



Operating update

For the six months ended
31 December 2022

MOMENTUM METROPOLITAN HOLDINGS LIMITED
 Incorporated in the Republic of South Africa
 Registration number: 2000/031756/06
 JSE share code: MTM
 A2X share code: MTM
 NSX share code: MMT
 ISIN code: ZAE000269890
 (Momentum Metropolitan or the Group)

MOMENTUM METROPOLITAN LIFE LIMITED
 Incorporated in the Republic of South Africa
 Registration number: 1904/002186/06
 LEI: 378900E0A78B7549C212
 Company code: MMIG
 (Momentum Metropolitan Life)

OPERATIONAL UPDATE FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Summary of key metrics

Key metrics	1HF2023	1HF2022	Δ %
Earnings per share (cents) ¹	171.3	48.9	>100%
Headline earnings per share (cents) ¹	134.2	92.4	45%
Normalised headline earnings per share (cents) ²	148.8	99.9	49%
Normalised headline earnings (R million)	2 230	1 525	46%
Operating profit (R million) ³	1 898	895	>100%
Investment return (R million)	332	630	(47)%
New business (PVNBP, R million)	33 268	36 995	(10)%
Value of new business (VNB, R million)	324	400	(19)%
New business margin	1.0%	1.1%	
Diluted embedded value per share (Rand)	31.39	28.39	11%
Return on embedded value per share	15.6%	11.0%	
Return on equity ⁴	18.4%	15.9%	
Dividend per share (cents)	50	35	43%

¹ 1HF2022 has been restated for a correction in the calculation of the weighted average number of shares.

² Normalised headline earnings adjust the JSE definition of headline earnings for the dilutive impact of finance costs related to preference shares that can be converted into ordinary shares of the Group, the impact of treasury shares held by policyholder funds and the iSabelo Trust, the amortisation of intangible assets arising from business combinations, Broad-based black economic empowerment (B-BBEE) costs and the amortisation of the discount at which the iSabelo Trust acquired the Momentum Metropolitan treasury shares. The adjustment for the impact of treasury shares removes mismatches that are unique to financial institutions that invest in their own securities on behalf of clients.

³ Operating profit represents the profit (net of tax) that is generated from the Group's operational activities and reflects normalised headline earnings excluding the investment return on shareholder funds.

⁴ Return on equity expresses normalised headline earnings as a percentage of start-of-year net asset value, adjusted for the items outlined in footnote 2, as well as the adjusting items to determine headline earnings.

MOMENTUM METROPOLITAN REPORTS STRONG EARNINGS GROWTH

Reinvent and Grow strategy on track

Introduction

We are pleased with Momentum Metropolitan's financial results for the six-month period, and we are further encouraged by the headway made in a wide range of strategic initiatives.

Most business units performed in line with expectations, delivering earnings we can be proud of. The results were positively impacted by improved mortality experience and improved investment variances.

Overview of financial results

The Group delivered normalised headline earnings of R2 230 million for the six months ended 31 December 2022, up 46% on the prior period. While the period's results were negatively impacted by heightened mortality experience resulting from Covid-19 (net of releases of Covid-19 reserves), mortality experience in the current period has normalised to levels last seen in 2019.

Operating profit more than doubled to R1 898 million, from R895 million in the prior period. This result was supported by the improved mortality experience, coupled with an improvement in investment variances. All business units, except for Momentum Investments and Non-life Insurance, grew operating earnings. Momentum Investments reported lower operating earnings mainly because of reduced revenue on the Momentum Wealth platform driven by lower new business volumes and weak market performance. Within the Non-life Insurance segment, Momentum Insure was negatively affected by high claim ratios.

The Group's investment return declined by 47% to R332 million, mainly driven by negative fair value movements on the Group's investment in venture capital (VC) funds. The prior period included significant fair value gains on these VC funds.

Normalised headline earnings per share increased from 99.9 cents to 148.8 cents. Headline earnings per share increased from 92.4 cents to 134.2 cents and earnings per share improved from 48.9 cents to 171.3 cents. This high growth in earnings per share was to an extent due to the partial write-down in the prior period of the goodwill previously recognised in the acquisition of the Alexander Forbes Short-term Insurance business. Earnings growth was further boosted by a sizeable positive adjustment to the carrying amount of the Group's remaining interest in our health insurance joint venture in India, Aditya Birla Health Insurance (ABHI), following the dilution of the Group's investment as a result of the introduction of a new shareholder.

The Group's PVNBP decreased to R33.3 billion, 10% lower than the prior period. Momentum Corporate delivered solid growth in new business in the FundsAtWork umbrella fund product family. Momentum Life improved PVNBP, mainly from an increase in long-term savings products. Metropolitan Life's PVNBP growth was flat compared to the prior period. Momentum Metropolitan Africa saw a decline in new business volumes, mainly driven by the non-repeat of large corporate new business secured in the prior period in Namibia and Lesotho and lower new business volumes in Botswana. Momentum Investments saw lower new business volumes on both the local and international Wealth platforms. As a general trend, tough economic conditions seem to be impacting sales volumes negatively.

The Group's VNB declined by 19% to R324 million. The decline is mainly due to lower new business volumes. A shift in new business towards lower margin products across many of the business units further contributed to a lower VNB. The new business margin of 1.0% is slightly lower than the prior period margin of 1.1%.

The regulatory solvency positions of most of the Group's regulated entities remain toward the upper end of their specified target solvency ranges. For Momentum Metropolitan Life, the Group's main life insurance entity, the Solvency Capital Requirement (SCR) cover decreased from 2.03 times SCR at 30 June 2022 to 1.98 times SCR at 31 December 2022, predominantly due to an increase in the SCR and following the dividend and share buyback programme. Momentum Metropolitan Holdings had a Group SCR cover of 1.6 times SCR at 31 December 2022, in line with the 1.6 times SCR at 30 June 2022.

The Group declared an interim dividend of 50 cents per ordinary share, representing an increase of 43% on the prior period.

Return on equity (ROE) for the year was 18.4% (annualised), up from 15.9% in the prior period. This increase follows the Group's earnings improvement together with an ongoing focus on capital efficiency. Group embedded value per share was R31.39 on 31 December 2022. The annualised return on embedded value per share was 15.6%, an improvement from 11.0% in the prior period.

CAPITAL MANAGEMENT ACTIVITIES

The Group remains focused on the active management of the discretionary and surplus capital. In accordance with our capital management framework surplus capital will be distributed through dividends, special dividends or share repurchases.

Share repurchase programme

The share repurchase programme communicated to investors at the F2022 annual financial results announcement was completed on 26 October 2022. The Group bought back 45 million shares (3.0% of the shares in issue at the time), for a total consideration of R750 million and at an average purchase price of R16.74 per share. On 31 October 2022 the final tranche of these repurchased shares was cancelled. In line with our capital management framework and in consideration of the strong capital and liquidity position, the Board has approved a further R500 million for the repurchase of the Group's ordinary shares. These repurchases will commence following the release of the interim financial results. The repurchases are subject to the share price remaining at a discount of at least 25% to embedded value.

In line with Momentum Metropolitan's capital distribution philosophy, the share repurchase will not be in lieu of a dividend. The Group's dividend policy to declare dividends within a payout range of 33% to 50% of normalised headline earnings, remains unchanged.

Dividends

Momentum Metropolitan has declared an interim dividend of 50 cents per ordinary share, an increase of 43% from the 35 cents interim dividend per ordinary share declared in the prior period. The interim dividend represents a payout ratio of 34% of normalised headline earnings. In line with the approach followed since we instituted a share buyback programme, the dividend is at the lower end of the dividend payout range.

Capital deployment

The following capital injections and strategic investments (and disposals) were made during the period:

Areas of capital deployment	R million
Momentum Insure	200
Momentum Money	50
Exponential VC funds	57
Total capital deployment	307
Business disposals	
Silverbridge	(11)
Total business disposals	(11)
Total net capital deployment	296

Capital of R200 million was deployed to Momentum Insure to maintain their solvency position within our internal solvency cover targets. R50 million was deployed to the Momentum Money initiative, R57 million was deployed to the Exponential VC funds while R11 million was received from the disposal of our equity interest in Silverbridge.

CONSOLIDATED GROUP FINANCIAL PERFORMANCE

Group financial performance

The following table outlines the contribution from operating profit and investment return to normalised headline earnings per business unit:

R million	1HF2023			1HF2022			Δ%		
	Operating profit	Investment return	Normalised headline earnings	Operating profit	Investment return	Normalised headline earnings	Operating profit	Investment return	Normalised headline earnings
Momentum Life	642	47	689	(44)	74	30	>100%	(36)%	>100%
Momentum Investments	383	58	441	438	51	489	(13)%	14%	(10)%
Metropolitan Life	237	31	268	232	36	268	2%	(14)%	–
Momentum Corporate	494	62	556	302	68	370	64%	(9)%	50%
Momentum Metropolitan Health	144	2	146	93	1	94	55%	100%	55%
Non-life Insurance	217	26	243	233	70	303	(7)%	(63)%	(20)%
Momentum Metropolitan Africa	44	78	122	(30)	37	7	>100%	>100%	>100%
Normalised headline earnings from operating business units	2 161	304	2 465	1 224	337	1 561	77%	(10)%	58%
New Initiatives	(247)	3	(244)	(300)	1	(299)	18%	>100%	18%
Shareholders segment	(16)	25	9	(29)	292	263	45%	(91)%	(97)%
Normalised headline earnings	1 898	332	2 230	895	630	1 525	>100%	(47)%	46%

Operating profit

Operating profit increased significantly to R1 898 million from R895 million in the prior period. This solid performance follows the recovery in mortality experience variance in Momentum Life, Metropolitan Life, Momentum Corporate and Momentum Metropolitan Africa. Guardrisk delivered a positive earnings contribution leveraging off their industry and product diversification across cells. Momentum Insure continued the industry trend seen recently, reporting an underwriting loss driven by adverse weather patterns and the average claims cost increasing significantly more than inflation. Operating profit in Momentum Investments was impacted by lower earnings on the Momentum Wealth platform driven by lower new business sales and weak market performance.

Investment return

Investment return declined by 47% to R332 million. All business units except Momentum Investments and Momentum Metropolitan Africa experienced reduced investment returns. The decline is mainly attributable to weaker returns from equity markets during the period. In the Shareholders segment, investment return decreased due to fair value losses arising from the revaluation of the Group's investment in VC funds.

Mortality experience

The current period saw positive mortality experience variances in all business units. Our South African life insurance businesses paid R5 billion in gross mortality claims during the current period versus R7 billion in the comparative period.

The table below shows the contribution from each of the Group's business units to the net mortality result for the six-month period:

R million	Momentum Life	Momentum Investments	Metropolitan Life	Momentum Corporate	Momentum Metropolitan Africa	Total
Mortality experience	59	36	44	-	2	141
Covid-19 additional provision	-	-	-	-	(15)	(15)
Covid-19 provision release	24	-	16	79	36	155
Net mortality profit	83	36	60	79	23	281

INVESTMENT VARIANCE

Investment variances are included in operating profit and are shown below net of tax. The table below sets out the investment variance by business and reflects the various offsetting impacts experienced over the period.

R million	1HF2023	1HF2022	Δ%
Momentum Life	50	(200)	>100%
Momentum Investments	17	19	(13)%
Metropolitan Life	(15)	(59)	75%
Momentum Corporate	79	35	>100%
Momentum Metropolitan Africa ⁵	42	6	>100%
Shareholders segment	9	40	(78)%
Total investment variance	182	(159)	>100%

⁵ 1HF2022 restated due to a change in the investment variance calculation for Momentum Metropolitan Africa

The Group recorded positive investment variances of R182 million, compared to a negative investment variance of R159 million in the prior period.

In Momentum Life, the Myriad protection product has positive liabilities at longer durations, which means the drop in long-term yields had a negative earnings impact on that block of business. The earnings impact of nominal yields on Myriad profits was offset by market implied expected inflation decreasing over the period, by the favourable returns on hedge assets and the effect of the release in discretionary margins in accordance with the Group's accounting policies. Traditional business ("closed book") in Momentum Life has a shorter outstanding term than Myriad. The increase in short-term yields and the reduction in expected inflation had a net positive earnings impact on Traditional business.

For Momentum Investments, the change in the yield curve resulted in unrealised profits on guaranteed endowments. In Momentum Corporate, movements in the real and nominal yield curves positively impacted the annuity book and reduced the cost of the investment guarantees on the smooth bonus book. The R44 million improvement in Metropolitan Life's investment variance was largely due to a decrease in market implied inflation. Momentum Metropolitan Africa, mainly driven by Namibia, has seen an improvement from the prior period which is mainly due to increased returns on the assets backing protection business reserves.

CONSOLIDATED GROUP NEW BUSINESS PERFORMANCE

Key metrics	1HF2023	1HF2022	Δ%
Recurring premiums (R million)	2 417	2 299	5%
Single premiums (R million)	23 227	26 684	(13)%
PVNB (R million)	33 268	36 995	(10)%
VNB (R million)	324	400	(19)%
New business margin	1.0%	1.1%	

The table below shows the PVNBP by business unit for each quarter of 1HF2023:

R million	1QF2023	2QF2023	1HF2023	1HF2022	Δ%
Momentum Life	1 856	1 742	3 598	3 495	3%
Momentum Investments	8 988	10 016	19 004	22 950	(17)%
Metropolitan Life	1 757	1 795	3 552	3 556	-
Momentum Corporate	3 572	2 259	5 831	4 911	19%
Momentum Metropolitan Africa	566	717	1 283	2 083	(38)%
Total PVNBP	16 739	16 529	33 268	36 995	(10)%

The Group's PVNBP declined to R33.3 billion, 10% lower than the prior period. Momentum Corporate delivered pleasing growth in both single and recurring premium new business in FundsAtWork. Momentum Life's improved PVNBP on long-term savings products was partly offset by a modest protection new business volumes. Metropolitan Life's PVNBP remains in line with the prior period. Momentum Investments' new business volumes declined due to lower new business on both the local and international Wealth platforms. Momentum Metropolitan Africa saw a decline in new business volumes, mainly driven by the non-repeat of large corporate deals secured in the prior period in Namibia and Lesotho.

The table below shows the VNB by business unit for each quarter of 1HF2023:

R million	1QF2023	2QF2023	1HF2023	1HF2022	Δ%
Momentum Life	(1)	(6)	(7)	5	<(100)%
Momentum Investments	77	106	183	232	(21)%
Metropolitan Life	36	48	84	152	(45)%
Momentum Corporate	8	66	74	6	>100%
Momentum Metropolitan Africa	(14)	4	(10)	5	<(100)%
Total VNB	106	218	324	400	(19)%

The Group's VNB declined to R324 million, 19% lower than the prior period, mainly impacted by reduced volumes. Momentum Corporate however delivered a strong VNB contribution of R74 million from higher sales. Momentum Life's VNB of negative R7 million resulted from lower new business volumes on higher margin protection products, increased expenses and higher cost of capital. Momentum Investments' VNB declined to R183 million, mainly due to a change in new business mix away from higher margin offshore investments in Momentum Wealth and lower assumed credit spreads on annuities. This was partly offset by a reduction in renewal expenses. Metropolitan Life's VNB of R84 million declined from the prior period and is mainly due to a change in product mix towards lower margin savings products and the adverse impact of policies that lapsed before the first premium was paid, leading to distribution expenses being incurred without the commensurate revenue. A negative R10 million VNB contribution from Momentum Metropolitan Africa resulted from further deterioration in Namibia's VNB, partly offset by a positive contribution from Lesotho and Botswana. Overall Group new business margin declined to 1.0%, from 1.1% in the prior period.

EMBEDDED VALUE

Embedded value earnings (R million)	1HF2023	1HF2022	Δ%
Embedded value at the start of the period	45 428	41 328	
Change in embedded value before capital flows	2 721	2 177	25%
Embedded value earnings from operations (covered business)	1 994	1 291	60%
Embedded value earnings attributable to investment markets	985	760	30%
Embedded value profit from non-covered businesses	(258)	126	<(100)%
Capital flows	(1 666)	(183)	<(100)%
Embedded value at the end of the period	46 483	43 322	7%
Embedded value per share	31.39	28.39	11%
Return on embedded value (ROEV)	12.3%	10.8%	
ROEV on covered business	18.7%	14.2%	
ROEV on non-covered business	(4.2)%	2.2%	
ROEV per share (annualised)	15.6%	11.0%	

Group embedded value per share was R31.39 as of 31 December 2022. The return on embedded value (ROEV) was an annualised 12.3% for the six months to December 2022. The ROEV per share was enhanced by our share repurchase programme, ultimately reflecting a 15.6% return (annualised) for the six months.

Embedded value earnings from covered business are ahead of expectations. The improvement compared to prior period is mainly due to mortality and morbidity experience variances, with a notable contribution from Momentum Corporate. Other operating segments also continued to have positive risk experience. Lapse experience in Metropolitan Life is a noteworthy detractor from the result. The release of margins from in-force business remains the single largest contributor to embedded value earnings from covered operations and was relatively unchanged from prior period. Sales growth remained under pressure and resulted in a lower contribution to the value of new business.

The investment return recovered following the weak property returns during the comparative period. Interest rate movements and net exposure to MMH's share price also had positive impacts. These combined produced a contribution from investment markets that is ahead of expectations.

The negative embedded value earnings from non-covered business are attributed to a negative valuation adjustment on the Group's investment in venture capital funds, the earnings loss for Momentum Insure, as well as an increase in the allowance for Africa support costs.

The capital flows reflect the resumption of dividend declarations (final dividend declared for period ending 30 June 2022) as well as the funds used to buy back shares.

SEGMENTAL PERFORMANCE

Momentum Life

R million	1HF2023	1HF2022	Δ%
Operating profit/(loss)	642	(44)	>100%
Investment return	47	74	(36)%
Normalised headline earnings	689	30	>100%
Recurring premium new business	519	495	5%
Single premium new business	1 111	1 034	7%
PVNBP	3 598	3 495	3%
VNB	(7)	5	<(100)%
New business margin	(0.2)%	0.1%	

Normalised headline earnings

Momentum Life's normalised headline earnings improved to R689 million from R30 million in the prior period. The prior period was significantly impacted by the third Covid-19 wave which resulted in a large mortality loss over the period. The turnaround in earnings in the current period follows the normalisation of mortality claims experience in the protection business, positive alterations experience and improved investment variances. Net mortality experience improved from a loss of R335 million in the prior period to a profit of R80 million in the current period after allowing for Covid-19 provision releases of R569 million and R24 million respectively.

The investment variance improved to R50 million profit from a loss of R200 million in the prior period. Over the period, positive fee variances on the traditional and long-term savings books due to equity market performance offset the negative variance on the protection book. The negative variance on protection largely resulted from a nominal yield curve drop at longer durations. The long duration nature of the Momentum Life book is such that earnings are particularly sensitive to yield curve shifts.

New business

Momentum Life's PVNBP improved by 3% to R3.6 billion, mainly attributable to a 6% improvement in new business on long-term savings business, offset by a 2% decline in new business on protection business. Yield curve shifts had a particularly negative impact on the discounted value of protection premiums.

VNB declined from a profit of R5 million to a loss of R7 million. Future revenue on new business did not grow sufficiently to fully offset the increased distribution expenses and an increase in the cost of capital. VNB for the period translates to a new business margin of -0.2%.

Momentum Investments

R million	1HF2023	1HF2022	Δ%
Operating profit	383	438	(13)%
Investment return	58	51	14%
Normalised headline earnings	441	489	(10)%
Recurring premium new business	106	110	(4)%
Single premium new business	18 593	22 505	(17)%
PVNBP	19 004	22 950	(17)%
VNB	183	232	(21)%
New business margin	1.0%	1.0%	

Normalised headline earnings

Normalised headline earnings from Momentum Investments declined by 10% to R441 million. This includes a 13% decline in operating profit to R383 million, partially offset by growth of 14% in investment return.

The decline in operating profit was mainly due to reduced revenue on the Momentum Wealth platform driven by lower new business volumes and weak market performance, offset to some extent by lower expenses. The decline in operating profit was further impacted by reduced earnings from the structured business largely because of lower mortality profits and lower new business volumes compared to the prior period.

New business

PVNB for Momentum Investments declined 17% to R19.0 billion, driven by lower new business volumes on both the local and offshore Momentum Wealth investment platforms and on annuities.

The VNB declined by 21% to R183 million compared to R232 million in the prior period. This was mainly attributable to a change in new business mix away from higher margin offshore investments in Momentum Wealth, a change in the capital allocation methodology, lower assumed credit spreads on annuities, partially offset by a reduction in renewal expenses. The new business margin was 1.0%, in line with the prior period.

Assets under management and administration

Assets under management on the Momentum Wealth investment platform decreased by 7% to R215 billion, mainly attributable to weak performance on offshore markets. On non-covered Investment Management business, assets under management decreased by 3% due to volatile market performance and weak flows.

R billion	1HF2023	Restated 1HF2022	Δ%
On-balance sheet Momentum Wealth ⁶	141	152	(7)%
Off-balance sheet Momentum Wealth	74	79	(6)%
Non-covered business (Investment Management)	527	545	(3)%
Assets under management and administration	742	776	(4)%

⁶ In December 2021, R13.9 billion was misclassified between Momentum Wealth linked product assets under administration and Managed internally or by other managers within the Group. 1HF2022 has been restated accordingly.

Metropolitan Life

R million	1HF2023	1HF2022	Δ%
Operating profit	237	232	2%
Investment return	31	36	(14)%
Normalised headline earnings	268	268	-
Recurring premium new business	897	876	2%
Single premium new business	850	815	4%
PVNB	3 552	3 556	-
VNB	84	152	(45)%
New business margin	2.4%	4.3%	

Normalised headline earnings

Metropolitan Life's normalised headline earnings remained flat on the prior period. Operating profit improved by 2% to R237 million which is mainly attributed to a positive mortality experience variance largely due to an improvement in the funeral protection business.

Operating profit growth was partially offset by negative persistency variance of R130 million, which was primarily driven by continued deterioration in lapse experience on protection business. This was largely due to affordability constraints on clients. The persistency experience losses have improved in the second quarter of the current period following implementation of management actions. We expect these ongoing management actions to further curb persistency losses in the coming quarters.

Investment experience variances, although negative, improved by R44 million on the comparative period. This was mainly due to the impact of more favourable yield curve shifts on the shorter end compared to the prior period.

New business

Metropolitan Life's new business volumes of R3.5 billion showed muted growth on the prior period, largely due to the impact of yield curve shifts on the longer end on the discounting of future premiums and higher entry date lapses on protection products. The average adviser productivity of 3.1 policies per week has remained stable throughout the period.

VNB declined 45% to R84 million compared to R152 million in the prior period. The decline can be attributed to a change in product mix towards lower margin savings products and growth in expenses exceeding volume growth. It is further noted that in tough economic conditions there is an increase in policy lapses before the first premium is paid, which resulted in an increase in distribution expenses not recovered. The new business margin was 2.4% for the six-month period.

Momentum Corporate

R million	1HF2023	1HF2022	Δ%
Operating profit	494	302	64%
Investment return	62	68	(9)%
Total normalised headline earnings	556	370	50%
Recurring premium new business	711	581	22%
Single premium new business	2 205	1 299	70%
PVNB	5 831	4 911	19%
VNB	74	6	>100%
New business margin	1.3%	0.1%	

Normalised headline earnings

Momentum Corporate's normalised headline earnings improved to R556 million compared to R370 million in the prior period. This includes an improvement of 64% in operating profit to R494 million, offset by a decline of 9% in investment return to R62 million. Mortality experience, although still elevated, improved relative to the prior period.

The improvement in operating profit is largely attributed to good underwriting results on group risk products as a result of an improvement in mortality experience as well as higher interest earned on assets backing liabilities. Earnings were further assisted by beneficial movements on the real and nominal yield curves impacting the annuity and smooth bonus products.

New business

Momentum Corporate's PVNB of R5.8 billion increased by 19% compared to the prior period, bolstered by double-digit growth in single and recurring premium flows. Single premium new business increased by 70%, mainly driven by improved investment flows into structured investment and annuity products. New business from recurring premiums increased by 22%, driven by the onboarding of large clients in the FundsAtWork protection book as well as in the structured investment environment. The group protection book saw a decline in sales due to increased competitive pressure on pricing.

VNB improved to R74 million from R6 million in the prior period, bolstered by higher new business volumes as well as a favourable business mix. The new business margin was 1.3% for the period, an improvement from 0.1% reported in the prior period.

Momentum Metropolitan Health

R million	1HF2023	1HF2022	Δ%
Operating profit	144	93	55%
Investment return	2	1	100%
Normalised headline earnings	146	94	55%
Non-controlling interest (NCI)	50	76	(34)%
Normalised headline earnings gross of NCI	196	170	15%

Normalised headline earnings

Momentum Metropolitan Health's normalised headline earnings improved by 55% compared to the prior period to R146 million. Before the deduction of the share of non-controlling interest, normalised headline earnings increased by 15%. The growth in the gross normalised headline earnings is attributable to good growth in fee income generated from membership growth, annual administration and managed care increases, an increase in interest income and prudent expense management.

Membership

Good membership growth of 3%, despite a tough economic environment, was mainly attributable to the continued growth in the public sector and Health4Me membership. Membership growth was moderate in the Momentum Medical scheme and membership declined in the corporate market segment, indicative of economic conditions placing pressure on employment numbers.

Non-life Insurance

R million	1HF2023	1HF2022	Δ%
Guardrisk	289	295	(2)%
Momentum Insure	(46)	8	<(100)%
Normalised headline earnings	243	303	(20)%
Operating profit	217	233	(7)%
Investment return	26	70	(63)%

Normalised headline earnings

The normalised headline earnings for Non-life Insurance declined by 20% to R243 million compared to R303 million in the prior period. Operating profit declined by 7% on the prior period, mainly impacted by lower underwriting profits in Momentum Insure, which were negatively impacted by a higher claims experience. Solid earnings from Guardrisk positively contributed to operating profit for the period. Investment return declined by 63% to R26 million, largely due the non-repeat of the one-off recognition of the value of a cell acquired by Guardrisk included in the prior period numbers.

Guardrisk

Guardrisk's normalised headline earnings declined by 2% to R289 million, predominantly due to the non-repeat of a positive one-off fair value gain in the prior period. Excluding the impact of the one-off in the prior period, Guardrisk's normalised earnings increased by 18%. Operating profit was aided by a recovery in the volume and affinity business of Guardrisk Insurance, good growth of 23% in underwriting profits of Guardrisk General Insurance (GGI) and solid growth in management fee income in the Life divisions.

GGI underwriting performance is set out below:

R million	1HF2023	1HF2022	Δ%
Gross written premium	2 089	1 970	6%
Net earned premium	888	778	14%
Claims incurred	(395)	(354)	12%
Acquisition cost	(249)	(226)	10%
GGI underwriting profit⁷	244	198	23%

⁷ The underwriting profit in this table is the total for GGI, a division of Guardrisk Insurance Company Limited.

Momentum Insure

Normalised headline earnings in Momentum Insure declined from R8 million profit to a loss of R46 million, mainly impacted by a high claim ratio of 73%. Continued inflationary pressures on the cost of claims, increased frequency of incidents due to power surges (exacerbated by load shedding) and a continuation of adverse weather-related events, specifically towards the end of the reporting period, negatively impacted the claim ratio. The earnings loss was slightly narrowed by premium rate increases on new business and policy renewals during the six-month period. The positive impact of the policy renewal process on offsetting claims inflation is expected to be more pronounced during the second half of the financial year, once the annual renewal cycle is concluded. Gross written premiums increased by 7% to R1 523 million and persistency experience remains good and well within appetite.

New business premiums improved by 19% to R330 million despite a challenging operating environment. This was achieved through improved sales performance in most channels.

Key ratios	1HF2023	1HF2022	Δ%
Gross written premium (R million)	1 523	1 421	7%
Net earned premium (R million)	1 459	1 374	6%
Claims ratio	73.1%	68.4%	

Momentum Metropolitan Africa

R million	1HF2023	1HF2022	Δ%
Namibia	142	28	>100%
Botswana	(1)	(2)	50%
Lesotho	68	73	(7)%
Ghana	(7)	9	<(100)%
Other countries	(8)	(14)	43%
Centre costs	(72)	(87)	(17)%
Normalised headline earnings	122	7	>100%
Operating profit/(loss)	44	(30)	>100%
Investment return	78	37	>100%
Recurring premium new business	184	237	(22)%
Single premium new business	468	1 031	(55)%
PV/NBP	1 283	2 083	(38)%
VNB	(10)	5	<(100)%
New business margin	(0.8)%	0.2%	

Normalised headline earnings

Normalised headline earnings improved by more than 100% to R122 million compared to the prior period of R7 million. This was largely driven by improved mortality experience in the protection business in Namibia and Botswana following the significant negative impact of Covid-19 in the prior period. The improvement in investment returns follows an increase in market interest rates, which contributed positively to the earnings. Operating profit from the health operations was slightly below the prior period, impacted by low new business growth, coupled with high medical claims inflation in Ghana and Botswana and offset by relatively lower utilisation in Mozambique and Lesotho.

The improvement in normalised headline earnings in Namibia from R28 million in the prior period to R142 million was mainly driven by improved mortality experience, positive investment experience variances and partly offset by an increase in expenses. Investment return improved as a result of higher interest rates and an increase in assets backing the risk business reserves.

Botswana's slight improvement in normalised headline earnings was largely due to better mortality experience in the corporate business, partly offset by persistency losses from individual smoothed bonus products of R14 million and expense variances of R8 million. There was a negative impact of R15 million on earnings due to the strengthening of the Covid-19 reserves. Note that Botswana was the only part of the Group where Covid-19 reserves were strengthened on 31 December 2022. Investment returns increased due to higher market interest rates.

Lesotho's normalised headline earnings declined because of negative persistency experience in the life business. The insurance profits were stable and were boosted by an increase in new business premiums from protection products and a better claims experience.

In Ghana, the decline compared to the prior period was mainly due to higher expenses and elevated claims experience in the life business, predominantly driven by rampant inflation and currency depreciation. The health operations normalised headline earnings were negatively impacted by increased medical inflation and increased utilisation in the health business.

The improvement in Other countries was mainly due to the Group's exit from Kenya which became effective during July 2022. The prior period included an earnings loss of R11 million from Kenya.

Centre costs are R15 million lower than in the prior period.

New business

PVNBP for Momentum Metropolitan Africa declined by 38% to R1.3 billion compared to the prior period. This was mainly due to the non-repeat of large single premium business from corporate clients in Namibia and Lesotho, and lower new business sales in Botswana compared to the prior period.

The negative VNB contribution from Namibia was caused by lower new business volumes, particularly in the retail business and higher assumed renewal expenses in the protection business. This more than offsets positive VNB contributions from Lesotho and Botswana for the six months. Improved VNB in Lesotho and Botswana was mainly a result of profitable corporate protection business secured. The new business margin was -0.8% for the period.

New Initiatives

New Initiatives includes Aditya Birla Health Insurance (a joint venture with Aditya Birla Capital in India), Momentum Money (a bundled transactional banking and savings solution rebranded from Multiply Money), the operating expenses of Exponential Ventures, as well as other smaller local start-up operations.

R million	1HF2023	1HF2022	Δ%
Aditya Birla Health Insurance (ABHI) ⁸	(166)	(240)	31%
Other ⁹	(78)	(59)	(32)%
Normalised headline earnings	(244)	(299)	18%

⁸ Results for the India investment are reported with a three-month lag. The dilution of the 49% stake in ABHI to 44.1% was concluded during October 2022. Due to the three-month reporting lag these results still reflect MMH's stake of 49%. Results include support costs incurred by Momentum Metropolitan outside of the joint venture.

⁹ "Other" includes Momentum Money and Momentum Consult. The prior period includes a -R1 million from aYo which was sold in September 2021.

Aditya Birla Health Insurance

ABHI has shown continued growth, however the operational performance was negatively impacted by a higher-than-expected claims experience. Although Covid-related claims have subsided, an increase in the number of claims and higher average claim sizes due to delayed diagnostic and preventative medical procedures are impacting the claims experience.

Gross written premiums increased by 73% to R2.7 billion, with strong growth in both retail and group business.

ABHI is pursuing a "Health First Data-driven" model to empower people to lead healthier lives through:

- a differentiated model with health first approach to enhance the role of health insurers
- most diversified distribution footprint covering conventional and new age digital platforms
- end-to-end digital capabilities for scale engagement and superior customer experience
- leveraging data and analytics to drive excellence in every facet of business.

Other

The largest other new initiative is Momentum Money, which recorded a slightly higher loss compared to the prior period. This initiative bundles a low-cost transactional facility with a savings account that offers competitive interest rates and no monthly fees, without restrictive requirements such as minimum balances and lock-in periods. The rewards, cash-back payments and shopping discounts from Momentum Multiply and voluntary deposits made by clients can be deposited into the savings account.

Shareholders segment

R million	1HF2023	1HF2022	Δ%
Operating loss	(16)	(29)	45%
Investment return	25	292	(91)%
Investment income	49	(17)	>100%
Fair value (losses)/gains	(24)	309	<(100)%
Normalised headline earnings	9	263	(97)%

The Shareholders segment's normalised headline earnings of R9 million declined by 97% compared to the prior period, this was mainly driven by a decline in investment return.

Investment return declined by 91% to R25 million from R292 million in the prior period. This was mainly due to fair value losses, on the revaluation of the Group's investment in VC funds whereas the prior period included significant fair value gains.

SOLVENCY

Regulatory solo solvency position of the Group's insurance entities

The solo SCR for the Group's regulated insurance entities were as follows:

Regulatory solvency position as at 31 December 2022

R million	Momentum Metropolitan Life	Guardrisk Insurance	Guardrisk Life	Momentum Insure
Eligible own funds (pre-interim dividend)	30 140	3 453	3 815	1 069
SCR	15 254	2 685	3 231	743
SCR cover (times)	1.98	1.29	1.18	1.44

Regulatory solvency position as at 30 June 2022

R million	Momentum Metropolitan Life	Guardrisk Insurance	Guardrisk Life	Momentum Insure
Eligible own funds (pre-final dividend)	30 362	3 006	3 473	977
SCR	14 939	2 545	2 970	695
SCR cover (times)	2.03	1.18	1.17	1.41

Momentum Metropolitan Life has adopted a target range for regulatory solvency cover of 1.6 to 2.0 times the SCR before any declared dividend.

The regulatory solvency position of Momentum Metropolitan Life decreased from 2.03 times SCR at 30 June 2022 to 1.98 times SCR at 31 December 2022. This decline was predominantly due to the dividend payment and share buyback programme. In addition, this is due to an increase in the SCR as volatility in equity markets resulted in an increase in the capital prescribed by the regulator for equity stresses and associated equity risk exposures. The fall in the nominal yield curve at medium to long durations also served to increase the SCR on life underwriting risk exposures.

The SCR cover for Guardrisk Insurance improved from 1.18 times SCR to 1.29 times SCR, supported by increased promoter cell own funds due to good performance by the promoter business, and a reduction in SCR charges on outstanding claim and associated reinsurance receivables emanating from the KwaZulu-Natal flooding. The SCR cover for Guardrisk Life rose from 1.17 times SCR to 1.18 times SCR following an increase in both own funds and the SCR as a result of the reduction in medium to long duration yields.

The SCR cover for Momentum Insure strengthened from 1.41 times SCR at 30 June 2022 to 1.44 times SCR at 31 December 2022 following a capital injection of R200 million. The SCR cover for Momentum Insure is within the target range of 1.4 to 1.6 times SCR following the capital injection.

Regulatory Group solvency position for Momentum Metropolitan Holdings

The Prudential Authority has designated Momentum Metropolitan Holdings as an insurance group. The Accounting Consolidation method is used for certain Group entities (notably Momentum Metropolitan Life and Momentum Insure).

Momentum Metropolitan Holdings has adopted a target range for Group regulatory solvency cover of 1.4 to 1.7 times the SCR. Momentum Metropolitan Holdings Group SCR cover was 1.6 times SCR at 31 December 2022.

The Group SCR cover is impacted by the restrictions applied to the own funds of cell captive insurers, and if Guardrisk were excluded, the SCR cover for the Group would increase to 1.7 times SCR at 31 December 2022.

OUTLOOK

We are pleased by the good earnings results achieved by the Group despite the headwinds faced in the current economic environment. The positive mortality experience variances in our main life insurance business units continues to suggest that the Covid-19 pandemic has reached its endemic phase.

The normalisation of mortality experience, combined with disciplined execution of our strategy and ongoing focus on efficiency, means that we expect our earnings to be robust for rest of the financial year. We will continue to focus on achieving the Reinvent and Grow financial targets for F2024, namely normalised headline earnings of R4.6 billion to R5.0 billion and ROE of 18% to 20%.

While our earnings outlook has improved over the past eighteen months, recent pressure on sales volumes is a concern. Disposable income remains under pressure due to rising interest rates and high inflation, as well as the lack of economic growth in South Africa. This is likely to put ongoing affordability pressure on new business volumes, particularly on long-term savings and on protection business. Investment business is negatively affected by other factors, such as low confidence in SA asset classes and by consumer preference to maintain their assets in liquid low-risk investments.

We are a proudly South African company and will continue to invest and build our core operations, despite the numerous challenges our country is facing. If given the opportunity, the private sector can make a huge difference to improving our economic growth outlook. Over the last five years we have established a trend of success despite the pandemic and tough economic conditions. We will continue to focus on what is under our control to add value to our clients and stakeholders, and contribute positively towards building a better South Africa for all.

8 March 2023

CENTURION

The information in this commentary, including the financial information on which the outlook is based, has not been reviewed and reported on by Momentum Metropolitan's external auditors.

Equity sponsor:

Merrill Lynch South Africa (Pty) Limited t/a BofA Securities

Sponsor in Namibia

Simonis Storm Securities (Pty) Limited

Debt Sponsor

Rand Merchant Bank (a division of FirstRand Bank Limited)