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

METROPOLITAN

Together we can

31 July 2019

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;
- Ex-CU Life Smoothed Bonus;
- Ex-Odyssey Smoothed Bonus; and
- Voluntary Group Retirement Saving

1.1.2. Individual life conventional with-profit business, consisting of the following products:
- Metropolitan Reversionary Bonus;
- Ex-CU Life Reversionary Bonus;
- Ex-Odyssey Reversionary Bonus;
- Conventional With-Profit Funeral; and
- Group Risk Paid-up policies

The Metropolitan Reversionary Bonus, Ex-CU Life Reversionary Bonus and ex-Odyssey Reversionary Bonus business lines are collectively referred to as 'Reversionary Bonus'.

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 licences of Metropolitan and Momentum Group Limited. This amalgamation of the licences (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.

1.2.3. With effect from 31 December 1998, the Commercial Union Life Assurance Company of South Africa Limited ('CU Life') was acquired by and became a wholly owned subsidiary of Metropolitan. With effect from 1 January 2002, the business, assets and liabilities of CU Life were transferred into a ring-fenced portfolio within Metropolitan. With effect from 1 January 2004 the business lying within the ring-fenced portfolio ('the ex-CU Life business') was amalgamated with the balance of the Metropolitan business lying outside the ring-fenced portfolio. The smoothed bonus component of the ex-CU Life business is referred to as 'Ex-CU Life Smoothed Bonus'. The reversionary bonus component of the ex-CU Life business is referred to as 'Ex-CU Life Reversionary Bonus'.

1.2.4. With effect from 31 December 1998, Protea Life was acquired by and became a wholly owned subsidiary of Metropolitan. On 1 July 1999 Protea Life was renamed as Metropolitan Odyssey. With effect from 1 January 2006, the business, assets and liabilities of Metropolitan Odyssey were transferred into Metropolitan.

The smoothed bonus component of the ex-Metropolitan Odyssey business is referred to as 'Ex-Odyssey Smoothed Bonus'.

The reversionary bonus component of the ex-Metropolitan Odyssey business is referred to as 'Ex-Odyssey Reversionary Bonus'.

1.3. Purpose of the PPFM

1.3.1. All long-term insurers that carry on discretionary participation business are required, in terms of Directive 147.A.i (LT) issued by the Financial Services Board on 4 December 2006, 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 Discretionary Participation Committee (DPC), to consider the interests of discretionary participation policyholders and to monitor the Insurer's compliance with the PPFM. The DPC reports to the Board in this regard regularly, and at least annually. The Board must report on the extent to which they conduct their business in line with the PPFM in the annual statutory return.

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.
- Approving investment mandates, reviewing them periodically, monitoring performance against benchmarks and overseeing the investment management process.

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 bonuses. These bonuses 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 bonuses are declared annually on the reversionary bonus business lines:

- 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 for Metropolitan Reversionary Bonus and as a percentage of sum assured plus reversionary bonuses accumulated to date for ex-Odyssey Reversionary Bonus and ex-CU Life Reversionary bonus. Terminal Bonuses 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 death or maturity claim. They do not reflect a cash value that is immediately available.

1.5.3. Bonuses declared on Conventional With-Profit Funeral policies (with the exception of Industrial Branch policies) and Group Risk Paid-up policies consist only of Terminal Bonuses, expressed as a percentage of sum assured. Bonuses declared on Industrial Branch policies (part of the Conventional With-Profit Funeral business line) consist of reversionary bonuses (expressed as a multiple of premium) and Terminal Bonuses, expressed as a percentage of reversionary bonuses.

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 bonuses. 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. This means that the declared bonuses 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 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 bonuses 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 and tax status 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 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 bonuses, other than their specified charges. It is retained in the product for the benefit of current and/or future policyholders.

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 Board 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 Board 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 asset portfolio charges are set explicitly and represent the full extent of shareholder access to profits. For Metropolitan and Ex-Odyssey Reversionary Bonus, Conventional With-Profit Funeral and Group Risk Paid-up business, non-investment profits or losses earned also accrue to shareholders. 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, f or 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 or deficit 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 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 adopted by the respective products, the assets are 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 Momentum Metropolitan Life Limited.

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 in the form of charges taken off the premiums, the assets and the Investment Returns.

3.2.2. These charges are set allowing for tax relief on an approximate basis.

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 tax on policyholders' behalf in accordance with legislation. The income tax and capital gains tax charged to the fund is based on actual Investment Returns (income and capital gains) and according to current tax legislation. Tax relief on expenses is discussed in 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 be 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 Surplus levels 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 sources of surplus; 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 increasingly negative, the extent of management actions will include some or all of the following remedial steps, taking account of the economic and investment environment:

- Termination or surrender values may be reduced by the application of a Market Value Adjuster;
- Investment strategy may be adjusted;
- Low or zero bonuses may be declared;
- The Non-Vested (non-guaranteed) Bonuses or part thereof may be removed; and
- Shareholders may inject capital.

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 'vesting fund' reflects the accumulation using the Vesting Bonuses declared to date, whilst the 'policy fund' reflects the accumulation using the Total ('vesting' and 'non-vesting') 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 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 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 bonuses if returns are low over time, and will get the reward of high bonuses if returns are high over time. Policyholders will receive at least the guaranteed minimum maturity benefits. Policyholders carry the risk that Non-Vested Bonuses may be removed in extreme circumstances.

4.2.2. 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, to the extent that the market value of a smoothed bonus product exceeds 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.

4.2.3. 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 Surrender does not exceed that policy's proportional market value. This means that the Surrender 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 Surrenders on the Surplus may be reduced but could still be positive or negative.

4.2.4. 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 death and maturity 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 choose when to make maturity and death 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 at death or maturity. Finally, the presence of guarantees minimum maturity and death values as well as vested benefits in the smoothed bonus products means that there is limited scope to adjust policy fund values on death or maturity. Therefore, the Insurer does not use the concept of an MVA on death or maturity.

4.2.5. If a guaranteed minimum benefit is provided, the shareholder carries the risk that the policy fund (or death benefit payable) 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 smoothed bonus product will reduce by the policy fund value and the shareholder must provide the additional required amount in order to pay the guaranteed minimum amount. The shareholder does not benefit if the policy fund value is higher than the guaranteed minimum amount.

4.2.6. 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 that is declared on smoothed bonus products can be split into two types:

- A Vesting Bonus. These declared Vesting Bonuses cannot be removed on policy maturity events or death but can be removed in the case of full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination; and
- A Non-Vesting Bonus which is the difference between the declared Total Bonus and the Vesting Bonus. Declared Non-Vesting Bonuses can be removed in certain circumstances including full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination as well as on policy maturity events due to very poor investment market returns

4.3.2. These bonuses are compound bonuses, which means that the bonus 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 death, disability, maturity, retirement or Early Termination. Interim Bonus rates apply from the last declaration date to the date of the claim event.

4.3.4. The Momentum Metropolitan Life Limited Board declares the bonuses.

4.3.5. Declared bonuses are net of tax and all product and asset management fees.

4.3.6. For Metropolitan Smoothed Bonus, Ex-CU Life Smoothed Bonus and Voluntary Group Retirement Savings business, bonuses are declared annually on a retrospective basis. An Interim Bonus is declared at the same time and will apply from the end of the period for which the annual retrospective declaration is made until the next bonus declaration is made.

4.3.7. For Ex-Odyssey Smoothed Bonus business, bonuses are declared annually on a prospective basis and are then added to policy funds on a monthly basis.

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 or prospective bonus rate so that payouts better reflect investment performance, and paying out a once-off Terminal Bonus to policies that claim.

4.3.9. A bonus smoothing formula is used to assist in the declaration of bonuses. 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 bonuses 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 capital adequacy 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.

4.3.11. Non-Vesting Bonuses may be removed on death and maturity claims. This is likely to be a rare event and will only be introduced if it is in the interests of the remaining policies in the smoothed bonus product. The Insurer also retains the right to remove 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 removal of Non-Vested Bonuses is approved by the Board. The Surplus will be considered 'unacceptably negative' if an injection of shareholder funds would be required if Non-Vested Bonuses were not removed, taking into account any applicable legislation or professional guidance.

4.3.12. The Insurer may review the Interim Bonus rate if there has been a significant change in 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. Expenses are net of applicable expense relief, allowed for on an approximate basis. 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. With the exception of Ex-CU Life Reversionary Bonus business, non-investment profits and losses are allocated to shareholders and are not retained.

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 Surrender their policies at this point and the policy liability is paid out. In these circumstances the Insurer may apply a 'market value adjustment' ('MVA') if a policy is Surrendered, which is an adjustment to the policy benefits with the aim of ensuring that the amount paid out on Surrender does not exceed that policy's proportional market value. This means that the Surrender 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 Surrenders 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 death and maturity 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 choose when to make maturity and death 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 at death or maturity. Finally, the presence of guaranteed minimum maturity and death values as well as vested benefits in the conventional with-profit products means that there is limited scope to adjust claim values on death or maturity. Therefore the Insurer does not use the concept of an MVA on death or maturity.

5.2.4. Terminal Bonuses may be removed on death and maturity claims. This is likely to be a rare event and will only be introduced if it is in the interests of the remaining policies in the conventional with-profit product. The Insurer also retains the right to remove Terminal Bonuses from a conventional with-profit product if the Surplus (i.e. market value less total policy liability) is unacceptably negative and the removal of Terminal Bonuses is approved by the Board of Momentum Metropolitan Life Limited. The Surplus will be considered 'unacceptably negative' if an injection of shareholder funds would be required if Terminal Bonuses were not removed, taking into account any applicable legislation or professional guidance.

5.2.5. If a guaranteed minimum maturity benefit is provided, the shareholder carries the risk that the maturity value is less than the guaranteed minimum maturity benefit. In this case the shareholder needs to fund the difference between these values, i.e. the conventional with-profit product will reduce by the maturity value and the shareholder must provide the required additional amount in order to pay the guaranteed minimum amount. The shareholder does not benefit if the maturity 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 according to current tax legislation

5.2.7. Tax relief on expenses is discussed in 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 Bonuses 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 Bonuses are declared, and added to sums assured, annually. Terminal Bonuses are declared annually and apply to claims arising during a specified period, usually one year. Terminal Bonuses are expressed as a percentage of sum assured plus reversionary bonuses (or reversionary bonuses only for Metropolitan Reversionary Bonus).

5.3.4. At times of very good or very poor investment performance, Terminal Bonuses 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

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.

Bonus Series is a group of policies allocated according to criteria such as business line, policy tax status, asset mix and product structure or type.

Contractual Claims are the claims payable in terms of the contract, for example on death, maturity, retirement or disability.

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 includes products which have features that rely on the ability of the Insurer to use discretion to manage them, in particular over the underlying assets, smoothing and bonus policies. These products are typically ones where premiums are invested in a pooled portfolio made up of a range of assets, a significant portion of which are usually in the form of equities, and where allocations to policies are smoothed to cushion policyholders from short-term fluctuations in asset prices or other possible experience variations. Guarantees may furthermore apply, which may increase over the lifetime of a policy.

Discretionary Participation Committee (DPC) is a sub-committee of the Board responsible for considering the interests of discretionary participation investors and for monitoring the Insurer's compliance with the PPFM. The DPC also acts as the Fair Practices Committee.

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.

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.

Interim Bonus applies to policies terminating prior to the next declaration owing to death, disability, maturity, retirement 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 smoothed bonus 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-Vesting Bonuses are non-guaranteed bonuses. For smoothed bonus products, it is the difference between the declared Total Bonus and the Vesting Bonus. For conventional with-profit products, the Terminal Bonus is Non-Vesting. The Non-Vesting 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-Vesting Bonuses can be removed in certain circumstances including, but not limited to, full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination. This is also known as Claim Bonus.

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. 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 investment account when a claim becomes payable in terms of the policy contract. The amount is not guaranteed in advance.

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

Vesting Bonuses are bonuses that are guaranteed. They are declared annually in arrears on smoothed bonus products. Vesting Bonuses cannot be removed on policy maturity events or death, except in the case of full Surrenders, partial Surrenders or other withdrawals of funds prior to policy termination. 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.

METROPOLITAN
Together we can

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

www.metropolitan.co.za

07/2019