update
METROPOLITAN HOLDINGS LIMITED

11 November 2009

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 Sue Snow (financial media) on (021) 940-6119 / ssnow@metropolitan.co.za or Natalie Amos (investor relations) on (021) 940-6112 / namos@metropolitan.co.za for further information.

Trading update for the nine months ended 30 September 2009

Group overview

- During the course of the past twelve months South Africa has experienced periods of extreme investment market reduction and volatility. Metropolitan has managed to navigate its way through the turmoil successfully, with its healthy capital position intact.
- During this time of economic downturn, the persistency of the group's policyholder base has remained surprisingly resilient and overall the number of lives under administration on the *active insurance books* has continued to grow.
- Expense management has remained top-of-mind, with a balance being sought between investing in the future (staff and systems) and continuing to manage the overall expense base.
- The various sub-sets of the South African and African economies have experienced the economic downturn differently. Clients in the emerging sectors have remained resilient while those exposed to the stock markets, interest-rate leverage and higher levels of variable income have been under severe pressure. Metropolitan remains focused on servicing and assisting its traditional emerging markets, which are expected to continue growing over time. The current extent of job losses remains a concern.
- Management is confident that the group's stated market positioning, together with its diversified income streams and sound business processes, will enable it to continue generating good operating results for the foreseeable future.

Operational highlights

- Recurring premium income for the nine-month period increased by 5% in extremely difficult operating conditions.
- The 2% increase in the group's recurring premium new insurance business over the period reflects both the product line changes made within the businesses and the state of the underlying economy.
- The insurance businesses are taking the opportunity of the downturn to focus on the quality of new business as opposed to the quantity.
- The new business persistency levels within the retail business continued at satisfactory levels while expenses remained under control, which was particularly satisfying.
- The corporate business secured a number of profitable risk and administration contracts through innovative solutions and its new umbrella fund product.
- Metropolitan International continued to make good progress in its African operations.
- Metropolitan Health Group (MHG) further increased its number of members under administration while maintaining service levels above the contracted levels. The managed care business, Qualsa, was successful in tendering for another Government Employees Medical Scheme (GEMS) contract.
- The group's capital management activities are ongoing, with an overall strengthening on all capital measurements.
- Net cash received from clients to date was R3.3 billion and we expect to end the year in a positive position.

Retail business

	9 months to 30-Sept-07 *Rm*	9 months to 30-Sept-08 *Rm*	Change *%*	9 months to 30-Sept-09 *Rm*	Change *%*
New business					
Recurring premiums	578	669	16	660	(1)
Single premiums	1 853	2 479	34	1 596	(36)
Annual premium equivalent (APE)	763	917	20	813	(11)
Present value of premiums (PVP)	4 424	5 365	21	3 868	(28)
Cashflow					
Recurring premiums	3 126	3 396	9	3 567	5
Single premiums	1 853	2 351	27	1 596	(32)
Claims paid	2 988	3 501	18	3 761	7
Net cashflow	1 991	2 246	13	1 402	(38)

New business

- New business sales were impacted by a number of negative factors during the first nine months of 2009, including the economic downturn, increased employee strike action within our target markets, changes to the commission payment rules, the closure of certain product lines and additional FAIS training. The last three factors together have laid a good foundation for the future of this business.
- New recurring premium income for the period, at R660 million, was pleasing, only 1% down on 2008.
- New single premium income written amounted to R1 594 million.
- A change in the mix of new business sold (more risk, less savings and single premiums) resulted in a decrease in the present value of premiums (PVP).
- New business decreased in both the wholesale and broker distribution channels, mainly as a result of restrictions on certain unprofitable product lines.
- Despite the ongoing demands on customers' disposable income, persistency across all lines of business continued to hold up very well. This is primarily thanks to focused attention on business conservation.
- The persistency filter "PREDICT", first introduced in 2001, has continued to perform well, ensuring that the quality of business accepted exceeds the stipulated criteria. This intervention, while initially resisted by the sales force, has since become a way of life and is one of the reasons for the good persistency during these difficult times.
- Overall, the existing life insurance book has performed well during the recent economic downturn, with growth continuing to be recorded in the active books.

Cashflow

- Recurring premium income increased by 5%, confirming the resilience of the target market.
- Claims paid during the year were 7% up, while overall experience remained in line with expectations.
- This resulted in R1.4 billion net cash received in the retail business.

Challenges and opportunities

- The new commission structure together with intermediary training (FAIS), continues to place strain on the distribution channels.
- Disposable income of South African consumers remains under pressure; however, saving for the future has become even more of a necessity.
- The new business recorded during the last two quarters of 2008 was the best in Metropolitan's history: retail recurring premium new business for the full year is expected to be below that achieved during 2008.
- While expense management is always important and expenses continue to be contained below inflation levels in 2009, the current economic environment has necessitated a review and re-prioritisation of ongoing business initiatives.
- This business is well positioned for the year ahead and the necessary building blocks are in place for long-term growth and a consistent increase in market share.

Corporate business

	9 months to 30-Sept-07 *Rm*	9 months to 30-Sept-08 *Rm*	Change *%*	9 months to 30-Sept-09 *Rm*	Change *%*
New business (on balance sheet)					
Recurring premiums	165	130	(21)	151	16
Single premiums	1 655	735	(56)	608	(17)
Annual premium equivalent (APE)	331	204	(38)	212	4
Present value of premiums (PVP)	2 731	1 568	(43)	1 679	7
New business (off balance sheet)					
Recurring premiums	-	8	-	67	-
Cashflow					
Recurring premiums	1 357	1 421	5	1 358	(4)
Single premiums	1 655	735	(56)	608	(17)
Off balance sheet	-	5	-	48	-
Claims paid	2 211	3 172	43	4 324	36
Net cashflow	801	(1 011)	-	(2 310)	128

New business

- Securing new business in the current employee benefits (EB) market remains challenging and will continue to be so for a while.
- Recurring new business premium income (on balance sheet) for the first nine months of 2009 was 16% higher than 2008, boosted by risk contracts.
- New administration business on the Neon platform grew significantly, with total new recurring annual premiums at R67 million for the period, compared to R8 million for the same period in 2008.
- New single premium income ended slightly lower as a result of tighter investment market conditions during 2009 and an aversion by fund trustees to move underfunded smoothed bonus investments.
- Overall, on balance sheet PVP ended 7% higher. This, together with the off balance sheet business, confirms Metropolitan's strong standing in the retirement fund market.
- Metropolitan Retirement Administrators (MRA) has continued to grow its members under administration, and is currently administering 226 000 members on the Benchmark system.

Cashflow

- Despite the market conditions and client preferences for off balance sheet administration and asset solutions, recurring premium income declined only marginally over 2008, confirming the stability introduced into the EB book over the last few years. The increase in risk premiums almost made up for the reductions in on balance sheet administration and investment premiums.
- Significant outflows are being experienced in the business, partly as a result of the recessionary conditions but also because of client portfolio rebalancing.
- Claims paid increased by 36% during the period. This upward trend is a result of growing numbers of disinvestments and terminations.
- Disinvestments reflect the current economic environment as they are used to finance benefit payments out of the underlying funds when distressed members need to gain access to their accumulated savings.
- Terminations from the lower margin Absolute Return Fund made up 16% of the total claims paid.
- Metropolitan Employee Benefits (MetEB) is expected to end the year in a net outflow position.

Challenges and opportunities

- MetEB's risk solutions team won the POA (Principal Officers' Association) "Imbasa Yegolide" (Golden Trophy) award for the Risk Manager / Underwriter of the Year in 2009.
- The administration team was also instrumental in assisting the Tourism, Hospitality and Catering Pension Fund (THACSA) earn a special recognition award from the Institute of Retirement Fund (IRF) for best practice in training and engagement with organised labour.
- The administration product range, Neon (for small to medium funds) and Benchmark (for mega funds), has been favourably received by the market and is generating new business inflows.

International business

	9 months to 30-Sept-07 *Rm*	9 months to 30-Sept-08 *Rm*	Change *%*	9 months to 30-Sept-09 *Rm*	Change *%*
New business					
Recurring premiums	85	98	15	105	7
Individual life	80	88	10	92	5
Employee benefits	5	10	100	13	30
Single premiums (incl EB)	77	86	12	96	12
Annual premium equivalent (APE)	93	107	15	115	7
Present value of premiums (PVP)	356	403	13	470	17
Cashflow					
Recurring premiums	614	662	8	760	15
Single premiums	93	99	6	139	40
Claims paid	510	477	(7)	498	4
Net cashflow	197	284	44	401	41

New business includes Metropolitan's share of new business written by all international subsidiaries.
Premiums and claims include Nigeria (excluded prior to 2009), as it is no longer accounted for as a joint venture.

New business
- Recurring new business was boosted by growth in both individual life and employee benefits business in the Nigeria and Ghana operations.
- Good single premium growth was recorded in Namibia, Nigeria and Swaziland.
- New business conditions in Botswana and Kenya were still challenging.
- Overall, the businesses in Namibia, Lesotho and Nigeria performed well during the period.

Cashflow
- Both recurring and single premium income were substantially higher than in 2008.
- As a result, the net cashflow position increased significantly over the prior year comparison.

Challenges and opportunities
- The impact of the global economic and stock market meltdown appears to have been experienced by the countries in which we operate later than it was in the rest of the world. As such, any investment market recovery is also expected to lag behind in these countries.
- The newer operations are starting to contribute to the overall sustainability of the business while the established enterprises continue to deliver solid results.
- Higher inflation and fluctuating local exchange rates present a challenge to support fees. A determined effort is being made to outsource support functions to the various operations.
- The administration system has stabilised and updates are being implemented without any problems.
- Upgrading the skills within the operations remains a key focus area.

Asset management business

	9 months to 30-Sept-07 *Rm*	9 months to 30-Sept-08 *Rm*	Change *%*	9 months to 30-Sept-09 *Rm*	Change *%*
Cashflow					
Third party mandates - net	240	1 401	484	(811)	(158)
Collective investments - net	5 066	2 728	(46)	2 803	3

- Year to date equity performance is good, while fixed interest has maintained its longer-term track record.
- MetAm experienced outflows during the quarter mainly relating to the absolute return and international funds.
- Net inflows into collective investments continued to be positive, exceeding the levels recorded during 2008 by 3%.

- It is anticipated that this trend will reverse over the next twelve months, with net outflows expected during 2010, particularly relating to white label funds.
- While the outlook for the asset management operations remains positive, earnings will continue to be significantly impacted in the short term by investment market and asset level volatility.

Health business

- Total membership numbers continued to grow, with the main driver being the highly successful Government Employees Medical Scheme (GEMS).
- At 30 September 2009 GEMS had close to 400 000 registered, fee-paying members, with membership continuing to increase month on month at about 500 members per day.
- MHG's total principal members under administration, including franchise members, stood at 830 000 (2.1 million lives) (2008: 760 000 members; 1.9 million lives).
- Performance levels across the board are in line with contracted service level agreements.
- During October 2009 MHG, through its managed care business Qualsa, was successful in tendering for another GEMS contract – providing strategic managed healthcare services to all registered benefit options in the scheme.
- As a differentiated fee income based business, MHG is relatively isolated from the current economic turmoil and the outlook remains good.

Group perspective

Capital management

- As part of the 2009 interim results communication, we informed the market that, due to economic and investment market uncertainty, we had reduced our exposure to equities.
- The two main reasons, being financial security and equity market uncertainty, are currently still applicable.
- The group continues to actively monitor the capital position throughout its operations with a view to protecting shareholder capital and preserving policyholder assets during these volatile investment market conditions.
- Dynamic asset allocation, equity 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.
- All capital positions have improved since June 2009, and the group remains appropriately capitalised.

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, while increasing, have remained significantly below the 2008 levels.
  - 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.
  - Any change in the absolute level of and income on 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.

Curatorship of Ovation

- The court delivered judgement during October 2009. The decision given was as expected and the settlement is being implemented. There are no further financial implications for the group.

Empowerment

- Metropolitan was awarded the inaugural employment equity award by BEE SA Group in October 2009. This award is based on the DTI codes.

Comments / qualifications

- All figures are provisional and unaudited.
- 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

DATE 11 NOVEMBER 2009

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