GROUP FINANCE DIRECTOR'S REPORT

PRESTON SPECKMANN

INTRODUCTION

MMI's results for 2014 confirm that the group has continued on its path of reshaping itself to meet the challenges facing the industry and at the same time live up to its defined purpose of "enhancing the lifetime financial wellness of people, their communities and their businesses".

Despite uncertain economic indicators and market volatility the group performed well, with exceptional expense management across divisions and a healthy increase in operating profits from all divisions.

All these factors contributed handsomely to the group's ability to deliver quality earnings and embedded value growth from all its divisions which has also become a key and recognised metric amongst shareholders.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The full results have been prepared in accordance with International Financial Reporting Standards (IFRS); relevant SAICA guides and Pronouncements; JSE Listings Requirements; as well as the South African Companies Act 71 of 2008. The accounting policies have been applied consistently to all the periods presented, except for the new and revised accounting standards adopted. The most significant of the new standards adopted was IFRS 10, resulting in additional collective investment schemes being consolidated and updates on cell captive disclosures. The comparatives have been restated for this; however, it had no impact on the current or prior year earnings or net asset value.

RECENT TAX AMENDMENTS

Life Insurance Taxation

National Treasury has announced its intention to separate the taxation of risk and investment business of long-term insurers. Industry players have had formal discussions with National Treasury and SARS regarding the practical implementation thereof. The concern behind this initiative is that risk policyholders are currently benefiting in that expenses relating to risk policies can be offset against investment returns from investment policies. Risk business will no longer be subject to trustee taxation; instead only trading profits will be taxed, similar to short-term insurance. The proposed mechanism to achieve this is to treat new risk policies written from 1 January 2016 directly in the Corporate Fund (CF).

Treasury agreed to apply the regime change to new business only, commencing in 2016. While the principle is generally supported, industry seeks more clarity in respect of the details and implementation of the proposal in order to consider its full impact.

MMI is still assessing the proposal but remains concerned that it may result in an increase in risk premiums over the longer term.

FATCA

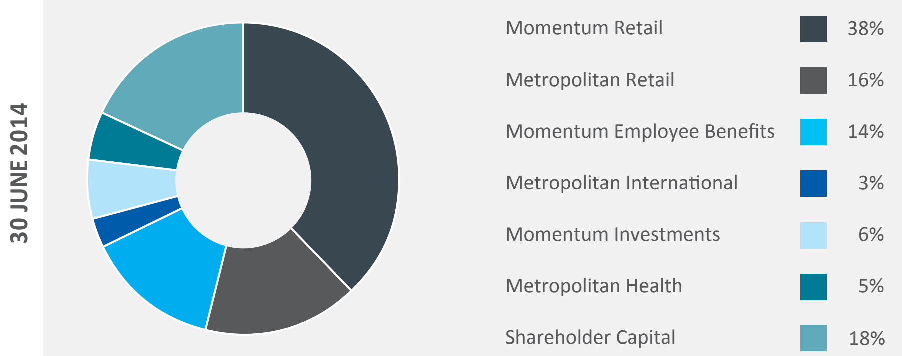
Foreign Account Tax Compliance Act (FATCA) became effective on 1 July 2014 and ushered in a new era of inter-governmental reporting. South Africa concluded a Model 1 Inter-governmental Agreement (IGA) with the United States that simplified the reporting requirements for South African entities. Formal reporting in terms of the IGA will commence on 1 June 2015 and the group has implemented a project to meet the requirements.

With regard to the group's foreign operations located in a country that has not concluded an IGA, the respective entities were categorised and registered directly with the Internal Revenue Service (IRS), which will prevent the imposition of withholding charges. It is, however, anticipated that the impact will be limited as most of the products offered in the foreign jurisdictions will fall below the reporting thresholds of FATCA.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

	June 2014 Rm	Restated June 2013 Rm	Change
Momentum Retail	**1 372**	1 158	18%
Metropolitan Retail	**587**	509	15%
Momentum Employee Benefits	**516**	341	51%
Metropolitan International	**122**	108	13%
Momentum Investments	**197**	175	13%
Metropolitan Health	**171**	140	22%
Operating divisions	**2 965**	2 431	22%
Shareholder Capital	**656**	810	(19%)
Total diluted core headline earnings	**3 621**	3 241	12%

CONTRIBUTION TO OPERATING PROFIT



DIVISIONAL PERFORMANCE REVIEW

	Momentum Retail			Metropolitan Retail			Momentum Employee Benefits		
Life businesses	**June 2014 Rm**	Restated June 2013 Rm	Change	**June 2014 Rm**	Restated June 2013 Rm	Change	**June 2014 Rm**	Restated June 2013 Rm	Change
Total funds received	**33 849**	33 210	2%	**6 820**	6 246	9%	**19 914**	14 826	34%
New business PVP**	**20 434**	17 421	17%	**5 372**	5 042*	7%	**14 491**	11 627	25%
Recurring	**1 022**	1 057	(3%)	**1 083**	990*	9%	**1 033**	769	34%
Single	**14 926**	11 376	31%	**1 501**	1 230	22%	**5 351**	5 067	6%
Value of new business	**240**	203	18%	**236**	209*	13%	**254**	213	19%
PVP margin	**1.2%**	1.2%	–	**4.4%**	4.2%*	–	**1.8%**	1.8%	–
Operating profit after tax	**1 372**	1 158	18%	**587**	509	15%	**516**	341	51%

* Excludes FNB Life business.
** Present value of premiums.

DIVISIONAL PERFORMANCE REVIEW *CONTINUED*

Metropolitan International	June 2014 Rm	Restated June 2013 Rm	Change
Total funds received	**3 740**	3 471	8%
Life insurance			
New business PVP	**1 866**	1 635	14%
Value of new business	**49**	56	(13%)
PVP margin	**2.6%**	3.4%	
Health			
Membership ('000)	**415**	394	5%
Claims ratio	**71%**	69%	
Operating profit after tax	**122**	108	13%

Momentum Investments	June 2014 Rbn	Restated June 2013 Rbn	Change
Funds received	**78**	106	(26%)
Funds paid out	**(85)**	(86)	–
Net flows	**(7)**	20	–
Assets under management	**395**	356	11%
	Rm	Rm	
Operating profit (incl investment income) after tax	**197**	175	13%

Metropolitan Health	June 2014	Restated June 2013	Change
Total principal members	**1 169 045**	1 144 171	2%
	Rm	Rm	
Operating profit (incl investment income) after tax	**171**	140	22%

GROUP FINANCE DIRECTOR'S REPORT *CONTINUED*

MOMENTUM RETAIL

Despite trading conditions that remained challenging throughout the 2014 financial year, Momentum Retail increased its operating profit for the year by 18% to R1 372 billion.

New insurance business, on a present value of premiums (PVP) basis, increased by 17% to R20.4 billion for the period under review.

Solid revenue growth of 8%, due to good fee margin growth as well as growth in fee-based revenue combined with good expense management, resulted in core headline growth of 18%.

The value of new business increased strongly by 18% to R240 million, boosted by excellent guaranteed endowment sales. Good risk experience continued, confirming the benefits of focusing on good quality new business.

The good new business volumes, together with good expense management, resulted in a satisfactory value of new business margin of 1.2%.

METROPOLITAN RETAIL

Clients throughout Metropolitan Retail's target markets were negatively affected by reduced disposable income and exposure to consumption debt. Regardless of the harsh economic conditions faced by clients, the Metropolitan brand once again proved to be one of the main competitors in the emerging market segments. Single premium new business continued to perform very well, ending 22% higher, while recurring premiums increased by 9%.

The division's contribution to group headline earnings increased by a healthy 15% to R587 million. From 1 July 2013, the 10% profit share arrangement with FNB Life reduced to a 4% share. The value of new business for the year increased 13% to R236 million supported by well-contained expenses.

The division is in the process of building a new policy administration system, called Khula, which will ultimately result in cost benefits.

MOMENTUM EMPLOYEE BENEFITS (MEB)

The operational and financial performance of MEB for the reporting period under review was excellent, with profits of R516 million, which is 51% above the profit achieved during the corresponding period for the 2013 financial year.

This performance was achieved despite significant pressure from competitors, especially in the large risk schemes space.

It is particularly pleasing to note that all the different businesses in the division contributed to the exceptional performance over the reporting period. Good risk and investment recurring premium new business were secured, particularly in the small, medium and micro-enterprise (SMME) space, while increased retirement fund single premiums further boosted volumes.

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 VNB of R254 million exceeded expectations and can largely be attributed to the performance of the SMME business segment.

The acquisition of Guardrisk, the specialist alternative insurance provider, is significant as it provides MEB access to scarce skills, additional niche insurance products, material growth in the corporate client base and a range of opportunities to unlock value from the synergies identified between the two businesses.

Product innovation remains a priority and much work has been done, especially on developing new and innovative products for the investment market which will improve the competitiveness of the division in this market.

METROPOLITAN INTERNATIONAL

New business increased 14% to R1.9 billion, on a PVP basis, with improved contributions from most operations. The division contributed R122 million to core earnings, which represents a significant 13% increase on the prior year.

Lives under administration in the health business (Momentum and Metropolitan Health) increased by 5% to 415 000.

This business acquired a 75% share in Cannon Assurance in Kenya after year-end. The financial results of this business will be included in MMI's results from the 2015 financial year.

MOMENTUM INVESTMENTS

Core earnings for the investments division increased 13% to R197 million. Increased revenue, with a focus on cost efficiencies, resulted in improved expense ratios.

The drive for investment excellence is paying off, with equity and balanced fund performance showing satisfactory improvement.

The longer-term outlook for the investment management business is positive through:

- Key investment capabilities delivering good performance
- The Momentum investment brand regaining traction in the market
- The strengthening of alignment to the group and its new business model

The business continues with its focus on investment excellence and improving the client experience, as well as operational efficiencies.

METROPOLITAN HEALTH

The growth of 22% in diluted core headline earnings to R171 million is mainly due to the acquisition of Providence Healthcare Risk Managers and cost-saving initiatives implemented by management. Total members under administration remain steady at 1.2 million principal members or three million lives.

The business continues to refine the operating environment in order to ensure seamless delivery of the multiple administration models.

Management is confident that all key services were delivered to the relevant medical schemes and that the Public Scheme solvency stood at 46.33% towards the end of the reporting period.

Going forward, the focus remains on client retention and consistent and excellent client-service delivery to all its stakeholders.

SHAREHOLDER CAPITAL

The core earnings attributable to shareholder capital decreased overall by 19% to R656 million. This comprises an increase of 20% in the core earnings of Balance sheet management (BSM), and a decline of 44% in the core earnings arising from the remainder of the shareholder capital components. These items comprise the investment income on shareholder assets and losses arising from certain strategic initiatives that are in a start-up phase.

The increase in the BSM results was driven by the positive impact of strong equity market growth on the market risk management strategies employed by BSM.

The decrease in the core earnings from the remainder of the shareholder capital items is due to:

- The decrease in the capital base due to the acquisition of Guardrisk, the payment of the special dividend in the prior year and the repurchase of the MMI Group Limited preference shares from FirstRand;
- The start-up losses arising from Momentum Short-term Insurance and Hello Doctor; and
- The non-recurrance of the release of certain tax over-provisions in the prior year.

CAPITAL MANAGEMENT

Despite investment markets globally having recovered and good performance from the South African investment markets during the reporting period, the situation is still volatile and unpredictable. The group remains satisfactorily capitalised as shown in the current statutory capital adequacy requirement (CAR) covers of the various life businesses, also evidenced by the fact that the MMI Holdings life entities' solvency requirements are covered 2.9 times, with discretionary margins of R9.6 billion (net of tax).

The group is in the process of preparing for the adoption of the Solvency Assessment and Management (SAM) regulatory capital regime which will be applicable from 1 January 2016.

We participated in the Financial Services Board's (FSB's) third quantitative impact study (QIS 3). Technical details are still being deliberated, and the outcome of these deliberations will be incorporated into the capital modelling process. The FSB will also in the interim introduce certain minimum standards of risk management and governance through a Board Notice as well as a formal framework for insurance group supervision that will be provided for through the Twin Peaks process. The group participated in the FSB's second Pillar II readiness assessment and early indications are that the group will be well positioned to deal with the requirements once effective.

2014 is a landmark year for SAM as the project will officially move from the development phase to the implementation phase, with the introduction of the light parallel run in the second half of 2014. During 2015, implementation efforts will be increased in the move to the comprehensive parallel run. There will also be a mock Own Risk and Solvency Assessment (ORSA) exercise where the group will be required to submit some ORSA information to the FSB.

Ultimately SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits.

For a detailed report on the capital management activities I would like to refer you to the risk management and balance sheet management sections of this report on pages 189 to 192 and page 43 and 44.

KEY PERFORMANCE INDICATORS

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 include both short-term and longer-term objectives.

SHORT-TERM PERFORMANCE INDICATORS – BALANCED SCORECARD

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 2014, the following set of short-term deliverables applied to the group as a whole:

Performance management	Weighting	F2014 target	Actual	Achieved
Return on embedded value (ROEV)*	20%	**11%**	16%	Target exceeded
Core earnings	25%	**11% growth**	12%	Target achieved
Value of new business (VNB)	20%	**R756m**	R779m	Target achieved
Transformation	15%	**FSC score of 75**	79	Target achieved
Strategic initiatives	20%			Target achieved

* For purposes of measuring performance over a 12-month time horizon, the return on embedded value excludes items that can directly be ascribed to movements in investment markets. This is done to emphasise operational performance.

For internal measurement purposes, performances against each of the five indicators are evaluated against a scale of one to five, where the targets (as per the table) each corresponds to a "three" rating. Specific targets have been set for each division and subsidiary.

LONGER-TERM PERFORMANCE INDICATOR – RETURN ON EMBEDDED VALUE (ROEV)

As an indicator of financial performance over the medium to longer term, the group's return on embedded value is measured on an annual basis, but averaged over a rolling three-year period. The targeted rate of return has been set at 300 basis points in excess of the annual growth in South Africa's gross domestic product (GDP). The target is reviewed on an annual basis.

The performance of the group is measured against the targeted hurdle rate, as well as against the average ROEV achieved by MMI's peers over the three-year period.

The following table is an analysis of the group's return on embedded value for the year ended 30 June 2014:

	2014	
	Rm	ROEV
Expected return – unwind of risk discount rate (RDR)	**2 289**	**6.5%**
Operating experience variances	**544**	**1.5%**
Embedded value from new business	**779**	**2.2%**
Investment return on adjusted net worth	**1 063**	**3.0%**
Investment variances	**1 278**	**3.6%**
Non-covered (excl basis changes)	**718**	**2.0%**
Total (excl assumption changes)	**6 671**	**19.0%**
Operating assumption changes	**316**	**0.9%**
Economic assumption changes	**(323)**	**(0.9%)**
Total return on embedded value	**6 664**	**19.0%**

The returns shown in the table are aggregates for the group, including both covered and non-covered business.

CREATING SHAREHOLDER VALUE

On an embedded value basis, MMI created shareholder value amounting to R6.7 billion during the 2014 financial year. This represents an impressive 19% return on embedded value, despite the conservative investment strategy followed on MMI's economic capital base.

The embedded value earnings were characterised by excellent risk underwriting results across all the life divisions. The group also benefited from excellent equity market returns and beneficial levels of interest rate and equity volatilities in South Africa in terms of increases in fees and reductions in investment guarantees.

Various group-wide initiatives are starting to filter through in terms of improvements to the valuations of strategic subsidiary companies.

MERGER SAVINGS

Total recurring merger savings of R522 million (target R500 million) per annum was achieved before the 2014 financial year-end.

DIVIDENDS

MMI's approved dividend policy is to provide shareholders with stable dividend growth that reflects underlying earnings growth in the medium term, while allowing the dividend cover to fluctuate.

The dividend history table below confirms the cash-generative nature of the group. It also reflects MMI's commitment to providing shareholders with steady dividend growth. The operational performance of the group over the past 12 months enabled the board to declare a 12% increase in the total dividend to 142 cents per share and a special dividend of 50 cents per share.

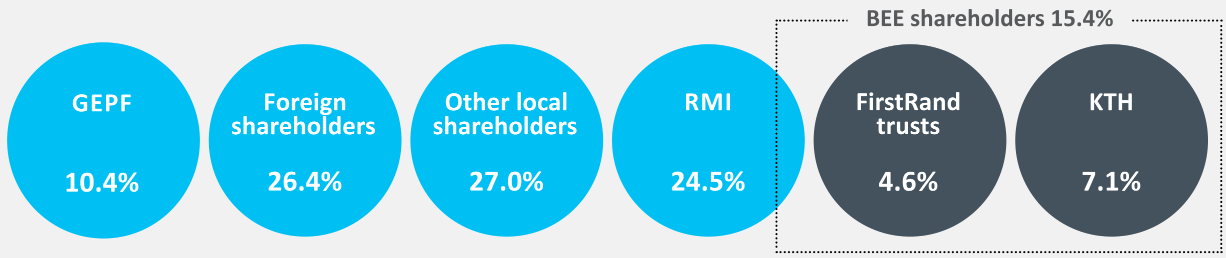
Dividends	2011	2012	2013	2014
Ordinary dividend paid cents per share (cps)	105.00	113.00	127.00	**142.00**
Growth in dividend per share (%)	–	8	12	**12**
Dividend cover (times – core headline earnings per share)	1.6	1.6	1.6	**1.6**
Dividend yield (%)	6.2	6.3	5.7	**5.4**
Special dividend paid (cps)	21	65	–	**50**

VALUE ADDED STATEMENT

	30 June 2014 Rm	Restated 30 June 2013 Rm
How we created value		
Revenue	**87 654**	73 414
Net insurance premiums received[1]	**23 138**	23 304
Fee income	**6 567**	6 205
Investment income	**14 043**	13 046
Net realised and fair value gains	**43 906**	30 859
Less:		
Non-operational expenses	**(8 381)**	(7 767)
Commission paid to agents and brokers	**(3 899)**	(3 061)
Value created	**75 374**	62 586
How we allocated this value		
Insurance benefits and claims[2]	**63 130**	52 347
Employee benefit expenses	**5 132**	4 494
Depreciation, amortisation and impairment	**1 159**	1 144
Government	**2 458**	1 804
Shareholders	**2 287**	3 032
Ordinary dividends paid	**2 092**	2 886
Finance costs of debt (Including Preference shares)	**195**	146
	74 166	62 821
Business expansion/(net reduction of capital)	**1 208**	(235)
	75 374	62 586

1 Net insurance premiums received include premiums from insurance and investment with discretionary participation features (DPF) business.
2 Insurance benefits and claims include claims from insurance and investment business and the change in insurance related liabilities.

SPLIT OF SHAREHOLDERS



CONCLUSION

The 2014 financial year brought with it many challenges. However, the group was also presented with strategic business opportunities which were keenly and successfully pursued by the relevant divisions.

I would like to acknowledge the invaluable contribution of all the divisions and group support service areas within the group, as well as my fellow directors, for their dedication and strategic input in making MMI the reputable and leading financial services provider it has become.

PRESTON SPECKMANN
GROUP FINANCE DIRECTOR

BALANCE SHEET MANAGEMENT (BSM)

BSM has been tasked with enhancing and protecting the MMI shareholder balance sheet as far as exposure to direct market risk is concerned. In managing these risks, BSM seeks to enhance returns and earnings while optimising the level of market risk capital the group is required to hold against these risks. BSM is responsible for ensuring that these risks are identified, quantified, monitored and actively managed within an approved mandate and framework. The financial performance of BSM is included in the Shareholder Capital segment in the segmental report on pages 128 and 129.

OPERATIONS

The operating model presents one view of the sensitivity of the shareholder balance sheet to market and credit risks, and the resultant impact of these sensitivities on earnings, embedded value and solvency. This gives rise to a significant business opportunity through the generation of profits while optimising capital levels and market risk management, on a holistic balance sheet basis, by being able to:

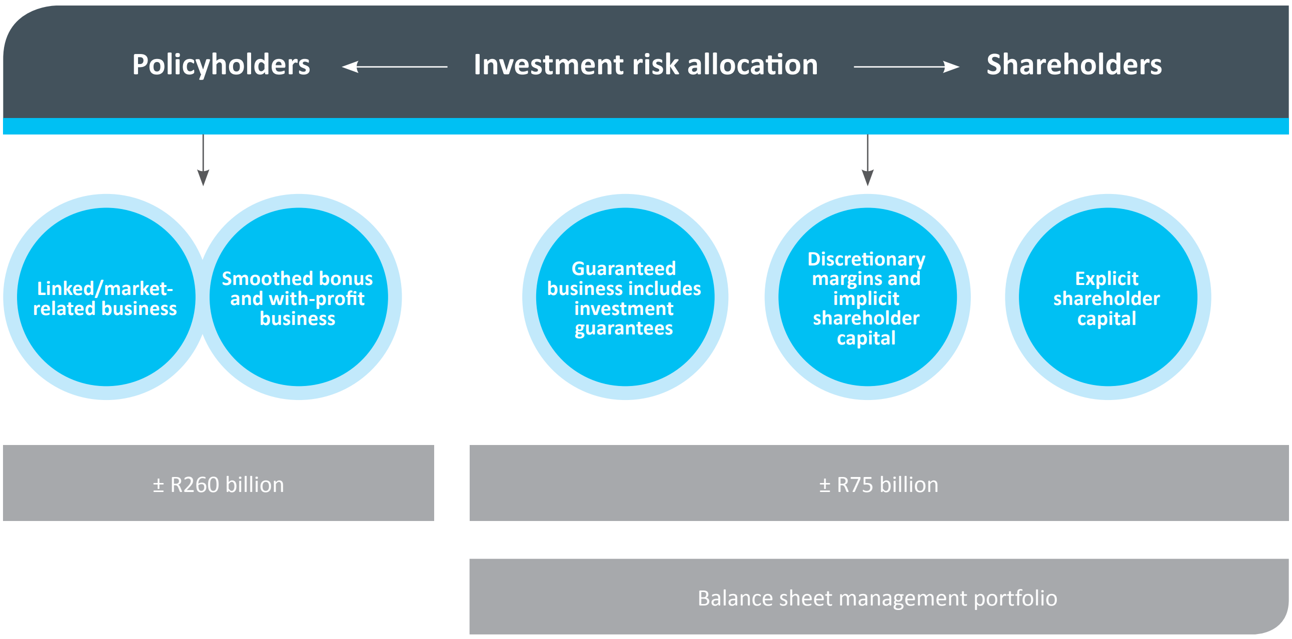
- Manage the balance sheet within group risk tolerance levels
- Manage market risk economic capital levels
- Apply a single market risk view across the MMI balance sheet thereby removing sub-optimisation
- Manage net market risk positions and alleviating offsets
- Manage shareholder credit exposures and credit lines to optimise portfolio diversification
- Extract asset acquisition scale benefits in hedging activities
- Manage funding sources and liquidity requirements
- Manage sub-optimal performance at portfolio level

The unit protects the shareholder balance sheet against direct exposure to market risks that impact embedded value, earnings and solvency. These market risks include:

- interest rate risk
- inflation risk
- equity risk
- credit risk
- liquidity risk

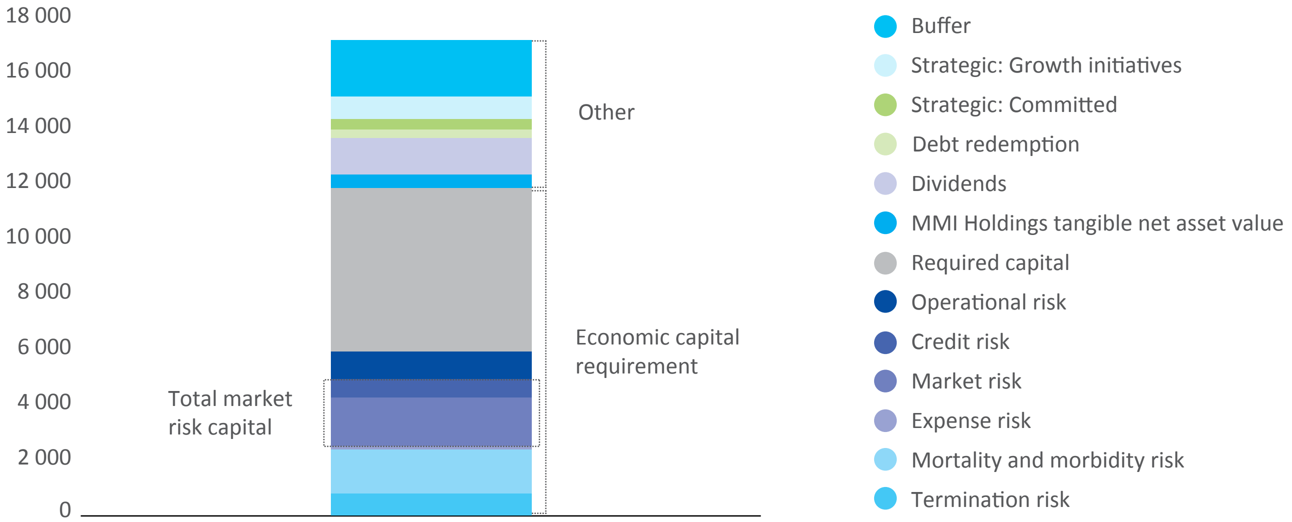
SHAREHOLDER BALANCE SHEET

The diagram below shows how the shareholder balance sheet (managed by BSM) fits into the total MMI balance sheet.



BALANCE SHEET MANAGEMENT (BSM) *CONTINUED*

SHAREHOLDER ECONOMIC CAPITAL (Rm)



CAPITAL STRENGTH

Economic capital	Rbn
Net asset value as per embedded value statement	**17.0**
Qualifying debt	**3.0**
Less: net asset value of strategic subsidiaries	**(2.1)**
Less: required capital	**(10.1)**
Capital buffer before deployment	**7.8**
Deployed	**(4.6)**
Final dividend	**(1.4)**
Special dividend	**(0.8)**
Debt redemption	**(0.5)**
Strategic growth initiatives	**(1.9)**
Capital buffer after deployment	**3.2**

KEY AREAS OF STRATEGIC AND OPERATIONAL FOCUS FOR 2015

- Capital management: BSM will seek to optimise the capital requirements, with specific focus on the market risk component of the economic capital.
- Cash and liquidity: BSM need to further develop operations and processes in order to optimise and enhance the cash and liquidity position of the group.
- Deal-making: BSM must continue to enhance earnings and value through implementation of transactions in accordance with mandates and risk tolerance levels.
- Additional sources of income: BSM will seek potential additional sources of income within the group by leveraging its existing capabilities.
- Mergers and acquisitions: BSM will establish a separate capacity to specifically co-ordinate mergers and acquisitions within the group.
- Implementation of the operating model: BSM need to finalise the implementation of the operating model, which will yield significant benefits as described in the operations paragraph above.