

update



MMI HOLDINGS

28 November 2013

Update is a newsletter produced by the investor relations department of MMI Holdings Limited. It provides information on the different divisions in the group. Contact Natalie Amos (investor relations) on (021) 940-6112 / namos@mmiholdings.co.za for further information.

Trading update for the three months ended 30 September 2013

Group overview and operational highlights

- Total new business recurring premiums increased by 26% compared with the same quarter of the prior year, reflecting the strength of the diverse distribution channels and the alignment of the comprehensive product offerings in the group with their respective target markets.
- Strong single premium inflows continued, ending 12% higher than the comparative quarter; a period which included exceptional flows in the employee benefits division.
- Overall, very good client retention was experienced across the group.
- A number of growth initiatives have commenced; the benefits of which will only emerge in future reporting periods.
- The group has further strengthened internal resources, and good progress has been made in building new system capabilities in the short-term insurance operation.
- The group has substantially completed the merger integration phase and is transforming from an integration focus to a growth focus.

Acquisitions

- The acquisition of Guardrisk, a cell captive provider of tailored risk solutions was announced earlier this month. The purchase price of R1.6 billion will be funded out of MMI's existing capital resources. The transaction is subject to regulatory approvals
- In addition, the recently announced acquisition of Providence Healthcare Risk Managers will strengthen Metropolitan Health's position as the country's largest healthcare administrator.
- A number of growth opportunities are being pursued across the group, including acquisitions in Africa.

Market conditions and environment

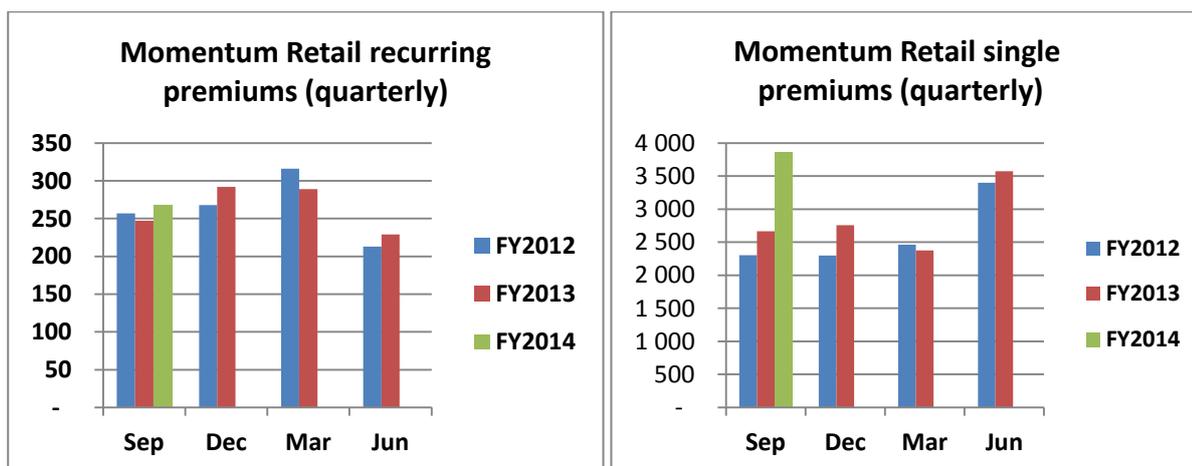
- The group is operating in a highly competitive market with ongoing pressure on clients' disposable income.
- The need for and importance of investment and protection products within MMI's client base remains an integral part of their financial planning and wellness.
- Investment markets, while volatile, continue to be strong.

Momentum Retail *

	3 months to 30-Sept-11 <i>Rm</i>	3 months to 30-Sept-12 <i>Rm</i>	3 months to 30-Sept-13 <i>Rm</i>	Change vs 2012 %
New business				
Recurring premiums	257	247	268	9
Single premiums	2 305	2 667	3 862	45
Annual premium equivalent (APE)	488	514	654	27
Present value of premiums (PVP)	3 681	4 054	5 338	32

* Momentum Retail includes Odyssey but excludes new markets and FNB Life.

* Covered business includes on-balance sheet business only.

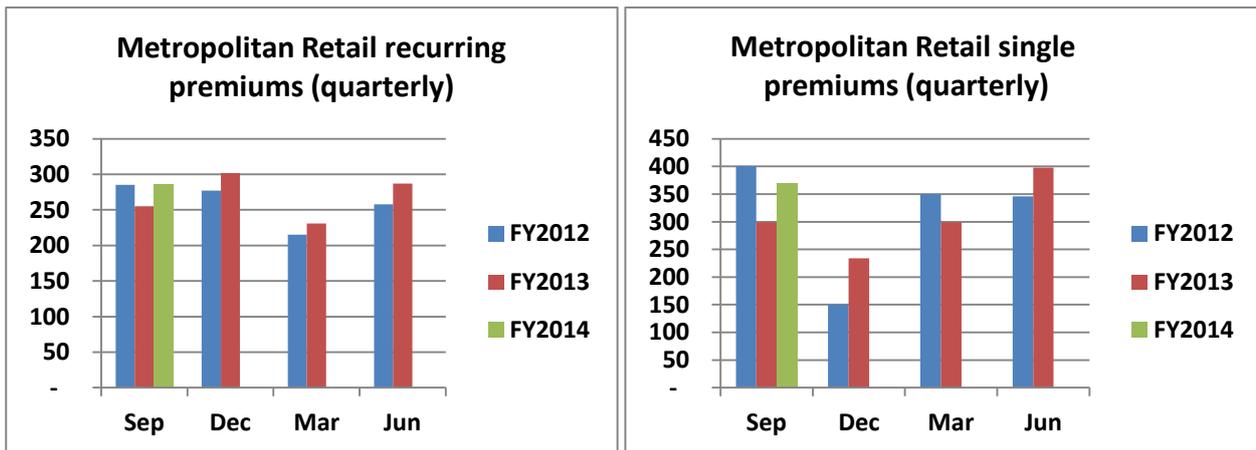


- The upper-income risk market continues to be very competitive.
- New business volumes (PVP) for the quarter were 32% higher than those recorded in the prior year.
- Single premium new business surprised on the upside ending 45% higher as a result of very strong structured product premium flows.
- The mix of new business continues to favour single premium investments.
- Client service remained at very satisfactory levels.
- Good mortality experience continued during the quarter.
- The benefits from increased brand awareness activities are starting to emerge.

Metropolitan Retail

	3 months to 30-Sept-11 <i>Rm</i>	3 months to 30-Sept-12 <i>Rm</i>	3 months to 30-Sept-13 <i>Rm</i>	Change vs 2012 %
New business				
Recurring premiums	285	255	285	12
Single premiums	401	299	366	24
Annual premium equivalent (APE)	325	285	322	13
Present value of premiums (PVP)	1 445	1 350	1 457	8

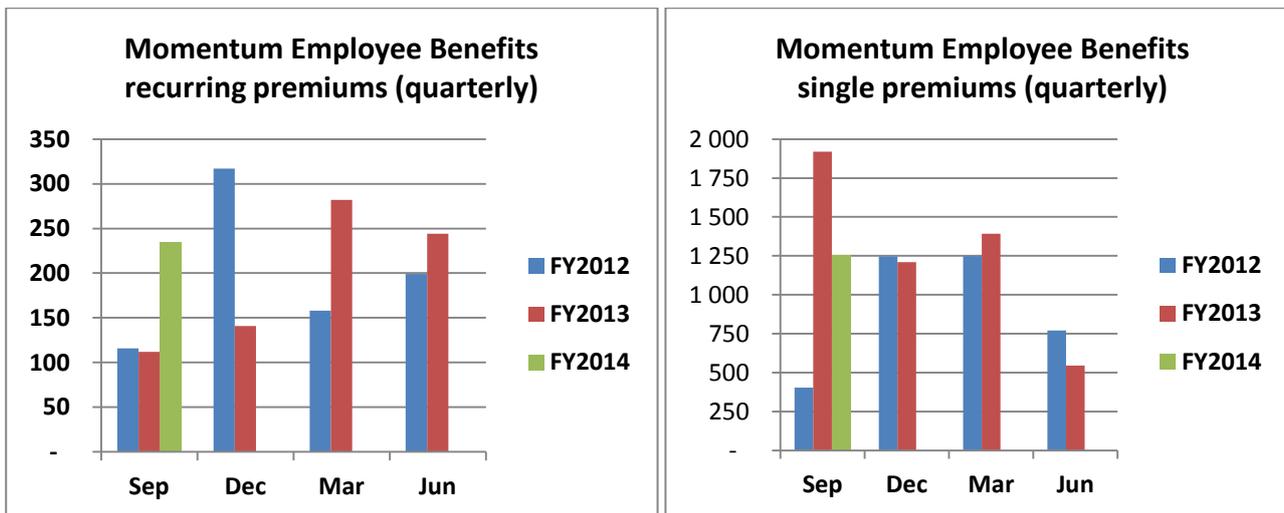
Metropolitan Retail includes new markets and FNB Life (2011/2 10%; 2013 4% from 1 July 2013), but excludes Odyssey.



- Good recurring premium new business was recorded, ending 12% higher than September 2012, highlighting the benefits achievable through market segmentation.
- The reduction in the profit-share agreement with FNB Life from 10% to 4% (effective 1 July 2013) has resulted in a lower contribution from this channel to recurring new business and to the value of new business.
- Excluding new business from FNB Life, strong recurring premium growth of 19% was recorded from the other distribution channels.
- Single premium income performed very well delivering a 24% increase for the quarter.
- Early duration persistency remained at acceptable levels.
- The process and systems renewal projects are proceeding as planned.
- Expenses were well managed during the period under review.
- Excellent client-service levels continued as confirmed by the Ask-Orange index while the Metropolitan brand strength moved up from 4th to 2nd position in the Sunday Times brand survey.

Momentum Employee Benefits

	3 months to 30-Sept-11 <i>Rm</i>	3 months to 30-Sept-12 <i>Rm</i>	3 months to 30-Sept-13 <i>Rm</i>	Change vs 2012 %
New business				
Recurring premiums	116	112	235	>100
Single premiums	403	1 919	1 252	(35)
Annual premium equivalent (APE)	156	304	360	18
Present value of premiums (PVP)	1 255	2 771	3 426	24



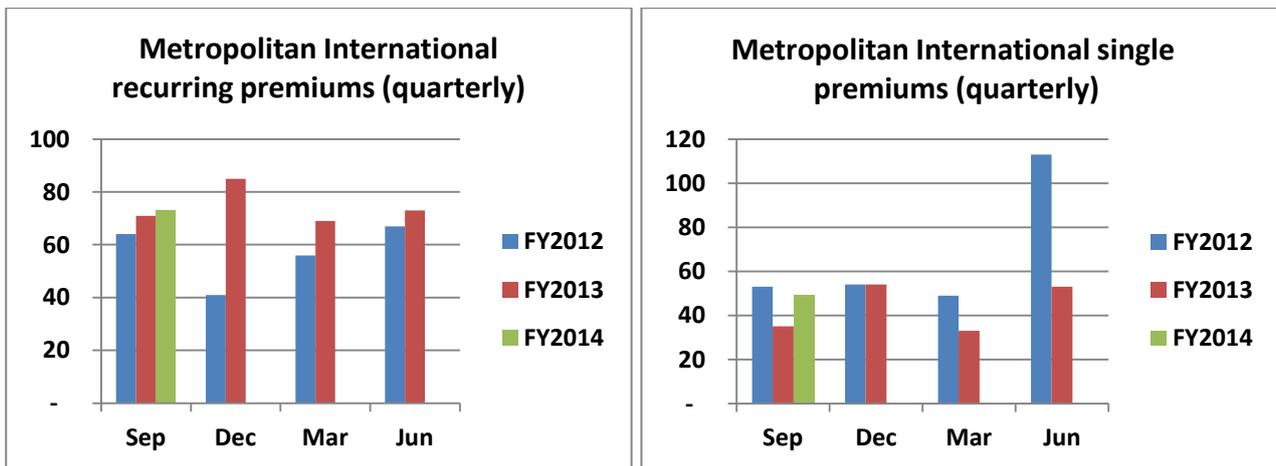
- Good recurring premium new business was recorded in the first quarter, particularly in the umbrella fund space, resulting in recurring premium new business of more than twice the level recorded in the prior comparative for the division as a whole.
- Following the record levels of single premiums received in the prior year, strong single premium production was again written during this period.
- Securing new business in the group insurance and investment markets remains highly competitive.
- Client retention remains at good levels.
- Expense efficiency initiatives are continually being implemented.
- The Momentum Health open scheme, which is now part of the Momentum Employee Benefits division, continues to provide an attractive offering to clients, increasing membership over the period while further strengthening the reserves in the scheme.

Metropolitan International §

	3 months to 30-Sept-11 <i>Rm</i>	3 months to 30-Sept-12 <i>Rm</i>	3 months to 30-Sept-13 <i>Rm</i>	Change vs 2012 %
New business				
Recurring premiums	64	71	73	3
Single premiums (incl EB)	53	35	49	39
Annual premium equivalent (APE)	69	74	78	6
Present value of premiums (PVP)	331	399	420	5
Health membership ('000)#	126	381	390	2

§ New business includes MMI's share of life insurance new business written by all Metropolitan International subsidiaries.

Health membership includes Namibia.



- Good new business volumes were recorded in Namibia, Lesotho and Swaziland during the period under review.
- Strong single premium production was experienced in Botswana.
- The medical claims ratio has remained at satisfactory levels.
- Expense management initiatives are being implemented.
- A number of growth initiatives are being pursued or are in the process of being implemented.

Momentum Investments

- Institutional and retail interest on the back of continued strong investment performance in our Momentum Africa product is yielding positive net inflows.
- The Momentum Balanced Fund unit trust investment performance ended either top or second quartile over 3 months and 1,3 and 5 years.
- Institutional core equity mandates have been committed on the back of equity fund performance.
- The measurement of the unconstrained strategies team's institutional performance commenced at the beginning of the quarter and significant alpha in the domestic equity and global contrarian fund performances has been realised.
- On the back of increased market levels, performance fees and controlled costs, the Momentum Investment division's cost-to-income ratios improved for the quarter.
- The longer term outlook for the investment management business in general remains positive, but earnings will be dependent on the levels and mix of assets under management, as well as expense ratios.
- Building competitive investment management capabilities for the MMI group as well as third parties remain core to the growth strategy.

Metropolitan Health

- Further growth, albeit slower, was recorded in the Government Employees Medical Scheme.
- Despite losing the administration contracts on a few smaller schemes the business is confident that the key administration and managed care contracts will be successfully renewed.
- Good progress has been made with the strategic repositioning of the health risk management business and the roll-out of the Multiply rewards programme.
- Business efficiency initiatives remain on track.
- The business continues to position itself for industry consolidation and health reform.

Opportunities and challenges

- MMI is an extremely well diversified financial services group with scale in all the established operations.
- Merger synergies will continue to emerge as projects are completed.
- Cross-selling and other new business opportunities are being pursued across the group.
- Growth in new business volumes will, however, remain dependent on the economic environment, including a recovery in employment and stronger disposable income levels.

Comments / qualifications

- All figures contained in this trading update have not been reviewed or reported on by the Company's auditors and are for the period 1 July to 30 September 2013 as presented in the current internal management accounts.
- The basis on which the new business figures have been calculated is the same as that used for embedded value purposes. Premium income is included from the date on which policies come into force as opposed to the date on which they are accepted.
- The new business figures are all net of outside shareholder interests.

End

Queries

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