



momentum
METROPOLITAN

Operating Update

For the nine months ended 31 March 2023

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 nine months ended 31 March 2023

Summary of key metrics

Key metrics	3QF2023	3QF2022	Δ%
Earnings per share (cents) ¹	243.9	116.2	>100%
Headline earnings per share (cents) ¹	205.9	160.0	29%
Normalised headline earnings per share (cents) ¹	224.4	169.6	32%
Normalised headline earnings (R million) ²	3 351	2 588	29%
Operating profit (R million) ³	2 951	1 736	70%
Investment return (R million)	400	852	(53)%
New business volumes (PVNBP, R million)	50 087	54 513	(8)%
Value of new business (VNB, R million)	388	423	(8)%
New business margin	0.8%	0.8%	
Diluted embedded value per share (Rand)	32.01	28.77	11.2%
Return on embedded value per share	15.2%	10.8%	
Return on equity ⁴	18.0%	18.2%	

¹ 3QF2022 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, B-BBEE costs and the amortisation of the discount at which the iSabelo Trust acquired the Momentum Metropolitan treasury shares.

³ 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.

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 delivers steady earnings performance

Momentum Metropolitan recorded solid growth in normalised headline earnings despite the challenging economic environment. The Group delivered R3 351 million of normalised headline earnings for the nine months ended 31 March 2023, 29% higher than the comparative period. Normalised headline earnings per share increased from 169.6 cents to 224.4 cents. This growth in earnings was supported by the improved mortality experience in the life businesses, benefiting from the less severe impact of Covid-19 (net of release of Covid-19 reserves) in the current period.

The Group's present value of new business premiums (PVNBP) declined by 8% compared to the prior period to R50.1 billion. This was mainly due to lower new business volumes in Momentum Investments and Momentum Metropolitan Africa, offset to some extent by improved new business volumes in Momentum Life and Metropolitan Life. The Group's value of new business (VNB) declined by 8% compared to the prior period to R388 million, mainly because of a decline in Metropolitan Life and Momentum Metropolitan Africa's VNB. The new business margin of 0.8%, albeit in line with the prior period, is below our long-term targets.

The share repurchase programme, of up to R500 million, communicated to investors at the interim results announcement is still in process. As at 29 May 2023, the Group has bought back 26 million shares, of which 22 million have been cancelled, for a total consideration of R463 million.

Group embedded value per share was R32.01 on 31 March 2023. The return on embedded value per share was enhanced by our share buyback programme, ultimately reflecting a 15.2% annualised return for the period. The Group achieved an annualised ROE of 18.0% for the nine-month period, this is within our target range of 18% to 20%.

In Momentum Metropolitan Life, the Group's main life insurance entity, the Solvency Capital Requirement (SCR) cover was largely maintained, at 1.97 times SCR compared to 1.98 times SCR at 31 December 2022. Excluding the impact of the dividend payment during the quarter and the share buyback programme, the SCR cover would have improved. In addition, the SCR requirement increased mainly due to the increase in nominal yields, particularly at longer durations, which increased the interest rate risk and lapse risk SCR exposures.

Consolidated Group normalised headline earnings

The normalised headline earnings (NHE) of the Group increased by 29% to R3 351 million. This includes good growth in operating profit, offset by a decline in investment returns mainly impacted by fair value losses on the revaluation of the Group's investment in venture capital (VC) funds, whereas the prior period included significant fair value gains.

R million	3QF2023			3QF2022			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	1 032	77	1 109	241	97	338	>100%	(21)%	>100%
Momentum Investments	599	106	705	683	29	712	(12)%	>100%	(1)%
Metropolitan Life	342	47	389	347	48	395	(1)%	(2)%	(2)%
Momentum Corporate	780	97	877	527	90	617	48%	8%	42%
Momentum Metropolitan Health	232	2	234	162	(1)	161	43%	>100%	45%
Non-life Insurance	230	42	272	313	58	371	(27)%	(28)%	(27)%
Momentum Metropolitan Africa	84	38	122	(6)	71	65	>100%	(46)%	88%
Normalised headline earnings from operating business units	3 299	409	3 708	2 267	392	2 659	46%	4%	39%
New Initiatives	(335)	7	(328)	(405)	2	(403)	17%	>100%	19%
Shareholders	(13)	(16)	(29)	(126)	458	332	90%	<(100)%	<(100)%
Normalised headline earnings	2 951	400	3 351	1 736	852	2 588	70%	(53)%	29%

Operating profit improved by 70% to R2 951 million, underpinned by the recovery in mortality experience variance in Momentum Life, Momentum Corporate and Momentum Metropolitan Africa and good fee income growth in Momentum Metropolitan Health. Guardrisk delivered a positive earnings contribution leveraging off their industry and product diversification across cells. Momentum Insure continued the industry trend seen over the recent period, reporting an underwriting loss mainly due to average claims cost increasing by significantly more than inflation, adversely impacting the claim ratio. Investment return declined by 53% from R852 million in the prior period to R400 million. This includes a decline in investment return in the Shareholders' segment where investment returns on VC funds were negative in the current period, as well as the non-repeat of fair value gains of a cell acquired by Guardrisk during the first quarter of F2022.

The Group is progressing in line with plans for the implementation of *IFRS 17 – Insurance contracts*. In shifting our focus 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.

Segmental performance in normalised headline earnings

Momentum Life's normalised headline earnings showed a strong improvement from R338 million in the prior period to R1.1 billion. Earnings in the prior period were dampened by the negative impact of the third wave of Covid-19 infections which resulted in a large negative mortality variance. In the current period, the normalisation of mortality claims experience contributed positively. Also included in NHE is a favourable movement in investment variances as a result of advantageous shifts in yield curves, that reduced protection and traditional liabilities at longer durations.

Momentum Investments' normalised headline earnings decreased by 1% to R705 million. This includes a 12% decline in operating profit, offset by strong growth in investment return resulting mainly from currency translation gains and higher interest rates. Operating profit was mainly impacted by lower new business sales and higher outflows on the Momentum Wealth platform, offset to some extent by lower expenses. The decline in operating profit was further impacted by reduced earnings from the structured business mainly attributable to lower mortality profits on annuities compared to the prior period. Assets under management on both the local and offshore Momentum Wealth investment platform improved by 8% to R232 billion aided by favourable market performance and positive net inflows. Institutional and retail assets under management improved by 1% to R524 billion, while structured and annuities assets under management improved by 10% to R34 billion resulting from higher flows compared to the prior period.

Metropolitan Life's normalised headline earnings decreased by 2% to R389 million, mainly impacted by weak persistency experience which was primarily driven by a continued deterioration in lapse experience on the protection business. The current economic conditions are placing pressure on this segment's customer base and lapse experience is expected to remain under pressure. The decline in earnings was offset by an improvement in mortality experience and a positive investment variance, compared to a negative investment variance in the prior period.

Normalised headline earnings in Momentum Corporate showed strong growth of 42% on the prior period to R877 million, bolstered by a further improvement in underwriting results in group risk products. This was aided by improved mortality claims experience, Covid-19 reserve releases, a continued improvement in disability experience as well as higher interest earned on assets backing liabilities.

Momentum Metropolitan Health's contribution to normalised headline earnings improved by 45% to R234 million from R161 million in the prior period. This includes growth in fee income generated from membership growth, annual fee increases and an increase in interest income. The overall membership growth of 3%, despite the challenging economic environment, is largely due to growth in the public sector and Health4Me membership.

Guardrisk's normalised headline earnings increased by 8% to R417 million from R385 million in the prior period. This result is supported by a 16% increase in Guardrisk General Insurance underwriting profits, solid growth in management fee income in Guardrisk Life and a recovery in the volume and affinity business of Guardrisk Insurance.

Momentum Insure reported a loss of R145 million for the nine-months, largely due to a high claim ratio of 78% compared to 69% in the prior period. The impact of prolonged inflationary pressures on the cost of claims, increased frequency of incidents due to power surges (exacerbated by load shedding), higher motor accident and theft claim frequency, a continuation of adverse weather-related events, and a lag in premium increases following the policy renewal cycle contributed to the higher-than-expected claim ratio. An extraordinary proportion of claims that occurred during December were reported late, leading to the relative result of the third quarter being significantly worse than the second quarter and our expectations. The impact of the premium renewal process on offsetting claims inflation and other underwriting actions to address higher claims frequencies is expected to be more pronounced as we move into F2024. Gross written premiums increased by 7% to R2 309 million. Persistency experience worsened marginally due to the corrective actions implemented to address the high claim ratio but remained within expectation.

Momentum Metropolitan Africa's normalised headline earnings improved by 88% to R122 million from R65 million in the prior period. This includes strong growth in operating profit primarily due to improved mortality experience in Namibia and Botswana following the significant negative impact of Covid-19 in the prior period. Investment return declined 46% to R38 million, mainly due to capital losses on government bonds as a result of the sovereign debt crisis in Ghana.

Included in New Initiatives⁵ is a normalised headline earnings loss of R221 million for Aditya Birla Health Insurance⁶ (ABHI). This is an improvement from the R301 million loss reported in the prior period, due to good growth in gross written premium and the prior period being significantly impacted by Covid-19. Although Covid-19 related claims have subsided relative to the prior period, the claim ratio was negatively impacted by an increase in the number and average size of claims due to delayed diagnostic and preventative medical procedures. ABHI is focused on a drive to increase volumes and market share. Momentum Money reported a loss of R59 million compared to a loss of R51 million in the prior period.

The Shareholders segment reported a normalised headline earnings loss of R29 million, compared to a profit of R332 million reported in the prior period. This was predominately due to a decline in investment return as a result of fair value losses on the revaluation of the Group's investment in VC funds whereas the prior period included significant fair value gains.

⁵ 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), Consult by Momentum, the operating expenses of Exponential Ventures, as well as other smaller local start-up operations.

⁶ 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. The results for 3QF2023 reflect MMH's stake of 44.1%, while 3QF2022 is based on MMH's stake of 49%. Results include support costs incurred by Momentum Metropolitan outside of the joint venture.

Consolidated Group new business performance

R million	3QF2023			3QF2022			Δ%	
	PVNB	VNB	New business margin (%)	PVNB	VNB	New business margin (%)	PVNB	VNB
Momentum Life	5 580	(31)	(0.6)%	5 328	(23)	(0.4)%	5%	(35)%
Momentum Investments	29 265	294	1.0%	33 290	286	0.9%	(12)%	3%
Metropolitan Life	5 359	81	1.5%	5 264	156	3.0%	2%	(48)%
Momentum Corporate	7 657	64	0.8%	7 762	2	0.0%	(1)%	>100%
Momentum Metropolitan Africa	2 226	(20)	(0.9)%	2 869	2	0.1%	(22)%	<(100)%
Total	50 087	388	0.8%	54 513	423	0.8%	(8)%	(8)%

R million	3QF2023		3QF2022		Δ%	
	Recurring premiums	Single premiums	Recurring premiums	Single premiums	Recurring premiums	Single premiums
Momentum Life	801	1 811	751	1 663	7%	9%
Momentum Investments	154	28 642	163	32 628	(6)%	(12)%
Metropolitan Life	1 283	1 421	1 263	1 319	2%	8%
Momentum Corporate	877	3 013	832	2 772	5%	9%
Momentum Metropolitan Africa	350	685	333	1 345	5%	(49)%
Total	3 465	35 572	3 342	39 727	4%	(10)%

PVNB for the Group declined by 8%, mainly due to a decline of 12% reported by Momentum Investments, albeit from a high base in the prior period. This was partly offset by higher PVNB in Momentum Life and Metropolitan Life.

VNB declined by 8%, with all business units except Momentum Corporate and Momentum Investments experiencing lower VNB. The turnaround in Momentum Corporate's VNB was supported by the solid growth in higher margin annuity business.

Segmental new business performance

Momentum Life's PVNBP improved by 5% to R5.6 billion, bolstered by an 11% growth in long-term savings business, offset by a 4% decline in protection business. Protection new business volumes on an APE basis grew by 4% year-on-year, despite the challenges experienced in the risk market. However, the negative impact of adverse movements in yield curves more than offset improved volumes. Over the past quarter, 55% of all Myriad policies were submitted on the new Myriad underwriting solution. Our long-term savings business exhibited strong growth, specifically on the more profitable retirement savings product lines. VNB declined 35% to a loss of R31 million. This decline was largely driven by revenue not growing sufficiently to fully offset the increased acquisition expenses and an increase in the cost of capital. This translated to a new business margin of -0.6% for the period.

Momentum Investments' PVNBP declined by 12% to R29.3 billion, which was largely due to new business volumes on the local and offshore Momentum Wealth investment platforms reducing by 16% and 13%, respectively. This was somewhat offset by an 8% increase in annuity new business volumes. VNB improved by 3% to R294 million from R286 million in the prior period. This is mainly attributable to an increase in higher margin annuity new business sales, partially offset by lower platform new business volumes and a reduction in the future credit spread assumptions. The growth in annuity sales improved the new business margin to 1.0% from 0.9% in the prior period.

Metropolitan Life's PVNBP increased by 2% to R5.4 billion, mainly due to good growth in single premium guaranteed annuities business and a moderate improvement in recurring premium long-term savings business. VNB declined 48% which was largely attributable to an increase in policies that lapsed before the first premium was paid, coupled with higher adviser churn resulting in distribution expenses that were irrecoverable. VNB was further impacted by the growth in expenses exceeding volume growth. VNB is likely to improve towards the end of F2023 following management actions to improve the quality of business and the repricing on funeral business. The new business margin was 1.5% for the period.

Momentum Corporate's PVNBP showed a slight decline of 1% to R7.7 billion, largely attributable to lower new business volumes on group risk products. The current economic conditions are increasing competitive pressure for group risk business. VNB improved significantly to R64 million from R2 million in the prior period. This was mainly attributable to strong growth in higher margin structured investment, annuity and protection business. The new business margin was 0.8% for the period.

Momentum Metropolitan Africa's PVNBP declined by 22% to R2.2 billion, mainly due to the non-repeat of large corporate deals in both Lesotho and Namibia, and lower retail new business volumes in Namibia and Botswana. VNB declined to negative R20 million from positive R2 million in the prior period. This was largely as a result of a further deteriorating negative VNB contribution from Namibia, mainly driven by lower retail and corporate new business volumes coupled with higher assumed renewal business expenses on the protection business. This was partially offset by improved protection new business volumes in Botswana and Lesotho coupled with an uplift in the margins of the annuities business in Lesotho. The new business margin was -0.9% for the period.

Announcement of Group CEO succession

Momentum Metropolitan has appointed Jeanette Marais as Group CEO effective 1 August 2023, making her the first female CEO of a large, listed life insurance and asset management group in South Africa. Jeanette will succeed Hillie Meyer, who was appointed as Group CEO for a fixed term of five years in February 2018.

Having served the Group for a little more than five years, Hillie will retire on 30 September after a brief handover period.

Jeanette is an executive leader with an excellent track record and extensive experience in the financial services industry. The Board is confident that Jeanette has vast knowledge and understanding of the Group's business, strategy and culture, having been a key member of the executive team over the past few critical years in the business's evolution. Having completed a rigorous, robust and thorough search and selection process that started over a year ago, the Board has no doubt that Jeanette will lead the Group with distinction.

Outlook

We are encouraged by the steady earnings performance achieved by the Group amid the ongoing economic challenges in our operating environment.

Economic activity continues to be hampered by rising interest rates, high inflation and loadshedding. We are concerned about the pace of any potential economic recovery and the impact this will have on disposable income. This is likely to place ongoing affordability pressure on new business volumes, particularly on long-term savings and on protection business, where we have already seen a decline in demand. 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.

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.

Board and committee changes

In compliance with paragraph 3.59 of the JSE Limited (JSE) Listings Requirements and paragraph 6.39 of the JSE Debt Listings Requirements, the Group would like to inform the shareholders and noteholders of the following changes to the Group Boards and Committees:

Resignation of Ms Lisa Masozi Chiume

Shareholders and noteholders are further advised that Ms Lisa Masozi Chiume has resigned as an independent non-executive director on the boards of MMH and MML, effective 31 May 2023, in order to pursue other interests.

Ms Chiume has also resigned as a member of the Group's Audit, Fair Practices, Investments and Remuneration committees, effective 31 May 2023.

30 May 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.

Conference call

The executive management of Momentum Metropolitan will be hosting a conference call for shareholders, investors and analysts on 30 May 2023.

We kindly request callers to pre-register using the following link <https://www.diamondpass.net/2241362>

A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 15:30.

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: 44336

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)