24 May 2018

OPERATIONAL UPDATE

For nine months ended 31 March 2018

MMI HOLDINGS

momentum METROPOLITAN GUARDRISK multiply

We communicated at the interim results that more focus would be placed on the core South African businesses in the group. The leadership of MMI are clear that the business also requires a much sharper emphasis on operations. This includes investment into our various distribution capabilities, efficiency in our operating model, a more measured approach to new initiatives, a sharper focus on delivery of desired outcomes and exiting marginal operations outside of South Africa. The execution on these priorities is a pre-requisite for sustained earnings growth and future value creation.

Diluted core headline earnings for the nine months are down 5% on the prior period. This decline includes increased spending on new initiatives such as aYo, India, Money Management and MMI Lending. Adjusting for these four initiatives, diluted core headline earnings would have been flat for the period. We are pleased about solid performance in some segments and product lines.

Earnings growth has been hampered by weak growth in average assets under management, poor persistency in Metropolitan Retail and increased investment in new initiatives aimed at ensuring sustained future profitability. While overall underwriting results across the group remain well ahead of the prior period, the claims experience in Momentum Corporate was weaker in 3Q than in the first six months of the financial year.

Headline earnings, which include the full impact of market-related gains on our earnings, are flat versus the prior year. The higher year-on-year headline earnings for December have reversed largely due to the low investment market returns and a reduction in the yield curve over the last three months.

Retail new business volumes are up 6% for the period. In Corporate we have maintained pricing discipline and continue to focus on the quality of business written which has resulted in a 4% decline in Corporate new business. Overall this leaves new business volumes marginally up year-on-year. Value of new business (VNB) for the nine months was R331m, representing a new business margin of 1.1%.

Our capital position is broadly unchanged from 31 December 2017 under both the current statutory basis and the upcoming Solvency Assessment and Management (SAM) regime. Our EV was R27.07 per share as at 31 March 2018. We started our share repurchase programme, according to which we plan to buy back shares to the value of R2bn, on 7 March 2018. Up to 31 March 2018 we acquired 12.8m shares for a total cost of R281m.

Momentum Retail

Momentum Retail new business volumes are up 5% year-on-year when measured as present value of new business premiums (PVNBP). In single premiums we have seen large increases in volumes into our offshore products. The new Guaranteed Return Option product launched in October 2017 also continues to have a positive impact on single premium volumes. We saw good volumes on recurring premium savings business, which was further supported by the increase in the average monthly premium. New recurring premium business volumes increased by 4% and single premium new business volumes were up 3%.

Despite the positive volume growth VNB declined to R102m, which represents a PVNBP margin of 0.6% (vs 0.7% in 3Q17). This was mainly due to initial expenses increasing at a faster rate than volume growth. This included investment into initiatives aimed at improving client and intermediary experience during the new business process. More competitive pricing introduced on our Momentum Wealth platform in April 2017 also negatively affected new business profits. We believe that both the new platform pricing and the improved user experience will have a positive impact on future sales volumes.

Rm	3Q18	3Q17	Δ%
Recurring premiums	837	802	4
Single premiums	12 447	12 063	3
PVNBP	17 206	16 316	5
Value of new business	102	119	-14
New business margin	0.6%	0.7%	-0.1%

Momentum Retail’s covered earnings are significantly down year-on-year. This reflects the higher investment into our client engagement activities and technology. The level of Multiply discounts is also higher than in the prior period. These discounts are complementary to the strong mortality and premium alteration experience on this subset of clients, which partly offsets the impact of the premium discounts. Earnings were also negatively impacted by a reinsurance correction for a historical underpayment that was corrected during 2Q18. In addition to this, weak investment market returns has led to weaker than expected asset-based fee income.

Non-covered earnings improved in Momentum Retail, mainly due to the improvement in Momentum Short-term Insurance (MSTI) and the Health business. MSTI is performing well with 3Q18 showing a profit for the quarter. Net earned premiums for the nine months are nearly 20% higher than the prior period. Despite some adverse weather during the quarter, the claims ratio continued to improve across all portfolios and reduced below 70% year-to-date. The business remains on track to achieve its financial objective of reaching a cash-flow positive position in F2019. The Health open scheme showed improved results due to increased membership and good expense control.

Metropolitan Retail

Metropolitan Retail increased new business volumes by 9%. Recurring premium volumes are up 2% while single premium volumes increased by 31%. New business margin increased to 3.4% for the quarter (vs 3.1% for 3Q17). The new business margin benefited from lower commission expenses following a recalibration in some parts of our remuneration models used for sales staff. The adoption of the yield curve methodology, as well as favourable economic assumption changes, has also contributed positively to VNB year-on-year.

Rm	3Q18	3Q17	Δ %
Recurring premiums	946	928	2
Single premiums	1 101	842	31
PVNBP	4 203	3 862	9
Value of new business	141	118	19
New business margin	3.4%	3.1%	0.3%

Metropolitan Retail's earnings are down year-on-year. This is driven by investments into the African Bank joint venture and increased spending on new initiatives, including Metropolitan's share of the Money Management and Lending initiatives.
Our mortality variance was strong during the period and this, along with strong investment variance, offset some of the negative persistency variance, which is concentrated mainly in early durations and funeral product lines.

Momentum Corporate

New business volumes for Momentum Corporate are down 4% year-on-year. Single premium new business improved by 2% compared to 3Q17 due to strong growth in our umbrella fund product (FundsAtWork).
Recurring premium new business was down 14% with the stricter group risk pricing affecting sales. Given the competitive nature of the group insurance market, we are focussing on achieving a balance between new business volumes and profitability. We are making good progress in this regard and, considering the lumpy nature of this business, we do not believe the negative trend in volumes to be indicative of the potential volume growth going forward.

New business margins improved to 0.6% from 0.3% in the prior period. The improved VNB result reflects the continued effort within the business to rebuild distribution channels, success in sourcing more profitable investment business (FundsAtWork), and the continued impact of adhering to a strict pricing framework within the group insurance environment.

Rm	3Q18	3Q17	Δ %
Recurring premiums	470	548	-14
Single premiums	2 682	2 625	2
PVNBP	7 466	7 801	-4
Value of new business	45	22	105
New business margin	0.6%	0.3%	0.3%

Momentum Corporate's earnings has improved compared to the prior period, albeit at a slower rate than seen through the first six months of the current financial year. The increase in year-to-date profits is mainly driven by an improvement in covered underwriting performance, specifically on group disability risks. This together with good annuity earnings for the nine months has resulted in overall life insurance earnings improving relative to the prior period.

Guardrisk again performed strongly and contributed significantly to growth in core headline earnings. This was supported mainly by an improvement in underwriting results. Our health administration business also continues to post strong profits.

International

International's new business volumes are down 6% year-on-year. Single premium volumes are up sharply but the 2% decline in recurring premium new business offsets this at the PVNBP level. Namibia, the largest contributor to our life insurance operations outside of SA, recorded lower sales year-on-year.

Value of new business is down 30% to R43m. Margins in Namibia and Botswana were down mainly due to lower volumes and higher initial expenses in both countries. This was partly offset by higher VNB in Lesotho, which showed the positive impact of a change in mix towards higher-margin credit life business.

Rm	3Q18	3Q17	Δ %
Recurring premiums	324	332	-2
Single premiums	319	262	22
PVNBP	1 836	1 944	-6
Value of new business	43	61	-30
New business margin	2.3%	3.1%	-0.8%

Core headline earnings at International improved materially. Results improved mainly due to better group disability claims experience in Namibia, a decline in support costs in SA, and strong profits from our UK asset management business. These positives were offset to some extent by increased losses incurred in our start-up initiative aYo and the health insurance JV in India. Although the loss for India has increased, it is in line with the original business plan and we are pleased with the top-line growth for the India JV. We now have in excess of a million insured lives covered by our India business.

We are making meaningful progress on exiting various African countries and central costs supporting the African operations have been reduced.

Shareholder Capital

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

Although the earnings contribution from Shareholder Capital is down for the period, the third quarter delivered a materially stronger result than those seen in the first six months. The year-to-date result is down, mainly driven by a decline in average money market yields and the sale of a high-yielding property that was held in the shareholder portfolio during F2017, the proceeds of which are now invested in lower-yielding development property. Finance costs on subordinated debt also increased because of R750m of new debt being issued during the period.

Outlook

The operating environment remains challenging and we do not expect a significant improvement in the near term. In our case, we are also dealing with the need to prioritise some core focus areas in the group. While we are confident that these changes are necessary to ensure sustainable future success, the positive results of these activities will take some time to emerge. As such, we do not expect financial results to improve meaningfully from current levels for the full year.

24 May 2018
CENTURION

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 on 24 May 2018.

We kindly request callers to pre-register using the following link https://goo.gl/gHVaJb. A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 13h00.

Access numbers for participants dialling live from their country:

South Africa	011 535 3500
UK	0 333 300 1417
USA and Canada	1 508 924 4325
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	010 500 4108
UK	0 203 608 8021
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Other Countries	+27 10 500 4108

Access code for recorded playback: 13259#

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