update
METROPOLITAN HOLDINGS LIMITED

26 May 2009

Update is a newsletter produced by the investor relations department of Metropolitan Holdings Limited. It provides information on the different businesses in the group as well as financial news. Contact Sue Snow (financial media) on (021) 940-6119 / ssnow@metropolitan.co.za or Natalie Amos (investor relations) on (021) 940-6112 / namos@metropolitan.co.za for further information.

Operational performance for the three months ended 31 March 2009

Group overview

- The major factor continuing to affect the operations of the group remains the potential fallout from a sustained global financial crisis and any resultant reduction in local employment levels combined with reduced disposable income in our client base
- Retail recurring new business grew by 11%, boosted by successes in the personal financial adviser markets
- Persistency experience on ordinary retail business remained good, resulting from pro-active management activity
- Direct marketing production during the period has been good; however, persistency remains an area of concern in the current economic environment
- Diversification within the corporate business continued, with good progress in increasing the administration business
- The higher level of benefit payments in the corporate business, as experienced in 2008, is continuing in 2009
- International businesses grew their single premiums by 150% to R60 million
- Metropolitan Health (MHG) further increased the size of its business while maintaining exceptional levels of service, highlighting the sound underlying business model
- The total lives under administration at MHG reached 2 million in early May 2009
- The asset management team gained positive net inflows despite the investment conditions
- Overall, the group maintained its positive net cashflow at an impressive R3.3 billion
- Capital management and related activities remain a priority
- The global investment, financial and economic markets continue to challenge

Retail business

	3 months to 31-Mar-05	3 months to 31-Mar-06	3 months to 31-Mar-07	3 months to 31-Mar-08	3 months to 31-Mar-09	Increase (compound since 2005)
	Rm	*Rm*	*Rm*	*Rm*	*Rm*	*%*
New business						
Recurring premiums	168	153	175	188	209	6
Single premiums	266	375	485	869	548	20
Annual premium equivalent (APE)	195	191	224	275	264	8
PV of premiums			1 308	1 646	1 351	-

Cashflow						
Recurring premiums	829	908	1 011	1 094	1 156	9
Single premiums	276	374	492	778	548	19
Claims paid	650	801	875	1 197	1 197	16
Net	455	481	628	675	507	3

APE = new recurring premiums plus 10% of single premiums
PV = present value

The growth in recurring premium new business continued its five-year trend, increasing by 11% in 2009, mainly as a result of:

- Increased recurring premiums from the wholesale and personal financial adviser distribution channels
- The entrenched and successful focus on the quality of new ordinary business issued
- The new commission regulations are being applied; initial indications seem to reflect a possible swing from savings to risk business.

The business remains well-positioned:

- Claims experience is in line with expectations
- The number of policies under administration continues to grow
- Despite the economic pressures being experienced in our target markets, ordinary business retention rates remain within acceptable limits, with lapses at inception below the group target of 15%
- Deteriorating persistency and increasing distribution costs within the direct marketing channel remain areas of concern: Retail management are, however, paying very close attention to these operations
- Both recurring and single premium income are continuing their healthy increase over time, confirming the overall growth of the brand and the in-force book

Looking ahead

- Single premium new business is expected to lag 2008 as a result of the closure of certain low-margin third-party distribution initiatives during 2008
- Metropolitan launched RiskPlan, a new innovative risk product aimed at the achiever market, in the first quarter of 2009
- The prospects for Retail remain directly correlated to those of its target market
- Food, fuel and transport inflation, together with unemployment levels and credit extension, are still the biggest challenges
- Any further increases, unless compensated by an equivalent increase in salary inflation, will curtail new business prospects and could affect the persistency of the in-force book
- The target market has, however, remained resilient and Metropolitan is confident that continued growth can be achieved within this segment

Corporate business

	3 months to 31-Mar-05	3 months to 31-Mar-06	3 months to 31-Mar-07	3 months to 31-Mar-08	3 months to 31-Mar-09	Increase (compound since 2005)
	Rm	*Rm*	*Rm*	*Rm*	*Rm*	*%*
New business						
Recurring premiums	17	34	58	49	31	16
Off balance sheet (APE* basis)					21	
Single premiums	79	161	1 209	295	308	41
Total APE*	25	50	179	79	83	35
PV of premiums			1 589	641	506	-

Cashflow						
Recurring premiums	358	374	442	421	417	4
Single premiums	79	161	1 209	295	308	41
Claims paid	791	1 090	670	1 043	1 261	12
Net	(354)	(555)	981	(327)	(536)	11

* APE includes off balance sheet new business

The market conditions remain tough and new business continues to be lumpy; however:

- Within that context, the stability of the premium income is very comforting
- The group insurance business market responds positively to players with strong risk rating expertise and high service levels
- The reduction in new recurring premiums relates mainly to risk business where pricing remains extremely competitive and experience has dropped back to more normal levels
- The off balance sheet new business comprises administration contracts on the recently launched Neon platform
- Unique opportunities still exist for solutions-driven suppliers
- Metropolitan Retirement Administrators has secured their second client since the establishment of the business, comprising about 20 000 active members, with effect from 1 June 2009
- Certain funds and commentators are again recognising the value of the investment protection that is inherent in our smoothed bonus products, given current market volatility
- The increase in benefits paid was largely due to higher than expected disinvestments, driven by increased benefit levels paid out of funds invested with Metropolitan
- The growth in the risk book of business over the last few years contributed to the growth in benefit payments

Looking ahead

- Ongoing efforts to reduce the business's dependence on large transactions are proving to be successful
- As mentioned with our year-end results, some of our smoothed bonus funds have negative bonus stabilisation reserves. These funds are being managed very actively using various asset protection strategies.
- The growth in the retirement administration business remains on track, with a number of successes being achieved by the Neon platform
- In addition, exciting opportunities exist in the large fund administration market, with a number of good prospects for Metropolitan

International business

	3 months to 31-Mar-05	3 months to 31-Mar-06	3 months to 31-Mar-07	3 months to 31-Mar-08	3 months to 31-Mar-09	Increase (compound since 2005)
	Rm	*Rm*	*Rm*	*Rm*	*Rm*	*%*
New business						
Recurring premiums	23	16	19	35	31	8
Individual life	19	15	19	28	29	11
Employee benefits	4	1	-	7	2	(16)
Single premiums (incl EB)	67	24	32	24	60	(3)
APE	30	18	22	37	37	6
PV of premiums				173	166	-
Cashflow						
Recurring premiums	190	184	204	204	226	4
Single premiums	74	30	38	26	62	(4)
Claims paid	123	161	203	175	161	7
Net	141	53	39	55	127	(3)

- The operating conditions remain challenging across all the African markets in which we operate
- New business growth was achieved in the Nigerian and Swaziland operations
- Single premium successes in Swaziland and Botswana resulted in an increase of 150% when compared with 2008
- As expected, new business and premium income has slowed down in the established businesses
- Appropriate new product roll-out in all of the operations remains a priority
- The positive net cashflow position increased on the back of increased single premium flows

Looking ahead

- The chief executive of International, Justin van den Hoven, has retired from the group after 33 years' service
- The appointment of the new chief executive is nearing finality
- The business case for the International division remains very strong
- The new business APE for the first quarter is the highest recorded for the past five years

Asset management business

	3 months to 31-Mar-05	3 months to 31-Mar-06	3 months to 31-Mar-07	3 months to 31-Mar-08	3 months to 31-Mar-09	Increase (compound since 2005)
	Rm	*Rm*	*Rm*	*Rm*	*Rm*	*%*
Third party mandates – net	(51)	(298)	58	790	644	-
Collective investments – net	968	1 297	3 169	1 027	1 054	2

- The continued positive flows into MetAm reflect the improved investment performances
- Equity performances mirrored the volatile global market environment, but have recovered strongly since February 2009 on a relative basis
- At the 2008 Raging Bull Awards, presented in February 2009, MetAM's Deon van Zyl, who manages the Metropolitan Gilt Fund on behalf of Metropolitan Collective Investments, was the recipient of the overall Raging Bull Award for the top fund performance over three years to 31 December 2008 in the best domestic fixed interest category, as well as the certificate for the best fixed interest bond fund for the top performance in that sub-category.
- The Metropolitan Income Fund, also managed by Van Zyl, was the winner of a category award (domestic fixed interest-income category) in the 2009 Morningstar Research SA Fund Awards, the only internationally recognised awards for unit trust funds in this country, announced in April 2009. Category awards are presented to the funds with the best performance on a risk-adjusted basis in their respective ASISA categories, subject to qualitative review by Morningstar analysts.
- Collective investment's consistent positive net inflows confirm the markets view on their service delivery
- The net cashflows of the business remained positive
- Business operating margins are under severe pressure due to the erosion of asset levels under the current global market conditions

Health business

- The main focus is on managing existing clients and the smooth take-on of members joining the Government Employees Medical Scheme (GEMS).
- In total, principal members under administration had risen to 770 000 (1.9 million lives) vs 700 000 in March 2008 (555 000 in 2007 and 440 000 in 2006) by the end of March 2009
- In early May 2009 the total lives under administration at MHG reached the 2 million mark
- GEMS membership continues to grow, in line with expectations
- Performance levels across the board remain in line with service level agreements
- With more than 50% of the restricted schemes in South Africa remaining firmly under MHG administration, the business is well placed for ongoing sound performance

Group perspective

Administration expenses
- Administration expenses continue to be a key area of focus, especially in the current economic environment
- Overall life insurance administration and other expenses remain well-controlled and within budget

Capital management
- The group's capital management initiatives continue to be accorded high priority during the current market uncertainty
- The group's 31 March 2009 capital positions were all at levels similar to those disclosed at the 2008 year-end

Metropolitan Card Operations
- Operations have been discontinued
- Winding down has commenced, with final closure anticipated by 30 June 2009

Resignation of board chairman
- On 17 March 2009 the chairman, Professor Wiseman Nkuhlu, resigned as a director of Metropolitan
- JJ Njeke has been appointed acting chairman until the board has had the opportunity to consider a permanent appointment

Empowerment rankings and ratings
As at 31 December 2008 Metropolitan achieved an A rating in terms of the Financial Sector Charter (FSC) scorecard, with a compliance score of 103.65%.

Assessed on the basis of the department of trade and industry's codes of good practice for broad-based black economic empowerment, Metropolitan was rated a level 3 contributor, with a score of 76.75 out of a 100 points. A level 3 contributor means that clients can claim 110 cents for every 100 cents spent with Metropolitan in terms of preferential procurement reporting.

Both scores were audited by accredited ratings agency NERA (National Empowerment Ratings Agency).

HIV and AIDS education
B the Future, which was recently released by Metropolitan, is a revolutionary new weapon in the fight against HIV and AIDS – an information booklet that can be downloaded directly to a cellphone – developed and launched by Metropolitan in April 2009. This innovative cellbook is designed specifically to encourage South Africans to know their HIV status and take responsibility for managing their health, ie to live the future so that they can *b the future*. SMS HIV to 32907 to download the cellbook, or visit the www.livethefuture.co.za website for more information.

Updated credit rating
On 31 March 2009 international rating agency Fitch Ratings downgraded the Metropolitan ratings by one notch. These single-notch downgrades can be attributed mainly to the global and South African investment market conditions.

Comments / qualifications
- All figures are provisional and unaudited.
- 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. (Figures calculated on the latter basis are normally referred to as production figures.) It should be noted that there can be a delay of up to three months between these two dates.
- The new business figures are all net of outside shareholders' interests.

End

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