METROPOLITAN

Principles and Practices of Financial Management in respect of Metropolitan's discretionary participation products

Contents

1. Introduction

This document sets out the Principles and Practices of Financial Management ('PPFM') used in the management of the Metropolitan discretionary participation products underwritten by Momentum Metropolitan Life Limited (hereinafter referred to as 'the Insurer'). This introduction section is provided as supplementary information and does not constitute Principles or Practices.

1.1. Products covered by this PPFM

This PPFM applies to the following discretionary participation products underwritten by the Insurer, including additional Bonus Series that are launched under any of these products.

1.1.1. Individual life smoothed bonus business, consisting of the following products:

- Metropolitan Smoothed Bonus; and
- Voluntary Group Retirement Savings

1.1.2. Individual life conventional with-profit business, consisting of the following products:

- Metropolitan Reversionary Bonus;
- Conventional With-Profit Funeral; and
- Group Risk Paid-up policies.

1.2. Company Information

1.2.1. Momentum Metropolitan Life Limited is a life assurance company based in South Africa and is a wholly owned subsidiary of Momentum Metropolitan Holdings Limited.

1.2.2. Metropolitan Life Limited ("Metropolitan") was a life assurance company based in South Africa. It became a wholly owned subsidiary of MMI Holdings Limited in December 2010 following the merger of Metropolitan Holdings Limited and Momentum Group Limited. Momentum Group Limited was subsequently renamed MMI Group Limited in January 2013 to facilitate the amalgamation of the long-term insurance licenses of Metropolitan and Momentum Group Limited. This amalgamation of the licenses (in terms of Section 37 and 38 of the Long-term Insurance Act of 1998) was concluded in May 2013 to form the amalgamated MMI Group Limited. In 2019, MMI Group Limited and MMI Holdings Limited were renamed to Momentum Metropolitan Life Limited and Momentum Metropolitan Holdings Limited, respectively.

1.3. Purpose of the PPFM

1.3.1. In terms of insurance legislation, all long-term insurers that carry on Discretionary Participation Business are required to define, and make publicly available, the Principles and Practices of Financial Management that they apply in the management of their Discretionary Participation Business.

1.3.2. The Insurer is required to meet all its contractual obligations to policyholders. It also seeks to provide discretionary participation policyholders with competitive returns over and above these minimum obligations. In seeking to achieve these objectives, the Insurer makes decisions that it believes are in the interests of the discretionary participation policyholders, having regard to their reasonable expectations and to the requirement to treat policyholders fairly.

1.3.3. The PPFM defines the Principles and Practices the Insurer follows when making these decisions. It describes the nature of the discretion retained by the Insurer and the parameters within which this discretion would be used.

1.3.4. The PPFM shows how the Insurer manages conflicting interests or expectations of different groups of policyholders, and of policyholders and shareholders, to ensure that all parties are treated fairly.

1.3.5. The Principles are the enduring statements of the overarching standards adopted by the Insurer in managing its Discretionary Participation Business. They also describe the business model used by the Insurer for managing the discretionary aspects of this business and in responding to longer-term changes in the business and economic environment.

1.3.6. The Practices aim to set out in more detail how the Insurer seeks to manage its Discretionary Participation Business. Together with the principles, they aim to provide sufficient detail to enable clients to understand the possible risks and rewards of investing in a discretionary participation product with the Insurer.

1.3.7. Management of Discretionary Participation Business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined rules, guidelines or criteria. Rather, it requires the Insurer to make many judgements about the actions it should take in endeavouring to meet the objectives that are described in this document. These judgements are made by the Insurer in good faith, although it cannot be guaranteed that they will result in the objectives described in this document being achieved.

1.3.8. Discretionary Participation Business is long term in nature. Whilst the Insurer would like its policyholders to have as clear an understanding as practicable of how this business will be managed, it is not in the policyholders' interest for the Insurer to do so by reference to rigid and inflexible criteria. The Insurer therefore seeks to respond to events in managing this business, and may adjust accordingly the Principles and Practices by reference to which it seeks to carry on that business. The Insurer will inform policyholders of changes to the Principles at least three months in advance of such changes taking effect, and will strive to inform policyholders of changes to the Practices within a reasonable period after such changes take effect.

1.3.9. It should be noted that the PPFM should not be read as a document providing advice on whether or not to invest in discretionary participation products. This document is intended only to provide information regarding the management of these products and any individual / group considering this as an investment opportunity should still seek financial advice in this regard.

1.3.10. Given the fact that these Principles and Practices can be changed, as mentioned above, and that this document has been written in simple language, policyholders and prospective policyholders should not treat the statements in this document as binding commitments or representations by the Insurer as to how it manages Discretionary Participation Business or as to how it will do so in the future.

1.3.11. This PPFM as well as a summary version, is available at www.metropolitan.co.za. Printed copies will be made available to interested parties on request, although a fee may be charged for this service.

1.3.12. Any questions or comments relating to these documents can be addressed to:

Telephone number	0860 724 724
E-mail address	info@metropolitan.co.za
Postal address	PO Box 2212, Bellville, 7535

1.4. Governance

1.4.1. The Insurer's Board of Directors ('the Board') is responsible for the governance of Discretionary Participation Business. This includes the investment of underlying assets, the bonus distribution policy and the approval of any changes to the PPFM.

1.4.2. For this purpose, the Board has set up a committee, the Fair Practices Committee (FPC), that considers the interests of discretionary participation policyholders and monitors the Insurer's compliance with the PPFM. The FPC acts as the discretionary participation committee and reports to the Board in this regard regularly, at least annually.

1.4.3. The Board also ensures that appropriate monitoring is done at designated management committees. The duties of these committees include:

- Approving new product developments, or significant changes to existing products, after considering aspects such as fairness, capital requirements and bonus philosophy;
- Reviewing products' bonus performance and asset allocations on a regular basis and reporting to executive management in this regard; and
- Approving investment mandates, reviewing them periodically, monitoring performance against benchmarks and overseeing the investment management process.

1.4.4. The Board delegated authority to the Actuarial Committee to declare bonus rates and approve related discretionary participation management actions.

1.5. Background

1.5.1. Smoothed bonus business and conventional with-profit business refer to Discretionary Participation Business where the growth on the policy is achieved through the declaration of regular bonus rates. These bonus rates do not directly reflect the Investment Returns achieved on the underlying assets but are smoothed over time to give a more stable investment experience to the policyholder.

1.5.2. The following types of bonus rates are declared annually on the Metropolitan Reversionary Bonus product:

- A Reversionary Bonus expressed as a percentage of the sum assured;
- A Reversionary Bonus expressed as a percentage of Reversionary Bonuses accumulated to date; and
- A Terminal Bonus expressed as a percentage of Reversionary Bonuses accumulated to date.

Terminal Bonus rates apply to claims arising during a specified period, usually one year. Both Reversionary and Terminal Bonus amounts are an addition to the sum assured, payable in full only on a Contractual Claim. They do not reflect a cash value that is immediately available.

1.5.3. The following type of bonus rate is declared annually on the Conventional With-Profit Funeral policies (with the exception of Industrial Branch policies) and Group Risk Paid-up policies:

- A Terminal Bonus expressed as a percentage of the sum assured plus Terminal Bonuses accumulated to date.

The following types of bonus rates are declared annually on the Conventional With-Profit Funeral policies (Industrial Branch policies):

- A Reversionary and Terminal Bonus expressed as a percentage of the sum assured plus bonuses (Reversionary and Terminal) accumulated to date.

Both Reversionary and Terminal Bonus amounts are an addition to the sum assured, payable in full only on a Contractual Claim. They do not reflect a cash value that is immediately available.

2. Principles

2.1. Contractual and legislative conditions

2.1.1 The Insurer will adhere to the contractual obligations as set out in policy contracts as well as to any legal and regulatory requirements. If there are any inconsistencies between these and the Principles and Practices set out in this document, contractual and legal requirements will take precedence.

2.2. The amount payable

2.2.1. The Insurer will always pay at least the guaranteed benefits provided by a contract in the event of a Contractual Claim such as on death, maturity or retirement, irrespective of the state of the investment markets at the time of the claim. Any losses arising from guarantees are borne by shareholders.

2.2.2. Otherwise, investment profits or losses arising are borne by the underlying policyholders.

2.2.3. Investment Returns on assets are passed on to the respective policyholders in the form of bonus rates. The overall intention of the bonus declarations is to provide policyholders with a return that, over time and particularly at maturity date, is smoother (i.e., less volatile) than the actual investment market returns on the underlying assets, but nevertheless reflective of the investment experience of those assets. Over the short term, this means that the declared bonus rates may be higher or lower than the actual net investment returns earned on the underlying asset portfolio. The purpose of smoothing is to protect policyholders against unforeseen negative investment performance in the short term.

2.2.4. The Insurer actively seeks to smooth investment returns if at all possible. However, at its discretion, the Insurer may choose not to do so if this is deemed to be in the interests of policyholders. For example, no bonus rate will be declared that would result in the ongoing viability of a class of business being knowingly threatened.

2.2.5. Declared bonus rates cannot be negative.

2.2.6. In a particular Bonus Series, the smoothing of returns is intended to be neutral to policyholders as a group over time, but cross subsidies can occur between different generations of policyholders. These are implicit features of the product types.

2.2.7. All policyholders within a particular Bonus Series will receive the bonus rate applicable to that Bonus Series although in some cases bonus rates are differentiated within a Bonus Series to allow for differences in product fees. Cross subsidies can occur during the merger of products or between conventional with-profit Bonus Series within the same business line that share the same asset portfolio.

2.2.8. Surplus is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the Individual Policy Funds (or the value of the liabilities). The Surplus can be positive or negative. As a result of smoothing, bonus rates are rarely the same as the actual net Investment Return earned in a year. The cumulative effect of past returns not yet reflected in the bonus declaration as well as the Non-Investment Surplus (primarily driven by claim impacts) contributes to the 'Surplus'.

2.2.9. The shareholders do not have any claim on the cumulative effect of past returns not yet reflected in the bonus rates or the Non-Investment Surplus, other than their specified charges. It is retained in the product for the benefit of current and/or future policyholders. For Metropolitan Reversionary Bonus, Conventional With-Profit Funeral and Group Risk Paid-up business, non-investment profits or losses earned accrue to shareholders.

2.3. Investment Strategy

2.3.1. The Insurer seeks to optimise the return to both smoothed bonus and conventional with-profit products, subject to the investment strategy adopted for those asset portfolios.

2.3.2. The investment strategy for an asset portfolio shall have regard to the nature of the liabilities of that product and in particular have regard to the reasonable expectations of the policyholders and the duty to treat them equitably.

2.3.3. Portfolio assets include, but are not limited to, assets such as equities, property, bonds and cash deposits. Some of these assets have an uncertain return and are subject to market and other risks. Within constraints determined and reviewed by a designated management committee of the Insurer from time to time, these risks are assumed when the Insurer believes that they are appropriate to the nature of the product and the returns are commensurate with the level of risk. Derivative instruments may be used to manage asset portfolio risks or in lieu of exposure to the underlying assets.

2.3.4. The investment strategy and practices are reviewed regularly by a designated management committee of the Insurer to ensure their continued suitability in terms of risks (including market, liquidity, credit and operational risks) and the likely returns.

2.4. Charges and Fees

2.4.1. Policy and underlying asset portfolio charges are set explicitly and represent the full extent of shareholder access to profits from the discretionary participation products. Additional charges may be levied on non-contractual events, such as effecting a Surrender or partial Surrender, making a policy paid-up, taking a policy loan, making additional regular investments or injecting a lump sum. The charges on these events are disclosed at the time of effecting such an event. These charges are in certain instances subject to regulatory limits, for example, on Surrender or making a policy paid-up.

2.4.2. Where contractually allowable, charges are revised from time to time to reflect changes in experience.

2.5. New Business

2.5.1. The products will be managed to ensure an equitable distribution of the Surplus (negative or positive as the case may be) to the existing policies.

2.5.2. New Bonus Series can be created for a variety of reasons, such as the need to maintain equity between policy classes or generations, or to allow for differences in premium rates, taxation or product structures.

2.6. Merging of products and bonus series

2.6.1. The Insurer can merge different products or Bonus Series to be managed as a single product subject to the constraints contained within the PPFM.

3. General practices

3.1. Investment Strategy

3.1.1. The assets underlying conventional with-profit and smoothed bonus products are invested in appropriate asset portfolios. The Investment Return attributed to a particular asset portfolio will reflect the Investment Returns on the assets underlying that asset portfolio.

3.1.2. Given the nature and term of the liabilities and the inflation-related return objective, the investment strategy is built on asset classes that are most likely to provide a real return over the long term.

3.1.3. The asset portfolios are based on an investment philosophy which in accordance with a clearly defined portfolio construction approach systematically, and within a rigorous risk management framework, combines various asset classes, investment strategies and mandates (including external asset managers) in such a way to manage the return and risk profile of the asset portfolio to target the defined inflation-related objective over the investment horizon of the asset portfolio.

3.1.4. The assets can be managed using any or a combination of active, passive, smart beta, listed, unlisted and alternative investment strategies with the aim of achieving the asset portfolios investment objectives over their investment horizons. The assets underlying the products are managed in accordance with investment mandates and guidelines specified by the Insurer. Areas of importance covered by the investment mandates include:

- The investment philosophy of the asset portfolios as well as their investment and risk objectives and horizon;
- The approved asset classes that must be invested in to ensure an appropriately diversified investment strategy;
- Portfolio percentage allocations for each of the asset classes (which may be varied from time to time);
- Benchmarks against which the performance of each asset class is measured;
- Limitations on credit and counterparty exposures; and
- The use of derivatives.

3.1.5. Securities lending can be used to enhance the Investment Returns on the underlying assets subject to regulatory limits. Any losses arising from these transactions are borne by the shareholder, while any income arising (net of associated expense) will be shared between the shareholders and policyholders.

3.1.6. Where appropriate for a discretionary participation product, the assets can be managed in accordance with a liability driven investment strategy. This strategy positions the asset allocation of the asset portfolio to provide for the targeted long term returns of the product, while at the same time providing the guarantees of the product.

3.1.7. More detailed information about the asset allocations and asset managers of the different products is generally available on request or via the website www.metropolitan.co.za.

3.1.8. There are no assets in the products that would not normally be traded because of their strategic importance to the Insurer.

3.2. Charges and fees

3.2.1. The insurer incurs expenses in the development, marketing and administration of the business, as well as in the management of the assets. Policyholders pay for these, as well as an appropriate profit margin, in the form of charges taken off the premiums, the assets and the Investment Returns.

3.2.2. These charges are set allowing for expected tax relief.

3.2.3. Charges take various forms and the structure and level of charges differ between products and Bonus Series. Charges for the administration of a policy can take the form of a fixed fee, a percentage of the premium taken off the premium before it is invested or an explicit charge against the Individual Policy Fund. For some products, there may also be advice fees.

3.2.4. Asset Management Fees are charged as a percentage of the market value of the assets and may be deducted from the Investment Returns or as an explicit charge against the Individual Policy Fund (or liabilities). These Asset Management Fees relate to the investment management and administration involved in managing the underlying assets. In addition to the Asset Management Fee described above, management fees and performance fees may be payable by the Insurer to the asset managers of the underlying assets as set out in the agreements between the Insurer and the asset managers. These management fees and performance fees may also be paid directly from the underlying assets of the products.

3.2.5. The Insurer also deducts income and capital gains tax on policyholders' behalf. The income tax and capital gains tax charged to the fund is based on actual Investment Returns (income and capital gains) and prevailing tax rates as per legislation. Tax relief on expenses is treated separately as par. 3.2.2.

3.3. New Business

3.3.1. The Insurer can limit the amount of new business it accepts into a product if it is in its own interests, or the interests of new or existing policyholders, to do so. This includes either temporary or permanent closure to new business. In particular, a product may be temporarily closed to new business if the levels of Surplus are excessively high or low.

3.3.2. The Surplus of each product is reviewed on an ongoing basis and the opening of new Bonus Series will be considered should pre-defined thresholds be breached. Different thresholds exist for single and recurring premium business as well as for endowments and retirement annuities.

3.3.3. The ability to smooth returns over successive generations of policyholders is improved if the product is open to new business, thereby maintaining a sufficiently large and diversified group of policies over which to smooth returns. If a product is declining in size, which a closed product will do after a period of time, then it is likely to be necessary to change the bonus declaration methodology (to make it less smooth), change the investment strategy (to invest in less volatile assets) or merge the product with a larger one in order to achieve appropriate scale. This will become necessary to ensure that returns in the asset portfolio are less volatile and that there are appropriate assets in the products to support the benefits for the final generations of policyholders.

3.3.4. A closed product can be opened again to new business if the existing policyholders in the product are not excessively advantaged or disadvantaged by doing so. In particular, the level of Surplus in the product needs to be reasonable given the overall framework set out for managing products.

3.4. Merging of products or bonus series

3.4.1 One product or Bonus Series cannot be materially disadvantaged in order to protect the interests of another. When merging products or Bonus Series the following will be considered:

- The size of a product or Bonus Series and whether it is viable and reasonable to manage separately;
- The investment mandates of the products or Bonus Series being merged must be reconcilable;
- The investment surplus level (Surplus less Non-Investment Surplus) in the products or Bonus Series being merged must be similar at the time of merging as far as it is reasonably possible;
- The insurer reserves the right to cross-subsidise Non-Investment Surplus, however the investment surplus level in the products or bonus series being merged must be similar at the time of merging as mentioned above; and
- The approach to bonus declarations must be reconcilable between the two products or Bonus Series.

3.4.2. Subject to the considerations outlined in 3.4.1 above, cross-subsidies are allowed between products or Bonus Series within reasonable terms.

3.5. Management actions in adverse conditions

3.5.1. If the Surplus becomes materially negative, the extent of management actions will include some or all of the following remedial steps, taking account of the economic and investment environment:

- Investment strategy may be adjusted. This can include but is not limited to making use of short-term derivative hedging strategies to protect the funding level of the book;
- On Early Termination, non-Contractual Claim values may be reduced by the application of a Market Value Adjuster;
- Low or zero Interim, Total, Reversionary or Terminal Bonus rates may be declared depending on the line of business;
- Non-Vested (non-guaranteed) Bonuses may be reduced, or removed entirely depending on the materiality of the policyholder cross subsidy arising; and
- Shareholders may inject capital on a contingent or permanent basis.

4. Smoothed bonus practices

The following Practices are applicable to the smoothed bonus business specifically.

4.1. How are policies invested in smoothed bonus products administered?

4.1.1. An Individual Policy Fund is held for each policyholder. When a premium is paid, charges are deducted in respect of expenses and any risk benefits (e.g., life or disability cover), and the balance (the 'allocation amount') is allocated to this fund. At any point in time this fund represents the accumulation of the allocation amounts plus the bonuses declared to date, less any claim and expense amounts paid from the fund. The 'vested fund' reflects the accumulation using the Vested Bonuses declared to date, whilst the 'policy fund' reflects the accumulation using the Total ('vested' and 'non-vested') Bonuses declared to date.

4.1.2. Smoothed bonus policies are allocated to groups according to criteria such as business line, policy tax status, asset mix and product structure or type. Each such group is called a 'Bonus Series' which is treated as a product for the purposes of the principles and practices.

4.1.3. The Insurer invests the assets underlying the Individual Policy Funds in respect of all smoothed bonus policies into the appropriate asset portfolios. The total value of the assets (less any deferred tax liabilities) held in respect of a smoothed bonus product is referred to as the 'market value' of that smoothed bonus product.

4.1.4. Investment Returns earned on the assets underlying a smoothed bonus product (net of Asset Management Fees and tax charges) are retained for the benefit of the underlying policies.

4.2. How are the risks and profits shared between policyholders and shareholders?

4.2.1. In the case of smoothed bonus products, policyholders and shareholders share the investment risks. Policyholders receive the total investment performance (after deduction of tax and charges) in the form of bonuses over time, and therefore carry the risk of low bonus rates if returns are low over time and will get the reward of high bonus rates if returns are high over time. Policyholders will receive at least the guaranteed minimum benefits on death or maturity.

4.2.2. As outlined in 3.5.1, policyholders carry the risk that Non-Vested Bonuses may be reduced/removed in certain circumstances. Shareholders can also provide support by injecting capital temporarily or permanently in cases where material policyholder cross-subsidies may otherwise occur.

4.2.3. When a claim occurs, any difference between the policy fund and the policy's proportional market value (i.e., that policy's share of the Surplus in proportion to its fund value) will remain in the smoothed bonus product. Therefore, should the market value of a smoothed bonus product exceed the total policy fund value, the Surplus position of the remaining policies will be enhanced. If the market value is less than the total policy fund value, the Surplus position of the remaining policies will be worsened.

4.2.4. It may be that the market value of a smoothed bonus product is less than the total policy fund value at a point in time, for instance if there is a significant reduction in the market value due to a change in the investment markets. In this case the Surplus position of the remaining policies will be worsened if policyholders choose to withdraw funds from their policies (for example, by Surrendering) at this point. In these circumstances the Insurer may apply a 'Market Value Adjuster' ('MVA') if funds are withdrawn, which is an adjustment to the policy fund value with the aim of ensuring that the amount paid out on Early Termination does not exceed that policy's proportional market value. This means that the Early Termination will leave the amount of Surplus available to remaining policies unchanged. In practice, MVA's will be set on an approximate basis, which means that the impact of Early Terminations on the Surplus may be reduced but could still be positive or negative.

4.2.5. If the market value of a smoothed bonus product is less than the total policy fund value, then the Surplus position of the remaining policies will also be worsened by Contractual Claims. Conversely, if the market value is greater than the total policy fund value then the Surplus position of the remaining policies will be improved. However, policyholders do not necessarily choose when to effect Contractual Claims, therefore the overall impact on remaining policies is not likely to be materially negative. Furthermore, a major objective of a smoothed bonus product is to smooth the Investment Returns on a Contractual Claim. Finally, the presence of guaranteed minimum benefits as well as vested benefits in the smoothed bonus products means that there is limited scope to adjust policy fund values on a Contractual Claim. Therefore, the Insurer does not use the concept of an MVA on Contractual Claims.

4.2.6. If a guaranteed minimum benefit is provided, the shareholder carries the risk that the policy fund value (payable on maturity or death as the case may be) is less than the guaranteed minimum amount at maturity (or death). In this case the shareholder needs to fund the difference between these values, i.e., the policy fund value (payable on maturity or death) will be paid from the smoothed bonus product, whereas the shareholder must provide the additional required amount in order to pay the guaranteed minimum amount at maturity (or death). The shareholder does not benefit if the policy fund value is higher than the guaranteed minimum amount.

4.2.7. In other cases, policyholders may carry some of the risks relating to expenses, mortality and disability to the extent that expense and Risk Charges may be increased. Charges for expenses may increase as a result of inflation for example.

4.3 Bonus declaration

4.3.1 The Total Bonus rate that is declared on smoothed bonus products can be split into two types:

- A Vested Bonus rate. These declared Vested Bonuses cannot be reduced on Contractual Claims but can be reduced on Early Terminations when MVAs are applicable; and
- A Non-Vested Bonus rate. It is the difference between the declared Total Bonus rate applied on the total fund and the Vested Bonus rate applied on the vested fund. Declared Non-Vested Bonuses can be reduced/removed in certain circumstances including but not limited to Early Termination when MVAs are applicable, or due to very poor investment market returns when such reduction will affect all policies. The reduction across all policies is likely to be a rare event and will only be introduced if it is in the interests of all policyholders in the smoothed bonus product.

  The Insurer retains the right to reduce Non-Vested Bonuses from a smoothed bonus product if the Surplus (i.e., market value less total policy fund value) is unacceptably negative and the reduction of Non-Vested Bonuses is approved by the Actuarial Committee (on behalf of the Board) taking into account any applicable legislation or professional guidance. The Surplus will be considered 'unacceptably negative' if material policyholder cross subsidy has arisen and is not expected to abate unless the Insurer takes action.

4.3.2 These bonus rates are compound bonus rates, which means that the bonus rate declared in a particular year will also apply to the accumulated bonuses declared in the past.

4.3.3 In addition, an Interim Bonus rate is set which will apply to policies claiming prior to the next declaration owing to a Contractual Claim or Early Termination. Interim Bonus Rates apply from the last declaration date to the date of the claim event.

4.3.4 Interim Bonus rates are reviewed on a semi-annual basis. However, the Insurer may review Interim Bonus rates at any time if there has been a significant change in market conditions.

4.3.5 The Actuarial Committee (on behalf of the Board) declares the bonus rates.

4.3.6 Declared bonus rates are net of tax and all product and Asset Management Fees.

4.3.7 For Individual Life Smoothed Bonus business, bonus rates are declared annually on a retrospective basis. A prospective Interim Bonus rate is declared at the same time and will apply to Contractual Claims that occur between the time the Total Bonus declaration was done and the next Interim Bonus rate declaration. Once a new Interim Bonus rate has been declared, the new rate will apply from that date until the next Interim Bonus rate declaration. This is an iterative process, until the time of the next Total Bonus rate declaration, when prospective Interim Bonus rates are reversed and replaced with the Total Bonus rate.

4.3.8 Certain actions can be taken if circumstances change in between bonus declaration dates such that policy payouts become inequitable to policies that claim or policies that remain. These circumstances will most commonly arise in times of very good, or very poor, investment performance. These actions include adjusting the Interim Bonus rate so that payouts better reflect investment performance.

4.3.9 A bonus smoothing formula is used to assist in the declaration of bonus rates. The purpose of the formula is to provide an element of objectivity in the bonus declarations. The structure of the smoothing formulae used will be reviewed and adjusted when necessary to ensure that they continue to meet the objectives of the respective products. The assumptions, parameters and methods used to determine the bonus rates can be changed to:

- comply with any new legislative or regulatory requirements or guidance;
- ensure that the smoothed bonus products can meet their reserving and solvency capital requirements at all times;
- allow for the possible use of new financial management techniques; and
- respond to changes in financial markets and/or economic conditions.

4.3.10 The Insurer reserves the right to stop using any bonus smoothing formulae during periods of exceptional market conditions.

5. Conventional with-profit practices

The following Practices are applicable to the conventional with-profit business specifically.

5.1. How are policies invested in the conventional with-profit products administered?

5.1.1. Conventional with-profit policies are allocated to groups according to criteria such as business line, policy tax status, entry date, term and product structure or type. Each such group is called a 'Bonus Series' which is treated as a product for the purposes of the principles and practices. If deemed necessary or desirable, separate asset portfolios can be set up for Bonus Series within a business line and tax status combination, provided that this can be done in an equitable manner.

5.1.2. Conventional with-profit cash flows are invested in appropriate asset portfolios. Cash flows consist of premiums less charges and/or payments in respect of risk benefits, claims and expenses. Charges are set allowing for expected tax relief. The total value of the assets (less any deferred tax liabilities) underlying a conventional with-profit product is referred to as the market value of that conventional with-profit product.

5.1.3. Investment Returns earned on the assets underlying a conventional with-profit product (net of Asset Management Fees and tax charges) are retained for the benefit of the underlying policies. Non-investment profits and losses are allocated to shareholders and are not retained within the policy.

5.1.4. Expenses allocated to conventional with-profit business are derived from an analysis that is regularly conducted into the expenses incurred in respect of all aspects of policy administration and company management.

5.2 How are the risks and profits shared between policyholders and shareholders?

5.2.1 When a claim occurs, any difference between the policy liability and that policy's proportional market value (i.e., that policy's share of the Surplus in proportion to the policy liability) will remain in the conventional with-profit product. Therefore, to the extent that the market value of a conventional with-profit product exceeds the total policy liability, the Surplus position of the remaining policies will be enhanced. If the market value is less than the total policy liability, the Surplus position of the remaining policies will be worsened.

5.2.2 It may be that the market value of a conventional with-profit product is less than the total policy liability at a point in time, for instance if there is a significant reduction in the market value due to a change in the investment markets. In this case the Surplus position of the remaining policies will be worsened if policyholders choose to exercise Early Termination of their policies at this point and the policy liability is paid out. In these circumstances the Insurer may apply a 'Market Value Adjuster' ('MVA') if a policy is subject to an Early Termination, which is an adjustment to the policy benefits with the aim of ensuring that the amount paid out on Early Termination does not exceed that policy's proportional market value. This means that the Early Termination will leave the amount of Surplus available to remaining policies unchanged. In practice, MVA's will be set on an approximate basis, which means that the impact of an Early Termination on the Surplus may be reduced but could still be positive or negative.

5.2.3 If the market value of a conventional with-profit product is less than the total policy liability, then the Surplus position of the remaining policies will also be worsened by Contractual Claims. Conversely, if the market value is greater than the total policy liability then the Surplus position of the remaining policies will be improved. However, policyholders do not necessarily choose when to effect Contractual Claims, therefore the overall impact on remaining policies is not likely to be materially negative. Furthermore, a major objective of a conventional with-profit product is to smooth the Investment Returns on a Contractual Claim. Finally, the presence of guaranteed minimum benefits as well as vested benefits in the conventional with-profit products means that there is limited scope to adjust claim values on Contractual Claims. Therefore, the Insurer does not use the concept of an MVA on Contractual Claims.

5.2.4 As outlined in 3.5.1, Terminal Bonuses can be reduced/removed in certain circumstances, including but not limited to very poor investment market returns, and will affect all policies. This is likely to be a rare event and will only be introduced if it is in the interests of all policies in the conventional with-profit product.

The Insurer retains the right to reduce Terminal Bonuses from a conventional with-profit product if the Surplus (i.e., market value less total policy liability) is unacceptably negative and the reduction/removal of Terminal

Bonuses is approved by the Actuarial Committee (on behalf of the Board) taking into account any applicable legislation or professional guidance. The Surplus will be considered 'unacceptably negative' if material policyholder cross subsidy has arisen and is not expected to abate unless the Insurer takes action.

Shareholders can also provide support by injecting capital temporarily or permanently in cases where material policyholder cross-subsidies may otherwise occur.

5.2.5 If a guaranteed minimum maturity benefit is provided, the shareholder carries the risk that the policy liability value (payable on maturity) is less than the guaranteed minimum maturity benefit. In this case the shareholder needs to fund the difference between these values, i.e., the policy liability value (payable on maturity) will be paid from the conventional with-profit product, whereas the shareholder must provide the required additional amount in order to pay the guaranteed minimum amount at maturity. The shareholder does not benefit if the policy liability value is higher than the guaranteed minimum amount.

5.2.6 The income tax and capital gains tax charged to the fund is based on actual Investment Returns (income and capital gains) and prevailing tax rates as per legislation. Tax relief on expenses is treated separately as per par. 5.1.2.

5.3 Bonus declaration

5.3.1. Reversionary Bonus rates are set taking into account a range of factors, namely long-term sustainability, strong smoothing, the terms on which the policies were written, current and expected future income returns (net of tax and all product and Asset Management Fees), the asset mix of the asset portfolio, recent performance and the economic outlook. Also taken into account is the overall level of vested benefits, as this is a major determinant of the resilience of the product in adverse investment conditions.

5.3.2. Terminal Bonus rates are set with the overall aim of paying out asset shares on average over all policies in a business line, over the long term. A smoothing approach is adopted, with the aim of limiting the extent to which bonus rates fluctuate from year to year. The sustainable level of Terminal Bonus rates, given expected future Investment Returns, is also taken into account. Therefore, claim amounts paid out in a particular year can be greater than, or less than, asset shares.

5.3.3. Reversionary Bonus rates are declared annually resulting in an increase in the guaranteed benefits once a year. Reversionary Bonus rates are expressed as a percentage of sum assured plus Reversionary Bonuses only for the Metropolitan Reversionary Bonus product. For the Conventional With-Profit Funeral (Industrial Branch) product it is expressed as a percentage of sum assured plus Reversionary Bonuses plus Terminal Bonuses.

Terminal Bonus rates are declared annually and apply to claims arising during a specified period, usually one year. Terminal Bonus rates are expressed as a percentage of Reversionary Bonuses only for Metropolitan Reversionary Bonus, and as a percentage of sum assured plus Reversionary Bonuses plus Terminal Bonuses in respect of the Conventional With-Profit Funeral (Industrial Branch). For Conventional With-Profit Funeral (Non-Industrial Branch) as well as Group Risk Paid-up policies, the Terminal Bonus rate is expressed as a percentage of sum assured and Terminal Bonuses. Whilst declared Reversionary Bonuses are guaranteed by the Insurer, declared Terminal Bonuses are not.

5.3.4. In addition, an Interim Bonus rate is set which will apply to policies claiming prior to the next declaration owing to a Contractual Claim or Early Termination. Interim Bonus Rates apply from the last declaration date to the date of the claim event.

5.3.5. Interim Bonus rates are reviewed on a semi-annual basis. However, the Insurer may review Interim Bonus rates at any time if there has been a significant change in market conditions.

5.3.6. At times of very good or very poor investment performance, Terminal Bonus rates can be adjusted in between bonus declaration dates to ensure that claim amounts up to the next bonus declaration are equitable given the change in market values and consequent expectation of higher or lower bonuses.

6. Glossary

Actuarial Committee is a committee of the Board responsible for declaring bonus rates and approving management actions in respect of the Discretionary Participation Business.

Asset Management Fee is charged as a percentage of the market value of the assets and may be deducted from the Investment Returns or as an explicit charge against the Individual Policy Fund (or liabilities). These Asset Management Fees relate to the investment management and administration involved in managing the underlying assets.

Board refers to the Board of directors of the Insurer.

Bonus Series is a group of policies allocated according to criteria such as business line, asset mix and product structure or type. In certain circumstances policies may be split by tax status as well if it is deemed appropriate.

Contractual Claims are the claims payable in terms of the contract, for example, on death, maturity, retirement or disability. This does NOT include any Early Terminations.

Contractual End Date of a policy is the maturity date or date of retirement as specified in the contract, or the date of death or disability (if applicable), as described in the contract.

Discretionary Participation Business means products with Discretionary Participation Features.

Discretionary Participation Committee (DPC) is a committee responsible for considering the interests of discretionary participation investors and for monitoring the Insurer's compliance with the PPFM. The responsibilities of the DPC is currently being carried out by the FPC.

Discretionary Participation Features means insurance obligations under a life insurance policy:

- (a) that may be a significant portion of the total insurance obligations under the policy;
- (b) the amount or timing of which are contractually at the discretion of the insurer; and
- (c) that are contractually based on-
  - (i) in full or in part, the performance of a specified pool of policies or a specified type of policy;
  - (ii) realised and unrealised Investment Returns on a specified pool of assets held by the insurer; or
  - (iii) the profit or loss of the insurer that issues the policy;

Early Termination refers to the full or partial withdrawal of funds from a policy (including those resulting from Surrenders, early retirement, interest free loans and switches, as well as premiums reduction or cessation) prior to a policy's Contractual End Date.

Fair Practices Committee (FPC) is a committee of the Board responsible for embedding fair treatment of customers at all levels of the organisation as well as for considering the interests of discretionary participation investors and for monitoring the Insurer's compliance with the PPFM. That is, the FPC acts as the DPC.

Individual Policy Fund is held for each policyholder. When a premium is paid charges are deducted in respect of expenses and any risk benefits (e.g., life or disability cover), and the balance (the 'allocation amount') is allocated to this fund. At any point in time this fund represents the accumulation of the allocation amounts plus the bonuses declared to date, less any claim and expense amounts paid from the fund.

Insurance Act means the Insurance Act No. 18 of 2017, as amended from time to time.

Insurer refers to Momentum Metropolitan Life Limited, a public company duly incorporated in accordance with the company laws of the Republic of South Africa, with registration number 1904/002186/06, and a licensed insurer in terms of the Insurance Act.

Interim Bonus rate applies to policies claiming prior to the next declaration owing to Contractual Claims or Early Termination. Interim Bonus rates apply from the last declaration date to the date of the claim event.

Investment Returns consist of realised and unrealised gains in the market value of assets, as well as income from assets including interest, dividends and rent. Net Investment Returns are net of tax and Asset Management Fees.

Market Value Adjuster (MVA) is the reduction of the Individual Policy Fund on Early Termination if the total market value of the assets underlying the discretionary participation product is less than the aggregate of all policies' Individual Policy Funds. The MVA depends on the current level of the market and its purpose is to protect policyholders who remain in the Bonus Series.

Non-Investment Surplus is the part of the Surplus that is not attributed to the difference between actual net Investment Returns and declared bonus rates, but come from other sources, primarily cashflow amount and timing.

Non-Vested Bonuses are non-guaranteed bonuses. For smoothed bonus products, it is the difference between the declared Total Bonus rate applied on the total fund and the Vested Bonus rate applied on the vested fund. The Non-Vested Bonus allows the Insurer to give policyholders more exposure to asset classes with higher Volatility, such as equities and property, which are appropriate for longer term investments as they are expected to perform better in the long term than more conservative asset classes (such as bonds or cash). Declared Non-Vested Bonuses can be reduced/removed in certain circumstances.

Reversionary Bonus is a type of bonus declared annually which becomes a permanent increase to the amount of benefit guaranteed under a conventional with-profits policy.

Risk Charges are deductions made from the premium or Individual Policy Fund to cover the cost of the benefit payable on life contingencies (such as death or disability).

Surplus is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the Individual Policy Funds. The Surplus can be positive or negative. Notwithstanding the Non-Investment Surplus, it is an indication of the extent to which bonuses have historically been declared in excess of actual net Investment Returns (in which case the Surplus will be negative), or below actual net Investment Returns (in which case the Surplus will be positive).

Surrender is a type of Early Termination that happens if a policyholder takes some or all of the funds from a policy prior to the Contractual End Date of the policy. In the case of a retirement annuity, it is referred to as 'early retirement'.

Terminal Bonus is an amount that is added to the guaranteed benefit when a claim becomes payable in respect of conventional with-profit business. The amount is not guaranteed in advance. This is also known as claim bonus.

Total Bonus is declared annually in arrears on smoothed bonus products.

Vested Bonuses are bonuses that are guaranteed. They are declared annually in arrears on smoothed bonus products. Vested Bonuses cannot be reduced on Contractual Claims but can be reduced on Early Termination when MVAs are in applicable. Also known as guaranteed bonus or income bonus.

Volatility refers to the degree of short-term unpredictable change over time of a certain variable, such as the prices of equities or Investment Returns. This refers to the concept that equity prices or Investment Returns vary upwards and downwards.

For more information, speak to one of our financial advisers or call us on 0860 724 724.

Together we can

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