



**MMI HOLDINGS**

VALUE OF NEW BUSINESS up 19% to R711 million  
ANNUALISED RETURN on EMBEDDED VALUE OF 17%  
Profits of OPERATING DIVISIONS up 19%  
Diluted CORE HEADLINE EARNINGS up 10% to R3.2 billion  
MERGER EXPENSE SAVINGS of R346 million  
TOTAL DIVIDEND up 12% to 127 cents per share  
Total ASSETS UNDER MANAGEMENT of R559 billion

## **OVERVIEW OF OPERATIONS AND PROSPECTS**

### **OPERATING ENVIRONMENT**

Local operating conditions remained challenging and highly competitive. Equity markets remained high and interest rate volatility continued. Overall consumer confidence remained fragile, with ongoing labour challenges, high unemployment levels, high indebtedness and increasing inflation reducing disposable or investible income. GDP growth in the rest of Africa, however, is proving to be resilient. Overall, the need for and provision of investment and protection products within MMI's client base remains an important part of financial wellness and planning.

### **GROUP RESULTS**

Despite the tough operating environment, the MMI group delivered very strong financial results for the year.

- The embedded value of R35 billion (2 191 cents per share), after allowing for R2.9 billion worth of dividends paid during the year, generated an impressive annualised return on embedded value for shareholders of 17%.
- Diluted core headline earnings increased by 10% to R3.2 billion for the year. The contribution from operating divisions increased 19% to R2.5 billion.
- Total net cash flow from policyholders and clients amounted to R27 billion for the year.
- The full results of Momentum Namibia, Momentum Short-Term Insurance and the Eris Property Group were included for the first time.

### **MERGER BENEFITS**

- The long-term insurance licences of Metropolitan and Momentum have been amalgamated into MMI Group. The use of a single licence simplifies the group structure and facilitates effective deployment of capital within the MMI Holdings group.
- The well-respected Metropolitan and Momentum client-facing brands continue to operate unchanged.
- Group and divisional strategies have been entrenched and collaboration initiatives between divisions implemented.

- The targeted merger expense savings of R500 million remain attainable, with a reduction of R346 million recorded to date.
- Overall, the benefits envisaged as part of the merger rationale are being realised and can be seen in the results.

## **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.
- The group remains actively involved and committed to the Regulator's Solvency Assessment and Management (SAM) project.
- A strong capital buffer of R3.8 billion was reported at 30 June 2013, after allowing for strategic growth initiatives and the final dividend. The impact of SAM on the capital buffer will be assessed on an ongoing basis.
- The group is satisfied that its present capital level is appropriate in the current environment. This position is regularly evaluated.

## **OVERVIEW OF OPERATIONS**

### **MOMENTUM RETAIL**

- New insurance business, on a present value of premiums (PVP) basis, increased by 6% to R17.4 billion for the year.
- The value of new business increased strongly by 17% to R203 million, confirming the benefits of focusing on good quality new business.
- Good risk and expense experience were reported during the year.
- Operating profit for the year increased by 11% to R1 179 million.

### **METROPOLITAN RETAIL**

- While total PVP was 5% lower, recurring premium new business ended 4% higher than the levels recorded in the prior year.
- The profit-sharing arrangement with FNB Life will reduce from 10% to 5% from 1 November 2013.
- The value of new business for the year decreased to R239 million at a PVP margin of 4.7%, reducing in line with changes to the FNB Life contract.
- Good risk experience and higher asset levels were recorded during the year; however, further investments in the sales force dampened the new business margins.
- Operating profit for the year increased by 16% to R509 million.

### **MOMENTUM EMPLOYEE BENEFITS**

- New business, on a PVP basis, increased substantially, rising 23% to R11.6 billion for the year.
- Good recurring premium new business was written during the second half of the year while increased single premium annuity business was a large contributor to the higher value of new business.
- Client retention interventions resulted in better persistency across all product lines while

improved risk profit performance, with a recovery in disability experience, contributed to positive operating experience variances.

- The value of new business for the year exceeded expectations, increasing 64% to R213 million, at an impressive PVP margin of 1.8%.
- Operating profit for the year increased by 33% to R330 million.

#### **METROPOLITAN INTERNATIONAL**

- New business increased strongly by 23% to R1.6 billion on a PVP basis, with improved contributions from most operations.
- The value of new business followed the same excellent trend, increasing 65% from R34 million to R56 million.
- Lives under administration in the health business increased by 2% to 394 123 while claims ratios improved as a result of successful re-pricing.
- Operating profit for the year increased by 89% to R108 million.

#### **MOMENTUM INVESTMENTS**

- Equity performance showed satisfactory improvement during the year. Further work continues on the institutional balanced mandates.
- The retail offerings gained traction as the market sentiment improved.
- The unconstrained strategies team was established.
- The Eris Property Group was successfully added to the group.
- Operating profit for the year increased by 40% to R175 million.

#### **METROPOLITAN HEALTH**

- Good growth was recorded in the Momentum Health open scheme and the Government Employees Medical Scheme.
- A few corporate schemes were amalgamated into schemes administered outside the MMI group.
- The business continued positioning itself for the anticipated health reforms.
- Operating profit for the year increased by 14% to R151 million.

#### **SHAREHOLDER CAPITAL**

- Shareholder capital includes investment income on shareholder capital, operating profit from the Balance Sheet Management and Momentum Short-Term Insurance businesses, central shareholder expenses and new ventures.
- The current and the prior year results include the reversal of income tax provisions that are no longer required.
- Investment income has been impacted as a result of the R1 billion special dividend paid in October 2012.

## PROSPECTS

- The strategic focus of the MMI group has shifted from integration to growth initiatives.
- Each division has implemented plans and processes to identify and optimise structures, operations, target markets, distribution channels and product offerings through innovation and collaboration.
- Growth in new business volumes will, however, remain dependent on the economic environment, including a recovery in employment and stronger disposable income levels.
- The board of MMI Holdings believes that the group has identified and is busy implementing innovative strategies to unlock value and generate the required return on capital for shareholders over time.