



During the past year, MMI implemented the new operating model required to support our client-centric strategy.

The focus of the 2016 World Economic Forum Annual Meeting at Davos was on the Fourth Industrial Revolution. This revolution is defined as the era of cyber-physical systems, where technology advances in the physical, digital and biological spheres are increasingly becoming more connected, fuelling exponential change on a scale we have never seen before, and disrupting entire industries in its wake. I already referred to this phenomenon in my 2015 CEO Overview and MMI's strategy has been aligned to these major global trends long before they became mainstream mega-trends.

We continue to invest in the capabilities we need to succeed in the world envisioned by the fourth industrial revolution. Most importantly, our client-centric purpose to enhance the lifetime Financial Wellness of people, their communities and their businesses compels us to capitalise on the opportunities created through digital advances, big data and data analytics. These capabilities enable MMI to have an in-depth understanding of our clients, build relevant Financial Wellness solutions and ensure superior client relationships in a cost-effective manner. In this way we create shared value for clients, shareholders and all our other stakeholders.

During 2016 the hard work of MMI's people to advance our client-centric strategy by improving clients' experience has started to pay dividends. I am very proud of the achievement of our two main client brands, Metropolitan and Momentum, who were placed first and second respectively in the annual South African Customer Satisfaction Index.

OVERVIEW OF 2016

ENVIRONMENT AND INDUSTRY

There is no doubt that 2016 has been a very challenging year. Political events in South Africa and globally impacted negatively on already weak local and global economies, and investment markets were mostly flat. In South Africa, all key economic indicators painted a picture of a consumer that experiences even more pressure on disposable income than 2015. Business and consumer confidence indices remain at very low levels. The negative environment inevitably had a commensurate impact on the South African insurance industry and MMI.

STRATEGIC FOCUS AREAS

MMI leverages three strategic focus areas to realise our vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness. We define Financial Wellness to be a continuous process to assist people with planning and managing their money so that they can afford their expenses and reach their goals over their lifetime. All strategic activities throughout the entire MMI organisation are aligned to the focus areas of Client-centricity, Growth and Excellence. During 2016, we have made good progress to achieve the strategic objectives in respect of all three our strategic focus areas.

Client centricity

In respect of client centricity we have completed the development of Financial Wellness value propositions for all our South African client segments. We continue to measure the financial wellness of South African citizens through the Momentum Financial Wellness Index (in partnership with UNISA) and our Corporate and Public Sector segment has developed a range of indices to measure the Financial Wellness of their corporate clients.

Multiply is our Wellness and Rewards program that we use to unlock Financial Wellness by educating, empowering, engaging and encouraging clients to better plan and manage their money, and increase their Financial Wellness in this way. In addition to the inherent benefit of enhanced Financial Wellness, MMI's clients saved more than R400 million through Multiply partner rewards and internal MMI product discounts in the 2016 financial year.

By influencing clients' behaviours and enhancing their Financial Wellness, shareholders benefit through a reduction in claims, improved persistency and higher cross-sell ratios. For example, Momentum Retail's overall cross-sell ratio is currently about 1.8, while the average cross-sell ratio for Multiply clients is 3.2 and the top Multiply category (Private Club) has a cross-sell ratio of 5.3.

Growth

Africa, India and the United Kingdom remain the focus of our objective to grow through geographical diversification. We are in the process of focusing our growth efforts in Africa on a smaller number of countries and product lines that have the highest growth potential, and have also strengthened the executive management team of the International segment. In line with global trends in the digital space, we have partnered with MTN in Africa to form a joint venture (JV) that will offer innovative insurance solutions through MTN's significant telco distribution network on the continent. The JV is called "aYo", which means Joy. In India we have received all the requisite regulatory approvals for our Health and Wellness JV with the Aditya Birla Group. We plan to launch this offering towards the end of the 2016 calendar year and are excited about the long-term prospects of this business.

A next important growth objective is to increase the value of our existing clients, primarily by increasing the number of MMI solutions per client, and enhancing clients' Financial Wellness

in the process. In this regard we have made good progress to strengthen our Short-term Insurance and Health Centres of Excellence. Our Multiply Wellness and Rewards program plays an important role to achieve this objective.

MMI's client-centric strategy requires us to follow an omni-channel distribution and client interaction approach. We achieved a number of milestones to strengthen and align all our distribution channels, from face-to-face to digital, and our strong sales growth for 2016 is evidence of our progress towards the strategic objective to increase the number of MMI clients.

Excellence

In my previous CEO overview I referred to the optimisation opportunities created by MMI's new client-centric operating model. During 2016 we made excellent progress towards achieving our objective to improve efficiency. We set ourselves a target to save R750 million in our annual cost base by 2019 and achieved cost savings of R104 million during 2016, slightly ahead of the target for the year.

STRATEGIC ENABLERS

Earlier in this CEO overview I referred to our investment in the critical capabilities that will enable MMI to be successful in the new world of the fourth industrial revolution. During 2016 significant headway has been made in respect of strengthening our four strategic enablers, to build flexible and modular systems, increase data analytics skills, vest a client-centric culture and increase innovation.

In respect of innovation MMI launched its "Exponential Ventures" business during the year. This business invests in innovative young businesses globally, where it is believed they will enhance MMI's competitive position. The specific focus is around connecting with technologically driven start-ups that have the potential to significantly enhance MMI's existing business in win-win partnerships, or hold the potential to transform the life insurance industry by profitably reaching new markets, meeting new needs or leveraging new technologies and business models.

The external innovation strategy has been implemented in a two-pronged fashion, leveraging key strategic partnerships in the London FinTech market and in the domestic South African venture capital scene. Strategic partnerships have been entered into with the highly respected Anthemis Group and 4Di Capital venture capital firms in London and Cape Town, respectively.

FINANCIAL PERFORMANCE

The results of MMI for the financial year ended 30 June 2016 were characterised by weak earnings, but solid performance in the rest of the key financial metrics. The following key themes were observed:

- Strong overall new business volumes, supported by solid retail new business sales and excellent sales growth by Guardrisk.
- Significantly lower than expected underwriting profits, especially in the Corporate and Public Sector, and International segments.
- Muted equity market growth impacting negatively on asset-based fees and discretionary margin releases.
- Continued investment in a number of strategic initiatives that do not yet contribute positively to earnings.
- Very good expense management across the group.
- A good recovery in the return on embedded value (ROEV), most notably through the impact of cost efficiencies and an improved outlook for non-covered businesses.



For further details on the financial performance, refer to the finance director's report on page 39.

TRANSFORMATION

We remain committed to creating sustainable transformation in the South African economy and have maintained our Level 2 Contributor status. Transformation remains a critical building block to achieve our objective of enhancing Financial Wellness for all.

MMI achieved a full score for Enterprise Development (ED) in the 31 December 2015 BEE scorecard. This was achieved via the Aluwani Capital Partners transaction, whereby MMI provided vendor financing for the management buy-out (MBO) by a few key individuals from the old Momentum Asset Management. MMI facilitated this MBO in the spirit of transformation and to complement our new Outcomes-Based Investment philosophy. We are proud to be an industry first in this regard.

LOOKING AHEAD

The current challenging environment for both consumers and businesses is likely to prevail for some time, and the advance of cyber-physical systems will accelerate. In these circumstances, more than ever, I believe MMI's client-centric strategy and investment in capabilities to succeed in the new world are

completely appropriate. Together with our industry peers we will be subject to a tough and uncertain environment. I am convinced that our strategy and MMI's people will ensure that we navigate through this cycle successfully.

THANKS

I would like to thank everyone involved with MMI for their contributions during the year. The past year required on-going commitment and resilience, and our board, management team and employees rose to the occasion. I would also like to thank our shareholders for their support and especially all MMI's clients for partnering with us to enhance their Financial Wellness. We look forward to journey together with all MMI's stakeholders towards a new and exciting world.

NICOLAAS KRUGER

Group chief executive officer