
# 12 November 2008

*Update is a newsletter produced by the investor relations department of Metropolitan Holdings Limited. It provides information on the different businesses in the group as well as financial news. Contact Nico Oosthuizen on (021) 9406111 or Sue Snow on (021) 940-6119 or send an e-mail to noosthuizen@metropolitan.co.za or ssnow@metropolitan.co.za for further information.*

## Trading update for the nine months ended 30 September 2008

### Group overview

- South Africa's dual economy is experiencing the current economic environment in different ways – the emerging economy is growing while those exposed to the stock markets and interest-rate leverage are under pressure; Metropolitan remains focused on servicing its traditional emerging market.
- Economic, investment and financial markets, local and global, remain challenging.
- Management is confident that the group's entrenched market positioning, together with its diversified income streams, will enable it to grow its operations for the foreseeable future.

- The 21% growth in the present value of premiums (PVP) of retail new business over the nine months, in conjunction with sustained persistency levels, was particularly satisfying.
- The corporate business secured a number of profitable contracts through innovative solutions and its new umbrella fund product. In a PMR survey, it was rated as the best pension fund administrator in South Africa in the category for administrators with more than 100 000 lives under administration.
- Metropolitan International made good progress in growing its businesses in Africa.
- Metropolitan Health Group (MHG) continued to increase its number of members under administration through the successful take-on of new Government Employees Medical Scheme (GEMS) members.
- The group's capital management activities are ongoing, with a specific focus on maintaining a sound balance sheet in these volatile markets.
- Net cash received from clients, including all Metropolitan businesses, was R6.7 billion.

### Retail business

| | **9 months to 30-Sept-06** *Rm* | **9 months to 30-Sept-07** *Rm* | **Change** *%* | **9 months to 30-Sept-08** *Rm* | **Change** *%* |
|---|---|---|---|---|---|
| **New business** | | | | | |
| Recurring premiums | 587 | 578 | (2) | 669 | 16 |
| Single premiums | 1 402 | 1 853 | 32 | 2 479 | 34 |
| APE | 727 | 763 | 5 | 917 | 20 |
| PVP | 3 296 | 4 424 | 34 | 5 365 | 21 |
| | | | | | |
| **Cashflow** | | | | | |
| Recurring premiums | 2 847 | 3 126 | 10 | 3 443 | 10 |
| Single premiums | 1 402 | 1 853 | 32 | 2 349 | 27 |
| Claims paid | 2 955 | 2 988 | 1 | 3 523 | 18 |
| Net inflow from clients | 1 294 | 1 991 | 54 | 2 269 | 14 |

**New business**

- New recurring premium income for the last quarter, at R253 million (a new record for any quarter), was 17% up on 2007.
- New single premium income of R1 billion was recorded during the third quarter – another record – giving a year-to-date increase of 34% over 2007.
- New business volumes improved across most of the distribution channels, with direct writers, group schemes and the general intermediary channel (GIC) doing particularly well with recurring premiums, and all broker channels contributing positively on the single premium side.
- While direct marketing and broker recurring new business remained fairly flat for the nine months, there was a slight improvement during the last quarter.
- Despite the greater demands on our customers' disposable income, persistency across all lines of business continued to hold up very well. This is primarily thanks to focused attention from Retail on business conservation.
- Overall, the life insurance book continued to grow in size.

**Cashflow**

- Total premium income increased by 16%, enhanced by the growth in single premiums.
- Claims paid during the year were 18% up, boosted by higher maturity values per case while overall experience remained in line with expectations.
- The net result was an impressive 14% increase in net cash received.

**Challenges and opportunities**

- The new commission structure has been finalised and the necessary changes are being actively rolled out across all distribution channels.
- Disposable income of South African consumers remains under pressure; however, saving for the future has become even more of a necessity.
- Growth in excess of 10% in retail recurring premium new business for the full year remains attainable.
- While expense management is always important and expenses continue to be contained at below inflation levels in 2008, the current economic environment demands the regular review and re-prioritisation of business plans.
- The reduced levels of the investment markets will have a direct impact on any market-value linked fees received by Retail.
- This business is well positioned for the year ahead and management is cautiously optimistic that the necessary building blocks are in place for growth and an increase in market share.

## Corporate business

| | 9 months to 30-Sept-06 *Rm* | 9 months to 30-Sept-07 *Rm* | Change *%* | 9 months to 30-Sept-08 *Rm* | Change *%* |
|---|---|---|---|---|---|
| **New business** | | | | | |
| Recurring premiums | 68 | 165 | 143 | 130 | (21) |
| Single premiums | 2 583 | 1 655 | (36) | 735 | (56) |
| APE | 326 | 331 | 2 | 204 | (38) |
| PVP | 3 005 | 2 731 | (9) | 1 568 | (43) |
| **Cashflow** | | | | | |
| Recurring premiums | 1 171 | 1 357 | 16 | 1 421 | 5 |
| Single premiums | 2 583 | 1 655 | (36) | 735 | (56) |
| Off-balance sheet | 321 | - | | 5 | - |
| Claims paid | 2 088 | 2 211 | 6 | 3 172 | 43 |
| Net inflow from clients | 1 987 | 801 | (60) | (1 011) | - |

**New business**

- Securing new business in the current employee benefits market remains challenging and will continue to be so for a while.
- Recurring premium new business was unable to match the performance of 2007; however, over the longer term the business is growing steadily (new business for 2005 to September was R35m). The fourth quarter so far is indicating better than average performance, with a full year expectation for new business recurring premiums of around R180m.

- Targeting smaller single premium transactions to supplement the erratic large contracts secured from time to time remains a business objective.
- Metropolitan Retirement Administrators (MRA) commenced the administration of a 10 000 member fund for the paper and printing industry. This bodes well for the future positioning of this business.

**Cashflow**
- Recurring premium income increased over 2007, confirming the stability introduced into the EB book over the last few years.
- Claims paid increased by 43% during the period. This upward trend was mainly distorted by growing disinvestments, a reflection of the current economic environment, for purposes of paying fund benefits.
- Another factor was the continued increase in death and disability claims.
- Metropolitan Employee Benefits (MetEB) is expected to end the year in a net outflow position.

**Challenges and opportunities**
- MetEB received the Diamond Arrow Award for attaining the highest rating for pension funds that administer more than 100 000 members in a recent survey undertaken by Professional Management Review Africa (PMR).
- Its new administration products, Neon, for small to medium funds, and Benchmark for mega funds have been favourably received by the market and are starting to generate new business inflows.
- A significant component of employee benefits' business revenue is directly linked to the market value of the underlying investments. All other things being equal, full-year profits will be negatively affected by the severe reductions in markets experienced during 2008.

## International business

| | 9 months to 30-Sept-06 | 9 months to 30-Sept-07 | Change | 9 months to 30-Sept-08 | Change |
|---|---|---|---|---|---|
| | *Rm* | *Rm* | *%* | *Rm* | *%* |
| **New business** | | | | | |
| Recurring premiums | 70 | 85 | 21 | 98 | 15 |
| Individual life | 55 | 80 | 45 | 88 | 10 |
| Employee benefits | 15 | 5 | (67) | 10 | 100 |
| Single premiums (incl EB) | 147 | 77 | (48) | 86 | 12 |
| APE | 85 | 93 | 9 | 107 | 15 |
| PVP | 379 | 356 | (6) | 403 | 13 |
| **Cashflow** | | | | | |
| Recurring premiums | 585 | 614 | 5 | 662 | 8 |
| Single premiums | 185 | 93 | (50) | 99 | 6 |
| Claims paid | 452 | 510 | 13 | 477 | (7) |
| Net inflow from clients | 318 | 197 | (38) | 284 | 44 |

*New business includes Metropolitan's share of new business written by all international subsidiaries.*
*Premiums and claims exclude Nigeria, as it is accounted for as a joint venture.*

**New business**
- New business was boosted by growth in the newer operations.
- Conditions in Namibia, Botswana and Kenya were still challenging.
- The businesses in Lesotho and Ghana performed well during the period.

**Cashflow**
- Both recurring and single premium income were marginally higher than in 2007
- The Namibian business was the main contributor to the reduction in benefits paid to policyholders.
- As a result, the net cashflow position remained positive, increasing significantly over the prior year.

**Challenges and opportunities**
- The International operations have, to a large extent, been less affected by the global economic and stock market melt-down.

- The newer operations are starting to contribute to the overall sustainability of the business.

## Asset management business

| | 9 months to 30-Sept-06 | 9 months to 30-Sept-07 | Change | 9 months to 30-Sept-08 | Change |
|---|---|---|---|---|---|
| | *Rm* | *Rm* | *%* | *Rm* | *%* |
| **Net inflow from clients** | | | | | |
| Third party mandates – net | (3 472) | 240 | - | 1 401 | - |
| Collective investments - net | 3 003 | 5 066 | 69 | 2 728 | - |

- MetAm was successful in securing further third party mandates during the quarter.
- As expected, flows into collective investments started to slow down.
- While the outlook for the asset management operations remains positive, earnings will be significantly impacted in the short term by the investment market volatility.

## Health business

- Total membership numbers continued to grow, with the main driver being the highly successful GEMS scheme.
- At 30 September 2008 GEMS had close to 300 000 registered, fee-paying members, with membership continuing to increase month on month at about 400 members per day.
- MHG’s total principal members under administration, including franchise members, stood at 760 000 (1.9 million lives).
- Performance levels across the board are in line with contracted service level agreements with the various schemes under administration.
- As a differentiated fee income based business MHG is largely isolated from the current economic turmoil and the outlook remains good.

## Group perspective

### Capital management

- As part of the 2008 interim results communication, we informed the market that, due to the economic and investment market uncertainty, we had decided to retain more free capital than we may previously have done. The two main reasons given were financial security and positioning for growth.
- The significant fall in equity market valuations and increase in volatilities since June 2008 will have impacted on the group’s capital in that (a) the capital adequacy requirement will have been increased by the reduction in the funding levels of policyholder portfolios and (b) the value of shareholder assets will have decreased in line with the investment markets.
- However, the group continues to actively monitor the capital position throughout its operations with a view to protecting shareholder capital and policyholder assets during these volatile investment market conditions.
- Dynamic asset allocation, capital protection and other strategies are applied to both shareholder and policyholder investments, when deemed appropriate, in order to ensure that the group maintains adequate capital.
- The group remains financially sound.

### Earnings

- Metropolitan does not provide earnings forecasts or guidance; however, in order to assist investors in these volatile times, we would like to highlight the following drivers of group profits:

    - Investment asset values have fallen significantly during 2008. Any change in shareholder investments has a direct impact on earnings for the year.
    - The earnings of life companies are calculated with reference to the discounted value of all future profit charges. Any change in the underlying discount rate affects the earnings of a life company.
    - To the extent that we charge asset-based fees, any change in average asset levels affects the operating profits of businesses such as asset management and, to a lesser extent, corporate and retail.

**Cover2Go**

- Cover2Go launched an innovative product, Cashback, through Shoprite during the period. The product is a funeral policy that pays back all premiums paid at maturity.
- Early indications are that consumers are reacting positively to this innovative way of distributing life insurance products.

**Curatorship of Ovation**

- Discussions with the curators are ongoing with a view to resolving the curatorship and re-launching the living annuity product range as soon as possible.

**Comments / qualifications**

- All figures are provisional and unaudited. Any statement or information that could be considered as being forecasted financial information has not been reviewed and reported on by the auditors of Metropolitan either in accordance with ISAE 3400 or ISAE 3000 (Revised).
- 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. (Figures calculated on the latter basis are normally referred to as production figures.) It should be noted that there can be a delay of up to three months between these two dates.
- The new business figures are all net of outside shareholder interests.

*End*


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