IFRS 17: Insurance Contracts

Investor Presentation

21 July 2023

Disclaimer

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Forward-looking statements

In this presentation, we make certain statements (including oral statements made by members of MMH's senior management) that are not historical facts and relate to analyses and other information based on forecasts of future results not yet determinable, relating, amongst others, to the impact of IFRS 17 on the financial results, to new business volumes, investment returns (including exchange rate fluctuations) and actuarial assumptions. These statements may also relate to our prospects, developments and business strategies. Words such as "believe", "anticipate", "intend", "seek", "will", "plan", "could", "may", "expect" and "project" and similar expressions are intended to identify such forward-looking statements but are not the exclusive means of identifying such statements. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Consequently, all forward-looking statements have NOT been reviewed or reported on by the Group's external auditors.

Information Regarding IFRS 17

The information presented reflects the current interpretation of MMH based on its individual facts and circumstances as of the date hereof. Such interpretation, or the underlying relevant facts and circumstances, may change and other companies may have different facts and circumstances that lead to other or different interpretations. This presentation, including the illustrations and interpretations contained herein along with any verbal statements made by MMH in relation hereto, are for informational purposes only and may change pending the final issuance of regulatory and industry guidance relating to IFRS 17. While reasonable care has been taken in preparing the presentation, MMH does not warrant the accuracy of the information in this presentation and shall not be responsible for reliance on such information. This presentation includes forward-looking statements about the current interpretation of MMH regarding its own earnings presentation and reporting under the new IFRS 17 accounting standard. The audit of IFRS 17 information relating to prior reporting periods has not been concluded.

Non-IFRS financial measures

MMH prepares its financial statements in accordance with international financial reporting standards ("IFRS"). This presentation includes financial measures that are not based on IFRS ("non-IFRS financial measures"). MMH believes that these non-IFRS financial measures provide information that is useful to investors in understanding MMH's performance and facilitate the comparison of the quarterly and full year results from period to period. These non-IFRS financial measures do not have any standardised meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed as alternatives to measures of financial performance determined in accordance with IFRS.

Currency

Unless otherwise noted, all amounts are in South African Rand.

Agenda

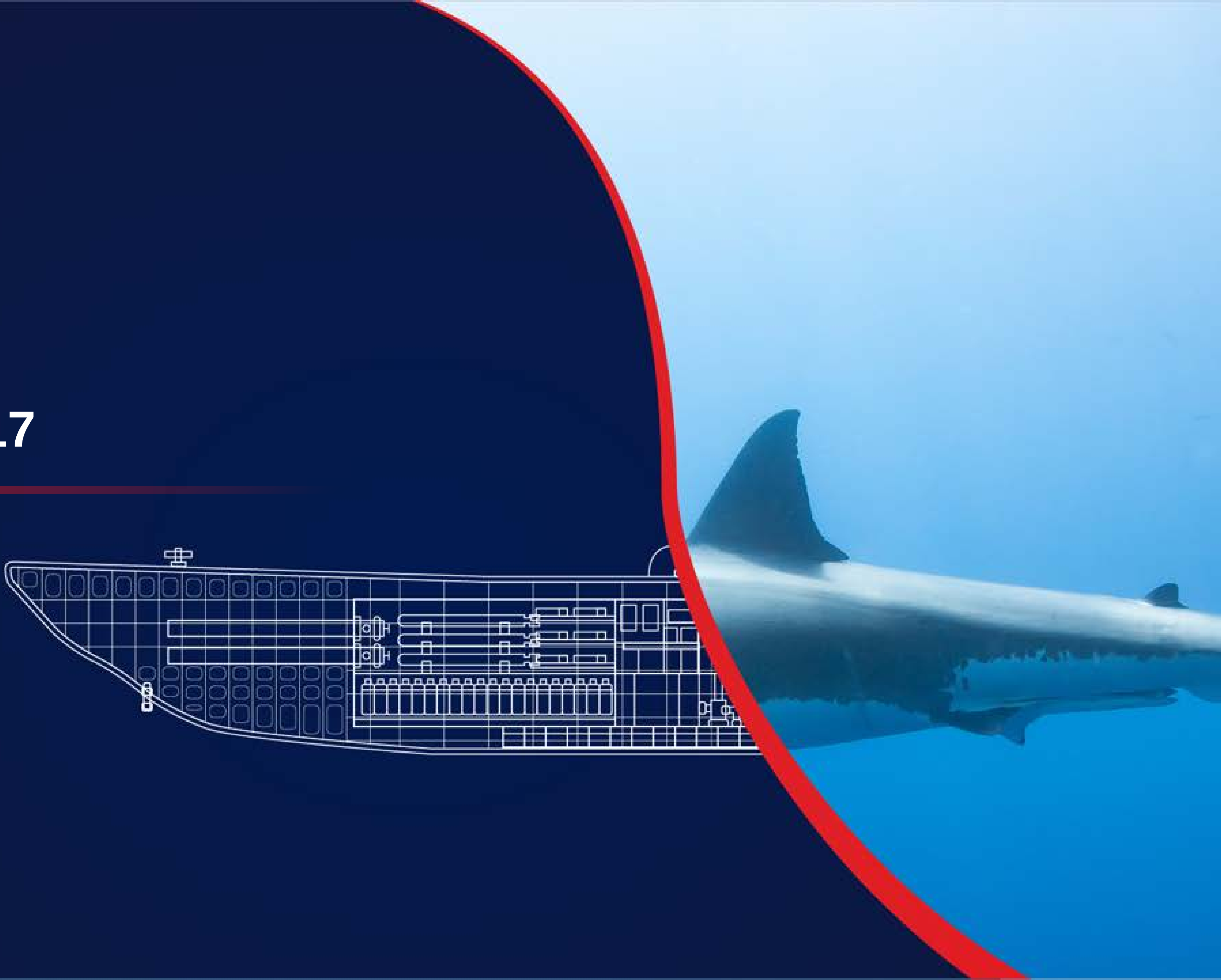
1 Overview of IFRS 17

2 Key accounting choices

3 IFRS 17 impacts

4 Readiness & conclusion

Overview of IFRS 17



What does IFRS 17 mean for MMH?

What is not changing

- **Underlying cash flows** and **economics of our insurance policies**
- **Reinvent & Grow strategy**
- **Cash generation** and ability to pay **dividends**
- **Robustness of solvency position**
- **Limited** measurement model and revenue recognition changes for **short contract boundary business**

What is changing

- **Timing of earnings recognition** may accelerate for protection contracts, but likely be deferred for annuity business
- Granularity of **contract assessment**
- **Improved comparability** across insurers
- Introduces the concept of the **contractual service margin (CSM),** which represents **expected future profits** to be earned from insurance contracts
- **Closer alignment** of actuarial and other financial reporting processes

Expected impact on key metrics

Earnings

- **Small negative** impact on overall earnings level
- **Lower** new business strain (positive for earnings)
- **Lower** release of margins from existing contracts (negative for earnings)

Equity

- **Net increase** in equity (prudence in IFRS 4 liabilities released)
- **Lower** return on equity in the foreseeable future
- **Creation** of CSM liability on transition

Embedded value

- **Insignificant impact** on embedded value and value of new business
- Increase in protection business VNB, decrease in savings business VNB
- VNB impact mainly due to move to market neutral economic basis

Capital management

- Cash flow generation **unaffected**
- Dividend level **unaffected**
- **Insignificant impact** on solvency position

Business strategy

- Business strategy remains **unchanged**
- **No immediate** impact on product management and pricing

Technical implications

Revenue recognition

- Targets a **meaningful** revenue number aligned with claims and costs recognition
- Revenue components relate to:
  - Expected **cash flows** to fulfil contracts (i.e. expected claims and expenses)
  - Compensation for **risk** (i.e. release of Risk Adjustment)
  - Contribution towards **overheads and profits** (i.e. release of CSM)

Profit recognition

- **Consistent principles** for profit recognition as insurance services are provided
- Change in disclosure between **P&L and OCI**
- Change in disclosure **where revenue** is recognised and against which **service expense**
- Change in disclosure between **investment and insurance result**

Deferral

- **Approach to capitalise new business expense now more constrained** than in the past

Time steps/ volatility

- Profits over time unchanged but **earnings pattern may be different**
- Earnings exposure to **market and non-market variables somewhat different** to that under IFRS 4

Key Accounting Choices

Principles guiding our accounting choices

Economic reality

- Reflecting the underlying economics of insurance contracts as closely as possible
- The confidence level of the Risk Adjustment should result in a CSM that is a fair representation of the economic value added by insurance contracts

Stable earnings release

- In-force contracts delivering a stable and real (increasing broadly with inflation) contribution to P&L
- Minimising earnings volatility where possible

Operational alignment

- Alignment with our current business practices (e.g. risk and product management)
- Alignment across reporting bases – Regulatory, IFRS and Embedded Value

Key accounting choices

Legend:

- Economic reality
- Stable earnings release
- Operational alignment

	MMH's choice	Rationale	SA peer group
Discount rates	Illiquidity premium applied to non-profit annuities	Ensures consistency with MMH's approach to Asset Liability Matching	Some extent of convergence
Coverage units	Discounted coverage units	Providing a smoother release of revenue over time for GMM contracts and ensuring better alignment with asset-based revenue for VFA contracts	In line with SA industry
Transition approach	Fully retrospective and fair value adopted. Fully retrospective applied as far as possible for products open to new business	Fair value adopted where impracticable	Variety of approaches. MMH may have adopted a fully retrospective approach slightly further back than competitors

Key accounting choices

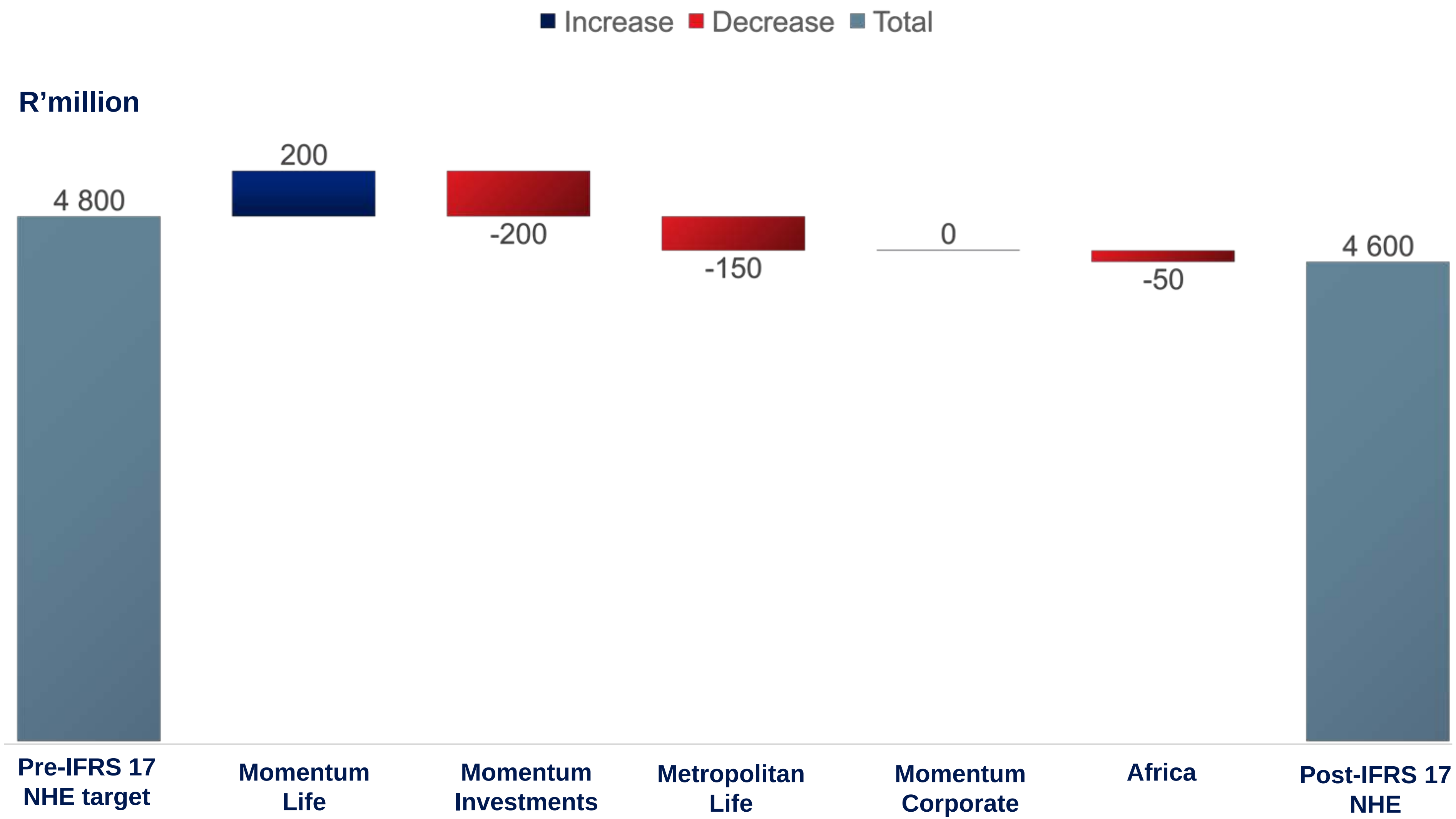
Legend:

- Economic reality
- Stable earnings release
- Operational alignment

	MMH's choice	Rationale	SA peer group
Fulfilment cash flows	Mainly unallocated expenses are excluded Only taxes directly charged to the policyholder are included	Expenses that are not required to fulfill policyholder obligations are the exception	Some extent of convergence
Other comprehensive income (OCI)	Not adopted	Ensures consistency with MMH's accounting treatment of investment assets	Generally not adopted in SA
Risk mitigation	Adopted for market risk exposures on VFA contracts that are managed through explicit hedging strategies	Ensures consistency with MMH's approach to Asset Liability Matching	Variety of approaches

IFRS 17 Impacts

Expected MMH earnings impact



Expected earnings impact by business unit

R'million	Momentum Life	Momentum Investments	Metropolitan Life	Momentum Corporate	Africa	MMH
Margin release	(50)	-	(50)	-	(100)	**(200)**
Return on surplus	150	(50)	50	-	50	**200**
New business	150	(150)	-	-	-	**-**
Variances and assumption changes	-	-	-	-	-	**-**
Out of standard items	(50)	-	(150)	-	-	**(200)**
Net earnings impact	**200**	**(200)**	**(150)**	**-**	**(50)**	**(200)**

- **Momentum Life** benefiting from lower new business strain and improved return on surplus
- **Momentum Investments** impacted by increased new business strain
- **Metropolitan Life negatively** affected by non-attributable expenses
- **Other covered business** expected to be less adversely affected (or even slightly positive)
- **Non-covered business generally unaffected** (PAA measurement model)
- **Out of standard items** include expenses not directly attributable to IFRS 17 contracts and tax components not directly charged to policyholders

Expected earnings impact: margin release

R'million	Momentum Life	Momentum Investments	Metropolitan Life	Momentum Corporate	Africa	MMH
Margin release	(50)	-	(50)	-	(100)	**(200)**

Sources of earnings	IFRS 4 treatment	IFRS 17 treatment	IFRS 4 to IFRS 17 impact
Margin releases *(IFRS 4: Tier 1 and 2 margins, IFRS 17: CSM and RA)*	Tier 1 and 2 margins taken through earnings	CSM and RA taken through earnings	Acceleration of margin releases under IFRS 17 versus IFRS 4 (particularly on protection business) means reduced level of margins available for release following transition to IFRS 17

Expected earnings impact: new business

R'million	Momentum Life	Momentum Investments	Metropolitan Life	Momentum Corporate	Africa	MMH
New business	150	(150)	-	-	-	-

Sources of earnings	IFRS 4 treatment	IFRS 17 treatment	IFRS 4 to IFRS 17 impact
New business earnings	Taken through earnings based on net impact	More future profits capitalised at new business stage to offset acquisition cost Onerous business taken through earnings	Losses reduce in aggregate Less offsets to onerous contracts available (more granular measurement)

Expected earnings impact: variances and assumption changes

Sources of earnings	IFRS 4 treatment	IFRS 17 treatment	IFRS 4 to IFRS 17 impact
Underwriting variances	Taken through earnings	Taken through earnings (future service impact written to CSM, balance taken through earnings)	Range of impacts due to future cash flow impact not going to earnings
Underwriting assumption changes	Absorbed by available discretionary margins (if available / if released), balance taken through earnings	Written to CSM (where available), otherwise taken through earnings	Less volatile impact due to CSM absorption ability

Expected earnings impact: variances and assumption changes

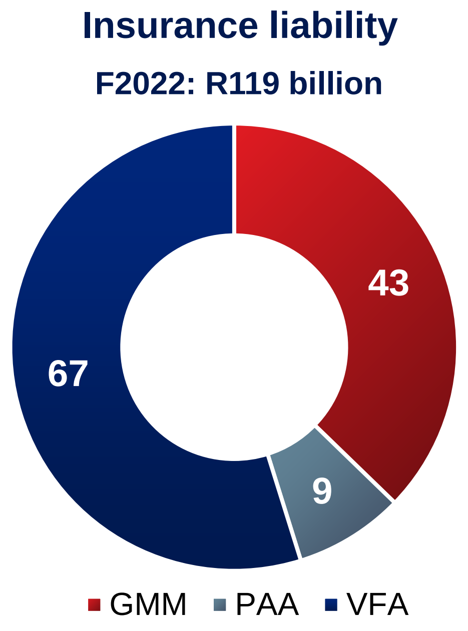
Sources of earnings	IFRS 4 treatment	IFRS 17 treatment	IFRS 4 to IFRS 17 impact
Investment variances and economic assumption changes	Absorbed by available Investment Stabilisation Reserve (ISR) when available, balance taken through earnings	Taken through earnings for GMM contracts. Taken to CSM for VFA contracts (where available) and through earnings where risk mitigation option is elected	Overall lower volatility expected on protection business due to improved hedging position due to fulfilment cash flows being recognised on an economic basis ISR not being available increases volatility for GMM contracts CSM on VFA contracts may reduce volatility

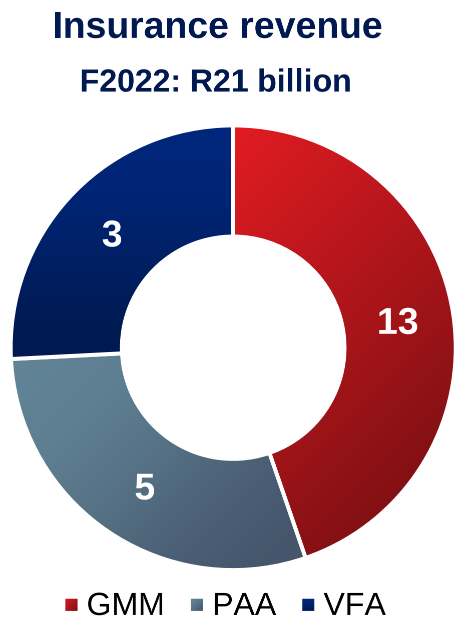
Expected earnings impact: out-of-standard items

R'million	Momentum Life	Momentum Investments	Metropolitan Life	Momentum Corporate	Africa	MMH
Out-of-standard items	(50)	-	(150)	-	-	**(200)**

Sources of earnings	IFRS 4 treatment	IFRS 17 treatment	IFRS 4 to IFRS 17 impact
Out-of-standard cash flows	Included/capitalised in policyholder liabilities	Taken through earnings as-and-when incurred	Out of standard items includes net expenses that are not directly attributable to IFRS 17 contracts

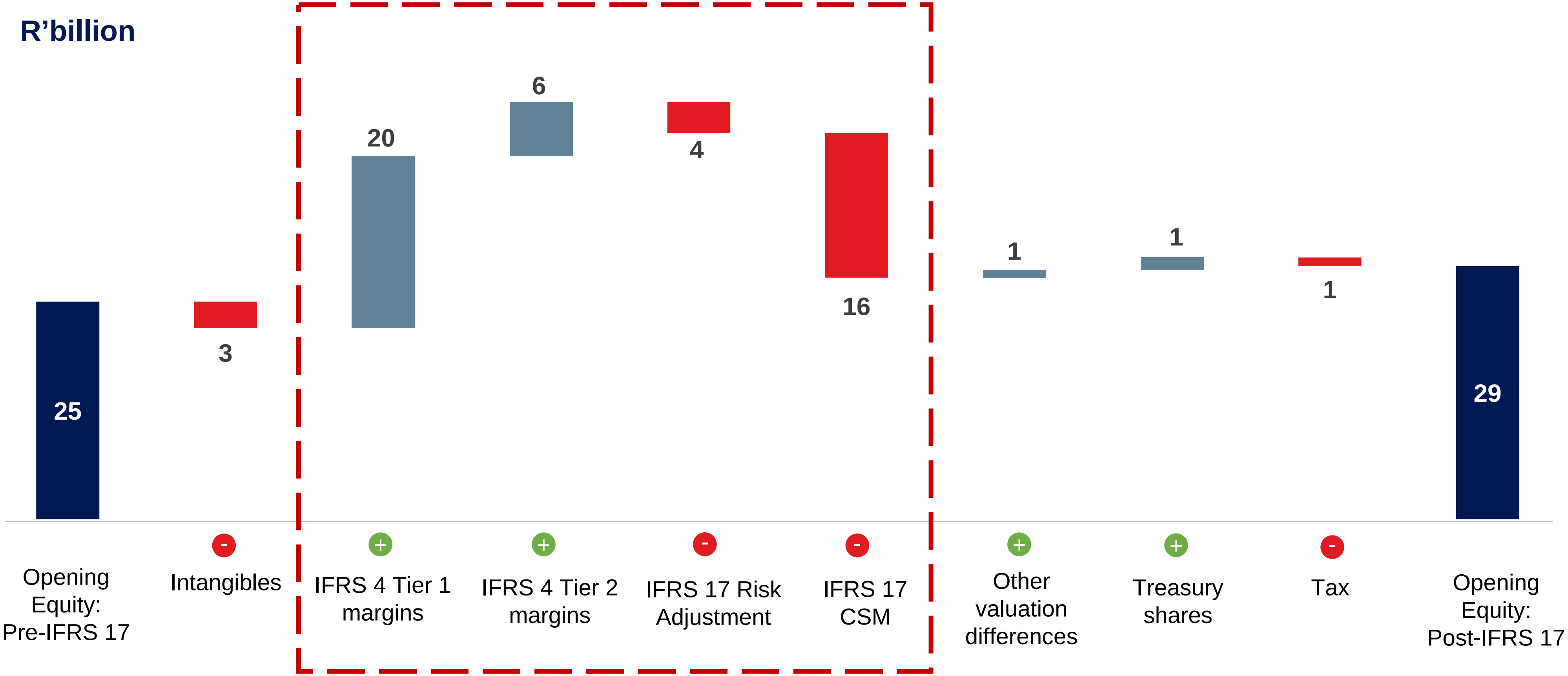
SA & Africa life insurance by IFRS 17 measurement model





- June 2022 IFRS 17 liabilities ~ 20% of MMH total balance sheet liability
- June 2022 IFRS 17 insurance revenue ~ 40% of MMH total net insurance revenue and fee income
- Non-life insurance business in IFRS 17 scope mainly follows the premium allocation approach (PAA)

Expected shareholder equity impact - MMH



- Expected **increase in equity on transition** ~ R4bn (using the F2022 balance sheet)
- Driven by **net release of valuation margins** (IFRS 4 vs IFRS 17)
- Release R20bn of Tier 1 margins and R6bn of Tier 2 margins on transition
- Set up R16bn CSM and R4bn Risk Adjustment on transition
- Partially offset by **removal of intangible asset** (*Value of insurance business acquired)*

CSM on transition

Transition approaches 1 July 2022 R'billion	Fully retrospective approach	Fair value approach	Total
General measurement model	11	2	13
Variable fee approach	-	3	3
Total	**11**	**5**	**16**

Group KPIs

KEY METRICS		HIGH LEVEL IMPACT
Growth and sales	Normalised headline earnings	Expect c.R200m decrease in NHE and thus likely to see NHE targets adjusted accordingly
	Value of new business	VNB metric sees modest changes VNB targets unchanged
	Present value of new business premiums	PVNBP metric and targets unchanged
Distributable reserves	Dividend per share	Dividends not impacted
Financial stability and value	Return on equity	Lower RoE due to c.R4bn expected increase in equity on transition and c.R200m decrease in NHE
	Embedded Value	EV per share not materially affected (aligns with distribution not being affected)
	Contractual service margin (CSM)	c.R16bn on transition

IFRS 17 Readiness & Conclusion

IFRS 17 readiness and conclusion

1. Well positioned to adopt IFRS 17 for the interim results period ending 31 December 2023
2. IFRS 17 is not expected to immediately change our strategy, solvency or dividends
3. We will continue with our EV reporting
4. The 1QF2024 operating update expected to be less comprehensive
5. Thank you and well done to the team that continues to work on this massive project

Investor communication timeline

Interim F2023 (Mar 2023)

- Key expected impacts
- Selected Q&A

Today

July 2023

- Expected balance sheet impact (unaudited)
- Expected income statement impact (forward looking statements)
- Communication around key choices

F2023 Results (Sep 2023)

- Transitional note included in AFS
- Include agreed impact on KPIs in Integrated Report

F2024 Interim (Mar 2024)

- F2023 H1 and FY comparatives presented on IFRS 17 basis
- F2024 H1 presented on IFRS17 basis

Thank you

FAQs

Frequently asked questions

Question	Answer
Impact on pattern of cash earnings (business level as opposed to product level)	IFRS 17 is not expected to have an impact on free cash flow generation
Impact on dividend policy	No change in dividend policy. Impact on earnings is small enough that the current dividend cover ratio of 2 to 3 x NHE is still applicable
Will approach to best estimate assumption be changing?	The only notable change is the reduction in unit expense assumptions to exclude non-attributable expenses not directly attributable to insurance contracts. The non-attributable expenses will in future be recognised as-and-when incurred rather than being allowed for in the insurance liabilities

Changes to income statement presentation

Illustration of income statement

IFRS 4
Revenue
Gross premiums
Premiums ceded to reinsurers
Net premiums
Investment income
Total revenue
Gross claims and benefits
Increase in insurance contract liabilities
Benefits and expenses ceded to reinsurers
Decrease in reinsurance assets
Net benefits and claims
General expenses
Investment expenses
Commissions, premium taxes
Interest expenses
Income before income taxes
Income tax expenses
Net income

IFRS 17	Notes
Insurance revenue	1
Insurance service expense	2
Insurance service result before reinsurance contract held	
Allocation of reinsurance premiums	
Amounts recoverable from reinsurers for incurred claims	
Net expense from reinsurance contract held	2
Insurance service result	
Investment income	3
Insurance finance expenses for insurance contracts issued	
Reinsurance finance income for reinsurance contracts held	
Net insurance financial results	3
Other income and expenses	4
Profit before tax	
Income tax expense	
Net income	

Components of insurance profits

1. Insurance revenue

Long-term insurance business revenue includes:

- Recognition of CSM
- Release of Risk Adjustment for risk expired
- Release of expected incurred claims and directly attributable expenses from best estimate liability

Short-duration insurance business revenue includes:

- Earned revenue

2. Insurance service expenses

- Actual incurred claims and directly attributable expenses
- Recognition of onerous contracts
- Actual acquisition expenses incurred (short-contract boundary business only)

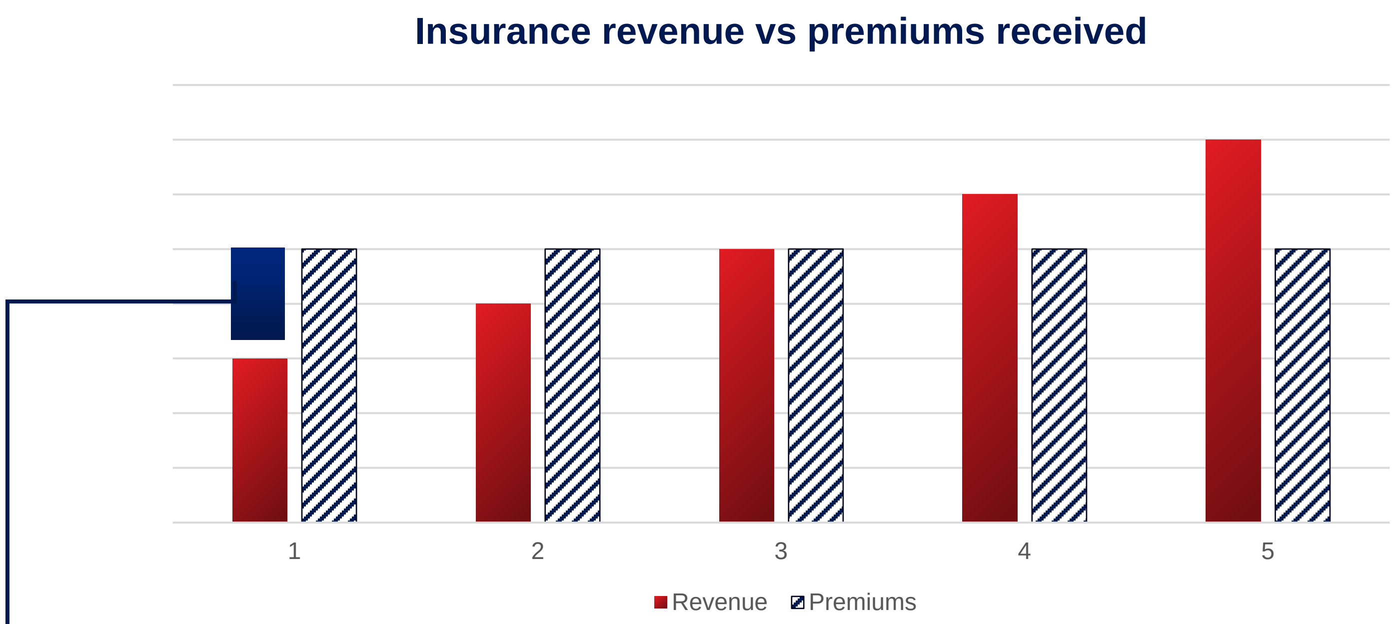
3. Insurance investment result

- Investment variances
- Economic basis changes
- Expected asset liability mismatch

4. Other expenses

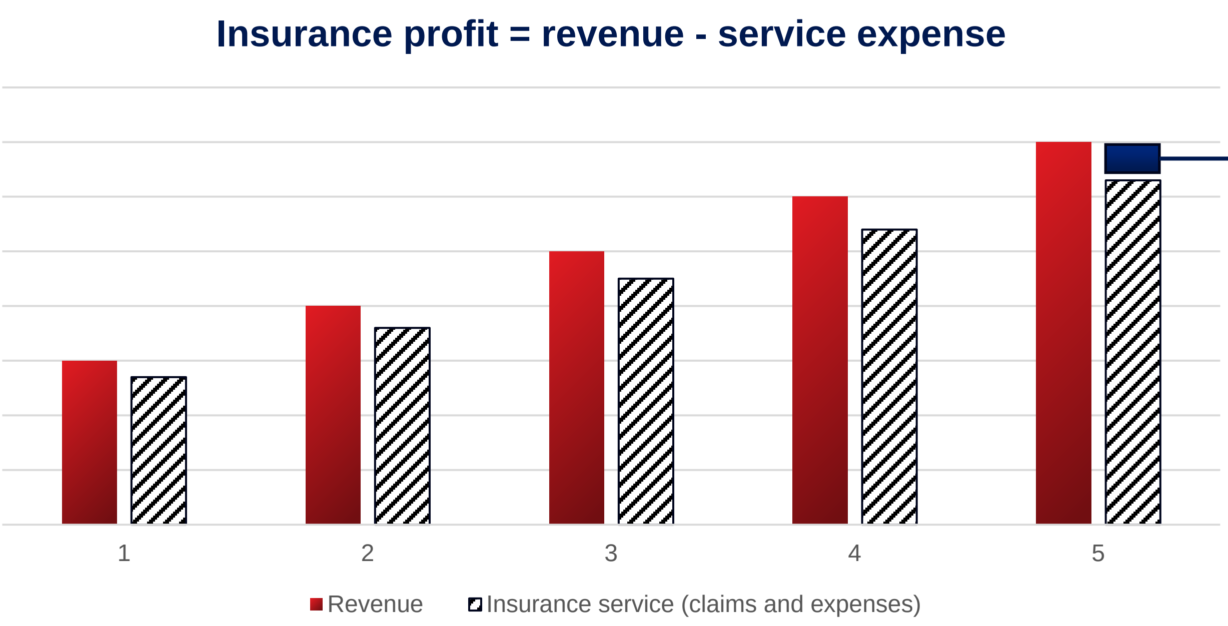
- Cash flows not included in IFRS17 measurement, e.g. expenses not directly attributable to insurance contracts

Meaningful revenue number



Difference would have previously been included in change in liabilities line item

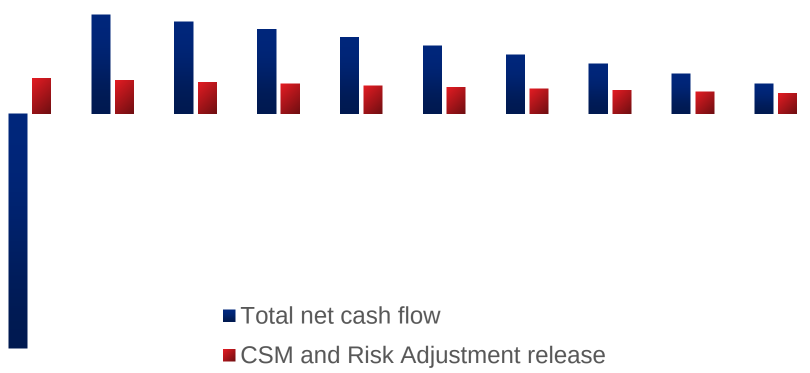
Expected profit



Expected difference = Risk Adjustment release (compensation for risk) + CSM release (expected profit after allowing for risk)

Simplified example: 10-year term assurance policy

Net cash flow vs (CSM and RA) release

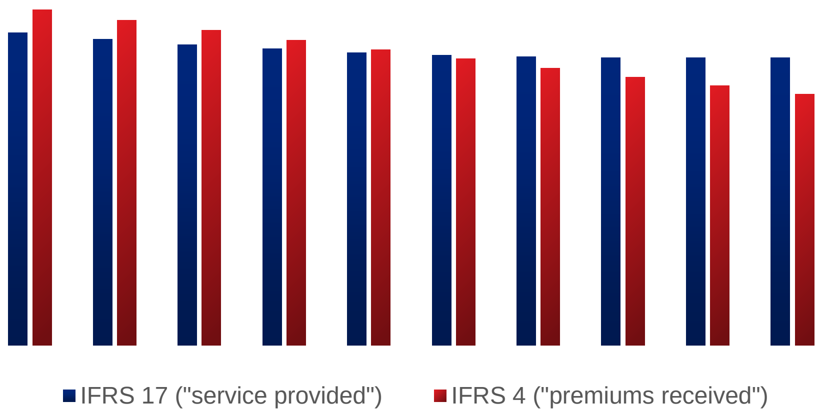


IFRS 4 insurance revenue recognised as premiums received

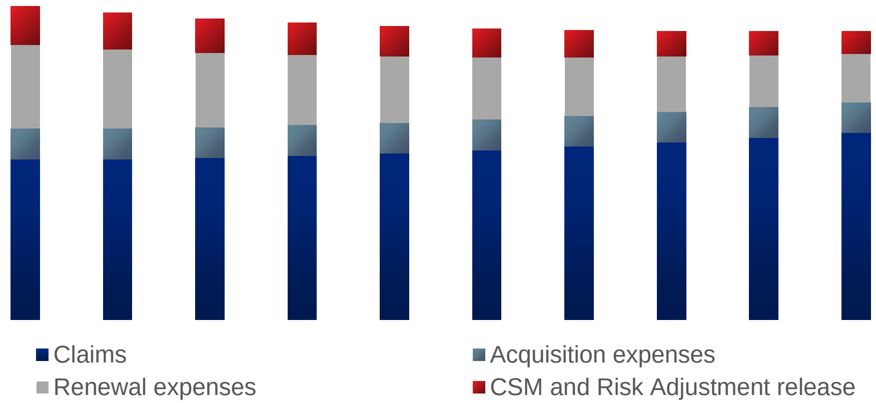
IFRS 17 insurance revenue recognised as service is provided, and comprises of:

- Expected claims and renewal expenses (service provided)
- Amortisation of acquisition expenses (service provided)
- Expected release of Risk Adjustment (compensation for risk)
- Expected release of CSM (profit earned for service provided)

Insurance revenue: IFRS 17 vs IFRS 4



Insurance revenue composition (IFRS 17)



Glossary

IFRS 17 glossary

Term	Abbreviation	Description
Fulfilment cash flows	FCF	The fulfilment cash flows of a group of insurance contracts are equal to the current estimate of future cash flows (related to future and past service) plus the Risk Adjustment (RA) for non-financial risk (covered below)
Current estimate of future cash flows	N/A	The discounted present value of the unbiased, probability-weighted estimate of future cash flows. It is a component of the carrying amount of the asset or liability for a group of insurance contracts. This is commonly referred to as the 'best estimate liability' or BEL
Risk Adjustment for non-financial risk	RA	The Risk Adjustment for non-financial risk is the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils the insurance contracts
Contractual Service Margin	CSM	A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides insurance contract services under the insurance (or reinsurance) contracts in the group. The CSM is determined for groups of contracts and recognized in profit or loss when services are provided to the policyholders in that group

IFRS 17 glossary (continued)

Term	Abbreviation	Description
Loss component	LC	A negative CSM is not permitted for insurance contracts – where this is applicable for a group of insurance contracts, a nil CSM is included for measurement and an LC is recognised immediately as an expense in the income statement
General Measurement Model	GMM	The GMM is the default measurement model under IFRS 17 and should be applied to any insurance contract, including reinsurance contract held, that is in the scope of IFRS 17 unless an entity chooses to apply the Premium Allocation Approach for short-duration contracts, or if the insurance contracts meet the eligibility criteria to apply the Variable Fee Approach
Premium Allocation Approach	PAA	The PAA is a measurement model under IFRS 17 for (re)insurance contracts issued, and reinsurance contracts held. It is considered a simplification of the GMM and is mainly relevant to short-duration insurance business, such as general insurance One of the following criteria should be met before an entity can elect to apply the PAA: 1. the coverage period of each contract in the group of insurance contracts is one year or less; or 2. the entity reasonably expects that the PAA would produce a measurement of the Liability for Remaining Coverage for a group of insurance contracts that would not differ materially from the measurement that would be achieved by applying the GMM
Variable Fee Approach	VFA	The VFA is a variation of the GMM and is relevant to savings business if certain criteria are met. These contracts provide substantial investment-related services with the entity promising an investment return based on the underlying items managed on behalf of the policyholder. The entity's share of the fair value returns on the underlying items is reflected in the CSM