OPERATIONAL UPDATE

For nine months ended 31 March 2017

MMI HOLDINGS

momentum | METROPOLITAN | GUARDRISK | multiply

Difficult economic conditions have continued to weigh on MMI Holdings' financial performance in the nine months to 31 March 2017. Recurring premium new business was up 8% while single premium new business was down 14%. Overall new business volumes are down 6% on a present value of new business premiums (PVNBP) basis. Overall covered value of new business (VNB) was R320m for the period. Diluted embedded value per share was R26.25 on 31 March 2017.

Core earnings growth has improved somewhat from the -5% at interim stage to -3% after nine months, mainly due to improved underwriting results. Average level of the SA equity market is roughly unchanged year-on-year for the nine months, and this puts significant pressure on revenue growth for many of our businesses.

While the macro-economic picture is difficult, the group continues to make progress with its key strategic initiatives. Our new operating model is also enabling us to continue driving efficiency gains across the group. Group's surplus capital position remains satisfactory.

Momentum Retail

Momentum Retail new business volumes are down 4% year-on-year due to a 9% decline in single premium volumes. Decline in single premiums has been driven by lower sales of both guaranteed endowments and Momentum Wealth products. Recurring premium new business is up 2% year-on-year with retirement annuity new business showing the best growth at 8%. Risk sales are flat on last year whereas discretionary savings sales are lower than in the prior year.

Value of new business is lower at R126m which represents a PVNBP margin of 0.7%. The margin has been hurt by negative new business mix effect (less sales of guaranteed products), changes to modelling of loyalty bonuses on Investo savings products and below inflation growth in new business volumes. We expect margins to improve somewhat by year-end.

Sales in short-term insurance (MSTI) are roughly 30% higher than in the prior year whereas for the open scheme (Momentum Health) the volumes are roughly 20% above those achieved in the same period for F2016.

Rm	3Q17	3Q16	Δ %
Recurring premiums	944	923	2
Single premiums	12 302	13 479	-9
PVNBP	18 053	18 802	-4
Value of new business	126	190	-34
New business margin	0.7%	1.0%	-0.3%

Momentum Retail's earnings are broadly flat versus previous year. This is a relatively pleasing result considering that the prior period included non-recurring margin releases. This has had an R100m negative impact on earnings growth. The two main positives for core earnings for the period relate to mortality and expense variances; both contributed more than R50m to earnings growth.

On non-covered sources of earnings we have MSTI tracking its business plans for F2019 break-even (lower losses YTD) and Momentum Health benefiting from growing membership. Earnings from Investments are lower than in the prior year due to weak growth in average FUM.

Metropolitan Retail

Metropolitan Retail continues to show the benefits from its distribution channel restructure. Recurring premium new business is up 17% with protection business showing 23% growth. Single premium new business is down 12% following relaxation of the annuitisation rules for smaller pension pots.

New business margin has declined year-on-year following the adoption of more conservative assumptions on premium collection rates. New business profitability is also hurt by the high proportion of new agents whose basic salaries exceed the commissions they would earn on equivalent sales.

Rm	3Q17	3Q16	Δ %
Recurring premiums	928	795	17
Single premiums	842	961	-12
PVNBP	3 862	3 685	5
Value of new business	118	126	-6
New business margin	3.1%	3.4%	-0.3%

Metropolitan Retail's earnings are roughly 10% ahead of the prior financial year. Earnings have been aided by the growth in the expected margin releases (ie book growth) following improved sales over the past 18 months. Mortality and expense variances remain strong whereas lapse experience has weakened further since the mid-year. Various corrective actions are being taken to improve premium collection rates and these include leveraging more off the success we have had over the past two years in opening up new worksite marketing opportunities.

Corporate and Public Sector

New business for Corporate and Public Sector (CPS) is down 17% relative to prior year. Single premium new business is down 33% with investment flows particularly weak. Recurring premium new business is up 2% year-on-year. Group risk market pricing remains competitive which places pressure on both new business volumes and on margins that can be achieved on new business.

New business margins are sharply down on prior year and on the numbers published in the interim results. After the year-end we have adjusted downwards the VNB on some large group insurance schemes written during the first six months of the year. This reflects both a downward review of the product margins that we believe will be realised over time and an upward adjustment to the distribution costs (with equal downward adjustment of renewal costs) allocated to the VNB calculation.

We have also been forced to take corrective action in certain areas of the institutional sales environment and in those areas sales have been minimal while we rebuild capacity in the relevant distribution teams.

Rm	3Q17	3Q16	Δ %
Recurring premiums	406	398	2
Single premiums	2 386	3 570	-33
PVNBP	6 064	7 284	-17
Value of new business	15	124	-88
New business margin	0.2%	1.7%	-1.5%

While the new business performance in CPS has been very disappointing, the story around core earnings is more positive. Earnings are roughly flat year-on-year despite the 29% decline in health administration profits due to loss of two major clients during the prior financial year. Earnings from the life insurance operations are up slightly year-on-year with disability underwriting results showing an improved result over the last three months.

Guardrisk and Eris Property both made solid earnings contributions in the nine months. While health administration earnings are down 29% year-on-year, the result is pleasing against the original budgets drawn after the client losses mentioned earlier. The resizing activities are on track and the business is expected to show improving financial performance in due course.

International

International’s new business is up 3% year-on-year. Recurring premium new business is up 11%, single premium new business is down 17%. Value of new business is up 30% to R61m for the nine months. Namibia has made the strongest contribution year-to-date with volumes up 9% and new business value up 26%. Lesotho and Botswana also made solid contributions with only Swaziland showing decline in sales and VNB.

Rm	3Q17	3Q16	Δ %
Recurring premiums	332	298	11
Single premiums	262	315	-17
PVNBP	1 944	1 895	3
Value of new business	61	47	30
New business margin	3.1%	2.5%	0.6%

Earnings at International are lower than in the previous year. Life insurance earnings are below those achieved in F2016 due to the weak start to the current year in Namibia (higher group risk claims). Profitability in the Namibia life business has recovered to more normal levels since the weak 1Q17 result. Losses for our short-term insurance operations in Africa (mainly Cannon) have continued tracking the run-rate observed at mid-year. Our health insurance operations continue to show improved profitability following premium rate increases on underperforming schemes. We are making steady progress with rationalisation of our Africa portfolio and this will also unlock scope to reduce the central expenses incurred to support the in-country activities.
With our Indian healthcare joint venture now fully up and running, our share of the start-up

losses has increased substantially since December. Early volume growth has exceeded our expectations and we remain excited about this opportunity.

International segment also includes our mobile insurance JV with MTN (aYo) and our UK asset management / wealth management activities. Start-up losses are tracking budget but sales volumes have been lower than expected in the early months. Profitability of our UK business remains ahead of budget and we have seen net inflows from non-SA clients. We plan to strengthen our distribution capability in SA to regain market share in the flows originating from South Africa.

Shareholder Capital

Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and some costs not allocated to operating segments (e.g. certain holding company expenses).

Earnings contribution from Shareholder Capital is broadly flat relative to the prior period. Investment income is higher for the nine months, and in line with the increase in investable assets. This has been offset by higher expenses incurred in our disruptive innovation business unit (Exponential) which is reported as part of the Shareholder Capital segment. We are pleased that Exponential is providing MMI with an efficient vehicle through which we are connected to the fast evolving fintech space.

Outlook

Operating environment remains difficult in South Africa and we do not believe that the tough environment will improve meaningfully in the near term. This means that we need to continue applying strong discipline in our capital allocation decisions and to find increasingly efficient ways of doing business in the absence of meaningful revenue growth in core operations. At this stage we expect full year results to broadly reflect the trends visible in the first nine months of the current financial year.

The information in this operational update has not been reviewed and reported on by MMI's external auditors.

Conference call

The executive management of MMI will be hosting a conference call for shareholders, investors and analysts. The details of the conference call are as follows:

Audio dial-in facility

A toll free dial-in facility will be available. We kindly request callers to pre-register using the following link https://goo.gl/GW6O5G. A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 14h00.

Access numbers for participants dialling live from their country:

South Africa	011 535 3500
UK	0 808 143 3720
Other Countries	+27 11 535 3500

Recorded playback will be available for three days after the conference call.

Access Numbers for Recorded Playback:

South Africa	011 305 2030
UK	0 808 234 6771
USA and Canada	1 855 481 5363
Other Countries	+27 11 305 2030

Access code for recorded playback: 13170#

6 June 2017
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