24 November 2017

OPERATIONAL UPDATE

For three months ended 30 September 2017

MMI HOLDINGS

momentum METROPOLITAN GUARDRISK multiply

During the quarter, MMI Holdings has made further progress on its client-centric strategy and continued to invest in transforming its core operations towards building a future ready business. We believe that when the economic cycle turns positive we will reap material benefit from these investments. Notwithstanding the challenging market environment we faced this quarter, we have started to see some progress come through from the measures previously communicated.

Diluted core headline earnings are down 4% on 1Q17. Operating profit was flat despite significant increase in spending on new initiatives in Momentum Retail and in Client Engagement Solutions. The operating profit outcome was aided by much improved profits on our Corporate disability book. Headline earnings, which include the full impact of market-related gains on our earnings, are up 54% versus 1Q17. Basic earnings are up 51%.

Retail new business volumes are marginally up on 1Q17. In Corporate we have maintained pricing discipline which has resulted in a decline in Corporate flows for the quarter. Overall this leaves new business volumes 5% lower year-on-year.

Our capital position (on the SAM basis) has improved subsequent to 30 June 2017. Updated technical specifications from the regulator, rising equity markets, expansion of our sub-ordinated debt programme, and ongoing technical refinement of our SAM modelling are all contributing. Our group SCR coverage ratio has improved from the middle to the upper end of our targeted range. Our credit ratings were recently affirmed by Moody's. MMI Group Limited maintained its Insurer Financial Strength (IFS) rating of Aaa.za and its subordinated debt is rated Aa2.za.

Momentum Retail

Momentum Retail new business volumes are up 2% y-o-y. Single premium new business is up 3% despite ongoing weak guaranteed endowment volumes. We launched our new guaranteed endowment offering in November 2017 and this is expected to have a positive impact on single premium volumes. Recurring premium new business is down y-o-y.

VNB declined to R30m, which represents a PVNBP margin of 0.5% (vs 0.8% in 1Q17). This was largely driven by the new pricing introduced on our Momentum Wealth platform in April 2017. Some of our investment into improving intermediary and client experience is also categorised as new business related expenses. We believe that both the new platform pricing and the improved user experience will improve sales in future periods.

Rm	1Q18	1Q17	Δ%
Recurring premiums	251	271	-7
Single premiums	4 165	4 029	3
PVNBP	5 611	5 496	2
Value of new business	30	44	-33
New business margin	0.5%	0.8%	-0.3%

Momentum Retail's covered earnings are significantly down y-o-y. Expenses in the core life business are around R50m higher than in 1Q17 reflecting the higher investment into our client engagement and technology initiatives. The level of Multiply discounts is also higher than in the prior period and this is not fully offset by the actuarial assumptions for these policies. The weak equity markets in F2016 and F2017 also means that profits from legacy products have run off somewhat quicker than under more stable market conditions. This situation is expected to reverse if equity markets hold onto the recent gains.

MSTI is performing well with losses narrowing in line with budget on the back of 20% growth in net earned premiums while achieving a respectable 72% claims ratio. This was offset by substantial increase in our Client Engagement Solutions (CES) expenses. Note that Momentum Retail carries the bulk of CES costs eg those related to the new Money Management initiative and to expanded data analytics capabilities.

Metropolitan Retail

Metropolitan Retail new business volumes are up 1%. Recurring premium volumes are up 3% while single premium volumes are down 4%. Higher margin risk new business was up 4%, ie better than other products, which partially explains the strong VNB in an otherwise muted sales quarter.

New business margin increased to 5.0% for the quarter (vs 4.1% for 1Q17). Besides the favourable new business mix referred to above, the new business margin also benefited from recalibration in some parts of our remuneration models used for sales staff.

Rm	1Q18	1Q17	Δ %
Recurring premiums	338	327	3
Single premiums	284	294	-4
PVNBP	1 422	1 406	1
Value of new business	71	58	22
New business margin	5.0%	4.1%	0.9%

Metropolitan Retail's earnings are down slightly year-on-year. The initial costs in setting up the African Bank joint venture reduced earnings by around R7m for the quarter. Weaker persistency experience also affected earnings negatively. While we are seeing improvements in the early duration (months 0 to 6) lapses, the persistency in months 6 to 12 has weakened. Our mortality variance was strong during the current quarter and this offset much of the negative persistency variance.

Momentum Corporate

New business for Momentum Corporate is down 22% y-o-y. Single premium new business was especially weak in the quarter with the R626m of new business representing roughly half of the volumes achieved in 1Q17. Recurring premium new business was down 7% with the more stringent pricing affecting sales. Our umbrella fund product (Funds At Work) continues to perform well in terms of absolute sales volumes.

New business margins are down year-on-year to 0.5% (vs 0.8% in 1Q17). The main reason for the decline is the operational gearing arising from distribution costs increasing by close to inflation whereas volumes are down year-on-year. New business mix was positive during the quarter with Funds At Work becoming a larger proportion of new business. Note also that we have adopted a new approach to the VNB calculation on group risk to be more reflective of actual pricing achieved at the point of sale rather than relying too much on the assumed long-term margin.

Rm	1Q18	1Q17	Δ %
Recurring premiums	163	175	-7
Single premiums	626	1 199	-48
PVNBP	2 291	2 942	-22
Value of new business	11	23	-51
New business margin	0.5%	0.8%	-0.3%

While the new business environment for Momentum Corporate remains challenging, the earnings recovery has been very pleasing. We have been able to adjust premium rates to restore our corporate disability business back to break-even profitability. This together with good annuity earnings for the quarter has resulted in overall life insurance earnings almost doubling relative to 1Q17. Overall Momentum Corporate earnings are also strongly up.

Best performing operations outside of the life insurance business were our pension administration business (earnings roughly doubled), health administration (earnings also roughly doubled), and Guardrisk (earnings aided by improved underwriting result).

International

International's new business is down 4% year-on-year. Single premium volumes are up sharply but the 12% decline in recurring premium new business offsets this at the PVNBP level. Namibia is the largest contributor to our life insurance operations outside of SA and their sales were up 5% y-o-y. Botswana new business volumes were also higher. These were offset by a substantial decline in Lesotho volumes where 1Q17 included a few large Corporate new business wins that were not repeated in the current period.

Value of new business is down by R10m. Margins in Namibia were down significantly due to higher variable compensation expenses allowed for in the new business profit calculation. Botswana VNB also did not track the volume growth achieved due to changes to assumed margins on the Funeral Funder product sold in that market. We expect margins to improve in International in the subsequent quarters as the non-recurring effect of Namibia bonus expense normalises.

Rm	1Q18	1Q17	Δ %
Recurring premiums	108	123	-12
Single premiums	108	31	248
PVNBP	641	666	-4
Value of new business	10	20	-50
New business margin	1.6%	3.0%	-1.4%

Core headline earnings at International improved materially despite our share of losses on the India joint venture increasing as the business expands its activities.

In the larger southern markets, we have seen profits increase by around R20m in Namibia and by more than 10% in both Botswana and Lesotho. In Namibia there was no repeat of the high disability claims evidenced in 1Q17 and the 'expected profit' in the life operation has grown in line with decent new business growth over the past few years. Lesotho is benefiting from higher corporate insurance profits than in the prior year.

We are making progress on exiting various African countries as announced in our year-end results. We have also been able to reduce the central costs supporting the Africa operations now that the footprint is becoming more focussed.

Our share of the losses for India has increased by around R20m but we are very pleased with the top-line growth of Aditya Birla Health. We now have in excess of 600,000 insured lives in our India business.

Shareholder Capital

The Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and some costs not allocated to operating segments (eg certain holding company expenses).

Earnings contribution from Shareholder Capital is down nearly R30m for the quarter. This is mainly driven by a decline in average money market yields and the sale of a high-yielding property that was held in the shareholder portfolio during 1Q17. The cash realised on the sale is being held in lower yielding assets.

Outlook

Operating environment remains difficult in South Africa and we do not believe that the environment will improve meaningfully in the near term. This means that we need to continue applying strong discipline in our capital allocation decisions and to find increasingly efficient ways of doing business while also investing sufficiently for the future.

24 November 2017
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 24 November 2017.

We kindly request callers to pre-register using the following link https://goo.gl/mUAufd . A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 12h30.

Access numbers for participants dialling live from their country:

South Africa	011 535 3500
UK	0 808 162 4060
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	011 305 2030
UK	0 808 234 6771
USA and Canada	1 855 481 5363
Other Countries	+27 11 305 2030

Access code for recorded playback: 17040

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