update

MMI HOLDINGS

23 November 2011

Update is a newsletter produced by the investor relations department of MMI Holdings Limited. It provides information on the different businesses in the group as well as financial news. Contact Natalie Amos (investor relations) on (021) 940-6112 / namos@mmiholdings.co.za for further information.

Trading update for the three months ended 30 September 2011

Focused strategy

The group's vision to be a leader in meeting financial services needs is based on the four strategic pillars of:

- in-depth market knowledge
- innovative solutions
- effective distribution
- entrepreneurial culture.

Group overview and operational highlights

- Consumer spending remained under pressure, with a national unemployment level of 25%.
- Equity markets contracted significantly during the period under review, compounded by a general European debt crisis.
- The strong recovery in October is welcomed; however, the market volatility and uncertainty continues to have an impact on a number of areas of the business.
- The strategies and operational objectives for 2012 have all been finalised and management's focus is now on the implementation and delivery thereof.
- Expense management remains a top priority across the group as evidenced by further head-count reductions in almost all divisions as well as through streamlining of systems and processes.
- All merger and integration projects remain on track.
- Overall the group is managing the various environmental challenges, with further details set out per division.

Balance sheet management

The group is in the process of reviewing its approach towards the investment of MMI's capital. The investment approach impacts significantly on the risk profile and therefore required capital

level. In MMI's view, the capital of a life insurance company serves to protect the financial soundness of the company against unexpected adverse experience. This principle underpins the decision to invest the discretionary capital resources of MMI's life insurance subsidiaries in cash or near-cash instruments that retain value and liquidity during adverse market conditions. The amended investment mandate for the life insurance companies is in the process of being implemented and is expected to be materially completed by 31 December 2011. The implementation of the revised investment mandate will reduce the equity exposure, and therefore the potential downside exposure to market risk of shareholders, but will increase the opportunity cost of capital allowed for in the embedded value.
The investment mandate for the capital buffer in the holding company, however, still includes a material exposure to equities.

Momentum Retail

	3 months to 30 Sept 2011 *Rm*	3 months to 30 Sept 2010 *Rm*	Change vs 2010 *%*
New business			
Recurring premiums	257	268	(4)
Single premiums	5 656	5 359	6
Annual premium equivalent (APE)	823	804	2
Present value of premiums (PVP)	6 884	6 738	2

* Includes Odyssey but excludes new markets and FNB Life.

- Trading conditions proved to be tough during the first quarter.
- Recurring premium new business is marginally down on the prior period, while single premium business showed a moderate 6% growth resulting in growth in both APE and PVP.
- The overall new business margin remains in line with the previous financial year as a result of the product mix continuing to favour lower margin investment and savings products.
- The integration of the Odyssey book into the Momentum Retail business remains on track.
- Early terminations (surrenders and lapses) continued to reduce, resulting in a further improvement in persistency.
- Service levels remain at very satisfactory levels.

Metropolitan Retail

	3 months to 30 Sept 2011 *Rm*	3 months to 30 Sept 2010 *Rm*	Change vs 2010 *%*
New business			
Recurring premiums	343	224	53
Single premiums	401	624	(36)
Annual premium equivalent (APE)	383	287	34
Present value of premiums (PVP)	1 682	1 481	14

*Includes new markets and 10% of FNB Life but excludes Odyssey.

- New business APE and PVP ended 34% and 14% higher respectively, driven by good production of risk products in the traditional agency distribution channels.
- The reduction in single premium new business was as a result of changes in the distribution channels following the merger: single premium production through the remaining Metropolitan Retail channels exceeded that of the prior year.
- Persistency across all lines of business continued to hold up very well.
- The Future Choice Protection Plan product has been re-priced as from October 2011 and, despite increased premium rates, remains competitively priced in the market.
- Ongoing focus in conjunction with customer affordability of automatic inflation management (AIM) take-up at new business stage is paying dividends. The focus on increasing the proportion of policies with automatic inflation management is yielding increased benefits to customers while improving the profitability of the business.
- Metropolitan Retail was rated second in the life insurance category of customer service leaders in the authoritative 2011 Ask Africa Orange Index, a rating that confirms the division's focus on customers as the driving force of its business.
- Claims paid during the period under review were in line with expectations.
- Expense management remains a critical focus area and remained on par with the prior period.

Momentum Employee Benefits

	3 months to 30 Sept 2011 *Rm*	3 months to 30 Sept 2010 *Rm*	Change vs 2010 *%*
New business			
Recurring premiums	116	211	(45)
Single premiums	403	954	(58)
Annual premium equivalent (APE)	158	307	(49)
Present value of premiums (PVP)	1 255	2 331	(46)

- New business volumes came under pressure during the first quarter. Effective management interventions and a strong pipeline of new business should, however, result in an improved performance towards the end of the second quarter.
- Securing new business in the group insurance, investment and administration markets remains highly competitive, resulting in pressure on new business margins.
- Containing expenses remains a key focus area and good progress has been made in the areas committed to as part of its operational plan.
- The division continues to focus on creating sustainable partnerships with clients, strategic distribution partnerships, product innovation, improved operational efficiencies and satisfactory service levels.

Metropolitan International

	3 months to 30 Sept 2011 *Rm*	3 months to 30 Sept 2010 *Rm*	Change vs 2010 *%*
New business			
Recurring premiums	64	46	37
Single premiums (including EB)	53	46	15
Annual premium equivalent (APE)	69	51	35
Present value of premiums (PVP)	331	261	27

** New business includes MMI's share of life insurance new business written by all international life insurance subsidiaries.*

- New business APE and PVP ended a healthy 35% and 27% higher respectively.
- Botswana, Ghana and Nigeria recorded good new life insurance business growth. New business volumes across the African insurance businesses showed a modest increase relative to the prior period.
- Lives under administration in the health business increased to 126 000, with many of the health businesses in Africa making a net positive cash contribution for the first quarter.
- Administration expenses were contained within budget.

Momentum Investments

- Overall asset levels were impacted by market volatility.
- The Momentum Investments brand was successfully launched on 1 September 2011.
- Net new business flows:
    - Higher than expected net benefit withdrawals in the asset management business unit were offset by positive inflows into fixed interest and specialist equity mandates.
    - The collective investment business unit's net flows were ahead of expectations.
    - There were positive inflows into the new product range of the manager of manager business unit, but net flows remained negative mainly due to outflows to external umbrella funds.
    - The alternative investments business unit's flows were in line with budget.
    - The migration of the Metropolitan International assets to the international business unit is progressing in line with internal timelines.
- Investment performance
    - The portfolio transition within Momentum Asset Management to align with the revised house view has been completed and the consolidated investment process will be measured against its new benchmark from 1 December 2011. The performance of fixed interest and specific equity mandates remains positive.
    - The international business unit's short-term performance was impacted by market volatility and the asset allocation strategy. However, we remain comfortable with the investment process.
    - The investment performance of all the other business units remains satisfactory.
- Post the implementation of the merger, the division has access to a wider distribution network that is starting to yield positive results. In addition, MMI divisional and inter business unit collaborations have resulted in unbudgeted net positive business flows.

Metropolitan Health

- The business was successful in bids for the Member & Claims and Clearing House contracts in the Government Employees Medical Scheme (GEMS) tenders. The outcome of the tender process means that Metropolitan Health will continue to perform the majority (80%) of administration services that the scheme procures.
- The number of members under administration of the highly successful GEMS experienced steady growth of approximately 350 to 400 new member applications per day.
- At 30 September 2011 GEMS had in excess of 592 000 registered members.
- The total principal members under administration for this division stood at 1.17 million (3 million lives) as at 30 September 2011, making it the country's largest administrator.
- The Momentum Health open scheme experienced a slight growth in membership to 94 878 at 30 September 2011.
- Performance levels across the board were in line with or exceeded contracted service level agreements.

New Momentum Retail CEO appointed

Mark van der Watt has been appointed as the new CEO of Momentum Retail, effective 1 January 2012. This appointment came after the current CEO, Johann le Roux, decided to take a one year sabbatical.

Mark has been with Momentum for 17 years and knows the business intimately, having played various leadership roles, including, most recently, CEO of the insurance business in Momentum Retail.

Opportunities and challenges

- Growth in new business volumes remains dependent on the economic environment, including a recovery in employment and further increases in disposable income levels.
- Africa, although a complex market, is still largely untapped and provides a number of opportunities for the group throughout its footprint in 12 countries outside of South Africa.
- All business units face opportunities and threats posed by ongoing changes in the highly regulated environments in which they operate, including the regulatory exams, the national health insurance and national social security reform proposals.

Comments / qualifications

- All figures are provisional and unaudited.
- All figures are for the period 1 July to 30 September as presented in the current internal management accounts, and not from the effective date of the merger (1 December 2010).
- All figures for 2010 have been presented on the same basis as those for 2011, taking into account the current operational structure.
- 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
23 November 2011

Queries

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