

26 November 2012

Update is a newsletter produced by the investor relations department of MMI Holdings Limited. It provides information on the different divisions in the group. Contact Natalie Amos (investor relations) on (021) 940-6112 / namos@mmiholdings.co.za for further information.

Trading update for the three months ended 30 September 2012

Group overview and operational highlights

- The current economic environment in which the group operates remained difficult.
- Total new business APE increased by 13% compared with the same quarter in the prior year, reflecting the strength of the diverse distribution channels and the comprehensive product offerings in the group.
- Increased competitive forces and the mix of new business continue to dampen the overall new business margins.
- Investment markets, while still volatile, remained strong for the quarter under review.
- Good progress has been made with the Solvency Assessment and Management project (SAM).
- The group has strengthened the internal resources and is building new system capabilities in the short-term insurance operation.
- Expense management and merger efficiencies remain one of the top priorities over the short-to-medium term.
- The integration is on schedule and merger-related expense-savings are being realised.

Momentum Retail *

	3 months to 30-Sept-11	3 months to 30-Sept-12	Change vs 2011
	Rm	Rm	%
New business			
Recurring premiums	257	247	(4)
Single premiums	2 305	2 667	16
Annual premium equivalent (APE)	488	514	5
Present value of premiums (PVP)	3 681	4 054	10

* Momentum Retail includes Odyssey but excludes new markets and FNB Life.

* Covered business includes on-balance sheet business only, as disclosed at year end.

- The operating environment in the upper-income market remained very competitive.
- New business volumes (APE) for the quarter were 5% better than those recorded in the prior year.
- The mix of new business continues to favour single premium investments with lower inherent margins; therefore the overall new business margin remains below the medium-term target.

- Client service remained at very satisfactory levels.
- Business efficiency initiatives have progressed; however, the benefits will only emerge fully in later reporting periods.

Metropolitan Retail

	3 months to 30-Sept-11	3 months to 30-Sept-12	Change vs 2011
	<i>Rm</i>	<i>Rm</i>	%
New business			
Recurring premiums	285	255	(11)
Single premiums	401	299	(25)
Annual premium equivalent (APE)	325	285	(12)
Present value of premiums (PVP)	1 445	1 350	(7)

Metropolitan Retail includes new markets and FNB Life, but excludes Odyssey.

- Recurring premium new business was below that of the comparative period, dampened by lower production in the traditional agency channels
- Metropolitan Retail also re-priced certain unprofitable products, implemented stricter quality controls over group scheme activities and introduced new anti-fraud measures – all of which had a dampening impact on the volume of new business written during the quarter.
- Increased sales were recorded in the expanding call centre business.
- Time committed to the regulatory exams for financial advisers had a further negative impact on production.
- Stronger new business sales have been recorded since the cut-off for this quarter.
- Recurring premium figures for 2011 have been restated for errors picked up and corrected during the 2012 financial year.
- The reduction in single premium income was the result of certain distribution channels being discontinued; good growth has continued in the remaining channels.
- Early duration persistency across most lines of business, while marginally lower than the prior period, remained within the pricing assumptions.
- The process and systems renewal projects are proceeding as planned.
- Expenses were well managed during the period under review.

Momentum Employee Benefits

	3 months to 30-Sept-11	3 months to 30-Sept-12	Change vs 2011
	<i>Rm</i>	<i>Rm</i>	%
New business			
Recurring premiums	116	112	(3)
Single premiums	403	1 919	>100
Annual premium equivalent (APE)	156	304	95
Present value of premiums (PVP)	1 255	2 771	>100

- Group risk profits for the first quarter were satisfactory and in line with expectations
- Excellent single premium production was recorded during the quarter boosted by a large pensioner outsourcing annuity contract.
- Securing new business in the group insurance and investment markets remains highly competitive; however, the overall new business pipeline is encouraging.

- Client retention remains at satisfactory levels.
- The migration of the risk and umbrella business to a single platform remains on track.
- Expense efficiency initiatives are continually being investigated and implemented.

Metropolitan International §

	3 months to 30-Sept-11	3 months to 30-Sept-12	Change vs 2011
	Rm	Rm	%
New business			
Recurring premiums	64	71	11
Single premiums (incl EB)	53	35	(34)
Annual premium equivalent (APE)	69	74	7
Present value of premiums (PVP)	331	399	21
Health membership ('000)	126	381	>100

§ New business includes MMI's share of life insurance new business written by all Metropolitan International subsidiaries.

- Strong new business volumes were recorded in Namibia and Lesotho during the period under review.
- Slower single premium production was experienced in Botswana.
- New life insurance operations are being established in Zambia and Tanzania as part of the strategy to make more products available throughout the operating footprint.
- The medical claims ratio has improved as a result of appropriate re-pricing and improved claims controls.
- The increase in the health membership arose largely as a result of the acquisition of a majority interest in Metropolitan Health Namibia.

Momentum Investments

- Net flows for the business are positive overall.
- Positive contributors to net flows include the Momentum Manager of Managers business, as well as the Momentum Collective Investments business. Net flows into the asset management business were positive.
- On the back of positive inflows, increased market levels, performance fees and controlled costs, the Momentum Investment division's cost-to-income ratios improved for the quarter.
- The Momentum unconstrained strategies team has settled into the business and is actively marketing its capability.
- Building competitive investment management capabilities for the MMI group as well as third parties remain core to the growth strategy.
- Relative to peers, institutional and retail equity performance in the asset manager business is performing well and although the local and global balanced funds did not perform to expectation their performance has improved for the quarter.
- Good progress is being made with the integration of Momentum Properties into ERIS.

Metropolitan Health

- Members under administration increased by 6% to 1.2 million principal members (3.1 million lives) over the year to September 2012.
- Strong growth was recorded in the Government Employees Medical Scheme.
- The Momentum Health open scheme continues to provide an attractive offering to clients, increasing membership over the period while strengthening the reserves in the scheme.

- The business is confident that key administration and managed care contracts will be successfully renewed.
- Good progress has been made with the strategic repositioning of the health risk management business.
- Business efficiency initiatives remain on track.
- The business continues to position itself for national health insurance (NHI).

Consolidation of MMI Holdings Limited's largest long-term insurance subsidiaries

Holders of the listed, unsecured, subordinated, callable notes ("the callable notes") issued by Momentum Group Limited (MGL01) and Metropolitan Life Limited (MET01) are notified that these two subsidiaries of MMI Holdings Limited are in the process of consolidating the business of Metropolitan Life Limited (including the MET01 callable notes) with the business of Momentum Group Limited (to be renamed MMI Group Limited). The consolidation will be done in terms of Section 38 of the Long-term Insurance Act of 1998. The two note-issuers envisage that the intended consolidation will be heard by the High Court in May or June 2013.

If the consolidation of the two note-issuers is approved by the High Court, the obligations under the MET01 callable note will be transferred to Momentum Group Limited (to be renamed MMI Group Limited). No action is therefore required from the holders of the two callable notes.

Opportunities and challenges

- MMI is a well diversified life insurance group with scale in all the established operations.
- Merger synergies will continue to emerge as projects are completed.
- Growth in new business volumes will, however, remain dependent on the economic environment, including a recovery in employment and stronger disposable income levels in a highly competitive sector.

Comments / qualifications

- All figures are provisional and unaudited.
- All figures are for the period 1 July to 30 September as presented in the current internal management accounts.
- All figures for 2011 have been presented on the same basis as those for 2012, taking into account the current operational structure.
- 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.
- The new business figures are all net of outside shareholder interests.

End

Date

26 November 2012

Queries

NICOLAAS KRUGER
GROUP CHIEF EXECUTIVE
MMI Holdings
TEL 012 673 7438

PRESTON SPECKMANN
GROUP FINANCE DIRECTOR
MMI Holdings
TEL 012 673 7446