Momentum Retail

Momentum has a proud history of being an innovative client-centric financial services provider servicing the middle and upper income market. Having lost market share, the current focus has been to reset the business so that we can rebuild its strong legacy and grow from this base. A new management team and structure have given new energy to this rejuvenation.

The Momentum Retail product range spans all major insurance lines (across life, disability, health, motor, property and all-risks insurance) and a wide range of savings and investment products which has been extended to a lending capability in partnership with African Bank. A key focus is to re-establish the core investment and insurance risk product brands as leaders in the industry and particularly within channels.

Our distribution capability is roughly split equally between our own agency force and independent financial advisers (IFAs). It is critical that we differentiate our ability to own the financial wellness advice conversation with clients through our agency force and enhance the distribution of our products through the independent channels. In recognition of this, we have structured the business to service these capabilities accordingly. There is now greater accountability of management to adviser outcomes and a focus on building the appropriate support for the different needs.

A key differentiator is our Multiply programme that incentivises clients to achieve their financial goals and aspirations. The scope of the discounts and partner rewards is a function of their Multiply status, which is in turn driven by positive physical (such as exercise) and financial (such as seeing a financial planner) behaviours by the client. These higher levels of client engagement should lead to superior retention and underwriting experience. There has been a greater focus on improving client service to existing Multiply clients and building brand awareness to other product holders.

Levels of client experience and client engagement have been critical to the success of Momentum Retail. A focus will be on improving basic service metrics, with the better alignment of service teams with product houses and there has been a restructuring of call centres to reduce complexity and increase product and client focus.

Our Outcomes-based Investment (OBI) approach is focused on delivering on the client's need for the appropriate level of investment risk. This is gaining greater traction and is starting to be copied by competitors. The focus will be to gain greater support on our platform for these capabilities and extending these to external platforms and independent financial advisers (IFAs).

However, our primary challenge has been an expense base that has not been able to support the reduced business volumes. The alignment of distribution and advice support is in recognition of this. Greater focus will be on building processes and systems to optimise our service and distribution capabilities with expected business volumes. We aim to establish a new service strategy (including views on training, technology, business processes and remuneration) to surprise and delight clients to win trust.

1.1 MILLION clients who hold two million separate products.

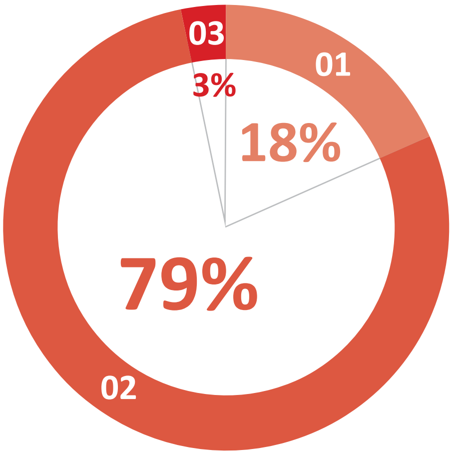
500 000 POLICIES in issue for both retirement savings and life insurance, our most popular product solution.

FASTEST GROWING PRODUCT SEGMENTS:

- Open medical scheme (**Momentum Health**).
- Motor insurance (**Momentum Short-term Insurance**).

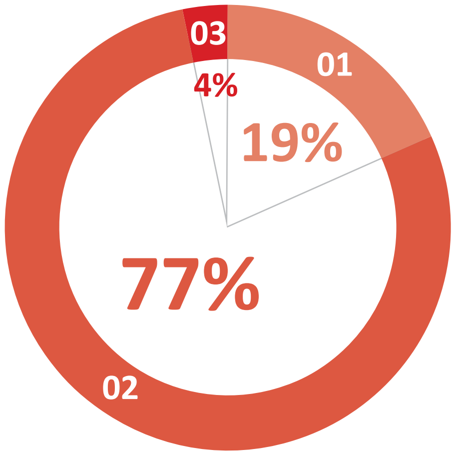
OVER 1 000 agents and advisers operating under the Momentum brand.

New business mix F2018



01
Risk
02
Savings/Investments
03
Annuities

New business mix F2017



The figure above shows the split of sales volumes and new business profit by product segment (for covered business – i.e. business written on the life insurance licence).

Financial performance

As shown in the table on the next page, the bulk of our profits stem from our core life insurance operations. We are making significant investments to improve the new business process for clients and intermediaries, which should have a positive impact on future sales volumes. We also see an opportunity to increase our market share in the investments and savings space and to improve the business mix and margin of assets under administration.

The additional budgeted expenditure to improve client experience and grow our sales force put pressure on earnings during the year. These impacts were partly offset by an improvement in the underwriting experience, specifically Myriad mortality experience, and improved termination experience. The muted 2017 investment market performance has impacted earnings in F2018 due to the lower average asset base on which fees are earned. However, sales and retention were also disappointing. The combined effect of a slight reduction in revenue and an increase in expenses resulted in a 25% decrease in profits on the covered business across all lines of business.

Our focus over the coming years is to leverage the benefits that accrue from the increased service and distribution focus in F2018 and to continue these improvements while ensuring we grow revenue by more than expenses.

"Other life products" is mainly our Legacy business. The release of discretionary margins (also included in this line) continues to decrease as the book is running off but its impact on the broader business will start to decrease. The muted investment market performance in F2017 was a reason for the decrease in Legacy earnings being larger than expected. The increased cost of the loyalty bonus on Investo is also putting a strain on earnings and this is expected to continue for the next couple of years.

The non-covered Investments and Savings earnings relate largely to our Momentum-branded unit trust operations and the Momentum Wealth platform earnings. Momentum Securities also reports as part of Momentum Retail, although its contribution remains small. The earnings of Investments and Savings have declined due to the closure of Metropolitan Collective Investments, weak asset growth, which in turn is a function of muted investment markets performance, and modest net client outflows in F2018.

Health scheme administration refers to the Momentum Health open scheme, which covered over 165 000 families as of June 2018. This represents strong net growth of more than 7 500 families in F2018, along with a narrowing of operating losses. However, the scheme is still some way from operating at full scale, particularly in respect of distribution costs.

Our short-term insurance business, Momentum Short-term Insurance, grew the number of policyholders from 55 000 in June 2017 to 60 000 in June 2018 despite terminating a large number of unprofitable policies. Our short-term insurance and health business both operate in a somewhat static environment; as such, we are pleased with the strong growth rates achieved by both operations.

With a return to profit in recent months, Momentum Short-term Insurance remains on track to achieve its financial objective of reaching a cash-flow positive position in F2019. Loss ratios are reducing as the book matures. The claims ratio for F2018 was 67% (F2017: 73%), with each subsequent year of policies generating an improved claims experience.

Core headline earnings (Rm)	F2018	F2017	Year-on-year change (%)
Pure risk products (Myriad)	310	321	(3)
Investment and annuity products	277	422	(34)
Other life products (including Legacy)	509	724	(30)
Life profits	**1 096**	**1 467**	**(25)**
Investment and savings	1	61	(98)
Health scheme administration	19	(29)	> 100
Short-term insurance	(56)	(162)	65
Client engagement solutions	(140)	(66)	< (100)
Momentum Retail core earnings	**920**	**1 271**	**(28)**

Momentum Retail's share of the loss incurred in Client Engagement Solutions is R140 million. The loss mainly reflects investments into capabilities to differentiate Momentum and its engagement with clients from its competitors. We are particularly excited by opportunities presented by enhanced data analytics, money management solutions and significant improvements in how we leverage technology to enhance both the client and adviser experience.

Embedded value earnings (as shown in the table below) were impacted by basis changes to the valuation of the predominantly pure risk products. We have derisked the portfolio backing the non-profit risk liabilities (part of Myriad), which results in a lower future expected return on these assets. This change will reduce the expected volatility due to a reduction in exposure to investment variances, which should not be a key feature of this type of product. This will also lead to reduced capital requirements under the new Solvency Assessment and Management (SAM) environment (effective from 1 July 2018).

An increase in administration expenses per policy due to lower business volumes contributed negatively to embedded value profit. Our focus over the coming years will be to increase revenue (including the number of the in-force policies) by more than increases in expenses and below inflation.

In order to increase the competitiveness of the Wealth product range the platform fees for this business will be reduced, effective date March 2019. We have allowed for this expected decrease in fees in the Value in Force (VIF) for the Wealth products. The longer-term expectation is that this will increase new business flows as well as reduce outflows which has been a problem of late. Current new business is written on the new reduced fee structure and the lower margin has impacted the value of new business.

New business profit was impacted by the basis changes, Wealth repricing and changes to the business mix. While new business volumes increased marginally, a greater proportion of lower margin products (single premium

Embedded value (EV) profit	F2018	F2017	Year-on-year (%)
New business profit	98	228	(57)
Unwind of discount rate	1 344	1 465	(8)
Experience variance	(76)	-	< (100)
Assumption changes	(1 076)	537	< (100)
Operating EV profit	**290**	**2 230**	**(87)**
Investment income on net worth	226	269	(16)
Investment variance	(89)	(932)	90
Economic assumption changes	33	(54)	> 100
Covered EV profit	**460**	**1 513**	**(70)**
Non-covered earnings	(1 410)	(479)	< (100)
Embedded value profit	**(950)**	**1 034**	**< (100)**

investments) resulted in the overall comparative profit being negatively impacted. The decrease in non-covered earnings is mainly ascribed to a new methodology to determine non-covered valuations, which resulted in the downward adjustments in the valuation of some businesses across the group. In Momentum Retail, some of the asset management businesses and client engagement solutions were affected most.

Looking ahead

The focus is to grow our distribution and improve client engagement to enhance sales volumes and improve retention. We will continue to support the independent and agent/secured channels, but recognise their different requirements and have restructured the support of these channels accordingly. More management time has, and will be spent, on the channels to improve relationships and levels of support.

In the shorter term we have streamlined and aligned client service areas to the core product lines. In the longer term we will look to further streamline business processes to remove unnecessary duplication and delays. This will further align our servicing and support models for future anticipated business volumes. We will also increase our focus on financial planner development and training to improve productivity and client outcomes.

In addition to changes to the servicing and distribution channel we are introducing new value-added solutions and services in the coming year, including:

- Money Management – with a digital transactional banking capability, personal financial tools and an app.
- Momentum Short-term Insurance – more functionality in the Safe Dayz™ telematics offering, focused on improved customer engagement. We also intend to provide clients and intermediaries with an online quoting capability for new business.
- Multiply – a focus on brand building and service enhancements to further strengthen its position and a reduction on the product profitability gap.
- Investments – greater support of Outcomes-based Investing in the channels, with a need to more strongly integrate this into the advice process and expand our institutional market footprint.
- Legacy – need to upgrade the savings products and better leverage these capabilities in our Africa business.
- Insurance – further enhancements to our flagship life insurance product Myriad to differentiate itself in the market through focus on claims and service differentiation.

While the earnings performance is disappointing, we are encouraged by the positive impacts a number of changes are starting to have within the business. The benefits of these interventions will take longer to manifest themselves in our results. We remain confident in our ability to not only deliver value to our clients but to shareholders too.

Metropolitan Retail

Metropolitan is a warm, intuitive and personal emerging market-focused brand centered on the ideas of collective achievement. In servicing its market for over a century, Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments offering advice and personalised, simple product solutions to help plan for and achieve financial life goals.

Central to our culture and brand promise is ensuring that everything we do is based on our deep quantitative and qualitative understanding of our clients' context and needs. We are expanding and diversifying data-driven solutions to support our clients when and where they need us most. For example, with indirect links to various data sources such as Home Affairs, we are able to pay funeral claims almost instantaneously as part of our added value proposition within our funeral solution.

Metropolitan has been placed first for three years in a row in the South African Consumer Satisfaction Index (SAcsi). Apart from our overall top-ranking position, we also achieved first place in the categories of perceived value, customer loyalty, and the net promoter score.

We also scored highest in the industry in each of the seven Treating Customers Fairly outcomes, which are listed below:

- The fair treatment of customers is central to the brand's culture.
- The brand offers products/services that address your needs.
- The brand provides you with transparent and easy to understand information.
- The brand provides you with advice that is suitable to your circumstances.
- The brand delivers products/services as they led you to expect.
- The brand makes it easy to change providers, complain, claim or consider another brand.
- The brand treats you with respect and there is an open win-win relationship.

Metropolitan Retail has a historical bias in serving public servants (such as teachers, nurses, police and army) but our success in expanding market access is giving us greater traction in the private sector. Our wide branch footprint, worksite presence and client-focused culture ensures that our clients can access our people and products easily, both for advice and ongoing service. At present, more than 80% of our clients hold only one Metropolitan product, making improved cross-sell a priority for the business.

Almost 80% of our business is secured through our own tied-agent channels. We have recently rolled out a number of modernised branches and will further invigorate our branch sales through additional refurbishments and suitably located points of presence.

Our African Bank bancassurance partnership provides us with access to additional clients through an extended co-branded African Bank branch network. African Bank will also be the provider of an important lending product in our client value proposition.

ALMOST

2.2 MILLION active clients across South Africa and across all industries.

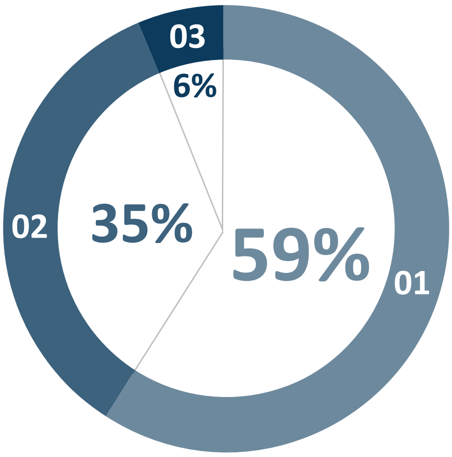
CORE SOLUTIONS INCLUDE:

- Unique personalised funeral offering.
- Savings for life goals and income protection in retirement through our capital preservation and annuities range.

ADVISER FORCE OF MORE THAN

4 000 **field agents, telesales agents and supporting brokers, operating across more than 110 unique points of presence throughout South Africa.**

New business mix F2018

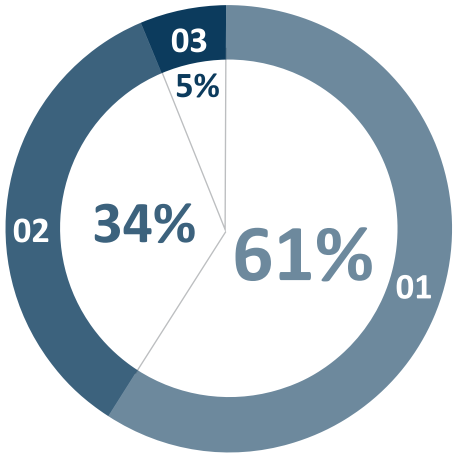


01 Risk

02 Savings/Investments

03 Annuities

New business mix F2017



The figures above show the split of sales volume by product segment which has shown a slight increase in annuity and savings products over the year.

A key feature of our approach to sales and distribution is our Worksite Marketing offering which is a strategic lever that provides ongoing access to the key target market of employed clients. We are working to acquire new worksites, diversify our sector focus to prevent concentration risk, and provide advisers with leads through ongoing worksite activation campaigns. In F2018, we opened 161 new worksites with 146 new linked Stop Order Agencies, 1 987 of 3 802 advisers (52%) who have less than 12 months tenure being allocated to new or existing worksites.

We have increased productivity through more focus in our channel over recent months, with average production now above two policies per adviser per week. As this measure includes a large proportion of new-to-industry advisers, we expect average productivity to continue to increase as the trainee advisers progress into more senior categories. More experienced advisers easily produce between six to eight policies per week.

To overcome the challenge of scaling up the number of experienced and productive advisers, we are implementing a number of initiatives to professionalise the adviser force in F2019 in tandem with development through our training academy. We expect these to yield greater productivity going forward.

Our unique digital client value proposition is centred on financial life goal planning instead of traditional product push, which is a key strategy to differentiate Metropolitan in a highly regulated and commoditised emerging market. Our processes and systems are transitioning onto one integrated platform that will facilitate client engagement, advice, product acquisition, ongoing service and claims across all channels, whether face-to-face, through contact centres or on digital devices. Our focus will be to create personalised, sustainable, long-term relationships in each client interaction. We are removing paper and unnecessary client friction in modernising our processes.

Our first fully digital Dignified Funeral life goal solution was launched during March 2018. It is a full straight-through-processing paperless engagement for advice and the product solution, where clients build and plan their funeral solutions around their unique needs – a first in the insurance emerging market segment.

Our digital focus also extends to enabling our channels, with a number of tools rolled out to support advisers:

- Our MetHub channel portal gives advisers access to all the business tools and processes they need to succeed, including connectivity and e-learning skills growth. Business Intelligence insights embedded in MetHub provide branch managers with a full activity management platform with the necessary tools and information to coach, mentor and guide their team to improve performance.
- MyMarkets Opportunities, launched in February, is a digital tool to enable our market opportunity selection as well as better manage and measure our adviser placement in worksites.
- We have completed the roll-out of more than 1 700 laptops to senior category advisers for them to access and use their new digital toolset.

Financial performance

Effectively all of Metropolitan Retail's earnings come from life insurance activities (underwriting death and disability risk), and from managing client assets held through endowment policies and personal pension policies (known as retirement annuities).

While we have grown sales in a tough economic environment, the business has seen a drag on year-on-year earnings due to large investments and increased expenses.

The loss shown in "Other" earnings below reflects our share of costs around the Multiply offering and the African Bank Lending solutions.

We believe that this joint venture recently launched with African Bank will result in growing earnings (especially the lending non-covered earnings) over the coming few years.

Positive mortality and investment experience persists, but this was offset by poorer persistency experience year-on-year. The deterioration year-on-year can be ascribed to business written by advisers subsequently lapsing as well as operational losses due to system administration issues. The persistency losses observed in the last two financial years can mostly be ascribed to early duration persistency. A basis change was implemented to remove the negative variances, which has also dragged the value of new business down significantly. A number of focused management actions are in play to improve this persistency experience.

A large portion of earnings is still derived from our Legacy book, which includes earnings from most savings products, universal life products and conventional with-profit business.

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Pure risk products	214	251	(15)
Investment and annuity products	122	124	(2)
Other life products (including Legacy)	275	310	(11)
Life profits	**611**	**685**	**(11)**
Other	(41)	(25)	(64)
Metropolitan Retail core earnings	**570**	**660**	**(14)**

The large investments into the African Bank Lending solutions, laptops for senior category advisers and investments into our branch network, along with a change to the way we capitalise IT expenses, caused a significant impact on our expenses and therefore earnings.

EV profits as shown below are down year-on-year, driven primarily by expense assumption changes. Expense assumption changes were imposed as a result of a change to overhead expense allocations between segments. This was partially offset by better investment experience.

Embedded value (EV) profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	84	178	(53)
Unwind of discount rate	474	578	(18)
Experience variance	(57)	20	< (100)
Assumption changes	(273)	184	< (100)
Operating EV profit	**228**	**960**	**(76)**
Investment income on net worth	115	157	(27)
Investment variance	135	(193)	> 100
Economic assumption changes	76	(14)	> 100
Covered EV profit	**554**	**910**	**(39)**
Non-covered earnings	(40)	6	< (100)
Embedded value profit	**514**	**916**	**(44)**

Value of new business reduced materially as a result of the strengthening of the lapse basis following experience losses observed.

The unwind of discount rate line item has decreased due to the adoption of yield curves for discounting embedded value cashflows.

The experience variance reduced year-on-year supported by positive mortality experience being offset by the poor persistency experience mentioned above. A large part of the deterioration is once-off in nature and is expected to be reversed in the near reporting periods.

The experience variance line also includes the impairment of an administration system asset. Investment income on shareholder funds is stable and reflects both the high pay-out ratio and low-risk investment strategy deployed. The increase in investment variances reflects the positive effect of equity markets on current and future fee income, whereas the economic assumption change reflects the change in the yield curve. The non-covered line includes our share of the cost of the Multiply offering as well as the African Bank Lending solutions.

Looking ahead

We have made great strides in rebuilding our adviser force and increased productivity is now evident. We have also been able to fill all vacancies at a Provincial Management level, which will ensure better execution of the strategy. We have additional initiatives planned to further improve productivity. We expect to make significant investments in our branch infrastructure, which includes moving the branches closer to our clients. Many of our branches are in town centres rather than near residential areas, and we are looking to open branches in shopping malls and other venues that are more conveniently located for clients. We will be refurbishing branches that are already well located.

We are investing in training and management development to improve the efficiency of our branch managers and ensure they have the appropriate approach and requisite coaching skills to support new advisers. The quality of branch managers has a direct correlation on the likely success of new recruits and on the overall productivity of the advisers.

We will continue to build on the success of increased access to digital tools and enablers that have already been deployed for advisers. Our over 1 000 work sites are gaining traction and are a key market access strategy for Metropolitan to promote its solutions and where we have access to stop order facilities to collect premiums.

As seen in our initiatives for the coming year, our focus represents a shift from volumes (be that in sales force or opening new worksites) to a focus on productivity (in driving higher policy sales, improving the skills of our managers, better location of branches, and assessing productivity in each of our market access points). Our core focus is on enhancing our financial life goal planning advice business, by assisting clients to meet their planned goals and helping them manage unforeseen expenses.

Momentum Corporate

Momentum Corporate provides insurance, health, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market.

For Momentum Corporate, most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers. However, our strong small and medium enterprise (SME) market share is mainly due to the support we get from smaller intermediaries, who also support our retail business. With continued support from our retail channels for our umbrella fund products, we will continue developing and implementing improvements to sustain our success in this area.

In terms of new business mix, it should be noted that large deals can skew sales figures significantly from year to year. For example, our annuity sales are currently running below historical averages, mainly due to limited activity in the pensioner outsourcing market. The trends could thus change quite materially over time.

Overall, we believe that our business is overweight in protection market share but underweight in investments and savings. Our annuity market share also tends to be strong during periods of high pensioner outsourcing activity which correlates to strong equity markets and high interest rates. The opportunity set for these outsourcings going forward is now predominantly in the state-owned entity space.

The figure on the next page shows the split of sales volumes by product segment (for covered business – i.e. business written on the life insurance licence).

Financial performance

Momentum Corporate's earnings are derived from a diverse range of activities, with material contributions to the segmental income statement from life insurance profits, short-term insurance, retirement fund administration and health scheme administration (see table on next page).

Life insurance profitability improved during the year, mainly due to improved disability underwriting profits as well as minimal expense growth. While improved, overall profitability on disability business remains below long-term expectations. Disability experience tends to be pro-cyclical with economic conditions; as such, the industry overall is struggling in this area. The re-pricing activity on the disability book is expected to further improve underwriting profitability into the next financial year. Investors should note that annuity profits (mainly spread profits) are also recognised as part of the life insurance profit line and these profits remain strong. Profits from our FundsAtWork umbrella range are also included in the life insurance profit line.

Short-term insurance refers to the activities of Guardrisk, which derives most of its earnings from cell captive administration. The level of underwriting risk taken by Guardrisk continues to be increased incrementally, but administrative (i.e. stable) profits should continue to be the main source of profit for the foreseeable future.

Health scheme administration refers to claims handling and other administrative services that we provide to large employer sponsored medical schemes. The largest client on our books is the government, where we manage

Provide services and solutions to more than 2.1 MILLION employees across all industry segments.

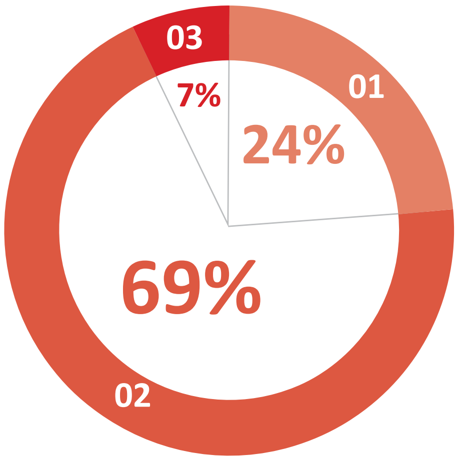
Provide and receive annual risk premiums in excess of R4.3 BILLION per year

Our umbrella fund product range (called FundsAtWork) is particularly successful in the SME segment, with more than:

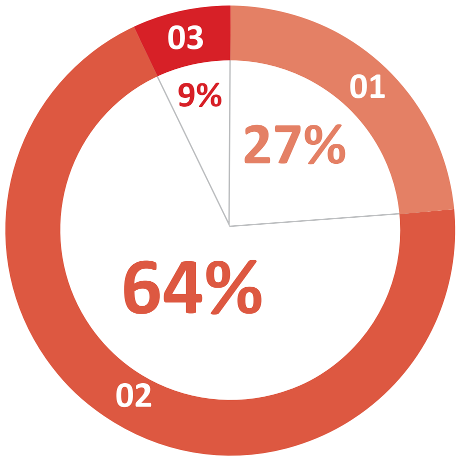
- 460 000 members from nearly 6 000 employers.
- R50 billion of assets under management.

Strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions.

New business mix F2018



New business mix F2017



medical scheme records for nearly 700 000 families. Profits have improved year-on-year to above 2016 levels following the rightsizing of the business in response to the loss of the Bankmed and Polmed schemes during 2015. Due to a broad-based black economic empowerment transaction entered into with a consortium consisting of Thebe Health Group, POPCRU Group of Companies and Validate for our Public Sector book, the effective interest in this book will be diluted to 51% in the coming year.

Property management refers to our 76% interest in the ERIS Property Group (Eris). Eris is active in property management, asset management and property development. Earnings in F2018 declined against the prior year, where this business benefited from some participation profits in property disposals.

Retirement fund administration refers to administration work we do for large stand-alone retirement funds that outsource administration of member and investment record keeping, member communications and other administrative tasks. We are a market leader in this field and one of a few players who are profitable in stand-alone administration. We have 40 stand-alone scheme clients representing more than 600 000 members on whose behalf we administer more than R240 billion of assets. In the past year we secured the administration contract for the Consolidated Retirement Fund for Local Government.

Investment management profits have stabilised during this financial year. Buoyed by client inflows, Aluwani Capital Partners posted its maiden profit. Active expense management within this entity provided further impetus in supporting this positive result.

During the course of the latter part of F2017 and in F2018, the business has been in the process of setting up a dedicated direct advisory capability. A new entity was established and branded Momentum Consultants and Actuaries (Pty) Ltd.

In terms of embedded value profits, new business profits continue to recover compared to the prior year. Our focus on quality of business leads to better margin on business written over the period, with the main contributors being schemes written at materially higher margin than the

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Life insurance	425	387	10
Short-term insurance	260	200	30
Health scheme administration	151	136	11
Property management	60	99	(39)
Retirement fund administration	(16)	18	< (100)
Investment management	31	20	55
Client engagement solutions	(8)	(25)	68
Corporate core earnings	**903**	**835**	**8**

Embedded value profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	124	68	82
Unwind of discount rate	600	595	1
Experience variance	(21)	(178)	88
Assumption Changes	624	(295)	> 100
Operating EV Profit	**1 327**	**190**	**> 100**
Investment income on net worth	129	145	(11)
Investment variance	(57)	(203)	72
Economic assumption changes	(103)	(103)	0
Covered EV profit	**1 296**	**29**	**> 100**
Non-covered earnings	(24)	786	< (100)
Embedded value profit	**1 272**	**815**	**56**

previous year as well as lower expense expectations going forward to support the running of this book of business. The group insurance market continues to see a correction of risk rates towards longer-term norms, but margins remain under some pressure. We have mostly completed rebuilding the relevant distribution teams to focus on the intermediated market and continue to focus on building our direct consulting business. The unwind of the discount rate line item has decreased due to the impact of additional group expenses being allocated to the business, which reduced the opening value of the in-force book.

We are pleased with improvements shown in experience profits due to slightly better morbidity and retrenchment experience as well as some positive expense variances. Investment income stayed relatively flat, whereas investment variances reflect the impact of poor performance in investment markets on fee income as well as the impact of the credit downgrade on the cost of capital. Economic assumption changes decreased substantially compared to the prior year due to the widening of the gap between salary inflation and the risk discount rate. We project premiums forward against salary inflation; hence, if the gap widens, the present value will be lower. The reduced non-covered earnings reflect the impact of the Health B-BBEE transaction, as well as sizeable disinvestments from the platform investments environment arising from the Anglo pensioner outsourcing.

Looking ahead

Underwriting profitability will remain a focus for management. We have been applying above-inflationary increases to close the gap between group disability premium rates and the current claims experience. We have a contractual right to renew almost all risk premiums annually, and recognise that premium rate increases must strike a balance between reflecting recent experience and projections for longer-term experience.

We are also working hard to improve claims management. In disability insurance, this requires improving rehabilitation rates for current claimants; we continue investing money and time to improve skills and processes in the claims handling teams.

We continuously refine our product offering and service standards in our umbrella funds business to address the evolving needs of clients and to respond to changes in the regulatory and competitive landscape.

With its Outcomes-based Investment philosophy firmly bedded down, our investment management business is now on a solid footing with the appointment of Jeanette Cilliers (Marais) as the new CEO. The focus is now to grow the business to achieve its full potential.

We are targeting growth through all lines of our health business after bringing the various health businesses closer together as a single business to obtain a single market presence, scale of capabilities and to improve our client engagement.

We are focusing on improving our overall client experience and on better alignment of operations and servicing areas to our client needs. We recently launched our corporate rewards programme, Multiply for Corporates, to increase engagement with corporates and to encourage engagement at the employee level. This also serves to reward corporates for integrating their employee benefits with Momentum.

We continue on our journey of enabling our clients to achieve their financial goals and aspirations. Workplace Living Services remains a key digital initiative in this regard. Besides Smart Exits (for which we won a Gold Loeries award), we have also launched Smart Retirements, Smart Underwriting and are now embarking on the Smart Onboarding journey. Our MMI-wide Employee Financial Wellness initiative aims to solve for a broader set of financial needs of our corporate clients' employees through improved engagement and education at an employee and employer level.

International

MMI International operates in the rest of Africa, India and the United Kingdom (UK).

Africa overview

In Africa, our operations in each country tailor the distribution model to the needs of the local market across tied agents, independent brokers, call centres, and mobile technology (employed through our joint venture with MTN). Most of our life insurance business is secured in ten countries in the southern African region, where agents are the main source of new business. We offer health insurance in seven countries. In terms of premium income market share, we are the market leader in Lesotho, second in Botswana and third in Namibia.

We offer short-term insurance in Namibia, Kenya, Swaziland and Tanzania and asset management in Namibia. In our health administration business in Namibia, we have nearly 400 000 lives on our book, making us the biggest player in that market.

In Kenya and Nigeria, we have a small market share. Our business in Kenya is weighted towards short-term insurance, whereas the Nigerian business mainly sells life insurance to companies wanting cover for their employees. Our Ghana business is more diversified and has sufficient scale to be operating profitably.

The figure on the next page shows the split of sales volumes and new business profit by product segment (for covered business – i.e. business written on the life insurance licence).

India overview

Aditya Birla Health Insurance (ABHI), a joint venture between MMI and the Aditya Birla Capital Group, was launched at the end of November 2016. The partnership brought together the best of both worlds with MMI bringing product, solutions and actuarial expertise, while Aditya Birla Capital contributed their strong brand and distribution capabilities. The result is a new health insurer that already covers more than a million lives, despite fiercely competitive market conditions.

The India health insurance market to date has been aggressively competing for consumers aged between 35 and 50, while ABHI has managed to expand the market with our market-first incentivised wellness and chronic care management offerings. The incentivised wellness model allows younger members to enjoy better value for money in health insurance, while the older generation (who was traditionally denied cover due to pre-existing conditions) benefits from our offering assisting them to manage their chronic conditions and thereby living an improved quality of life.

Retail health insurance business in India is much more profitable in India and the competition here is especially fierce. To be able to successfully compete in this sector of the market, a health insurer needs to have strong distribution capabilities. ABHI has therefore invested extensively in getting its agency force, bancassurance partnerships, corporate and broker support and digital channel up and running as quickly as possible. To date ABHI has recruited more than 15 000 agents and setup branches in more than 40 cities, while bancassurance and brokers extend this reach to more than 150.

Operates in 11 **African countries, India and the UK.**

In Africa, we focus on life insurance and health insurance products, as well as short-term insurance and asset management.

The Indian health insurance business has over 1 MILLION **lives on the books.**

We are in the process of refocusing our Africa operations and will reduce our presence in coming years.

WE HAVE A health insurance and Multiply offering in India.

In the UK our focus is on asset management.

Over **500 000** individual life insurance policies and around **600 000** lives in group life insurance in Africa.

Bancassurance partnerships are especially important here as they have nationwide footprints, strong and trusted brands and substantial customer bases. ABHI has already managed to tie up with seven bank partners, which includes HDFC, the largest private sector bank in India.

ABHI has also spent considerable resources in building digital capabilities, with two websites and four mobile applications launched to the market on its first day of operation. This has resulted in ABHI issuing more than 70% of policies digitally, compared to a market average of 30-40%. This results in better information accuracy, quicker service turnaround times and an all-round better client experience with our Net Promoter Score currently equal to 42%.

ABHI believes in the philosophy of making people adopt healthier lifestyles. The #JumpforHealth campaign shows its commitment to creating opportunities for people to be more active.

In 2017 ABHI introduced #JumpforHealth on World Health Day (7 April) – a unique initiative that not only helped inculcate a healthy habit of jumping, but also went a step further and pledged to donate one prosthetic leg to the under-privileged for every 10 000 jumps recorded. This inaugural #JumpForHealth received two million jumps in the three weeks of the campaign and ABHI donated 200 prosthetic legs as a result. People from all walks of life across the world took part in the initiative – from schoolchildren to celebrities, Miss India finalists to policemen, housewives to wedding guests, people at gyms and the Everest base camp. In April 2018 ABHI launched its second #JumpforHealth and vowed to make it even bigger and better. #JumpForHealth 2018 has ended with an astonishing 5.7 million jumps and ABHI will donate 570 prosthetic legs as a result.

United Kingdom overview

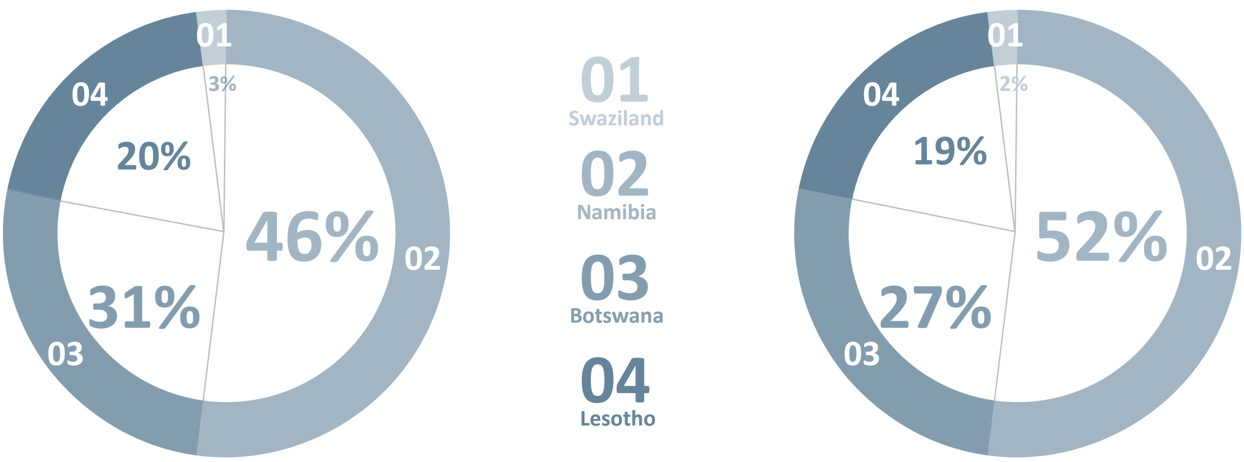
Momentum Global Investment Management (MGIM), based in London, is focused on delivering outcomes-based investment solutions for clients, consistent with MMI's investment philosophy. MGIM forms an integral part of Momentum Investments and works in partnership with intermediaries in multiple jurisdictions to deliver on their clients' investment goals. Whilst the business continues to focus extensively on delivering offshore investment solutions to intermediaries and investors in South Africa, there is a strong growth focus to deliver solutions for, and to raise assets from, investors in global expatriate markets and the UK (focused on large corporate pension schemes and select retail financial advisers).

Having a business in London enables and facilitates access to a deep pool of world-leading investment talent, ideas and insights, and diversifies and grows MMI's investment-based revenue streams by creating access to international asset flows.

At 30 June 2018, MGIM managed over US$6 billion.

New business mix F2018

New business mix F2017



OUR SOLUTIONS

Long-term insurance
Health solutions
Health administration
Asset management
Pension fund administration
Short-term insurance

OUR SOLUTIONS IN THE UNITED KINGDOM

Investment solutions
Investment administration
Engagement solutions
Investment consulting

Financial performance

The Africa business showed an improvement against F2017. Life and health insurance activities accounted for most of our earnings, mainly from the mature Southern African markets. However, these earnings were offset by losses from some of the frontier markets. The health joint venture in India requires ongoing investment over the coming years to achieve scale and is only expected to be profitable in five years.

Covered life insurance earnings declined from the prior year mainly due to a poorer claims experience in Namibia in the retail segment. The non-covered life earnings, improved mainly driven by the West African businesses.

Ghana recorded a profit which was an improvement from the loss it recorded in F2017. Nigeria performance also improved mainly due to top line growth reducing its loss by 54% in F2018.

The health business improved its earnings substantially following a premium rate increase on under-performing schemes and elimination of the losses from our businesses that we are exiting. The short-term insurance business showed a reduced loss mostly due to improved performance in Kenya, Tanzania and Swaziland. This was partially offset by the losses at the newly acquired business in Namibia (Quanta). Our centre expenses, included in "Other operations" on the next page, decreased significantly during the year.

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Life insurance	122	92	33
Covered	191	203	(6)
Non-covered	(11)	(74)	85
aYo	(58)	(37)	(57)
Health scheme administration	(156)	(82)	(90)
Health (excluding India)	61	66	(8)
India	(217)	(148)	(47)
Short-term insurance	(3)	(80)	96
Client engagement solutions	(19)	(24)	21
Investment and savings	99	82	21
Other operations	(91)	(154)	41
MMI International core earnings	**(48)**	**(166)**	**71**

Our UK investment business showed good performance, mainly due to positive inflows into expatriate fund solutions, the recent success of the Momentum Africa Real Estate Fund (MAREF) as well as the UK investment consulting business turning profitable this year.

In terms of embedded value profits, new business profits decreased substantially, reflecting a basis change relating to using actual sales-related expenses instead of modelled expenses. We also saw an increase in initial expenses combined with muted new business volumes. The unwind of the discount rate line item increased following an update of the unwind calculation. Experience variance decreased year-on-year, mostly due to a lapse correction and higher expenses in Namibia, offset to some extent by positive mortality and morbidity experience in most countries.

EV earnings were significantly impacted by negative assumption changes; specifically renewal expense assumptions as a result of the decreased in-force business volumes in Namibia and a number of modelling changes. The most significant modelling changes include improvements to unit liability modelling in Namibia, writing down the EV of countries we are exiting and the derisk of the portfolio backing the non-profit risk liabilities (part of Myriad), similar to Momentum Retail.

Investment income on shareholder funds increased and reflects capital appreciation on some of the assets due to strong market conditions during the first half of the year. The decline in investment variances mainly reflects the strengthening of the rand versus most currencies, decreasing the investment in rand terms in most of the territories.

Non-covered earnings include the centre expenses. Centre expenses decreased substantially as a result of the progress made in exiting some African countries leading to lower support costs in SA. Losses in our new

Embedded value profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	(5)	73	< (100)
Unwind of discount rate	273	227	20
Experience variance	10	65	(85)
Assumption changes	(250)	(23)	< (100)
Operating EV profit	**28**	**342**	**(92)**
Investment income on net worth	112	63	78
Investment variance	(35)	(21)	(67)
Economic assumption changes	44	(29)	> 100
Covered EV profit	**149**	**355**	**(58)**
Non-covered earnings	(440)	(833)	47
Embedded value profit	**(291)**	**(478)**	**39**

initiatives and smaller life insurance operations are also included in this line item. In the previous year, we had large write downs of the valuations of some initiatives as well as negative earnings which did not recur in the current year. As mentioned above, we saw improved performance in the non-covered life, short-term and health businesses, also contributing to the improved non-covered earnings.

Looking ahead

Africa

As announced, we plan to exit a number of African countries to improve focus on our profitable businesses that have potential for long-term growth, with good progress being made. We are narrowing our geographic footprint to the Southern African region plus Ghana where we are already seeing significant growth potential.

We aim to maintain our strong market position in Namibia by leveraging our brand strength to improve persistency and cross-selling, improving efficiencies to support margin growth and maintaining our strong agency network. Also in Namibia, we have established a short-term insurance offering through the acquisition of Quanta Insurance during the year.

India

With the business maturing out of startup phase and into a fully-fledged market player, it remains critical that it continues to enjoy dedicated focus from MMI due to the scale of its investment in India.

We are happy to see that ABHI continues to grow strong and it plans to increase its product suite with travel insurance and new market firsts including cover for senior citizens and a savings product for out-of-hospital expenses. The multi-channel distribution strategy will continue to expand with further agent recruitment and fresh bancassurance tie-ups.

Fresh investment into digital capabilities to develop innovative initiatives like chatbots, auto-underwriting to increase real-time issuance and facilitating out of hospital expenses in a cashless manner also enjoy high priority.

United Kingdom

The focus will continue to be on delivering exceptional global investment solutions and outcomes in close collaboration with the broader Momentum Investments team for MMI's South African distribution partners and investors. In addition, we will build on the successes of MAREF with Eris, and will grow and develop the global investment solutions in support of our expanding expatriate distribution footprint further. The UK-based investment consulting team is expected to continue their growth path.