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Operational update

for the three months ended
30 September 2019

Momentum Metropolitan delivered a pleasing set of results for the first quarter of the F2020 financial year. Diluted normalised headline earnings¹ per share, increased by 13% year-on-year. It is worth noting that results for a single quarter can be quite volatile, and one should thus be cautious not to annualise these quarterly results. Most business units were able to grow earnings year-on-year. Star performers for the period were Guardrisk, the Health operations, and Momentum Investments.

New business volumes were down 24% relative to 1Q2019, but that can be explained by the exceptional new business volumes recorded by Momentum Corporate in 1Q2019. If we exclude Momentum Corporate, new business volumes were up 12% across the other business units. We believe that the 12% growth rate is indicative of the progress we are making in the various retail segments.

Overall, we are satisfied with the results, which are in line with our three-year turnaround plan. The plan is to continue focusing on bolstering our product and distribution capabilities, as well as on enhancing our client service and value proposition.

Group financial performance

The diluted normalised headline earnings, the Group's primary earnings metric, increased by 9% to R0.9 billion for the first quarter. The contribution from operating divisions, i.e. before investment returns on the shareholder investment portfolio, before investment into New Initiatives, and before unallocated head office expenses, increased by 16%. Our share of losses on New Initiatives increased slightly as per business plan. Investment returns on the shareholder investment portfolio were in line with expectations but lower than in 1Q2019, as we did not see a repeat of the revaluations of our venture capital investments.

Group embedded value per share was R27.90 on 30 September 2019. Annualised return on embedded value per share was 11.6% for the quarter. The Group remains well capitalised with the solvency cover ratio for Momentum Metropolitan Life Limited at 2.07 times on the regulatory basis at quarter end. This remains close to the upper end of our target range of 1.7 times to 2.1 times.

Group new business performance

The present value of new business premiums ("PVNBP") for the first quarter was R13.0 billion, which is 24% lower than in the comparative period. This decline is fully explained by the strong new business in Momentum Corporate in 1Q2019, including a R5 billion with-profit annuity transaction. Momentum Investments delivered strong new business growth of 20%, mainly from offshore wealth products and from life annuities. Momentum Life delivered growth in long-term savings products, which was offset by lower protection new business.

¹ Diluted normalised headline earnings adjust the standard JSE definition of headline earnings for the impact of treasury shares, the amortisation of intangible assets arising from business combinations and BEE costs. Momentum Metropolitan is of the opinion that these adjustments present a more realistic picture of the underlying performance of the Group and remove distortions that might arise from elimination of treasury shares (potential distortions that are peculiar to financial institutions that invest in own securities on behalf of clients). The definition of diluted normalised headline earnings remains unchanged.

While PVNBP for Metropolitan Retail remained largely flat, productivity per agent is up on prior year which had a positive impact on new business profitability. Momentum Metropolitan Africa improved PVNBP by 9%.

Value of new business for the three months was R100 million compared to R189 million in the prior period. This translated to a new business margin of 0.8%. Again, if we adjust for Momentum Corporate, the remaining operations more than doubled their combined value of new business.

R million	1Q2020	1Q2019	Δ%
Recurring premiums	899	988	-9
Single premiums	8 392	11 827	-29
New business volumes (PVNBP)	12 978	17 113	-24
Value of new business	100	189	-47
New business margin	0.8%	1.1%	-0.3%

Segmental performance

The following sections provide more detail on the performance of the individual operating business units.

Momentum Life

R million	1Q2020	1Q2019	Δ%
Recurring premiums	269	242	11
Single premiums	488	525	-7
New business volumes (PVNBP)	2 013	2 027	-1
Value of new business	26	9	>100
New business margin	1.3%	0.4%	0.8%

PVNBP for Momentum Life of R2 013 million declined marginally, mainly due to the impact of basis changes implemented at 30 June 2019. New business volumes improved on the on the long-term savings business, which was offset by lower protection business new business volumes. The Investo Retirement Annuity product launched in F2019 sold particularly well.

Value of new business increased to R26 million, which represents a new business margin of 1.3%. The improvement was mainly driven by well managed expenses.

Normalised headline earnings improved marginally compared to the prior period. This was largely driven by well-managed expenses, offset by somewhat weaker underwriting experience. Earnings were also aided by better than expected level of voluntary premium increases on existing policies.

Momentum Investments

R million	1Q2020	1Q2019	Δ%
Recurring premiums	29	42	-31
Single premiums	6 568	5 394	22
New business volumes (PVNBP)	6 679	5 557	20
Value of new business	30	4	>100
New business margin	0.4%	0.1%	0.4%

PVNBP for Momentum Investments increased by 20% to R6.7 billion. Single premium sales achieved strong growth on the local and offshore Wealth platform as well as on life annuities.

Value of new business improved from R4 million to R30 million mainly due to solid growth in new business volumes and an improved business mix, coupled with good expense management. These contributed to the improvement in new business margin to 0.4%.

Normalised headline earnings were up year-on-year, driven by earnings on guaranteed products and on annuities. Wealth platform asset-based fee income was bolstered by the strong volume growth. Positive net flows onto Momentum Wealth's offshore platform was particularly pleasing. This was partly offset by lower asset-based fee income from investment management businesses in weaker market conditions.

Metropolitan Retail

R million	1Q2020	1Q2019	Δ%
Recurring premiums	312	329	-5
Single premiums	286	315	-9
New business volumes (PVNBP)	1 292	1 302	-1
Value of new business	39	37	5
New business margin	3.0%	2.8%	0.2%

Metropolitan Retail's PVNBP of R1 292 million was 1% lower than in the prior period. However, the tied agency sales force headcount was approximately 20% smaller than during the prior period. We have seen an improvement in both the adviser productivity and early duration premium collection rates compared to the prior period.

We are pleased with the observed improvement in the proportion of policies where premiums are collected via payroll deduction. This, coupled by an improved mix of funeral business contributed to the 5% improvement in VNB.

Normalised headline earnings declined slightly through a combined impact from lower new business volumes, reduced credit risk variance, and weaker underwriting experience.

Momentum Corporate and Health

R million	1Q2020	1Q2019	Δ%
Recurring premiums	197	288	-32
Single premiums	893	5 462	-84
New business volumes (PVNBP)	2 442	7 720	-68
Value of new business	0	152	-100
New business margin	0.0%	2.0%	-2.0%

Momentum Corporate's PVNBP declined by 68% to R2.4 billion. Although some large clients were secured by Group Insurance and by FundsAtWork during the quarter, the R5 billion single premium with-profit annuity transaction recorded in the prior period resulted in significantly lower total volumes relative to the prior period.

The value of new business reduced to zero from R152 million in the prior period. This is the net outcome of positive value of new business from FundsAtWork umbrella fund products and a negative contribution from products targeted at stand-alone funds. In the market segment that focuses on larger schemes, new business flows tend to be lumpy which means that the value of new business fluctuates significant from quarter to quarter.

Momentum Corporate's normalised headline earnings improved year-on-year with most product lines delivering growth. Although disability underwriting results remain disappointing, and reduced somewhat from the prior period, the overall earnings from the Group Insurance business improved year-on-year on the back of solid mortality profits.

Normalised headline earnings for Momentum Metropolitan's health business improved against the prior period mainly due to an improvement in administration income and good expense management. Health membership numbers increased by 3% year-on-year – we believe this was a credible result in the current environment.

Non-life Insurance

Guardrisk delivered double-digit new business growth, with strong contributions from the mining rehabilitation and underwriting managers divisions. Earnings are up materially from 1Q2019 on the back of double-digit revenue growth and improving operating margins. There has been a strategic focus at Guardrisk to grow their own underwriting activities (rather than just administering client business) and this is reflected in 17% growth in underwriting profits earned by Guardrisk.

At Momentum Short-term Insurance, net earned premiums grew by 17%, continuing the positive trend observed over recent quarters. Expense management was another positive feature of MSTI results. Normalised headline earnings, however, declined marginally due to a 3% increase in the claims ratio relative to that experienced in 1Q2019 (62% vs 59%). The claims ratio was negatively affected by weather-related claims in the Western Cape in July 2019.

Momentum Metropolitan Africa

R million	1Q2020	1Q2019	Δ%
Recurring premiums	92	87	6
Single premiums	157	131	20
New business volumes (PVNBP)	552	507	9
Value of new business	5	-13	>100
New business margin	0.9%	-2.6%	3.5

PVNBP from Momentum Metropolitan Africa increased by 9% year-on-year. We saw good growth in savings business in Namibia and Botswana, while Botswana and Lesotho showed solid growth on recurring premium protection business. Single premium business in Lesotho continued its growth trend from the latter half of the previous financial year.

Value of new business of R5 million for the quarter is a significant improvement on the negative value of new business reported in the prior period. This growth was driven by improved business mix in Botswana and Lesotho, and better sales volumes overall. This outcome resulted in new business margin of 0.9%.

Normalised headline earnings from the countries where we will continue to remain, were higher than the prior period reflecting revenue growth and good expense management.

During the first quarter of F2020 we concluded a transaction to dispose of our entire stake in our business in Nigeria.

New Initiatives

The India joint venture, in partnership with Aditya Birla, continues to deliver results in line with our expectations. As at 30 June 2019 we have signed-up over 3.8 million lives and the ratio of retail to corporate business continues to improve.

aYo, our joint venture with MTN, reached its 5 million enrolment mark in October 2019. Compared to the prior period, our share of the costs to support the business has increased, in line with the business plan.

Shareholders

Normalised headline earnings from the Shareholder segment declined compared to the prior period. Higher investment income earned on shareholder assets was offset by lower fair value gains in our venture capital investments, where we did not see a repeat of the large revaluations of some of our underlying investments held through Exponential Ventures that occurred in the prior period. Head office expenses also increased year-on-year. This increase was driven by costs incurred with the Momentum digital platform, advisory fees on mergers and acquisitions, and higher employee costs.

Credit ratings

Moody's Investors Service ("Moody's") affirmed the Insurer Financial Strength rating of Momentum Metropolitan Life Limited (Baa2) and Guardrisk Insurance Company Limited (Baa3), Guardrisk Life Insurance Company Limited (Baa3) and Guardrisk International Limited (Baa3) on 5 November 2019. The outlook for the South African sovereign credit rating has been changed to negative; consequentially the outlook for the entities listed above was also changed.

Outlook

The operating environment in South Africa remains challenging, with low levels of business and consumer confidence, sluggish economic growth and high levels of unemployment, which all continues to put pressure on our clients. This understandably has a moderating effect on our business activity and on our financial results.

Despite the difficult external environment, we remain focused on delivering on the Reset and Grow strategy objectives articulated previously. Delivery on Reset and Grow initiatives will place us in a stronger competitive position for the longer-term. We remain cautiously confident that we will achieve our three-year Reset and Grow target of between R3.6 billion and R4.0 billion normalised headline earnings in F2021.

21 November 2019

CENTURION

The financial information on which this trading update has been based has not yet been audited or reviewed by the Group's auditors.

Conference call

The executive management of Momentum Metropolitan will be hosting a conference call for shareholders, investors and analysts on 21 November 2019.

We kindly request callers to pre-register using the following link www.diamondpass.net/2916187.

A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 13h00.

Access numbers for participants dialling live from their country:

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