Metropolitan remains strongly capitalised despite unprecedented market turbulence

Metropolitan's results for the year ended 31 December 2008, the group's first set of annual financials under the leadership of Wilhelm van Zyl, were mostly in line with the expectations of investment analysts covering the life insurance industry.

Despite tough economic conditions and the turmoil on world equity markets, Metropolitan posted a solid set of results, with some areas of excellence as outlined below.

The value of new business written by all the businesses in the group grew from R336 million in 2007 to R371 million, an increase of 10%, a noteworthy feat under current conditions. In this regard, the 38% rise in the value of new insurance business (retail, international and corporate) which grew from R180 million in 2007 to R248 million, was particularly significant.

Growth in the retail new business annual premium equivalent or APE (comprising new recurring premium income plus 10% of single premium income) of 22%, together with a 45% improvement in the profitability of retail new business (APE margin up from 11.3% to 16.4%), were especially pleasing achievements in the current extremely tough operating environment and exceeded the market's expectations.

"Although consumers were confronted by increasingly difficult conditions throughout the twelve month period, the persistency of our business overall proved to be remarkably resilient and we ended the year in a better position than anticipated in this vitally important area," said Van Zyl.

On the corporate business front, new business inflows followed their normal volatile pattern, ending the year 33% lower. The margins on risk business remained under pressure, dampening both operating and new business profits.

Turning to the group's international cluster, the well-established businesses in the south of the African continent (Botswana, Lesotho and Namibia) recorded a strong performance, increasing their new business PVP (present value of premiums) by 18%, with Lesotho the top achiever amongst them. The businesses in the west – Ghana and the start-up operation in Nigeria – made exciting progress.

Although the value of asset management new business, comprising collective investment inflows and third party mandates, grew by 11% to R39 million, lower investment market performance in absolute terms was largely responsible for a 7% drop in operating profit.

Profits at the Metropolitan Health Group (MHG) were 56% higher than in 2007, increasing to R100 million from R64 million, boosted by the tremendous growth in membership of the Government Employees Medical Scheme, which is administered by MHG, as well as enhanced operational efficiencies.

Metropolitan once again stood out in its ability to maintain a positive cashflow from clients, with net funds received of R8 billion. The group has succeeded in maintaining a robust cashflow position in marked contrast to strained industry cashflows in recent years.

At 151 cents (6% higher than 2007's 142 cents), diluted core headline earnings per share reflected the strength of the group's operational performance. The growth in the 'per share' figure has been enhanced throughout by the reduction in the number of shares in issue due to ongoing capital management.

The group's diluted earnings and headline earnings per share, which are largely determined by investment market conditions, reflected decreases of 112% and 109% respectively, due largely to mark-to-market losses in its shareholder investment portfolios.

"Despite abnormal volatility on both financial and investment markets, locally and internationally, which has had a severe negative impact on our investment returns, we remain in a healthy capital position, with our capital adequacy requirement at a group level (R2.34 billion) covered 3.1 times," points out Van Zyl. "This is largely thanks to our unwavering focus on balance sheet solvency and capital preservation."

For shareholders, the fact that the total dividend for the year remained flat at 95 cents is also indicative of Metropolitan's resilience in the midst of one of the worst crises on financial markets worldwide. It is confirmation that the board remains confident about Metropolitan's medium-term earnings prospects and capital position while at the same time acknowledging the ongoing uncertainty that the group is expecting in 2009. Based on core headline earnings per share, the 2008 dividend is covered 1.6 times and the dividend yield is 8.8%. The 2008 declaration translates into compound growth in Metropolitan's dividend of 14.7% over the past three years.

Wilhelm van Zyl succeeded Peter Doyle as group ceo on 1 April 2008. During Van Zyl's first year at the helm, Metropolitan has concentrated on strengthening its strategic position, remaining focused on creating prosperity for the people of Africa by providing them with a comprehensive range of accessible, affordable and appropriate financial products and services.

Summary of Metropolitan's results to December 2008

	December 2007	December 2008
Diluted core headline earnings	R1 003m	R1 011m
Diluted core headline earnings per share	142c	151c
Earnings	R1 503m	(R319m)
Diluted earnings per share	232c	(27c)
Return on embedded value (%)	17.8	(2.1%)
Embedded value per share	1 832c	1 709c
Total dividend per ordinary share	95.00c	95.00c
Total premiums received	R12bn	R12bn
Total assets under management	R102.2bn	R98bn

Notes

- Core headline earnings are a particularly appropriate measure of the performance of financial services groups such as Metropolitan in that they eliminate items of both a once-off and an inherently volatile nature, such as changes to the valuation basis, investment variances and capital appreciation/depreciation.
- Diluted core headline earnings have been adjusted for the convertible redeemable preference shares, the staff share scheme shares and the treasury shares in issue – all dilutory in nature. The preference shares were issued to Metropolitan's strategic empowerment partner, Kagiso Trust Investments (KTI).

end

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