

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of MMI Holdings Ltd (the company) and its subsidiaries (collectively MMI or the group) for the year ended 30 June 2016.

NATURE OF ACTIVITIES

MMI is a South African based financial services group that offers a comprehensive range of products and administration services, including life and short-term insurance, employee benefits, medical scheme and asset management, to clients in selected African and other countries. MMI Holdings Ltd is listed on the JSE and the Namibian Stock Exchange.

CORPORATE EVENTS

Listed debt

MMI Group Ltd (MMIGL) listed new instruments to the total value of R1 250 million on the JSE on 6 August 2015. On 15 September 2015, R1 000 million of unsecured subordinated notes previously issued by MMIGL were redeemed. The instruments are unsecured subordinated callable notes. Refer to notes 18 and 44 for more details.

Minority buyout

In May 2016, MMI acquired the remaining stake in UBA Metropolitan (50%) for R248 million. From an IFRS perspective the 50% acquired is carried at R144 million which excludes any goodwill or value of intangibles, and therefore resulted in a loss of R104 million, which was recorded in equity. This had no impact on earnings.

Sale of business

The group has signed a sale agreement to sell the FNB Life business to FirstRand Life Assurance Ltd. The transaction is awaiting FSB approval for the S37 transfer.

PRESENTATION OF FINANCIAL STATEMENTS

The consolidated statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee), the Listings Requirements of the JSE and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the group have been applied consistently to all years presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on page 122, including changes in estimates that are an integral part of the insurance business.

Segmental information

From 1 July 2015 the MMI group embarked on a new segmental reporting view that is aligned with the client-centric goals of the group. The segmental report has been disclosed on this new internal structure and the prior year has been restated. The new segmental reporting had no impact on the current or prior year reported earnings, diluted earnings or headline earnings per share, or on the net asset value or net cash flow. Refer to segmental report for more details.

CORPORATE GOVERNANCE

The board has satisfied itself that appropriate principles of corporate governance were applied throughout the year under review.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As part of running a business, the group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The group had no material capital commitments at 30 June 2016 other than what is disclosed in note 39.

RESULTS OF OPERATIONS

The operating results and the financial position of the group are reflected in the statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R2 142 million (2015: R2 857 million) and R2 101 million (2015: R2 885 million) respectively. Group diluted core headline earnings were R3 206 million (2015: R3 836 million) and diluted core headline earnings per share 199.9 cents (2015: 239.2 cents). Refer to note 36 for a reconciliation of earnings to core headline earnings.

RESULTS OF OPERATIONS *continued*

Diluted core headline earnings are a measure of performance that is used by MMI (in addition to earnings and headline earnings) as it is seen by the directors as an appropriate measure to monitor the group's performance. Group diluted core headline earnings for the current year, as disclosed in the segmental report, are as follows:

Analysis of diluted core headline earnings	2016		Restated 2015	
	Rm	% of total	Rm	% of total
Momentum Retail	1 600	50	1 756	46
Metropolitan Retail	667	21	604	16
Corporate and Public Sector	617	19	861	22
International	28	1	152	4
Shareholder Capital	294	9	463	12
Total per segmental report	3 206	100	3 836	100

SUBSIDIARIES AND ASSOCIATES

Details of significant subsidiary companies are contained in Annexure A. Details on associates are contained in note 5 and Annexure B.

SHARE CAPITAL

Share issue

During the current year 1 883 435 (2015: 2 147 055) A3 preference shares were converted into ordinary shares. Refer to note 13 for more details. There were no share issues or share repurchases in the current year.

Share options

The group has not issued any options on MMI Holdings Ltd shares. The group awards units to employees as part of cash-settled share-based schemes – refer to note 21.2 for more details.

MMIGL preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 13.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2016 cents per share	2015 cents per share
Interim – March	65	63
Final – September	92	92
Total	157	155

The group is committed to maintaining a good dividend payout ratio, evidenced by the willingness to drop the current year dividend cover to below the targeted dividend cover ratio of between 1.5 and 1.7 times. Despite the reduction in earnings during the year, the strong capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity, supports MMI's ability to declare a dividend that is marginally higher than the prior year.

On 6 September 2016, a gross final dividend of 92 cents per ordinary share was declared, resulting in a total dividend of 157 cents per share. The dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the company at the close of business on Friday, 30 September 2016, and will be paid on Monday, 3 October 2016. The dividend will be subject to local dividend withholding tax at a rate of 15% unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. This will result in a net final dividend of 78.2 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Tuesday, 27 September 2016. The shares will trade ex dividend from the start of business on Wednesday, 28 September 2016. Share certificates may not be dematerialised or rematerialised between Wednesday, 28 September 2016 and Friday, 30 September 2016, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 573 834 190. MMI's income tax number is 975 2050 147.

Where applicable, dividends in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to certificated shareholders on or about payment date. Shareholders who hold dematerialised shares will have their accounts with their CSDP or broker credited on the payment date.

Preference share dividends

Dividends of R20.1 million (2015: R21.3 million) (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares as determined by the company's Memorandum of Incorporation.

MMI Holdings Ltd convertible redeemable preference shares (issued to Kagiso Tiso Holdings (Pty) Ltd (KTH))

The A3 MMI Holdings Ltd preference shares are redeemable in June 2017 at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Refer to note 19.1 for more details.

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 247.

DIRECTORATE, SECRETARY AND AUDITOR

The following represents a list of the new board appointments and resignations or retirements during the year:

	Appointments	Retirements
Ms M Vilakazi	1 July 2015	
Mr SE Nxasana		30 September 2015
Mr P Cooper	20 November 2015	
Mr L Crouse		31 March 2016
Mr W Krzychylkiewicz (<i>alternate to Mr P Cooper</i>)	21 July 2016	

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 48 and 49 in the integrated report.

PricewaterhouseCoopers Inc. will continue in office as auditor in accordance with section 90(6) of the Companies Act.

DIRECTORS' INTEREST

Rand Merchant Insurance Holdings Ltd (RMI), of which Mr J Burger, Mr KC Shubane and Mr P Cooper are non-executive directors, has a direct holding of 25% in the group.

KTH, of which Mr V Nkonyeni is an executive director, had the following strategic empowerment holdings in the group at 30 June 2016:

- A 7.1% interest in MMI Holdings Ltd (30 million MMI Holdings Ltd preference shares and 84 million listed MMI Holdings Ltd ordinary shares).
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares are convertible into ordinary shares on a one-for-one basis and can only be converted as and when the preference shares are redeemed, also on a one-for-one basis. KTH holds a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd through this transaction.
- The 21.2% interest in Eris Property Group (Pty) Ltd was sold to MMI in August 2015 for R145 million.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2016 are set out below:

	Direct Beneficial '000	Indirect Beneficial '000	Total 2016 '000	Total 2015 '000
Listed				
Executive directors	64	6 276	6 340	379
Non-executive directors	434	2 152	2 586	2 074
	498	8 428	8 926	2 453

Refer to page 247 for percentage of issued shares held by directors.

All transactions in listed shares of the company involving directors were disclosed on SENS as required.

No material changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE is set out on pages 61 and 62 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd shares at 30 June 2016 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2016 '000	Total 2015 '000
Listed				
Non-executive directors	834	4 423	5 257	1 404

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.09% (2015: 0.02%). The executive directors do not hold any RMI Holdings Ltd shares.

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries with a one month notice period. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2016 is set out below. The detail in terms of the Listings Requirements of the JSE is set out on pages 68 to 71 in the remuneration report.

	Fees R'000	Annual package R'000	Bonus ¹ R'000	Long-term incentive payments R'000	Pension fund contributions R'000	Ad hoc fees R'000	Total 2016 R'000	Total 2015 R'000
Executive	–	9 078	7 987	11 247	893	–	29 205	80 042
Non-executive	15 923	–	–	–	–	129	16 052	15 920
Total	15 923	9 078	7 987	11 247	893	129	45 257	95 962

¹ Bonus payments relate to the 2015 financial year's bonus.

BORROWING POWERS

In terms of the company's Memorandum of Incorporation directors have unlimited borrowing powers (subject to section 45 of the Companies Act); however, FSB approval is required for any borrowings within a life insurance company in the group.

EVENTS AFTER YEAR-END

No material events occurred between the reporting date and the date of approval of the annual financial statements.