



Quarterly Financial Information

Operating update for the three months
ended 30 September 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 three months ended 30 September 2023

Momentum Metropolitan records a satisfactory performance

The Group continued the positive trajectory highlighted in the previous results despite the unfavourable trading conditions marked by socio-political uncertainty, low economic growth, high interest rates and low consumer disposable income.

While we transition to the new accounting standard, IFRS 17 – *Insurance contracts*, this operating update serves to inform stakeholders about the Group's operational performance against the key measures such as sales volumes and provides guidance and commentary on key factors influencing the Group's earnings, for the three months ended 30 September 2023.

The Group's present value of new business premiums (PVNBP) increased by 18% compared to the prior period to R19.7 billion. This was largely aided by a change in the discount rate used to calculate the present value of premiums to align with the "market consistent methodology" used for IFRS 17. New business sales volumes in Momentum Investments continued to benefit from the strong growth in annuities. Also worth noting is the significant volume of single premium business received by Momentum Corporate. This sales growth was however partially offset by a decline in recurring premiums given a large recurring premium annuity deal written in the prior period.

Underwriting performance in both the Non-life and Life insurance operations followed expected experience.

Expense growth across the Group was slightly above inflation as a result of investments into capabilities and improvements to both client and adviser service.

Key highlights from our management focus areas include:

- In Momentum Insure, while it is a short measurement period, we observed a positive trend in the claim ratio, which decreased to 66% compared to 70% in the prior period. This reflects the positive impact of underwriting measures Momentum Insure management took to address weak underwriting outcomes over the prior 12 months.

- Despite the decrease in the size of the Metropolitan Life tied agency force, the number of more experienced advisers (advisers with tenure of more than 12 months) remained stable. This positively influenced the quality of business written with early duration lapses improving. In the upcoming 12 to 18 months, Metropolitan Life aims to attain a new business margin of 5% and normalised headline earnings (IFRS 17) of R600 million. This objective will be pursued through a purposeful emphasis on a comprehensive five-point plan, involving enhancing product commerciality, efficiently managing the channel workforce, improving business quality, aligning the cost base to revenue, and implementing migration and automation measures.
- Life annuity sales remained strong. We continue to focus on ensuring the sustainability of these volumes by enhancing the client and adviser experience and enabling product and propositional enhancements that will differentiate us in the market.
- The digital underwriting process in Momentum Life gained strong adoption with 80% of all Myriad policies being submitted on the new LifeReturns proposition.
- The normalised headline earnings loss in Aditya Birla Health Insurance (ABHI), our health insurance associate in India, reduced from R80 million to R63 million and net earned premiums increased 43% from the prior period.
- Both Guardrisk and Momentum Corporate continued to deliver value.

The share repurchase programme communicated to investors at the full-year results announcement is still in process. As at 20 November 2023, the Group had bought back 24 million shares, of which 16.5 million have been cancelled, for a total consideration of R498 million. From 1 July 2023 to 30 September 2023, the shares have been repurchased at an average price of R20.69 per share representing a 38.7% discount to the Embedded Value of R33.75 per share on 30 June 2023.

The Group remains well capitalised. The regulatory solvency positions of most of the Group's regulated entities remain toward or above the upper end of their target solvency ranges. For Momentum Metropolitan Life (MML), the Group's main life insurance entity, the Solvency Capital Requirement (SCR) cover remained stable at 2.07 times SCR from 30 June 2023 to 30 September 2023. This is above the upper end of MML's target range of 1.6 to 2.0 times SCR.

Overview of key metrics

The table below sets out certain key metrics for the quarter ended 30 September 2023:

Key metrics	1QF2024	1QF2023	Δ%
Recurring premiums (R million)	995	1 327	(25)%
Single premiums (R million)	15 205	11 589	31%
New business volumes (PVNBP, R million)	19 683	16 739	18%
Total direct expenses (R million)	2 985	2 745	9%
AUM on Momentum Wealth investment platform (R billion)	240	210	14%
Health members under administration ('000)	1 259	1 208	4%
Momentum Insure claim ratio	65.9%	69.8%	

Segmental performance

The table below shows the PVNBP by business unit for the period:

R million	1QF2024	1QF2023	Δ%
Momentum Life	2 138	1 856	15%
Momentum Investments	10 821	8 988	20%
Metropolitan Life	1 803	1 757	3%
Momentum Corporate	4 223	3 572	18%
Momentum Metropolitan Africa	698	566	23%
Total PVNBP	19 683	16 739	18%

R million	1QF2024		1QF2023		Δ %	
	Recurring premiums	Single premiums	Recurring premiums	Single premiums	Recurring premiums	Single premiums
Momentum Life	266	688	267	544	(1)%	26%
Momentum Investments	67	10 541	49	8 793	37%	20%
Metropolitan Life	426	492	434	434	(2)%	13%
Momentum Corporate	134	3 233	496	1 590	(73)%	>100%
Momentum Metropolitan Africa	102	251	81	228	26%	10%
Total	995	15 205	1 327	11 589	(25)%	31%

Momentum Life

Momentum Life's mortality experience was in line with the experience seen in the prior comparative period. Earnings are expected to be negatively impacted by a reduction in long-term interest rates.

Momentum Life saw a good improvement in new business volumes (PVNBP), this reflects year-on-year growth in both the long-term savings (up 20%) and the protection (up 9%) new business. Our value of new business (VNB) is expected to remain in line with the prior period following depressed protection sales in this period.

Myriad's key focus remains the entrenchment of our new LifeReturns proposition, a sophisticated point-of-sale risk selection and discount mechanism, and digitally transforming and improving the onboarding experience by mobile-driven underwriting solutions and a paperless capturing capability. Over the past quarter, 80% of all Myriad policies were submitted on the new Myriad underwriting solution.

Momentum Investments

Momentum Investments' earnings benefited from an increase in assets under management, higher mortality profits and continued strong growth in annuity sales. Earnings are expected to be negatively impacted by a decline in investment variances due to changes in the shape of the yield curve and basis spread (bonds weakening more than swaps).

Assets under management of R240 billion on the Momentum Wealth investment platform improved by 14%. This includes the positive impact of net flows on the local and offshore platform business, which was aided by the positive market performance since the prior period. Institutional and retail assets under management improved by a strong 22% to R580 billion, largely due to the acquisition of Crown Agents Investment Management, a fixed income and multi asset manager in the UK, in April 2023 and also reflecting higher flows and favourable market performance. Momentum Investments' new business sales volumes continued to benefit from strong growth in annuity new business volumes, offset to some extent by lower new business volumes on the offshore platform. The business continues to invest in automation, particularly in re-platforming.

Metropolitan Life

Although Metropolitan Life's customer base continues to be constrained by the current economic conditions, lapse experience in the protection business has improved year-on-year. Metropolitan Life also saw an improvement in mortality experience compared to the prior period.

New business volumes showed modest year-on-year growth (on a PVNBP basis). While there was good growth on single premiums, recurring premiums from protection and long-term savings business increased only marginally. New business mix remained weighted towards lower margin savings products and protection products with limited underwriting, which is expected to negatively impact VNB. There has been an encouraging improvement in the quality of business, as evidenced by improvements in early duration lapses, reflecting the positive impact of management actions. In line with the decision made, there has been a reduction in the number of tied agents. The productivity per agent has deteriorated marginally from 3.0 to 2.9 policies a week.

Momentum Corporate

Momentum Corporate expects its earnings to decline relative to the comparative prior period. This is, however, largely expected and is mainly due to the normalisation of the underwriting experience on group risk products, the impact of yield curve movements on the annuity book, and the non-repeat of the Covid-19 reserve release in the prior period.

Momentum Corporate's new business volumes (PVNBP) grew, boosted by significant single premium structured investment flows. Recurring premiums declined following the non-repeat of a large recurring premium annuity deal written in the prior period. The business continues to experience increased competitive pressure arising from a diverging market outlook around future mortality and morbidity experience. VNB is expected to decline slightly, largely due to the business mix being weighted towards lower margin investment business during the past three months.

Momentum Metropolitan Health

Momentum Metropolitan Health's earnings improved following growth in fee income generated from membership growth and an increase in interest income. Despite the tough economic environment, overall membership growth of 4% was achieved. This is largely due to the continued growth in the public sector (5%) and Health4Me membership (19%). Membership in the Momentum Medical scheme and corporate market segment declined, indicative of economic conditions placing pressure on employment numbers within the corporate client base.

Guardrisk

Guardrisk benefited from its industry and product diversification, offsetting the impact of the tough trading conditions. Earnings improved marginally, aided by solid growth in management fee income in Guardrisk Life, good growth in the core revenue lines of Guardrisk Insurance Cell Captive business, partially offset by a 5% year-on-year decline in Guardrisk General Insurance underwriting profits. Revenue was supported by investment income benefiting from the current high interest rate climate. Expenses increased above inflation, primarily because of higher personnel costs incurred to build capacity for reporting requirements and future growth.

Momentum Insure

Momentum Insure reported a profitable quarter, benefiting from the positive impact of premium increases in excess of claims inflation, other underwriting actions to address higher claims frequencies, and more favourable weather conditions. Gross written premiums showed encouraging growth of 9% to R824 million despite subdued new business volumes and marginally worse persistency experience partly due to the intentional reduction in cover for cohorts of loss-making product groupings. Notably, persistency experience remained well within appetite despite the claim ratio corrective actions taken. The claim ratio showed a positive trend, decreasing to 65.9% compared to 69.8% in the prior period.

Momentum Metropolitan Africa

Momentum Metropolitan Africa continued to see death and disability claims in line with expectations for most countries except Botswana where mortality experience remains somewhat elevated. Earnings were, however, impacted by weaker persistency experience as lapses and surrenders increased.

PVNBP was 23% higher than the comparative period. New business volumes were supported by good growth in retail risk business following a focus to shift the new business mix towards higher margin risk business, particularly in Namibia. Health premium income improved strongly, mainly driven by solid contributions from Botswana and Lesotho. Ghana has shown some recovery following the negative macro-economic impacts in the prior period.

New initiatives

Included in New Initiatives¹ is a loss of R63 million for Aditya Birla Health Insurance² (ABHI). This is an improvement from the R80 million loss reported in the prior period, mainly due to a 23% growth in gross written premium, with robust growth in both retail and group business. The claim ratio increased year-on-year and was negatively impacted by greater benefit utilisation, the increased cost of healthcare provision in India and group business growing faster than retail. Management has initiated numerous measures to address the higher claim ratio. These actions include a focus on product pricing, new business sourcing, underwriting and provider fraud, waste and abuse.

¹ New Initiatives includes Aditya Birla Health Insurance (a health insurance associate in India), Momentum Money (a bundled transactional banking and savings solution), the operating expenses of Exponential Integration, as well as other local start-up operations.

² Results for the India investment are reported with a three-month lag. The dilution of the 49.0% stake in ABHI to 44.1% was concluded during October 2022. Results include support costs incurred by Momentum Metropolitan outside of the associate.

Outlook

We are pleased by the growth in new business volumes despite the ongoing economic challenges in our operating environment.

We remain concerned about the impact of the slow pace of economic recovery and higher interest rates on disposable income. This is likely to put pressure on new business volumes and persistency, particularly in Metropolitan Life. We remain focused on driving sales volumes and on improving the sales mix to increase VNB outcomes. We remain committed to achieving the Reinvent and Grow business targets for F2024.

The various business units are currently completing their three-year strategic plans for the period beyond Reinvent and Grow. The various strategies focus on improving our competitive position to generate growth in our key markets. We look forward to sharing these plans with investors in due course.

While the impact of IFRS 17 on the Group's financial reporting process and results is significant, solvency measures and thus free cash flow is unaffected. No immediate changes to business models are anticipated, but the additional granularity and aspects of financial performance provided by IFRS 17 may be used to enhance decision making. The Group will provide further details on the impact of IFRS 17 when it releases its interim results in March 2024.

21 November 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 21 November 2023.

We kindly request callers to pre-register using the following link <https://www.diamondpass.net/4687304>

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.

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