

METROPOLITAN
HOLDINGS LIMITED



Interim results

Peter Doyle
Group chief executive

20
05

One year on

Results to 30 June demonstrate

- ▶ **We are capitalising on our unique market position**
- ▶ **Sustained profit growth in all operations**
- ▶ **Costs are being contained**
- ▶ **Ongoing improvement in the quality of retail business**
- ▶ **Improving investment performance**
- ▶ **Diversification continues to benefit the group**
- ▶ **Management actions → sustainable benefits**

Business objectives are being met



Progress

% vs June 2004



	%
▶ Embedded value of retail new business	+13
▶ NB margin for retail	+17
▶ Retail operating profit after tax	+48
▶ Core headline earnings per share	+59
▶ Dividend growth	+17

Results demonstrate sustainable business model



Group at 30 June 2005

rands (% vs Dec 2004)



		%
▶ Fully diluted embedded value	R10bn	+6
▶ Embedded value per share	R12.96	+6
▶ Total assets under management	R58bn	+8

Adding value for shareholders



Strong growth in embedded value

EV per share up 6% (up on Dec 04)

	31/12/04	30/06/05	%
	Rbn	Rbn	growth
Adjusted net asset value	6 138	6 572	7
Value of in-force	2 915	3 003	3
Embedded value	9 053	9 575	6
Fully diluted embedded value per share (cents)	1 225	1 296	6



Excellent growth in core headline earnings

+50% to R288m

	Six months to 30/06/04	Six months to 30/06/05	% growth
	<i>Rm</i>	<i>Rm</i>	
Corporate business	44	66	50
Retail business	100	148	48
International business	20	28	40
Health business	1	19	-
Shareholders' equity	27	27	-
Total	192	288	50
Diluted CHEPS (cents)	28.36	41.00	45





Business environment

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Business environment

- ▶ **Strong competition for consumers' disposable income**
- ▶ **Increase in investment product offering from non-traditional competitors**
- ▶ **Little growth in the corporate business market**
- ▶ **Strong investment markets**
- ▶ **Continued growth in consumer spending**



Business environment

- ▶ **Life industry under siege – costs & returns**
- ▶ **Consumer expectations, exacerbated by low inflation / low interest rate environment**
- ▶ **Rulings by the Pension Funds Adjudicator**
 - ▶ **Consumer perceptions of insurance industry**
 - ▶ **Regulatory/business changes as a result of rulings**
 - ▶ **Impact on Metropolitan**





Key metrics

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New business premiums (APE)



	June 04 <i>Rm</i>	June 05 <i>Rm</i>	% <i>growth</i>
Retail	405	398	(2)
Corporate	210	43	-
International	48	67	40



Value of new business

rands



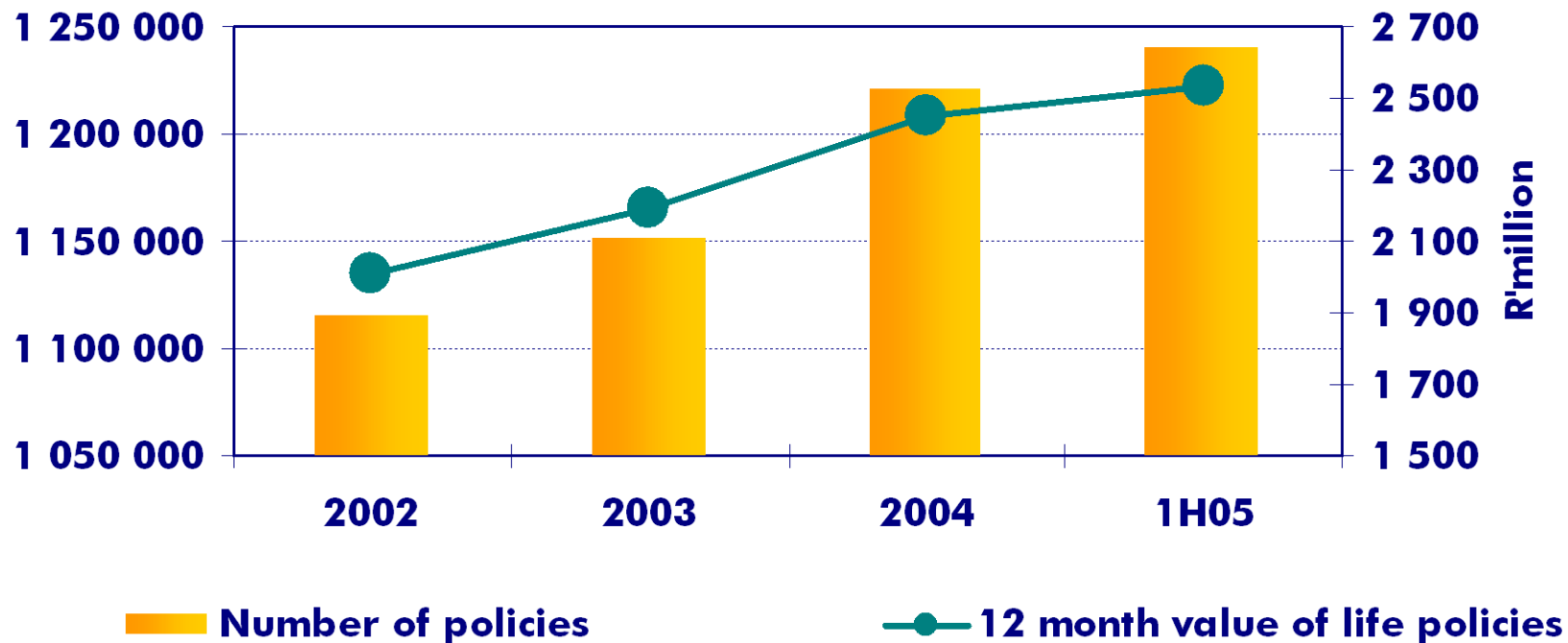
	June 04	June 05	%	NB
	<i>Rm</i>	<i>Rm</i>	<i>growth</i>	<i>margin</i>
Retail	39	44	+13	11.2
Corporate	23	(11)	-	-
International *	1	9	-	13.4

* *Net of outside shareholders*



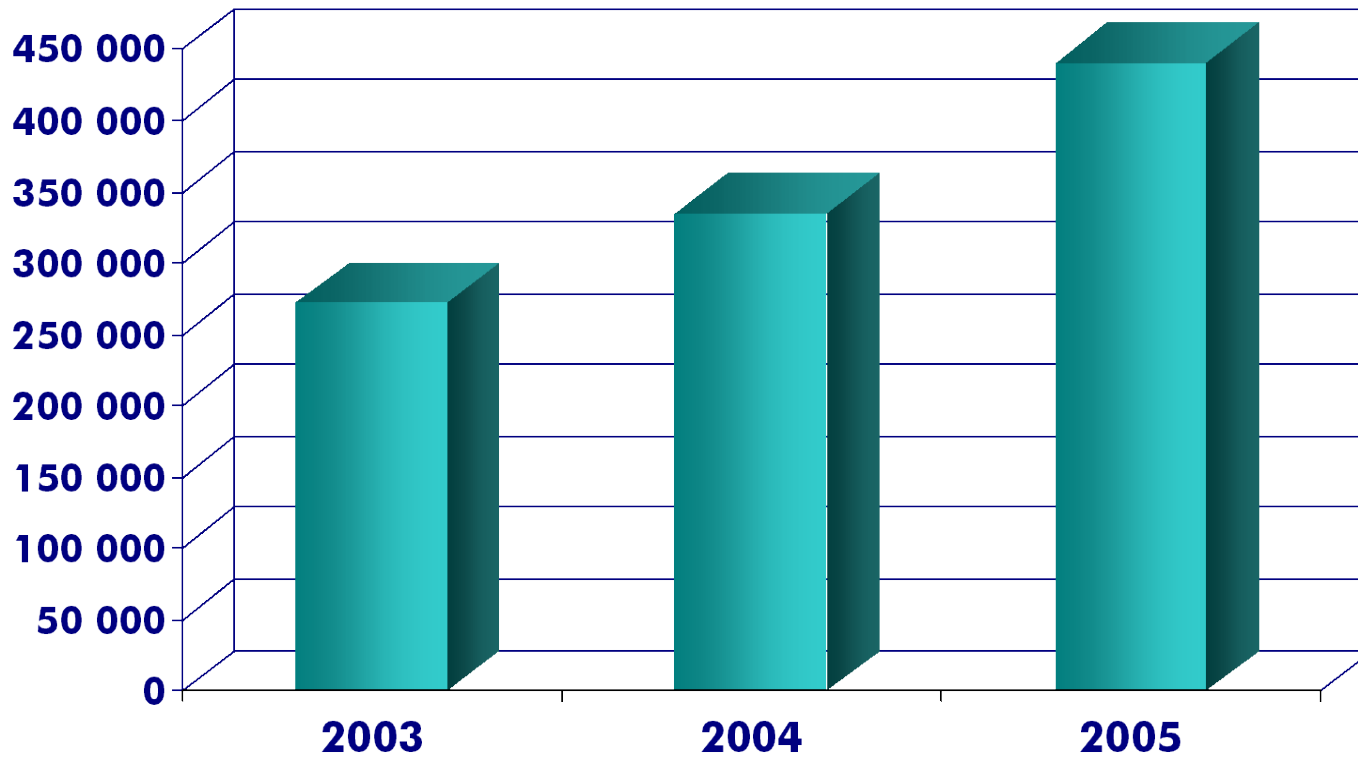
In-force growth continues - group

Number and value of life policies



Health growth in membership

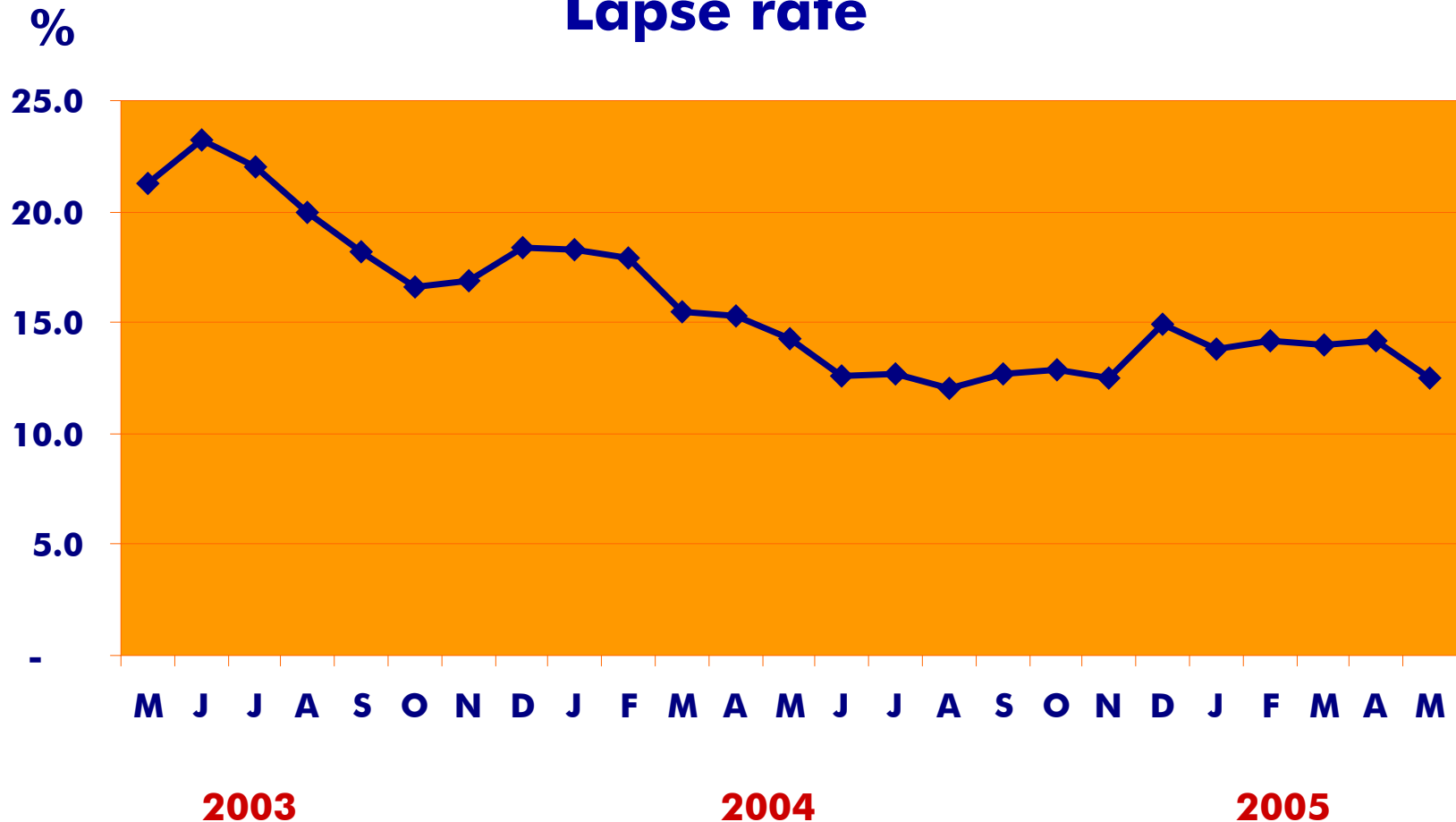
Number of principal members under administration



Quality of new business improves



Lapse rate



Cost management

progress to date

	June 2004	June 2005	% change
	Rm	Rm	
Management expenses	495	552	11.5
Less:			
Business expansion/enhancement	(3)	(7)	-
Channel Life Namibia	-	(14)	-
IFRS	(36)	(52)	-
Performance bonuses	(34)	(51)	-
Business as usual	422	428	1.4



Performance objectives

Objective	Full year target	Progress to date
Return on value of in-force	RDR + 5%	+21.5% *
Growth in earnings (<i>CHEPS diluted</i>)	12%	+40%
Value of new business	R225m	R42m
Market/customers	Various	✓
People/empowerment	Various	MHG 2nd phase KTI Procurement

*** Annualised**





Strategic focus

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Group strategy

- ▶ **Focus on capital management**
- ▶ **Focused on Africa – strong regional player**
- ▶ **Focus on existing core businesses**
- ▶ **Re-positioning asset management**
- ▶ **Re-design of retail products & processes**
- ▶ **Developing, incentivising and retaining key people**





Capital management

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Capital management

corporate activity to date

- ▶ **Clean and transparent group structure (2001)**
- ▶ **Acquisitions (CU, Protea, Bankmed, Channel Life Namibia)**
- ▶ **General share buy backs (2002 – R500m)**
- ▶ **Active asset hedging strategy - policyholder fund (2002)**
- ▶ **Targeted share buy backs (2003/4 – R295m)**
- ▶ **Ring-fenced and refined all asset/liability mandates (2003)**
- ▶ **Odd-lot offers (2003/4)**
- ▶ **Issued preference share capital (2004)**
- ▶ **Capital reduction (2004 – R780m)**
- ▶ **Re-engineered 90:10 fund (2004)**
- ▶ **Established Lesotho company (2004)**
- ▶ **Reduced exposure to MTN (2005)**

Ongoing focus



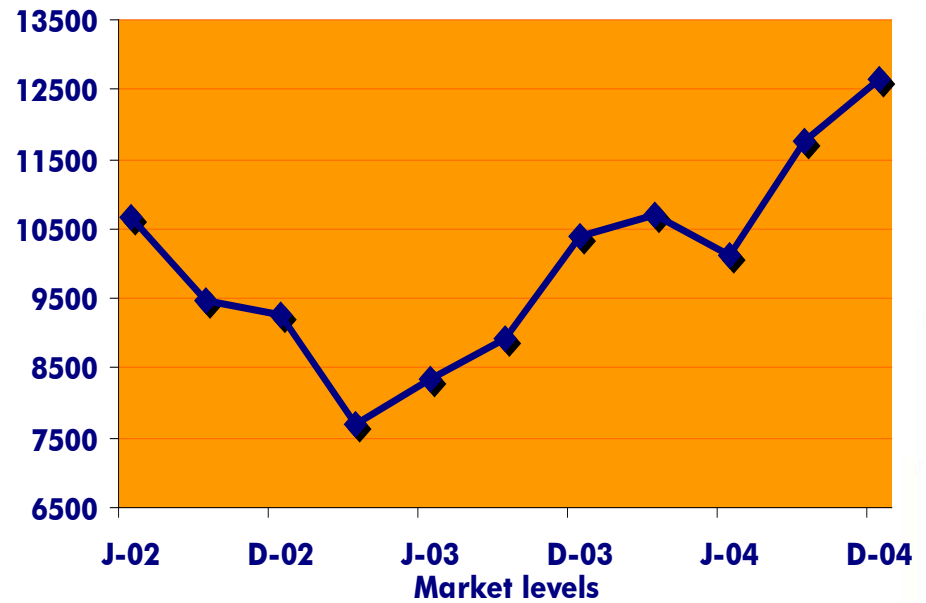
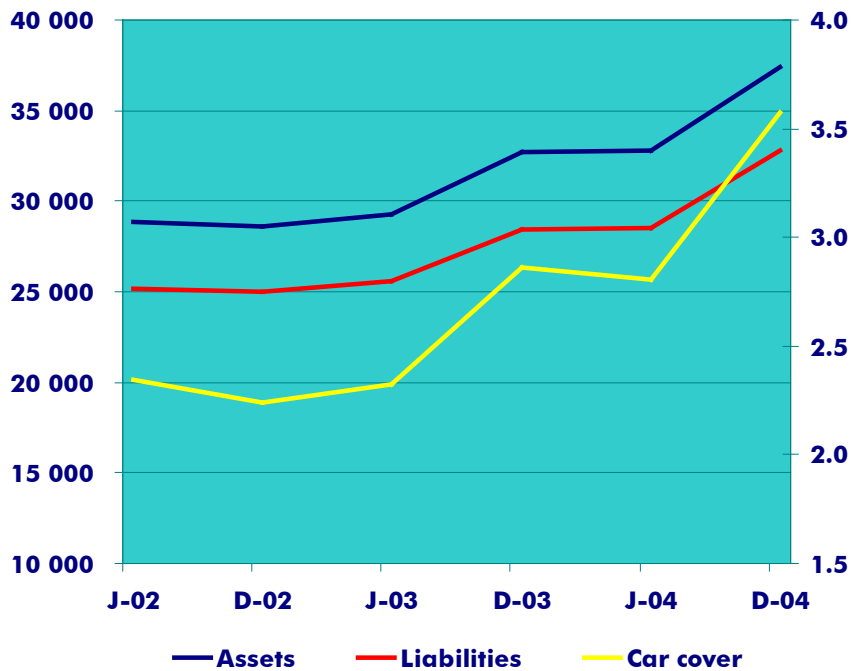
Capital management

current projects

- ▶ **Capital allocation and ROC measurement at business level**
- ▶ **Removing all excess capital to holding company**
- ▶ **Scenario planning w.r.t. ROC targeting**
 - ▶ **Organic capital growth needs**
 - ▶ **New business ventures**
 - ▶ **ROC sensitivity to profit improvements/capital reductions**
 - ▶ **CAR cover levels**

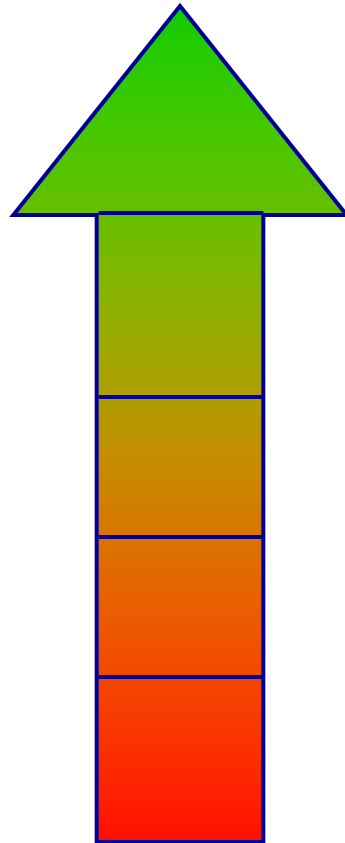


CAR cover vs market levels



Target capital cover levels

**Client
perspective**



3.0 x

2.5 x

2.0 x most internal models

1.5 x informal regulatory

1 x minimum regulatory

**Capital
provider
perspective**



Capital management

current projects

▶ **These actions will follow:**

- ▶ **Profit improvement and business process projects**
- ▶ **Invest in new business growth**
- ▶ **Re-look appropriate methods of capital reduction**
- ▶ **Opportunities to invest in new business ventures**
- ▶ **Review further capital distributions after completing the last phase of our BEE deal**

Target → optimal return on capital





Investment management

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Critical issues for 2005



- ▶ **Investment performances**
- ▶ **Leadership & culture**
- ▶ **Quality & quantity of staff**



Developments within MetAM

- ▶ **MD – Abel Sithole**
- ▶ **COO – Carstens Mphelo**
- ▶ **CIO – Liston Meintjes**

- ▶ **Roles and responsibilities (team structure)**
- ▶ **Tightening of (equity) investment processes**
- ▶ **Beefing up of investment team**
- ▶ **Good bond performance**



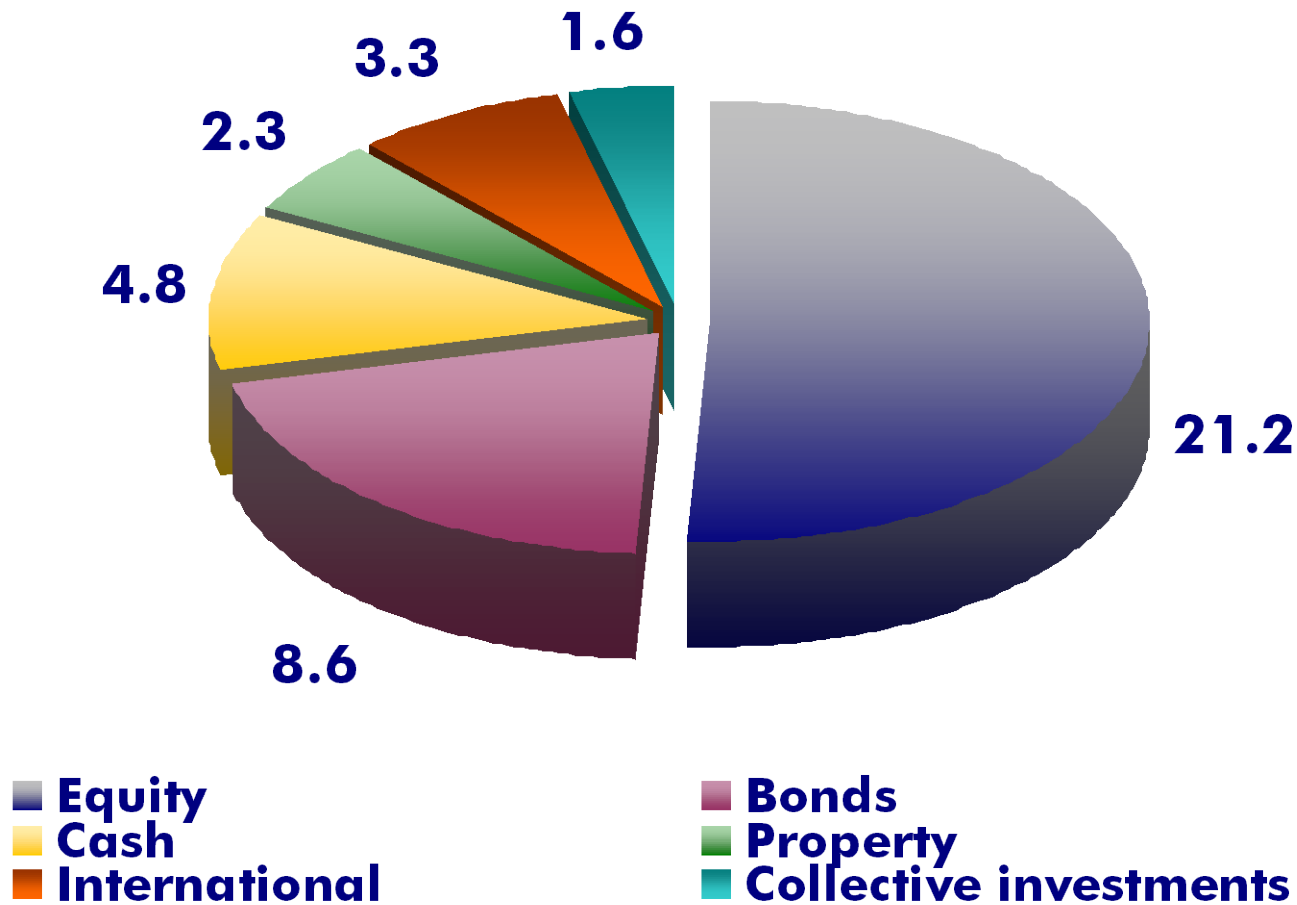
Audit of MetAM (5Ps)

- ▶ **People**
- ▶ **Philosophy**
- ▶ **Products**
- ▶ **Performance**
- ▶ **Process**



Assets under management

Split by asset class (Rm)



Philosophy

- ▶ **Large, active investment house**
- ▶ **Exploit pricing anomalies**
 - ▶ **Find companies where the growth in future earnings is not currently reflected in the price**
- ▶ **“Growth” bias**
 - ▶ **‘Ought to’ trade at higher than market PE**



MetAM products



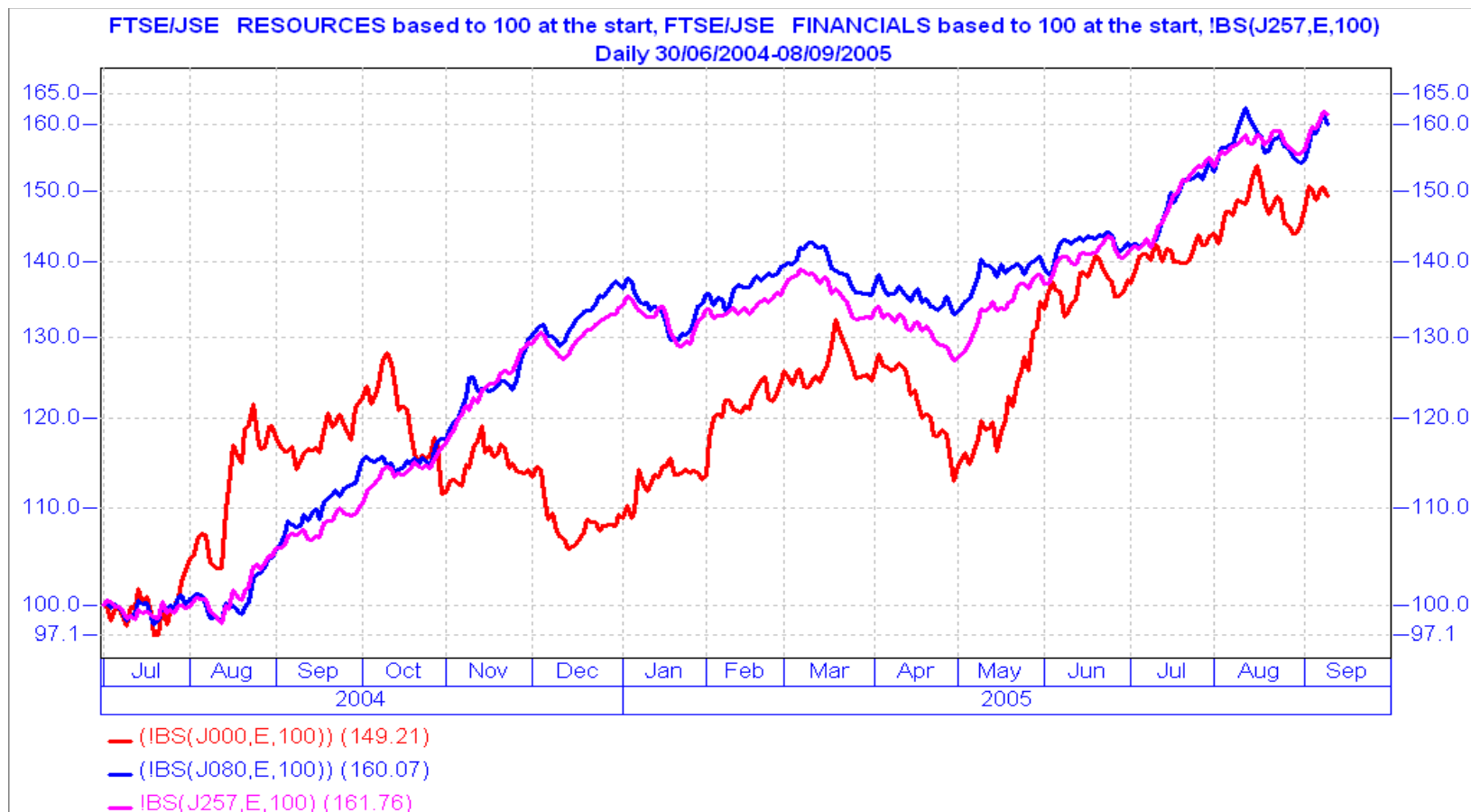
- ▶ **Metropolitan group funds**
 - ▶ **General and specialist mandates**
- ▶ **Specialist funds**
 - ▶ **International investments**
 - ▶ **Absolute return fund**
 - ▶ **Futurebuilder (SRI fund)**
- ▶ **Collective investments**
 - ▶ **General and specialist unit trusts**
- ▶ **Third party funds**
 - ▶ **Some unique mandates**



Performance

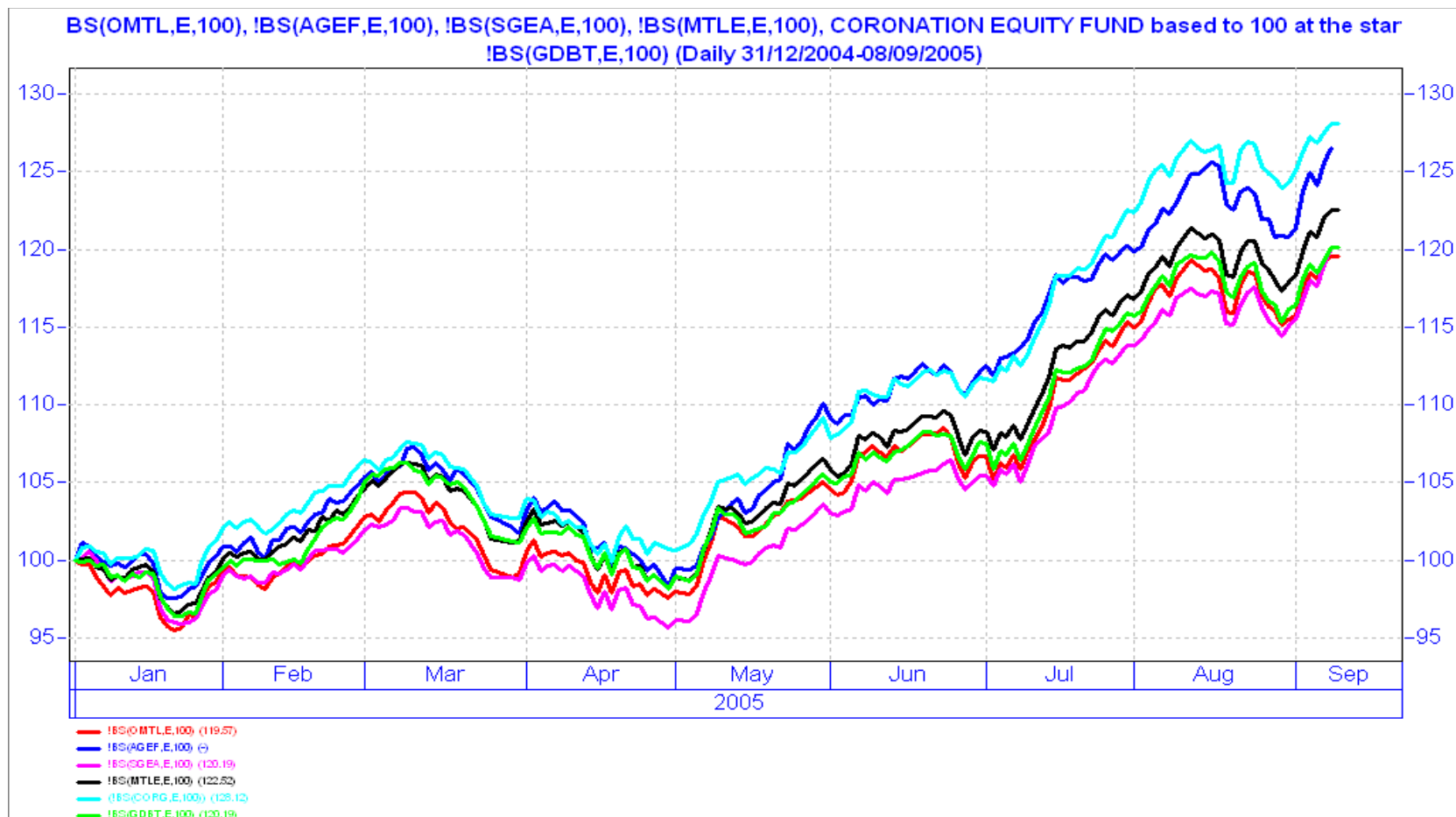
equities

Equity sector opportunities from 30 June 2004



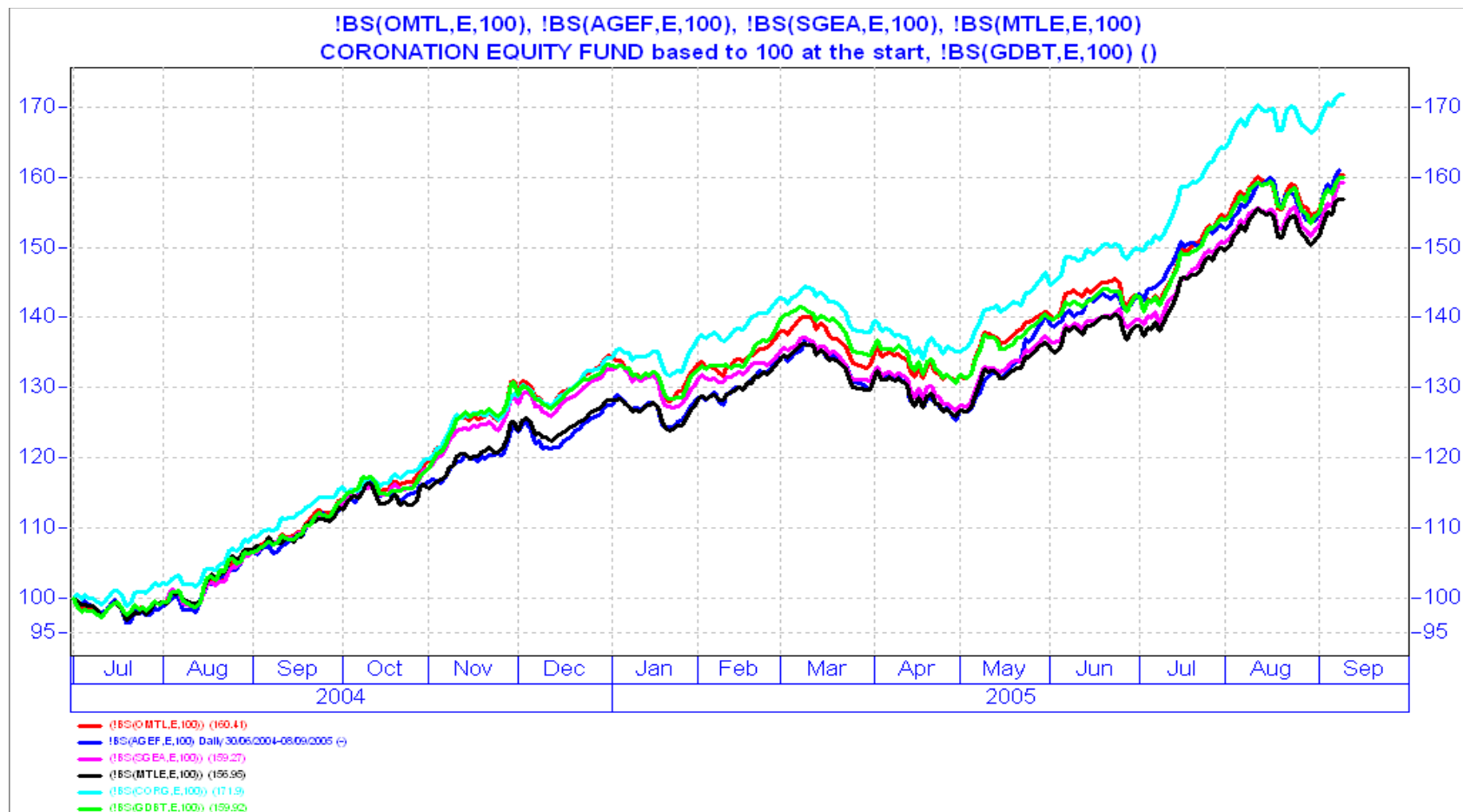
Performance equities

Metropolitan equity fund vs peers YTD



Performance equities

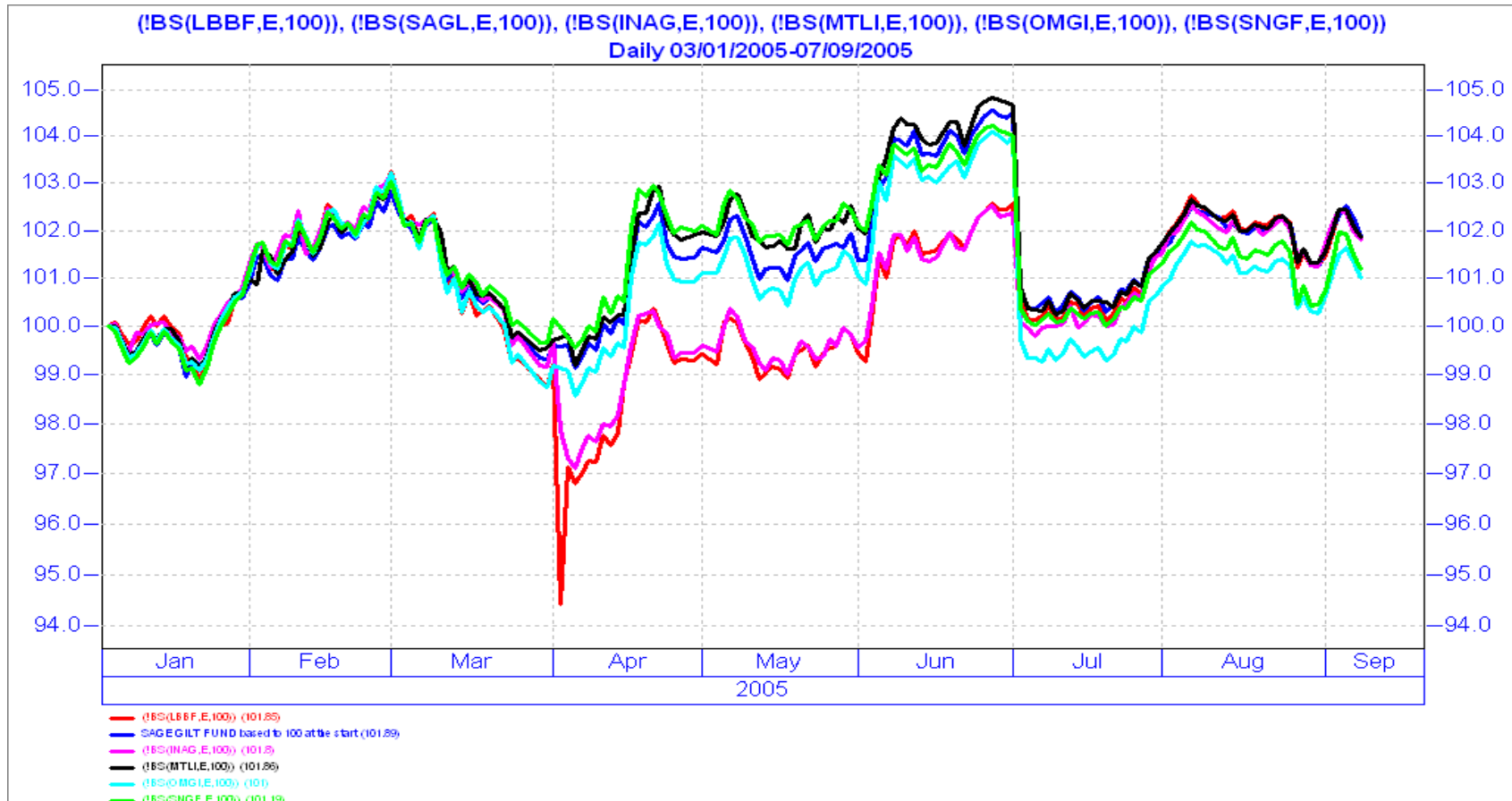
Metropolitan equity fund vs peers from 30 June 2004



Performance

fixed interest

Metropolitan gilt fund vs peers YTD



Process

new initiatives



- ▶ **Integrated structure**
- ▶ **MetAM electronic research library**
- ▶ **Tracking sales as well as purchases**
- ▶ **Larger “universe” for equities**
- ▶ **Move from analyst to “our list”**
- ▶ **Separate institutional and retail (benchmark/peers)**



Summary

- ▶ **Concentrate on performance**
- ▶ **No change to philosophy; active with growth bias**
- ▶ **Tighter discipline**
- ▶ **Greater and easier access to information**
- ▶ **Very good performance YTD**
- ▶ **Futurebuilder fund vintage in sweet spot**
 - ▶ **Upbeat outlook for local private equity market**
 - ▶ **Increasing exposure to attractive asset class**
 - ▶ **Building on an attractive long-term track record**





Retail business

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Retail business

contribution

Core headline earnings **+48% to R148m**

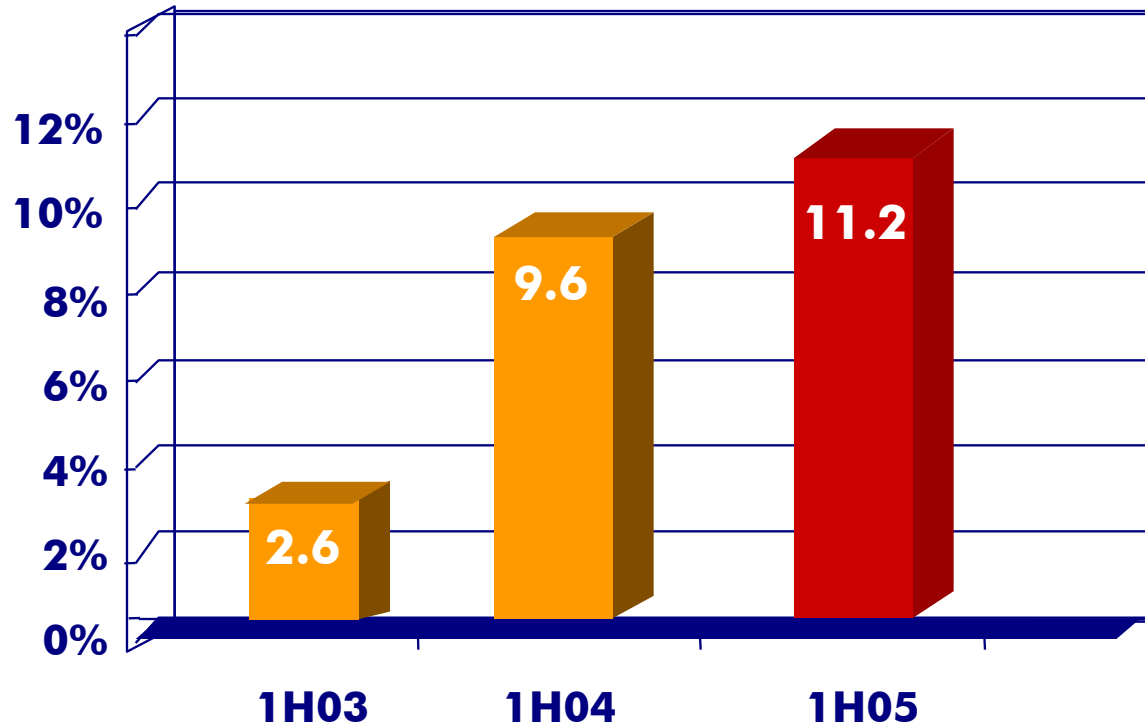
Value of new business **+13% to R44m**

- ▶ **NB margin of 11.2% compared to 9.6% in 1H04**
- ▶ **Continued growth of clients on the books**
- ▶ **Continued improvement in persistency**
- ▶ **Continued containment of unit costs**



Retail business

sustained improvement in margin



Retail business

most significant initiatives

Retail enhancement initiative (REI) project

- ▶ **Aim is to improve new business processes**
 - ▶ **REI will reduce Metropolitan Life's new business issuing costs**
- ▶ **The project is being implemented in two phases:**
 - ▶ **Redesign of investment business enrolment process**
 - ▶ **Redesign of the underwriting process**
- ▶ **Rolled-out by end 2005**
- ▶ **Negative impact on volumes in short term**
- ▶ **Financial benefits will flow through from FY06**



Retail business

most significant initiatives



Restructuring of direct writer distribution

- ▶ **Rationalisation to achieve the following objectives:**
 - ▶ **Flatter management structure**
 - ▶ **Wider control spans**
 - ▶ **Optimum utilisation of technology**
 - ▶ **Reduced regional costs**
 - ▶ **Reduced unit cost per policy**
- ▶ **Existing roles will become obsolete; new roles will be focused on deliverables for continued viability**



Retail business

most significant initiatives

- ▶ **Recently declared most competitive bonus rate (12%) on individual life smoothed bonus business (taxed) of all major industry players**



- ▶ **Special bonus of 6% payable on all death and maturity claims (until final bonus declaration for 2005, dependent on investment performance)**



Retail business

diversified distribution

- ▶ **Continue to benefit from growth in chosen market segments**
- ▶ **Focus on better quality business reflected in improved persistency**
- ▶ **33% of death and maturity claims with a value of more than R50 000 are re-invested with Metropolitan**
- ▶ **Direct marketing sales of 2H04 sustained during 1H05**
- ▶ **Joint projects with high profile distribution partners in the process of being finalised**
- ▶ **Slight improvement in group scheme new business numbers – more work to be done**





Corporate business

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Corporate business contribution

Core headline earnings +50% to **R66m**

New business (APE) (80%) to **R43m**

Tough pricing environment

- ▶ **Loss leaders avoided through actuarial pricing expertise**
- ▶ **All existing business profitable**
- ▶ **Ongoing refusal to cross-subsidise**
- ▶ **Less dependent on new business profits**



Corporate business

Inflows/outflows

- ▶ **Little growth in formal employment levels**
- ▶ **Heavy outflows experienced across industry**
- ▶ **Sharp increase in individual switching to equity-linked products thanks to bull market**
- ▶ **For Metropolitan**
 - ▶ **Excellent service helped stem the outflow**
 - ▶ **Significant re-investment into absolute return fund**
 - ▶ **Inadequate volumes of new business distorted expense allocations**

Niche player + lumpy nature of business = fluctuating NB volumes



Corporate business



Business opportunities

- ▶ **Scope for niche providers remains**
- ▶ **Few tender opportunities for admin and investment only business**
- ▶ **Risk business tenders not always successful due to rate cycle being in soft territory**



Corporate business

looking ahead



Market development and distribution

- ▶ **Focused strategies in collaboration with selected intermediaries**

Investment products

- ▶ **Smoothed bonus products remain appropriate for risk-averse investors**
- ▶ **In-house product and multimanager version promise excellent bonuses (18% to June 2005) over next couple of years**
- ▶ **Expanding product range to cater for popular high return/lower margin market-linked investments**





Health business

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Health business contribution

Core headline earnings **R1m* to R19m**

Value of new business **+10% to R20m**

- ▶ **BEE transaction concluded, resulting in MHG being 30% black owned**
- ▶ **Number of principal members exceeds 440 000**
- ▶ **Cost base comprises approximately 80% fixed costs**
- ▶ **Recent growth in administration and managed care allows for extraction of substantial economies**

** After IFRS adjustments*



Health business growth



- ▶ **POLMED scheme successfully implemented**
- ▶ **GEMS* tender process has started**
- ▶ **Ongoing consolidation of schemes expected**
- ▶ **MHG leader in low cost administration**

* *Government Employees Medical Scheme*





International business

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International business contribution

Core headline earnings * **+40% to R28m**
Value of new business **R9m (up from R1m)**

EV growth

- ▶ **Namibia up 15% to R408m**
- ▶ **Botswana up 8% to R124m**
- ▶ **Lesotho up 9% to R284m**

** 2004 adjusted for Lesotho transfer*



International business

contribution



- ▶ **Namibian figures include Channel Life**
- ▶ **Credit life and EB business major drivers of NB growth and profits in Namibia**
- ▶ **Individual life NB remains under pressure in all markets**

Early signs of market saturation



International business

prospects



Namibia

- ▶ **Integration of Channel Life on track**
- ▶ **80% of all NB successfully transferred to international's new admin system**

Kenya

- ▶ **Signed agreement with local partner in Kenya**

Ghana

- ▶ **Signed MOU with well-established local partner to buy majority share in life insurance company**

Nigeria

- ▶ **Actively exploring a business opportunity**





Looking forward ...

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Group strategy



- ▶ **Focus on capital management**
- ▶ **Focused on Africa – strong regional player**
- ▶ **Focus on existing core businesses**
- ▶ **Re-positioning asset management**
- ▶ **Re-design of retail products & processes**





Questions

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