FINANCE DIRECTOR'S REVIEW

Our financial capital consists of the pool of funds that is available to use to produce products, provide services and invest in technology, people and growth. It is obtained through financing such as debt and equity and generated through our operations.

Risto Ketola
Group Finance Director

INTRODUCTION

I am pleased to report that we continued to make steady progress throughout the year with our Reset and Grow strategy. This culminated in diluted normalised headline earnings of R3.1 billion for the year ended 30 June 2019, which represents an increase of 53% on the prior year. On a per share basis, our diluted normalised headline earnings increased by 61%, reflecting the impact of the share buy-back programme that we completed in November 2018.

The financial results from the comparative period were impacted by large negative operating basis changes and investment variances across the South African retail businesses and the rest of Africa. Excluding the impact of operating basis changes and investment variances in both years, normalised headline earnings improved by 21% year-on-year.

The solid results for F2019 were underpinned by resilient operational performance in most of our businesses, supported by efficiency improvements and good underwriting results across the Group. The solid results for F2019 were underpinned by resilient operational performance in most businesses, supported by efficiency improvements and good underwriting results across the Group. The positive impacts were partly offset by a provision at Guardrisk and higher losses from New Initiatives, albeit in line with business plans.

We reinstated dividends on ordinary shares in March 2019, following the successful completion of a R2 billion share buy-back programme in November 2018. We declared an ordinary dividend of 70 cents per ordinary share for the full year 2019.

Momentum Metropolitan Life Limited, the Group's main life insurance entity, maintained its strong solvency cover on the regulatory basis of 2.08 times the Solvency Capital Requirement (SCR), which is close to the upper end of our target range of 1.7 to 2.1 times the SCR.

The solid results for F2019 were underpinned by resilient operational performance in most of our businesses, supported by efficiency improvements and good underwriting results across the Group.

KEY METRICS

	Basic			Diluted		
	F2019	F2018	Δ%	F2019	F2018	Δ%
Earnings (R million)	2 255	1 369	65	2 275	1 393	63
Headline earnings (R million)	2 474	1 444	71	2 494	1 468	70
Normalised headline earnings (R million) [1]	3 054	1 979	54	3 074	2 003	53
Earnings per share (cents)	153.1	88.2	74	151.6	88.1	72
Headline earnings per share (cents)	168.0	93.0	81	166.2	92.9	79
Normalised headline earnings per share[1] (cents)	207.3	127.5	63	202.5	125.5	61
Interim dividend per share - March (cents)				35	-	100
Final dividend per share - September (cents)				35	-	100
Total dividend per share (cents)				70	-	100
Diluted embedded value (EV) per share (R) [2]				27.48	25.43	8
Return on EV [2]				8.0%	(1.1)%	
Return on EV per share [2]				9.4%	(0.6)%	
Diluted number of shares in issue (m)				1 499	1 557	(4)
Diluted weighted average number of shares (m)				1 501	1 580	(5)

[1] Normalised headline earnings adjust the standard JSE definition of headline earnings for the impact of treasury shares, the amortisation of intangible assets arising from business combinations and BEE costs. Momentum Metropolitan is of the opinion that these adjustments present a more realistic picture of the underlying performance of the Group and remove distortions that might arise from elimination of treasury shares (potential distortions that are peculiar to financial institutions that invest in own securities on behalf of clients). The definition of normalised headline earnings remained unchanged over F2019. The prior year comparatives have been restated.
[2] Momentum Wealth has been reclassified as covered business, with prior year comparatives restated.

NET ASSET VALUE

(R million)	F2019	F2018	Δ%
Total assets	502 902	476 365	6
Total liabilities	(479 356)	(453 575)	6
Total equity	**23 546**	**22 790**	3

CONSOLIDATED GROUP FINANCIAL PERFORMANCE

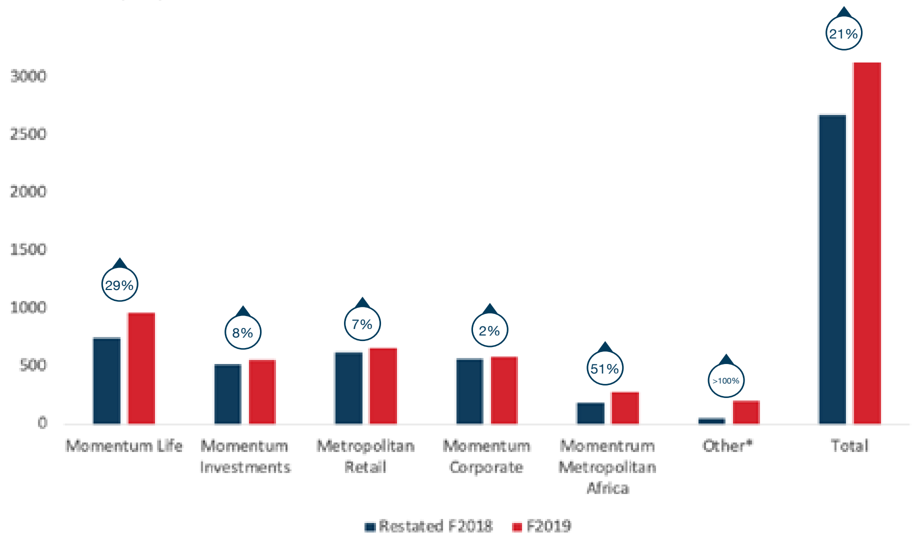
NORMALISED HEADLINE EARNINGS

R million	F2019	F2018	Δ%
Momentum Life	883	472	87
Momentum Investments	512	227	>100
Metropolitan Retail	610	201	>100
Momentum Corporate	601	909	(34)
Non-life Insurance	164	204	(20)
Momentum Metropolitan Africa	262	147	78
Earnings from operating segments	**3 032**	**2 160**	**40**
New Initiatives	(492)	(377)	(31)
Shareholders	534	220	>100
Normalised headline earnings	**3 074**	**2 003**	**53**

The increase of 53% in normalised headline earnings should be judged in the context of large negative operating basis changes and investment variances for the prior year.

Excluding the impact of operating basis changes and investment variances, operational performance improved by 21%. The segmental split is shown in the following graph:

NORMALISED HEADLINE EARNINGS EXCLUDING OPERATING BASIS CHANGES AND INVESTMENT VARIANCES



The solid performance resulted from our group-wide emphasis on expense management (controllable cost base remained flat); better underwriting and credit experience in the covered business; as well as fair value gains in the Shareholder segment. Furthermore, our Non-life Insurance underwriting results improved strongly in both Guardrisk and MSTI. Losses on New Initiatives widened, in line with business plans.

More detail on the sources of earnings is discussed in the segmental performance section which follows.

NEW BUSINESS

R million	Present value of new business (PVNBP) F2019	F2018	Δ%	Value of new business[1] F2019	F2018	Δ%	Value of new business margin F2019	F2018
Momentum Life	8 266	8 099	2	101	66	53	1.2%	0.8%
Momentum Investments[2]	23 145	23 267	(1)	82	76	8	0.4%	0.3%
Metropolitan Retail	4 897	5 091	(4)	89	84	6	1.8%	1.6%
Momentum Corporate	16 977	11 218	51	265	124	>100	1.6%	1.1%
Momentum Metropolitan Africa	2 498	2 337	7	4	(5)	>100	0.2%	(0.2%)
Total	**55 783**	**50 002**	**12**	**541**	**345**	**57**	**1.0%**	**0.7%**

[1] Value of new business is calculated on covered business only, which excludes businesses like Momentum Metropolitan's health business, MSTI, Guardrisk and asset management businesses.

[2] All Momentum Wealth products are now reported as covered business (previously only on-balance sheet contracts), and prior year value of new business and PVNBP were restated accordingly.

Value of new business improved in all businesses and mostly followed higher sales of selected product sets in each business. Momentum Corporate was a standout performer for the year. The business recorded good flows in both single premium annuity and investment products, as well as in recurring premium insurance products. Momentum Life benefitted from updated product pricing, while Metropolitan Retail VNB was supported by increased adviser productivity and a higher proportion of policies with premiums collected via salary deduction. The recovery in Momentum Metropolitan Africa is attributable to improved sales in Namibia and Lesotho in the second half of the year.

More detail on the sources of new business is provided in the segmental performance section, which follows.

EMBEDDED VALUE

Embedded value earnings (R million)	F2019	F2018	Δ%
Embedded value at the start of the year	**39 601**	**42 523**	
EV earnings from operations (covered business)	3 083	1 535	>100
EV earnings attributable to investment markets	291	662	(56)
Impact from change in required capital methodology	870	-	100
EV profit from non-covered businesses	(1 076)	(2 666)	60
Change in embedded value before capital flows	**3 168**	**(469)**	**>100**
Capital flows	(1 576)	(2 453)	**36**
Embedded value at the end of the year	**41 193**	**39 601**	**4**
Return on embedded value ('ROEV')	8.0%	(1.1)%	
ROEV on covered business	12.7%	6.3%	
ROEV on non-covered business	(17.5)%	(35.6)%	
ROEV per share	**9.4%**	**(0.6)%**	

The F2019 improvement in the ROEV on covered business resulted from the contribution made by strong positive operating experience variances, mainly mortality experience across the Group, as well as a better expense variance. In Metropolitan Retail persistency experience remained negative, although this showed an improvement on the prior year. Significantly better operating assumption changes and the improved value of new business have also contributed to the overall improvement in the ROEV.

Negative investment variances have adversely impacted our ROEV and should be viewed in the context of weak equity returns since 1 July 2018. The modest investment return on adjusted net worth was adversely impacted by a decline in the property valuations, including the carrying value of owner-occupied properties.

Embedded value also benefitted by an amount of R870 million, arising from the adoption of a new required capital methodology, which coincided with the implementation of the new regulatory framework for solvency.

The return on non-covered operations was negative 17.5%. The increased provision for future costs in Momentum Multiply, reported at 1H2019, and refinements to inter-divisional charges adversely affected the valuation of our non-covered businesses. In addition, a slower than expected decrease of expenses related to Momentum Metropolitan Africa resulted in a larger provision for head office costs.

SEGMENTAL PERFORMANCE

MOMENTUM LIFE

NORMALISED HEADLINE EARNINGS

Normalised headline earnings increased by 87% to R883 million. During the prior year Momentum Life was impacted by significantly larger negative operating basis changes and investment variances compared to the current year, which led to a net positive change of R195 million year-on-year. Excluding this impact its growth of 29% was very pleasing. The key drivers of growth included better than expected voluntary premium increases on protection business (Myriad) and an improvement in mortality experience. This was partly offset by somewhat weaker disability experience, slightly lower persistency experience and an increased investment in the distribution capabilities. Reported losses from Momentum Multiply were also sharply lower.

NEW BUSINESS

Momentum Life's present value of new business premiums (PVNBP) increased by 2% year-on-year. This was driven by a 7% increase in long-term savings products. A new retirement annuity product launched during the year resulted in much improved sales volumes. PVNBP on protection business (Myriad) declined by 2%.

Value of new business increased by 53%, supported by the updated product pricing and well-managed expenses.

MOMENTUM INVESTMENTS

NORMALISED HEADLINE EARNINGS AND ASSETS UNDER MANAGEMENT

Momentum Investment's normalised headline earnings increased by 126%, largely as a result of a negative operating basis change on the covered business in the prior year. Excluding this impact, normalised headline earnings were 8% higher, which is a pleasing result for an investment business given current economic uncertainty. Guaranteed investment products remained attractive and strong new business volumes contributed to the growth, further supported by credit portfolio management activity on the annuity book. Normalised headline earnings from the UK operations have improved, mainly on the back of growth in third-party Investment Consulting fees. However, earnings from Momentum Wealth and investment management, particularly in the property management and stockbroking businesses, were lower due to depressed market conditions and some outflows during the year under review.

R billion	F2019	F2018	Δ%
On-balance sheet Momentum Wealth	105	104	1
Off-balance sheet Momentum Wealth	56	57	(2)
Non-covered business (investment management)	424	419	1
Assets under management	**585**	**580**	**1**

NEW BUSINESS

New business flows from covered business declined marginally by 1% relative to the prior year. The higher new business volumes on structured products and annuities contributed positively to value of new business. The value of new business benefitted from lower initial costs and higher profit margins on structured products, which resulted in a small increase in the new business margin to 0.4%.

METROPOLITAN RETAIL

NORMALISED HEADLINE EARNINGS

Metropolitan Retail grew its normalised headline earnings by 203%, mainly as a result of the large negative impact of operating basis changes and investment variances in the prior year. Excluding operating basis changes and investment variances, Metropolitan Retail's normalised headline earnings increased by 7%. This is an encouraging recovery from the 9% decline reported at 1H2019. The improved position was supported by the impact of better persistency experience and positive credit risk variance on the annuity book. Expenses were in line with inflation despite substantial investment in the branch infrastructure.

NEW BUSINESS

Despite a planned decline in the number of advisers in the tied agency, Momentum Retail's sales remained largely flat due to improved productivity. PVNBP declined by 4%, largely as a result of lower funeral product sales in the tele-channel and large one-off single premiums in the prior year. The productivity improvements, coupled with an increase in the proportion of new business for which premiums are collected via salary deductions, is a positive lead indicator for future persistency. The productivity improvements also contributed to the 6% growth in the value of new business.

MOMENTUM CORPORATE AND HEALTH

NORMALISED HEADLINE EARNINGS

Momentum Corporate and Health's normalised headline earnings declined by 34% year-on-year to R601 million.

The normalised headline earnings of the traditional employee benefits business declined by 39% year-on-year, however, this is distorted by the material impact of positive operating basis changes in the prior year. Excluding operating basis changes, normalised headline earnings grew by 12%. This result was supported by improved mortality experience on the group life book, which was partly offset by slightly weaker lump sum disability experience. The business's controllable expense growth was contained well below inflation.

Normalised headline earnings for Momentum Metropolitan's health business, before earnings attributable to minorities are deducted, were up 8% on the prior year. After accounting for the full-year dilution impact in F2019 of our minority shareholders, normalised headline earnings declined by 15%. The strong underlying operational performance was supported by good expense management and operational efficiencies, as well as increased membership. Membership in the public and mining sectors grew steadily, with low cost products gaining members within targeted employer groups.

NEW BUSINESS

The significant increase in Momentum Corporate's PVNBP and value of new business was driven by the multibillion rand with-profit annuity transaction reported in 1H2019, as well as strong growth in recurring premium inflows for group insurance and a number of large annuity deals secured in the fourth quarter. The shift towards higher quality business is reflected in the improvement to 1.6% of the new business margin.

NON-LIFE INSURANCE

R million	F2019	F2018	Δ%
MSTI	(43)	(56)	23
Guardrisk	207	260	(20)
Normalised headline earnings	**164**	**204**	**(20)**

NORMALISED HEADLINE EARNINGS

Guardrisk produced positive underlying operational growth (15% for the year). Normalised headline earnings, however, was negatively impacted and declined by 20% year-on-year due to a provision of R97 million (net of tax) that was raised. This resulted from a more prudent approach to the treatment of cells in deficit. A fundamental principle of cell captive insurance is that cell owners are required to capitalise cells if they are in deficit. Under current economic conditions, and having reviewed specific facilities, it was deemed appropriate to apply a probability of default to cells in deficit.

Guardrisk delivered sound new business growth and maintained good persistency of its existing client base. There was good growth in the corporate and large commercial niche businesses for which Guardrisk is the direct underwriter, following the formal launch of this growth initiative in March 2019. This growth contributed to a very pleasing increase in Guardrisk's underwriting profits, as did recent acquisitions that have now been fully integrated into the business.

MSTI's losses narrowed by 23% from the prior year. Core insurance operations at MSTI were profitable, driven by a strong improvement in underwriting results as well as improving cost ratios resulting from continued growth in the client base. The overall MSTI result, which includes the administration business (MMISTIA), remains negative as a result of a lack of scale.

MSTI KEY RATIOS

MSTI	F2019	F2018	Δ%
Net earned premium (R million)	870	737	18
Claims ratio	63.7%	65.9%	

MSTI's net earned premiums rose by 18% on the prior year, which is largely attributable to a growing client base. The claims ratio improved to 63.7% despite two severe weather related events in the fourth quarter.

MOMENTUM METROPOLITAN AFRICA

R million	F2019	F2018	Δ%
Namibia	201	171	18
Botswana	59	53	11
Lesotho	89	79	13
Ghana	40	39	3
Kenya	24	(19)	>100
Other countries – ongoing	(2)	19	<(100)
Other countries – planned exits	(43)	(33)	(30)
Centre costs	(106)	(162)	35
Total normalised headline earnings	**262**	**147**	**78**
New business volumes (PVNBP)	2 498	2 337	7
Value of new business	4	(5)	>100
New business margin	0.2%	(0.2)%	

NORMALISED HEADLINE EARNINGS

Normalised headline earnings increased by 78% with most countries contributing to the improvement. When the impact of basis changes and investment variances were excluded, Momentum Metropolitan Africa's operational performance improved by 51%. The improvement in the Namibia life insurance business was supported by better demographic experience variances and product repricing. Life insurance growth from Botswana and Lesotho also contributed to the overall improvement. The health businesses in the segment, as well as the non-life business in Kenya, achieved notable improvement in claims experience through improved risk selection, expense management and premium growth. Losses incurred in the countries earmarked for exit were somewhat higher than the prior year, but were offset by a significant reduction in support costs.

NEW BUSINESS

PVNBP increased by 7% compared to the prior year following a strong recovery in Namibia and Lesotho in the second half of the year.

The value of new business turned positive during the second half of the year. However, the value of new business remains disappointingly low in the challenging environment that prevails across the countries in which we operate. Improving new business profitability is a key focus area for management in Momentum Metropolitan Africa.

NEW INITIATIVES

R million	F2019	F2018	Δ%
India (JV with Aditya Birla Capital)	(287)	(218)	(32)
aYo (JV with MTN)	(89)	(58)	(53)
Other[1]	(116)	(101)	(15)
Normalised headline earnings	**(492)**	**(377)**	**(31)**

[1] "Other" includes Exponential Ventures, Multiply Money and Momentum Consult.

The progress we have made with our New Initiatives is addressed in the productive capital section of this report. Please refer to pages 77 for information in this regard.

The expansion in distribution capacity of Aditya Birla Health Insurance, and the steady growth from the more profitable retail client base augurs well for its future profitability (with retail clients now contributing 64% to gross premium income). While aYo clients enrolments increased by a pleasing 233% to 4.0 million year-on-year, it has yet to achieve sufficient scale to fund the overhead costs.

SHAREHOLDERS

NORMALISED HEADLINE EARNINGS

The contribution of normalised headline earnings from this portfolio increased by 143% on the prior year to R534 million. Fair value gains on underlying investments in our Exponential Ventures funds contributed significantly to this result. Investment income from the rest of the shareholder portfolio was also up year-on-year, although this was slightly offset by higher finance costs on subordinated debt.

SOLVENCY AND CAPITAL MANAGEMENT

Regulatory solvency position (R million)	Momentum Metropolitan Life	Momentum Short-term Insurance	Guardrisk Insurance	Guardrisk Life
Eligible own funds (pre dividend)	32 948	487	3 034	2 906
Solvency Capital Requirement (SCR)	15 869	246	2 386	2 570
SCR cover (times)	**2.08**	**1.98**	**1.27**	**1.13**

REGULATORY SOLVENCY POSITION

Momentum Metropolitan Life has adopted a target range for regulatory solvency cover of 1.7 to 2.1 times the SCR. This makes allowance for the capital required to support the covered business against a range of severe but plausible scenarios, as well as the wider strategic deployments of the Group. Momentum Metropolitan Life acts as the capital centre of the Group, and as such is capitalised in excess of the requirements of the covered business.

MSTI has adopted a target range for regulatory solvency cover of 1.4 to 1.6 times the SCR. Momentum Short-term Insurance is currently capitalised in excess of its target range in order to support its new business growth targets on a forward-looking basis.

The lower SCR cover of Guardrisk Insurance and Guardrisk Life primarily reflects the treatment of cell captive insurers under the new regulatory framework. The own funds of individual cells are restricted to the amount necessary to cover their individual SCR, and any own funds of individual cells in excess of the SCR must be disregarded. This results in the regulatory solvency position of the cell captive insurers being weighted towards 1.0 times the SCR. Under the Group's risk appetite framework, Guardrisk Insurance and Guardrisk Life seek to maintain SCR cover above 1.05 times SCR on the regulatory basis.

Momentum Metropolitan's group solvency position is determined by aggregating the results under the regulatory framework of all the underlying entities, after elimination of intra-group arrangements. At 30 June 2019, Momentum Metropolitan had group SCR cover of 1.7 times SCR. The Group targets a SCR cover range of 1.45 to 1.75 times SCR, which has been set to reflect the target solvency levels and operational requirements of the underlying entities, while ensuring appropriate resilience of the Group solvency position.

DIVIDENDS

Following the completion of our R2 billion share buy-back programme in November 2018, we indicated that our future capital distribution will be set at a level consistent with our capital deployment plan and a desire to maintain steady solvency ratios under the new regulatory framework. We target a dividend cover range of between 2.0 to 3.0 times normalised headline earnings.

We declared an ordinary dividend of 70 cents per ordinary share for the full year. The dividend cover for the year of 2.9 times is thus at the upper end of our target range.

CAPITAL DEPLOYMENT

The governance around approval of the capital deployment plan, capital calls and performance monitoring of deployed capital has been strengthened during the year with the establishment of the Board Investments subcommittee and the Capital and Investments committee which is a subcommittee of the Group's Executive Committee. Pro-active performance measurement ensures that capital is allocated to initiatives that deliver the best risk adjusted returns and continually drive the execution of the Group's strategic goals.

The following strategic investments were made during the year:

Area of capital deployment	R million
Capital support for subsidiaries	924
Exponential, UK & Africa operations	365
Aditya Birla Joint Venture	331
Momentum Short-term Insurance	225
Other M&A transactions	65
Total	**1 910**

CREDIT RATING

On 18 November 2018, Moody's affirmed ratings for Momentum Metropolitan Life Limited as set out in the table below, while the Guardrisk ratings were affirmed on 16 November 2018.

Entity	Type	National scale	Global scale	Outlook
Momentum Metropolitan Life Limited	Insurer Financial Strength	Aaa.za	Baa2	Stable
Momentum Metropolitan Life Limited	Issuer rating	Aaa.za	Baa3	Stable
Subordinated debt	n/a	Aa2.za	Ba1	Stable
Guardrisk[1]	Insurer Financial Strength	Aaa.za	Baa3	Stable

[1] Guardrisk includes Guardrisk Insurance Company Ltd, Guardrisk Life Insurance Company Ltd and Guardrisk International Ltd PCC.

After the F2019 year-end, the Group announced its intention to acquire AFI, Alexander Forbes' short-term insurance business, on 25 July 2019. Moody's drafted an issuer research note affirming Momentum Metropolitan Group's credit ratings and credit rating outlook after the proposed AFI transaction.

OTHER MATTERS

CHANGE IN EXTERNAL AUDITOR

The Board, together with its Audit Committee, has resolved to early adopt mandatory audit firm rotation, a rule from the Independent Regulatory Board of Auditors, effective from 1 April 2023. PricewaterhouseCoopers Inc. will rotate off the Company's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019. We finalised an extensive external audit Request For Proposal process and selected a new firm of external auditors, whose appointment is subject to regulatory approval. The change of external audit firm will be tabled for approval by the Company's shareholders at the Company's next annual general meeting on 26 November 2019.

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 17 – INSURANCE CONTRACTS

International Financial Reporting Standard (IFRS) 17 – Insurance Contracts will be effective for the Group from 1 July 2021. Significant effort is required to enable the production of financial statements complying with the standard ahead of implementation date. During the course of the year, good progress has been made towards its implementation. This includes improvements to line of business systems, the chart of accounts, and financial reporting models. We will continue with our implementation plan during the course of the year ahead and are engaging external advisers in this regard.

PROGRESS ON OUR STRATEGY TO EXIT CERTAIN AFRICAN COUNTRIES

The Group announced in 2017 that we would be reviewing our presence in some African markets. Significant progress has been made in this regard and we announced in February 2019 that we had concluded our eSwatini (Swaziland) transaction, subject to regulatory approval.

We concluded the sale of our business in Mauritius with an effective date of 30 June 2019 and regulatory approvals have been obtained.

We are in an advanced stage of discussions to exit three further countries.

OUTLOOK

The operating environment is expected to remain challenging into F2020, placing pressure on our ability to continue growing revenue. It is imperative for the Group that we increase our new business market share in order to compensate for the natural decline in client numbers resulting from retirements, claims and withdrawals. Our investment return and asset-based fee income are furthermore dependent on investment market growth for which the outlook is currently muted.

Our focus on expense management has delivered good results and we will continue to drive sound financial discipline. We shall in the coming years rely more heavily on revenue growth. This will be challenging in the current environment, and single digit earnings growth for F2020 might be a fair result. We remain committed to delivering on our three-year Reset and Grow targets, but if the current pedestrian macro environment persists, we are more likely to achieve the lower end of our target range of between R3.6 billion and R4.0 billion by F2021.

The proposed acquisition of Alexander Forbes Insurance, will have a negative impact on capital ratios in the short-term. All the Group level capital ratios are, however, expected to remain well within the target range. We will look to build up the balance sheet strength towards the upper end of the range in the coming years to ensure that we can continue to invest in our core operations and to grow our underwriting activities across life and non-life insurance.

Risto Ketola
Group Finance Director

The information in this overview, including the financial information on which the outlook is based, has not been reviewed and reported on by Momentum Metropolitan's external auditors. Some financial figures have been extracted from the audited annual financial statements.