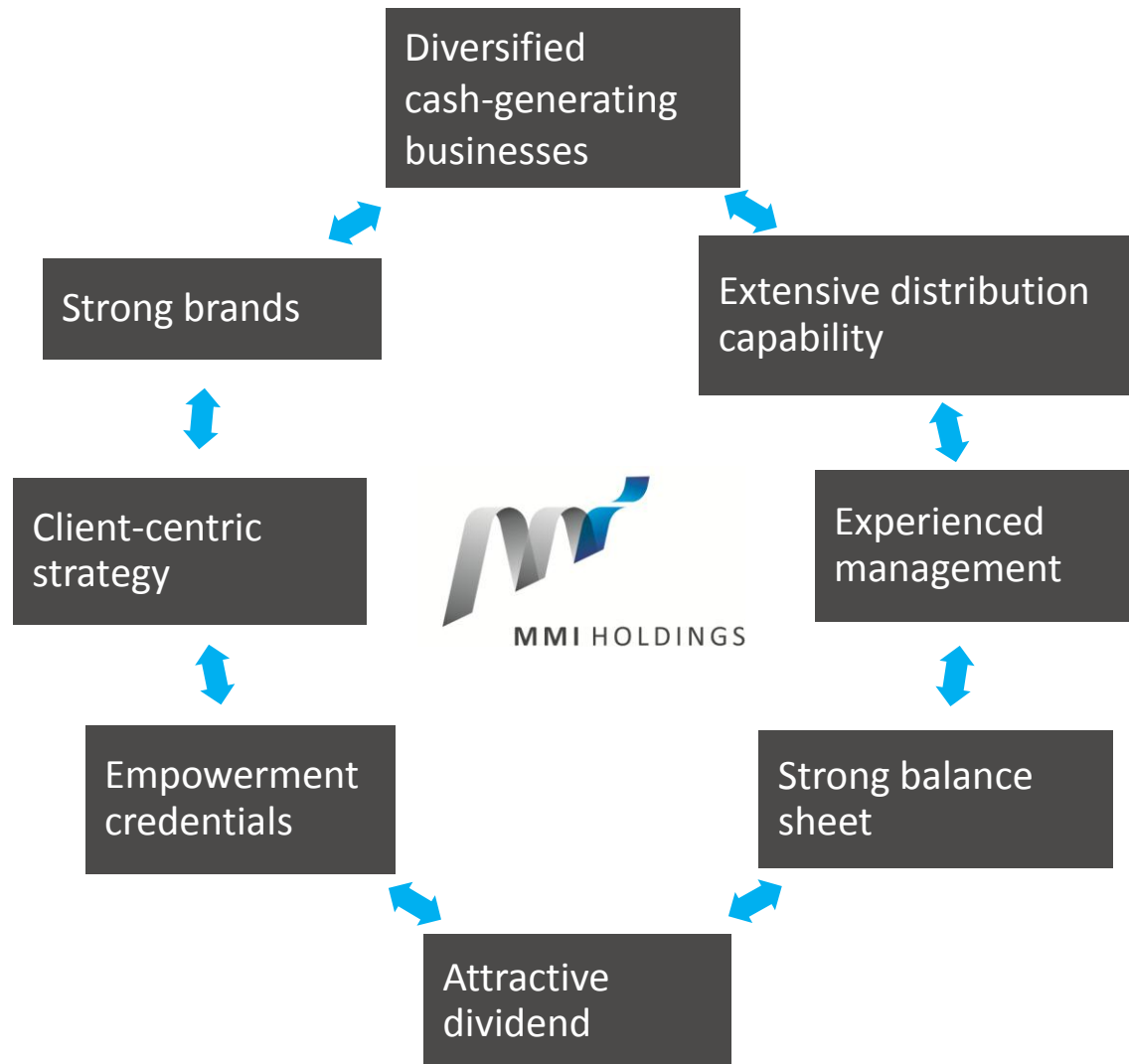
**2007**  
CoGP gazetted

**TERMINOLOGY**

- Kagiso Trust Investments (KTI)
- Kagiso Tiso Holdings (KTH)
- Broad-Based Black Economic Empowerment (B-BBEE)
- Department of Trade and Industry (dti)
- Codes of Good Practice (CoGP)
- Financial Sector Codes (FSC)

# Areas of strength

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# Shareholder structure

as at 30 June 2015

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MMI HOLDINGS

Thank you



# Investor relations

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Visit our website

[www.mmiholdings.co.za](http://www.mmiholdings.co.za)

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