

CHIEF EXECUTIVE OFFICER'S REVIEW



Hillie Meyer

Group Chief Executive Officer

When I reported to you last year my overview was headed "*Making MMI proud again*" and I believe we have made meaningful progress on the way to doing exactly that. At the time I shared some key observations regarding a shift in approach required to turn the business around, implement a Reset and Grow strategy with clearly defined practical objectives and to unite staff around a common goal. These included:

- continuing to put our clients at the centre of all that we do but applying a more practical client focus to achieve a meaningful improvement in client service levels and our clients' experience of our products and service delivery
- replacing a complex matrix structure with an empowering federal operating model
- implementing the Board's decision to exit certain countries in Africa and direct-to-client retail platform business in the United Kingdom (UK)
- addressing previous under-investment in certain key IT capabilities
- introducing an increased focus on delivery
- moving from a corporate mindset to an entrepreneurial mindset.

I also highlighted that on the positive side:

- our core South African businesses were fundamentally sound and of sufficient scale to make us a formidable competitor in the market
- a number of our core businesses, such as Guardrisk and Momentum Health, continued to show good growth and very pleasing financial results
- Momentum Short-term Insurance and Momentum Corporate (employee benefits) had shown encouraging improvements
- we had a portfolio of new growth initiatives in place, which could be nurtured to make a meaningful contribution to the Group in the medium to long term
- we have incredible talent; people who are committed to our success and who, generally speaking, had welcomed the increased focus we had introduced on financial discipline and meaningful delivery.

PROGRESS WITH OUR RESET AND GROW OBJECTIVES

Since I reported to you last year, we have made significant progress in the key areas we had identified that required a shift in approach.

BUSINESS UNIT END-TO-END ACCOUNTABILITY

The implementation of our federal model, which has clarified roles and responsibilities and empowered our business units through end-to-end accountability, is promoting an entrepreneurial mindset. I would refer you to the reporting provided by our business units in the productive capital section of this report (pages 53 to 77), which gives a clear indication of how well they have adapted to the federal model and are becoming entrepreneurs, accountable for the entire value chain of their businesses.

The change in the structure of our Executive Committee, where the majority of membership is now drawn from business, is a significant shift from the previous equal split between business and functional representation, and reflects the change brought by our federal model.

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IMPROVED SERVICE DELIVERY AND INTERMEDIARY-DRIVEN DISTRIBUTION

The shift in accountability has also seen business units adopt a more practical focus on client service delivery and an improved client value proposition, which has resulted in a marked improvement in both client service and experience levels throughout the Group. Although we have certainly improved service in the areas that required an improvement, we cannot claim victory yet. Service levels are not yet consistently excellent and the more qualitative aspects of service delivery require further improvement.

We continue to reshape and diversify our distribution channels and have seen an improvement in footprint in some pockets. The further improvement in growing productive brokers and adviser productivity remains an important focus and we have yet to demonstrate a lasting improvement in sales volumes or market share. (See the productive capital section of this report for details.)

MATCHING REWARD WITH PERFORMANCE

We have optimised our incentive structures by introducing a number of changes. The number of participants in the long-term incentive scheme has been reduced to only include those executives who can significantly impact our performance, and reward is directly related to performance. We are placing more emphasis on short-term incentive schemes (cash bonuses) where financial performance is of paramount importance in bonus allocations. A larger portion of both short-term incentives and long-term incentives is now deferred and aligned to continued performance, and we are introducing malus and clawback provisions to our incentive structures (see our remuneration review on page 108 of this report).

CHANGES IN OUR INTERNATIONAL OPERATIONS

We have exited our direct-to-client retail platform business in the UK. The asset management and investment fund business have been integrated into Momentum Investments.

The process of exiting certain of our African operations is well under way (see page 74 of the productive capital section of this report for details).

UNITING OUR STAFF

While the progress we have made in respect of our Reset and Grow objectives has made an important contribution to turning our business around, for me the most important objective we have achieved so far is that of uniting our employees around a common cause and instilling belief in the company. The energy and enthusiasm with which they have united behind Reset and Grow is palpable, and I have no doubt that it has played a major part in our achievements in the year under review.

OUR FINANCIAL PERFORMANCE

The implementation of our Reset and Grow strategy has contributed to our pleasing financial performance during the year under review, particularly in the context of the tough economic environment prevailing in South Africa, with an expected growth outlook of less than 1% for 2019. The R3.1 billion of normalised headline earnings is ahead of the Reset and Grow targets, but it is important to keep in mind that a number of our longer-term growth initiatives will only contribute positively to our financial results in the medium to long term.

Normalised headline earnings, which have less subjective adjustments than core headline earnings, have replaced core headline earnings as our primary performance metric from F2019 onwards. The comparative prior year included significant adjustments and normalised headline earnings increased by 58% year-on-year in F2019 while core headline earnings increased by 14% year-on-year. New business sales increased by 12% year-on-year when measured as present value of new business premiums, while the value of new business increased by 57% year-on-year and our overall new business margin improved from 0.7% to 1.0%. The Group's capital base remains adequate.

For more information on our financial performance see pages 41 to 51 of the Group Finance Director's review and our annual financial statements, which are available on our website.



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IMPACT OF THE EXTERNAL ENVIRONMENT

Currently, the South African environment, and in particular the poorly performing economy, presents multiple challenges for growth. This was allowed for in our Reset and Grow targets, which placed less focus on growing revenue and rather gave more attention to achieving financial discipline, which is the cornerstone of our turnaround strategy. During the year under review we have made good progress with expense management, with our management expenses remaining flat.

POST YEAR-END EVENTS

We understand that there is power in a name and an important part of our Reset and Grow strategy is in revitalising our two powerful client-facing brands: Momentum and Metropolitan. With this in mind, on 23 July 2019 we announced that we had changed our name from MMI to Momentum Metropolitan, which allows us to leverage the goodwill and stellar reputation both brands have built over the years. The names of our various businesses that carry the Momentum and Metropolitan brands will not change. Our Group brands also include Guardrisk and Eris Properties.

GROWING OUR SHORT-TERM INSURANCE BUSINESS

On 25 July 2019 we announced that Momentum Metropolitan had entered into an agreement to acquire the Alexander Forbes short-term insurance business (AFI). This acquisition is in line with our overall Reset and Grow strategy as it will fast track the growth of our Group's short-term insurance interests and make us a significant player in the personal lines short-term insurance market. An acquisition of this nature and quality rarely occurs in the South African short-term insurance market and we are excited by the opportunities it presents. The proposed transaction is, of course, subject to regulatory approvals.

THE WAY FORWARD

Our Reset and Grow strategy is a developing strategy. As we finalise its Reset components we will be adding new growth objectives and its current short-term time horizon will be extended to a longer-term view. The more practical objectives of the Reset components will then also start to shift towards high-level strategic goals.

The key themes of our strategy include a practical focus on clients, intermediary-driven distribution, a clear target market focus and product and service

differentiation. Within this strategic framework, we aim to build a portfolio of businesses across our chosen market segments that is synergistic, resilient and designed to create value for our stakeholders.

Capital management will become increasingly important going forward, in particular enabling the more optimal allocation of capital to businesses in the Momentum Metropolitan portfolio, while simultaneously optimising the overall return on capital for Momentum Metropolitan.

We have touched on the challenge of effecting a turnaround strategy in the current tough operating environment. Momentum Metropolitan's focus on expense management has delivered good results and we will continue to drive sound financial discipline going forward. At the same time, we plan to increase our focus on key growth initiatives. For example, new product lines in Guardrisk, organic and acquisitive growth in Momentum's Short-term Insurance, growing our retail and corporate face-to-face distribution channel footprints and productivity. We also remain committed to growing Momentum Metropolitan's longer-term new initiatives, including our investment in our joint venture with Aditya Birla Capital in India.

During the year ahead our key focus areas will be:

- strengthening distribution capability
- improving service delivery through digitalisation
- product and service excellence
- identifying and addressing initiatives or businesses that do not positively contribute to shareholder value.

I look forward to leading Momentum Metropolitan as it regains its place as a formidable competitor in the market. While we are likely to continue to be faced with a challenging operating environment, I expect that a number of our business units will continue to perform well and that the rest of our business units will in due course realise their full potential to create exceptional and sustainable value. Having achieved most of our short-term objectives, our businesses should soon be in a position to shift their focus to longer-term strategic goals.

The disappointing economic environment, and further slowdown in growth expectations will, however, test even our modest growth targets. We targeted normalised headline earnings of between R3.6 billion to R4.0 billion for 2021. If the current pedestrian economic growth outlook persists we are more likely to achieve the lower end of our target range than the top end.

THANKS

The year under review has been a very busy year at Momentum Metropolitan. My thanks go to our employees for all that they have done to make Momentum Metropolitan proud again; to our Executive team for their commitment and our Board for its valuable guidance. My thanks also go to our clients and shareholders for their support.



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Group Chief Executive Officer

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