

Quarterly Financial Information

Operating update for the three
months ended 30 September 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 three months ended 30 September 2022

Summary of key metrics

Key metrics	1QF2023	1QF2022	Δ%
Earnings per share (cents)	62.5	50.6	23%
Headline earnings per share (cents)	75.8	38.6	96%
Normalised headline earnings per share (cents) ¹	81.3	47.4	71%
Normalised headline earnings (R million)	1 232	711	73%
Operating profit (R million) ^{2,3}	1 040	299	>100%
Investment return (R million) ³	192	412	(53)%
New business volumes (PVNBP, R million)	16 739	17 247	(3)%
Value of new business (R million)	106	157	(32)%
New business margin	0.6%	0.9%	
Diluted embedded value per share (Rand)	30.09	27.42	10%
Return on embedded value per share	13.3%	7.3%	
Return on equity ⁴	20.9%	15.0%	

¹ 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, B-BBEE costs and the amortisation of the discount at which the iSabelo Trust acquired the Momentum Metropolitan treasury shares.

² Operating profit represents the profits (net of tax) that are generated from the Group's operational activities and reflects normalised headline earnings excluding the investment return on shareholder funds.

³ 1QF2022 has been restated for a methodology change in the allocation of the investment return of the shareholders' investment portfolio to business units which became effective 1 July 2021 but was only implemented in 2QF2022.

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 1, as well as the adjusting items to determine headline earnings.

Momentum Metropolitan posts strong earnings growth

Momentum Metropolitan showed strong growth in normalised headline earnings (NHE) for the quarter and delivered NHE of R1 232 million for the three months ended 30 September 2022. Normalised headline earnings per share increased from 47.4 cents to 81.3 cents. This growth in earnings can be partly explained by the impact Covid-19 had on the results for the comparative period. The positive impact of improved mortality experience, particularly in Momentum Life, was therefore to be expected. The present value of new business premiums (PVNBP) declined by 3% compared to the prior period to R16.7 billion. This was mainly due to lower new business volumes in Momentum Investments, off a high base in the prior period. Momentum Corporate was the standout performer on volumes with its PVNBP more than doubling year-on-year. Value of new business (VNB) declined by 32% compared to the prior period to R106 million, mainly as a result of a decline in Metropolitan Life's VNB. The new business margin of 0.6% is below our expectations.

The share repurchase programme communicated to investors at the full year results announcement was completed on 26 October 2022. The Group has bought back 45 million shares, for a total consideration of R750 million. On 4 November 2022 the final tranche of these repurchased shares was cancelled.

Group embedded value per share was R30.09 on 30 September 2022. Covered business returns were ahead of expectations while interest rate related downward revisions of the UK asset management valuation weighed down the ultimate result. The return on embedded value per share was enhanced by our buyback programme, ultimately reflecting a 13.3% annualised return for the three months. The Group achieved an annualised ROE of 20.9% for the first quarter of F2023.

In Momentum Metropolitan Life, the Group's main life insurance entity, the Solvency Capital Requirement (SCR) cover improved from 2.03 times SCR at 30 June 2022 to 2.06 times SCR at 30 September 2022. This is largely attributable to a decrease in the SCR because of changes to the prescribed equity stress (the symmetric adjustment) following movements in equity markets as well as further increases in the yield curve.

Consolidated Group normalised headline earnings

The normalised headline earnings of the Group increased by 73% to R1 232 million. This includes operating profit more than tripling, partly offset by a decline in investment returns following more normal returns during the current period versus the strong venture capital (VC) fund gains recorded in the prior period.

R million	1QF2023			Restated 1QF2022 ⁵			Δ%		
	Operating profit/(loss)	Investment return	Normalised headline earnings	Operating profit/(loss)	Investment return	Normalised headline earnings	Operating profit	Investment return	Normalised headline earnings
Momentum Life	330	23	353	(3)	42	39	>100%	(45)%	>100%
Momentum Investments	205	36	241	173	26	199	18%	38%	21%
Metropolitan Life	161	15	176	63	21	84	>100%	(29)%	>100%
Momentum Corporate	307	31	338	134	39	173	>100%	(21)%	95%
Momentum Metropolitan Health	81	1	82	46	2	48	76%	(50)%	71%
Non-life Insurance	124	7	131	181	67	248	(31)%	(90)%	(47)%
Momentum Metropolitan Africa	31	42	73	(83)	50	(33)	>100%	(16)%	>100%
Normalised headline earnings from operating business units	1 239	155	1 394	511	247	758	>100%	(37)%	84%
New Initiatives	(118)	1	(117)	(159)	1	(158)	26%	-	26%
Shareholders	(81)	36	(45)	(53)	164	111	(53)%	(78)%	<(100)%
Normalised headline earnings	1 040	192	1 232	299	412	711	>100%	(53)%	73%

Operating profit more than tripled from R299 million in the prior period to R1 040 million in the first quarter of F2023. The strong performance in operating profit follows the recovery in mortality experience variance in Momentum Life, Metropolitan Life, Momentum Corporate and Momentum Metropolitan Africa. All business units, except Momentum Insure, contributed to growth in operating profit. Momentum Insure continued the trend seen over the recent two quarters, reporting an underwriting loss because of average claims cost increasing by significantly more than inflation. Investment return declined by 53% from R412 million in the prior period to R192 million. This includes a decline in investment return in Non-life Insurance, due to the non-recurrence of the fair value gain of a cell acquired by Guardrisk during the first quarter of F2022, as well as Shareholders segment where investment returns on VC funds were lower in the current period.

The Group is progressing in line with plans for the implementation of *IFRS 17 – Insurance contracts*. In shifting our focus to the analysis of the Group's normalised headline earnings to this new reporting standard, the segmental reporting that follows in the next section, which is reported on the current *IFRS 4* basis, is provided with less granularity than previously.

⁵ 1QF2022 has been restated for a methodology change in the allocation of the investment return of the shareholders' investment portfolio to business units which became effective 1 July 2021 but was only implemented in 2QF2022.

Segmental performance in normalised headline earnings

Momentum Life's normalised headline earnings showed a strong improvement to R353 million from R39 million during the prior period. This includes a significant turnaround in operating profit to R330 million from an operating loss of R3 million. The prior period was significantly impacted by the Delta wave of Covid-19 infections which resulted in a large negative mortality experience variance during 1QF2022. The current period saw improved mortality experience variance, as well as favourable movement in investment variances, mainly driven by an upward yield curve shift.

Momentum Investments' normalised headline earnings improved by 21% from R199 million in the prior period to R241 million. This includes an 18% improvement in operating profit, which was mainly driven by an increase in earnings from annuities. Assets under management on the Momentum Wealth investment platform of R210 billion, remained flat compared to the prior period. This includes the positive impact of net flows on the local platform business, which was offset by lower net flows and weak market performance on the offshore platform. Institutional and retail assets under management declined by 3% to R474 billion, mainly due to lower net flows and weak market performance.

Metropolitan Life's normalised headline earnings increased by 110% to R176 million, from R84 million in the prior period. This was mainly due to a small positive investment variance, compared to large negative investment variance in the prior period, as well as a strong improvement in mortality experience variance. Earnings growth was partly offset by weaker persistency experience largely driven by lapses on protection products. The current economic conditions are placing pressure on this segment's customer base and lapse experience is expected to remain negative in the short term.

Momentum Corporate's normalised headline earnings improved by 95% to R338 million, mainly due to strong underwriting results on group risk products. The contribution from group life products was boosted by an improvement in mortality experience variance. The improvement in earnings for the quarter was further supported by solid results from our disability business, and a turnaround in investment variances.

Momentum Metropolitan Health's normalised headline earnings increased to R82 million from R48 million in the prior period. This includes a 76% improvement in operating profit, mainly due to good growth in fee income, following membership growth and annual increases, and strong growth in capitation margins aided by steady growth in membership of the Health4me product.

Guardrisk's normalised headline earnings declined by 22% to R147 million predominantly due to one-offs in the prior period. Current earnings include an improvement in operating profit of 13%, which was supported by good growth in the employee benefit business of Guardrisk Life, a recovery in the volume and affinity business of Guardrisk Insurance, and a 21% increase in Guardrisk General Insurance underwriting profits. Investment return declined by 95% due to the non-recurrence of the fair value gain of a cell acquired by Guardrisk during the first quarter of F2022.

Momentum Insure reported a loss of R16 million for the quarter, impacted by a high claims ratio of 70% compared to 58% in the prior period. This resulted from inflationary pressure on the cost of claims, offset slightly by premium rate increases on policy renewals during the quarter. Premium increases, which take place only on the annual renewal dates, have a delayed impact on offsetting claims inflation until the annual renewal cycle has concluded. Gross written premiums increased by 6% to R747 million and persistency experience remains good.

Momentum Metropolitan Africa's normalised headline earnings improved to R73 million from a loss of R33 million in the prior period. This turnaround in earnings was supported by better mortality experience in Namibia and Botswana.

Included in New Initiatives is a normalised headline loss of R80 million for Aditya Birla Health Insurance (ABHI). This is an improvement from the R130 million loss reported in the prior period, mainly due to the less severe impact of Covid-19 claims. Momentum Money reported a loss of R20 million compared to a loss of R16 million in the prior period.

The shareholders segment saw a normalised headline loss of R45 million, compared to a profit of R111 million reported in the prior period. This was mainly a function of more modest investment returns in the current period.

Consolidated Group new business performance

R million	1QF2023			1QF2022			Δ%	
	PVNB	VNB	New business margin (%)	PVNB	VNB	New business margin (%)	PVNB	VNB
Momentum Life	1 856	(1)	(0.1)%	1 736	-	0.0%	7%	-
Momentum Investments	8 988	77	0.9%	11 059	91	0.8%	(19)%	(15)%
Metropolitan Life	1 757	36	2.0%	1 730	79	4.6%	2%	(54)%
Momentum Corporate	3 572	8	0.2%	1 520	(12)	(0.8)%	>100%	>100%
Momentum Metropolitan Africa	566	(14)	(2.5)%	1 202	(1)	(0.1)%	(53)%	<(100)%
Total	16 739	106	0.6%	17 247	157	0.9%	(3)%	(32)%

R million	1QF2023		1QF2022		Δ%	
	Recurring premiums	Single premiums	Recurring premiums	Single premiums	Recurring premiums	Single premiums
Momentum Life	267	544	247	523	8%	4%
Momentum Investments	49	8 793	49	10 858	-	(19)%
Metropolitan Life	434	434	420	417	3%	4%
Momentum Corporate	496	1 590	118	678	>100%	>100%
Momentum Metropolitan Africa	81	228	119	640	(32)%	(64)%
Total	1 327	11 589	953	13 116	39%	(12)%

PVNB for the Group declined by 3%, mainly due to a decline of 19% reported by Momentum Investments, albeit from a high base in the prior period. This was partly offset by an exceptional performance in Momentum Corporate where PVNB more than doubled, as well as higher PVNB in Momentum Life, notably from the Myriad protection products.

VNB declined by 32%, with all business units except Momentum Corporate experiencing lower VNB. The turnaround in Momentum Corporate's VNB was supported by the strong growth in new business volumes.

Segmental new business performance

Momentum Life's PVNBP improved by 7% to R1.9 billion. This reflects year-on-year growth in both the protection (+6%) and the long-term savings (+8%) businesses. The growth in PVNBP on protection products, as well as the related gross profit margin, were dampened by the impact of economic assumptions implemented at 30 June 2022. Annual Premium Equivalent (APE) growth was 15% on Myriad protection products. The VNB of negative R1 million, was in line with the prior period, and reflects increased marketing expenditure and higher cost of capital, offsetting the good new business volume growth. The new business margin was -0.1% for the quarter.

Momentum Investments' PVNBP declined by 19% to R9.0 billion. This was mainly due to a decline in local and offshore platform new business volumes of 20% and 35% respectively, which was partly offset by an increase of 8% in annuity new business volumes. The VNB declined by 15% to R77 million, in line with lower new business volumes on the platform business, partly offset by an increase in higher margin annuity new business volumes. Growth in annuity sales largely explains the new business margin improving to 0.9% from 0.8% in the prior period.

Metropolitan Life's PVNBP improved by 2% to R1.8 billion compared to the prior period. This includes good growth on single premiums. Recurring premiums from protection and long-term savings business increased marginally. VNB declined by 54% to R36 million. This can be attributed to a change in the new business mix towards lower margin savings products and towards limited underwriting protection products, as well as an increase in policies that lapsed before the first premium was paid, which resulted in distribution expenses that were irrecoverable. The new business margin was 2.0% for the quarter.

Momentum Corporate's PVNBP more than doubled, boosted by strong growth in single and recurring premium flows. Growth in single premiums new business was largely driven by improved investment flows into FundsAtWork as well as flows into the structured investments and annuity environment. VNB increased to R8 million, from a loss of R12 million in the prior period, attributable to the strong growth in new business volumes. The new business margin was 0.2% for the quarter, an improvement from -0.8% reported in the prior period.

Momentum Metropolitan Africa's PVNBP declined by 53% to R566 million, mainly due to the non-repeat of large corporate transactions in both Lesotho and Namibia secured in the prior period. VNB declined to negative R14 million, from negative R1 million in the prior period, largely as a result of lower new business volumes and higher initial expenses in Namibia. This was partly offset by improved protection and annuity new business volumes in Botswana. Overall, the new business margin was -2.5% for the quarter.

Outlook

NHE of R1 232 million is an encouraging result in the current economic environment. The positive mortality experience variances in our main life insurance business units suggest that the Covid-19 pandemic is now in its endemic phase. We do however remain cautious of new strains and possible future waves of infections and maintain a small reserve against the potential future impact of Covid-19.

In South Africa, electricity load shedding continues to stifle economic growth. Against this backdrop we are concerned about the pace of any potential economic recovery, and this will probably keep disposable income under pressure. This is likely to put pressure on new business volumes, particularly on long-term savings and investment business, where we have already seen a decline in demand. We are also more concerned around persistency trends than previously.

We are encouraged by the recent sales growth in Momentum Life's Myriad protection new business and are optimistic about the success of the recently reinvented Myriad solution. We will continue to distribute any

surplus capital, after allowing for dividends in line with our dividend policy, to our shareholders via share repurchases considering the substantial gap between the share price and the embedded value per share. We remain fully committed to achieving our Reinvent and Grow targets despite the challenging operating environment.

22 November 2022

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.

Conference call

The executive management of Momentum Metropolitan will be hosting a conference call for shareholders, investors and analysts on 22 November 2022.

We kindly request callers to pre-register using the following link <https://www.diamondpass.net/4503307>

A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 13:00.

The recorded playback will be available for three days after the conference call.

Access Numbers for Recorded Playback:

South Africa	010 500 4108
UK	0 203 608 8021
USA and Canada	1 412 317 0088
Australia	073 911 1378
Other Countries	+27 10 500 4108

Access code for recorded playback: 43317

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)