MMI HOLDINGS

23 November 2018

OPERATIONAL UPDATE

For three months ended 30 September 2018

Over the past few months, the MMI Holdings leadership has communicated our Reset and Grow strategy to the market. This strategy outlined a reset of priorities in order to improve performance in the short-term and to set up the organisation for future growth. Through renewed focus on our core South African operations, and a more disciplined approach to investing in new initiatives, we are targeting to grow our normalised headline earnings to between R3.6 billion and R4.0 billion by F2021.

The actions put in place to execute on this strategy are beginning to bear fruit, including pleasing new business growth in certain areas. Our main South African business units are tracking largely in line with our operational plans.

Group earnings

We communicated at our last annual results announcement that we will change our primary earnings metric from core headline earnings to normalised headline earnings. This metric is more comparable to that of our peers and includes the impact of investment variances, actuarial basis changes and other one-off items.

Our normalised headline earnings for the quarter increased marginally compared to prior year. This included a strong performance in most of our South African businesses, including good retail mortality and disability experience. It was however largely offset by lower than expected investment returns, slightly weaker Corporate underwriting experience and a widening loss in some of the African countries earmarked for exit.

For comparison purposes, our historic core headline earnings metric increased by 12%.

Reporting segmentation

We have also aligned our reporting segments with our updated internal operating structure. This enables us to report more meaningfully on the underlying drivers of earnings and growth.

The historic segment of Momentum Retail will be split into Momentum Life (includes protection, savings and traditional products focussed on the middle and affluent client segments) and Momentum Investments (consisting of Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments, as well as Eris Properties). All Momentum Wealth products are now reported as covered business, and prior year value of new business (VNB) and present value of new business premiums (PVNBP) were restated accordingly.

There are no material changes to the Metropolitan Retail reporting segment, while all MMI Health entities are now included under Momentum Corporate.

Short-term Insurance is a new reporting segment, comprising of our retail general insurance offering, Momentum Short-term Insurance (MSTI) and our cell captive insurer, Guardrisk.

Africa will be shown separately, with India and aYo now reported under New Initiatives, alongside our Money Management initiative and other smaller initiatives.

The prior year numbers are restated to provide meaningful comparisons for these new reporting segments.

New business performance

The PVNBP increased by 47% against prior year. This included exceptional growth by Momentum Corporate with strong growth in both recurring and single premium business, including a multi-billion rand annuity transaction. Momentum Life delivered double-digit growth, while Momentum Investments increased marginally. PVNBP for Metropolitan Retail and Africa declined from the previous year.

VNB for the three months was R189m, up 49% from prior year, representing a new business margin of 1.1%.

Rm	1Q19	1Q18	∆%
PVNBP	17 113	11 649	47
VNB	189	127	49
New business margin	1.1%	1.1%	0.0%

Solvency and capital update

The Insurance Act 18 of 2017 (Insurance Act) became effective on 1 July 2018 and requires that solvency reporting after this date be based on the Solvency Assessment and Management (SAM) regulatory regime. MMI Holdings will report on this basis for the half-year ending 31 December 2018. As at the end of September 2018 our SAM capital position for the life insurance business was strong at 1.9x SCR.

Our Embedded Value (EV) per share was 5.5% higher than at 30 June 2018. This was aided by the strong VNB results, experience variances, the impact of our share repurchase program and a change in the cost of capital allowance to reflect SAM capital rather than the legacy CAR capital.

Our share repurchase programme continued during the quarter and up to the end of September 2018 we had acquired 68.7m shares at a total cost of R1.3bn. This equates to an average cost of R19.56 per share, compared to our EV per share of R26.83 at the end of the quarter.

Segmental performance

The following sections provide more detail on the performance of the individual reporting segments, as outlined above.

Momentum Life

Momentum Life PVNBP increased by 16%. We saw good volumes on both recurring and single premium savings business, specifically in our Investo product range.

VNB increased to R9m compared to a restated number of -R5m as at 1Q18, mainly as a result of increased volumes. This represents a PVNBP margin of 0.4%, up from -0.3% in the prior year.

Rm	1Q19	1Q18	∆%
Recurring premiums	242	227	7
Single premiums	525	404	30
PVNBP	2 027	1 743	16
VNB	9	-5	>100
New business margin	0.4%	-0.3%	0.7%

Momentum Life’s covered earnings improved against prior period, reflecting satisfactory mortality and disability experience as well as good expense management during the period. Non-covered earnings, which consists of Multiply and Momentum Trust, improved due to lower losses in Multiply.

Momentum Investments

PVNBP for Momentum Investments includes the Momentum Wealth platform business, retail annuities, and guaranteed investments. PVNBP was effectively flat year-on-year. The Guaranteed Return Option (GRO) product sales continued to perform strongly and were up on prior year, but there was a decrease in Momentum Wealth sales.

VNB decreased to R4m, down from the restated amount of R40m in 1Q18. This represents a PVNBP margin of 0.1% (0.7% in 1Q18). The decline was mainly due to higher assumed renewal expenses and the effect of repricing platform fees in Wealth.

Rm	1Q19	1Q18	∆%
Recurring premiums	42	37	14
Single premiums	5 394	5 403	0
PVNBP	5 557	5 552	0
VNB	4	40	-90
New business margin	0.1%	0.7%	-0.6%

Momentum Investments covered earnings increased year-on-year. This was driven by a reduction in funding strain on the GRO product, higher asset based fee income from the local platform business and positive FX impact on United Kingdom (UK) earnings.

Non-covered earnings in Momentum Investments improved, mainly due to the prior year including losses from a UK operation that was subsequently sold, as well as growth in the UK non-covered business. This was partly offset by lower asset management results due to assets under management (AUM) declining by 2%. The AUM decline was caused by the final closure of Metropolitan Collective Investments during F2018. Without the closure of these funds total assets under management would have increased.

Metropolitan Retail

Metropolitan Retail PVNBP decreased by 8%, driven by lower recurring premium protection, lower discretionary savings business volumes, and the impact of the new termination assumptions. This was partly offset by single premium volumes increasing by 11% on the back of increased living annuity sales. These factors resulted in VNB of R37m, down 48% on the prior year. The new business margin decreased to 2.8% for the quarter (5.0% in 1Q18).

Rm	1Q19	1Q18	∆ %
Recurring premiums	329	338	-3
Single premiums	315	284	11
PVNBP	1 302	1 422	-8
VNB	37	71	-48
New business margin	2.8%	5.0%	-2.2%

Metropolitan Retail's earnings were slightly down year-on-year, due in part to the impact of a positive one-off tax assumption change that was included in the prior year. Underlying operational result was pleasing on the back of strong mortality and morbidity experience.

Momentum Corporate

PVNBP for Momentum Corporate more than tripled compared to the previous period. Single premium new business improved markedly (>100%) due to a multibillion rand annuity transaction concluded with a large corporate client. Recurring premiums also improved significantly by 77%, driven by strong group insurance new business growth from large corporate clients.

New business margins improved to 2.0% from 0.5% in the prior period. The improved VNB result reflects the progress on the continued effort within the business to rebuild distribution channels. The continued impact of adhering to a strict pricing framework within the group insurance environment and active expense management also contributed to the positive VNB result.

Rm	1Q19	1Q18	∆ %
Recurring premiums	288	163	77
Single premiums	5 462	626	>100
PVNBP	7 720	2 291	>100
VNB	152	11	>100
New business margin	2.0%	0.5%	1.5%

Momentum Corporate's covered earnings were lower than prior year (which was particularly strong), but in line with the quarterly average of the past four periods. Most product lines were up on prior year, with the exception of group insurance which was down.

Momentum Corporate non-covered business comprises the MMI Health businesses, including the Momentum Health open scheme, Public Sector business (including GEMS), Mining Sector and Corporate Health administration business. Non-covered earnings in Momentum Corporate improved against the prior period due to an improvement in administration income and capitation margins as well as savings in expenses. The open scheme and low cost products continue to increase membership in a challenging market.

Africa

Africa's PVNBP was down 21% year-on-year. Single premium volumes increased by 22% but recurring premium new business declined by 19%. Namibia, the largest contributor to our life insurance operations outside of South Africa, recorded lower sales year-on-year in an extremely challenging environment.

The value of new business is down significantly for the period to -R13m (+R10m in 1Q2018). The decline can be ascribed to the combination of lower volumes, modelling changes on sales related expenses and an increase in initial expenses.

Rm	1Q19	1Q18	∆ %
Recurring premiums	87	108	-19
Single premiums	131	107	22
PVNBP	507	641	-21
VNB	-13	10	>-100
New business margin	-2.6%	1.6%	-4.2%

Normalised headline earnings for Africa deteriorated largely due to lower investment variances and a widening loss in some of the African countries earmarked for exit. The deterioration was partly offset by a general reduction in central support costs as we exit from some African countries.

Short-term Insurance

This includes MSTI, our retail general insurance offering, as well as Guardrisk. MSTI's results improved meaningfully compared to the prior period. This can be ascribed to a significant improvement in the claims ratio as well as strong growth of 18% in net earned premiums. Guardrisk continues to perform well with a significant improvement in underwriting experience being a key growth driver.

New initiatives

The India joint venture with Aditya Birla is the largest of the new initiatives and continues to perform well with volumes and losses tracking business plan. We have secured over 1.2 million lives and the ratio of retail to corporate business continues to improve.

Shareholder segment

The Shareholder segment reflects investment income on capital held to support operations and costs not allocated to operating business units (e.g. certain holding company expenses).

The earnings contribution from the Shareholder segment is down for the period, driven by the higher finance cost on the new subordinated debt of R750m issued in 2Q2018, as well as additional funding provided for the completion of one of our shareholder properties. It should also be noted that the ongoing investments into new initiatives have a negative impact on the size of the shareholder asset base which is earning investment income.

Outlook

We remain confident of achieving our three year growth targets, even though the operating environment is expected to remain challenging. Many of the actions to execute on our Reset and Grow strategy are expected to take time to reflect meaningfully in earnings. Expenses are the area that we have most control over and we are on track to meet expense targets for the current year.

We continue to improve our distribution and client service capabilities and have implemented a more disciplined governance framework.

We are encouraged by the good new business results in most of our core South African operations. However, the good results included favourable single premium growth which is not expected to repeat every quarter. As previously communicated, we expect only modest earnings growth during the current financial year.

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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 23 November 2018.

We kindly request callers to pre-register using the following link http://www.diamondpass.net/1808556. 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
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