update

MMI HOLDINGS

2 June 2016

Update is a newsletter produced by the investor relations department of MMI Holdings Limited. It provides information on the different divisions in the group. Contact Natalie Amos (investor relations) on (021) 940-6112 / namos@mmiholdings.co.za for further information.

Trading update for the nine months ended 31 March 2016

PURPOSE

To enhance the lifetime financial wellness of people, their communities and their businesses

Growth | Client centricity | Excellence

- Growth: The group continues to invest in growth initiatives in line with the stated long-term goals.

- Client centricity: The implementation of the client-centric strategy has improved MMI's understanding of clients' needs and enabled the development of relevant client solutions. The solutions are distributed on an omni-channel basis and strongly supported new business volumes during the nine months.

- Excellence: The expense reduction project is progressing well and the group is confident that the targeted annual reduction of R750 million will be achieved by the end of the 2019 financial year.

Operational overview

- Despite a difficult operating and economic environment exerting increasing pressure on disposable income and company profits, MMI recorded a pleasing growth in new business flows of 13%, on the present value of premiums (PVP) basis.
- Total expense growth for the group has been well managed and is below the current inflation rate.
- Recurring premium new business increased by 14% when compared with the same period of the prior year boosted by strong flows in the Corporate and Public Sector together with the anticipated recovery in the Metropolitan Retail segment and a strong performance from the International companies.
- Single premium inflows ended 2% higher than the strong comparative nine-months of the prior year.
- The value of new business, and resulting margins, have been reduced by higher interest rates and a move by consumers to lower-margin solutions.

- Client retention across the group remained satisfactory, but continues to be under pressure going forward.
- Underwriting experience in the retail segments improved compared to the first half of the financial year but remains below the strong 2015 performance.
- Disability claims, largely linked to the current unfavourable economic conditions, remained above the targeted range putting further downward pressure on group earnings.
- Momentum Short-term Insurance increased premium income 18% compared with the prior year. The claims ratio improved from 102% for the quarter to June 2015 to 77% for the most recent quarter.
- Progress is being made in consolidating the health businesses across the group and adapting them to the new operating model. Work is underway to reposition the Health administration business to ensure profitability.
- The Investments and Savings Centre of Excellence has made progress in the key projects that will simplify and bring efficiencies in the investment administration processes.
- In May 2016 the South African Customer Satisfaction Index, as compiled by Consulta, ranked Metropolitan and Momentum first and second out of the South African life insurance companies, early indications that our client-centric strategy is gaining traction.
- The growth in the market value of investment assets has been curtailed by the performance of markets as a whole, resulting in pressure on top-line asset-based fee income in the current year.
- MMI has continued to invest in a number of growth and diversification initiatives that are impacting the results in the shorter-term.
- The earnings for the full year will be impacted by the level of the investment assets, new business volumes, underwriting and claims experience, persistency, expense management and the investments made into new initiatives.

Momentum Retail

	9 months to 31-March-15 *Rm*	**9 months to 31-March-16** *Rm*	**Change vs 2015** *%*
New business			
Recurring premiums	898	923	3%
Single premiums	11 966	13 479	13%
Annual premium equivalent (APE)	2 095	2 271	8%
Present value of premiums (PVP)	17 752	18 802	6%

- Recurring premium sales for the quarter were 10% higher than that of the same quarter of the prior year, a strong improvement on the performance in the first half of the year.
- Encouraging single premium new business growth was recorded, being 13% above the prior year, boosted by strong guaranteed endowment sales.
- Total new business volume (PVP) is 6% higher than that recorded in the prior year.
- Off-balance sheet new business increased 10% with strong flows from Momentum Wealth International.
- Good progress is being made in establishing alternative distribution channels including direct channels.
- Mortality experience has improved from the high claims experienced in the first half-year, however profitability remains below the longer-term average range.

Metropolitan Retail

	9 months to 31-March-15 *Rm*	9 months to 31-March-16 *Rm*	Change vs 2015 *%*
New business			
Recurring premiums	812	795	(2)%
Single premiums	966	961	(1)%
Annual premium equivalent (APE)	909	891	(2)%
Present value of premiums (PVP)	3 925	3 685	(6)%

- The large scale changes made within the Metropolitan Retail distribution channels in January 2015 had a negative impact on the volumes of new business sold over the past year.
- Overall the distribution model changes have had a positive impact on the business with improved productivity per agent and a recovery in the number of agents employed to almost 5 000. Further improvements in new business volumes are expected over the rest of the year.
- The recovery in recurring premium new business remained on track with the third quarter ending 15% above the March 2015 quarter, despite the pressure clients are experiencing.
- Total recurring premium new business for the nine months ended 2% below the prior year, a substantial improvement on the 9% decline recorded at the half-year stage.
- More savings solutions with a lower margin were recorded, thereby impacting the mix of recurring new business.
- Strong single premium income was written during the quarter, however, as expected, it could not match the exceptional performance of the same period in the previous year.
- Client retention remains well managed, resulting in an improvement compared with the third quarter of the prior year, despite prevailing economic conditions. We continue to monitor persistency closely.

Corporate and Public Sector

	9 months to 31-March-15 *Rm*	9 months to 31-March-16 *Rm*	Change vs 2015 *%*
New business			
Recurring premiums	628	918	46%
Single premiums	4 882	3 570	(27)%
Annual premium equivalent (APE)	1 116	1 275	14%
Present value of premiums (PVP)	10 539	13 612	29%

- Guardrisk continued to make a strong contribution to recurring premium new business recorded in the current year.
- The relatively high level of low-margin contracts secured through the Guardrisk cell-captive business, impacts on the overall mix of recurring premium business.
- Single premium levels remained solid, with retirement funds and investments doing well when compared against an excellent prior period. These flows are traditionally lumpy in nature.

- Securing new business in the group insurance and investment markets remains difficult in this highly competitive market. The business is actively pursuing new business opportunities.
- Client retention remains at acceptable levels without compromising sound underwriting principles.
- The underwriting margins recorded are below the longer-term trends with disability claims in particular remaining above the targeted range, largely due to the impact of the current tough economic conditions. We are actively monitoring the disability claims experience and responding accordingly.
- The business continued to make good progress in unlocking synergies that arose from aligning Guardrisk with MMI, and to enhance the client-value proposition.
- The restructuring of the Health administration schemes for closed schemes is underway with plans to restore profitability of the business.
- The Momentum Health open scheme continues to show good growth.

International

	9 months to 31-March-15 *Rm*	9 months to 31-March-16 *Rm*	Change vs 2015 *%*
New business			
Recurring premiums	278	341	23%
Single premiums	166	321	93%
Annual premium equivalent (APE)	294	373	27%
Present value of premiums (PVP)	1 456	2 007	38%
Membership (health) (‘000)	432	468	8%

- The Namibia, Lesotho and Botswana businesses all recorded strong growth in life insurance new business.
- Good growth was also recorded in health membership, particularly in Namibia.
- The medical and short-term insurance claims ratios remained above the targeted levels. The actions to address the issues being experienced are currently underway.
- Regional leadership changes have been implemented and further operational restructuring is underway to reduce the cost base.
- During May 2016, MMI bought out its local partner in Nigeria and will now own 100% of the business.

Credit rating

On 27 May 2016, Moody’s assigned an Aaa.za national scale insurance financial strength (IFS) rating to MMI Group Limited (MMIGL). Moody’s also assigned an Aa2.za rating to MMIGL’s unsecured subordinated notes on the national scale.

Kagiso Tiso Holdings (KTH) / MMI preference shares

- We are pleased that KTH requested that a further 891 064 of the A3 preference shares be converted into ordinary shares. These converted shares were listed on 5 April 2016.

Executive and Board Committee changes

Changes were made to executive responsibilities and Board Committees as disclosed on SENS on 3 May 2016.
Following that announcement, Innocent Dutiro has subsequently been appointed as the new CEO for MMI's Africa and Southeast Asia business with effect from 1 July 2016. He joins MMI with a wealth of experience having been a partner at Bain & Company in Johannesburg and before that he worked for Deloitte Consulting in South Africa.

Comments / qualifications

- All figures contained in this trading update are provisional, have not been reviewed or reported on by the Company's auditors and are for the period 1 July to 31 March for each year as presented in the current internal management accounts.
- The basis on which the new business figures have been calculated is the same as that used for embedded value purposes. Premium income is included from the date on which policies come into force as opposed to the date on which they are accepted.
- The new business figures are all net of outside shareholder interests.

End

Date
2 June 2016

Queries

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