MAURITIUS UNION GROUP

2016

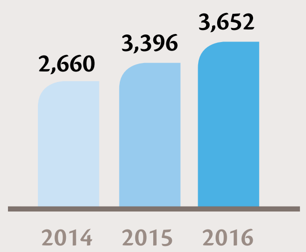
ANNUAL REPORT

"Our results for 2016 were in large part due to a focused strategic plan that continues to bear fruit, adding value to each aspect of our operations. Our African operations, although challenging, continue to grow significantly, forming an ever increasing part of our Group revenue."

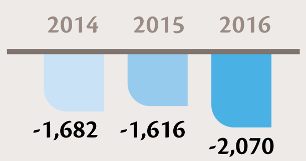
COMPANY PROFILE

FINANCIAL HIGHLIGHTS

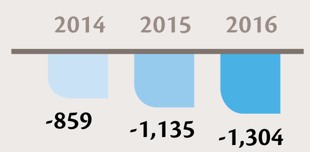
Gross Earned Premium - Rs M



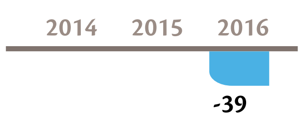
Net Claims & Benefits - Rs M



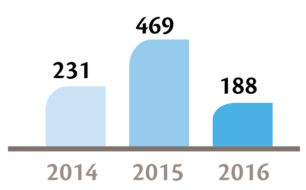
Operations & Administrative Expenses - Rs M



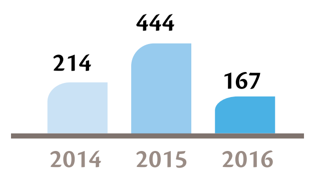
Impairment of goodwill - Rs M



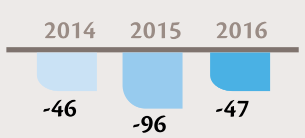
Profit from Operations - Rs M



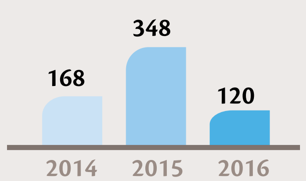
Profit before Tax - Rs M



Income Tax Expense Rs M

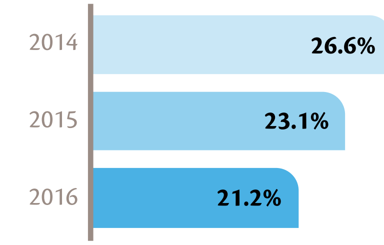


Profit after Tax Rs M

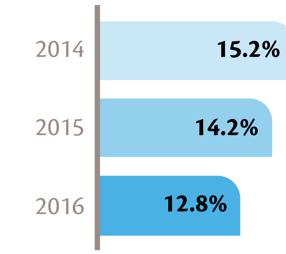


KEY PERFORMANCE INDICATORS

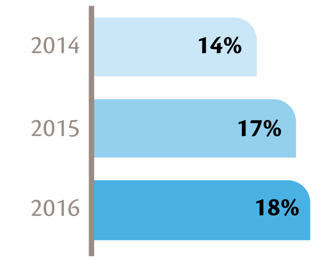
EXPENSE RATIO - General Insurance



EXPENSE RATIO - Life Insurance

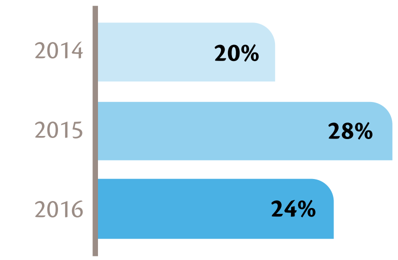


RETURN ON EQUITY - General Insurance
(Adjusted)*

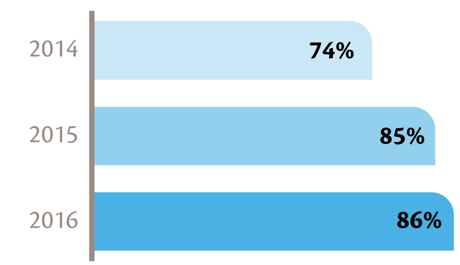


* Return on Equity (Adjusted):
- MUA General Insurance operations only
- Excludes subsidiaries
- Adjusted for Rs 104m impairment in 2016

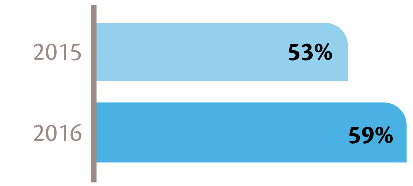
RETURN ON EQUITY - Life Insurance



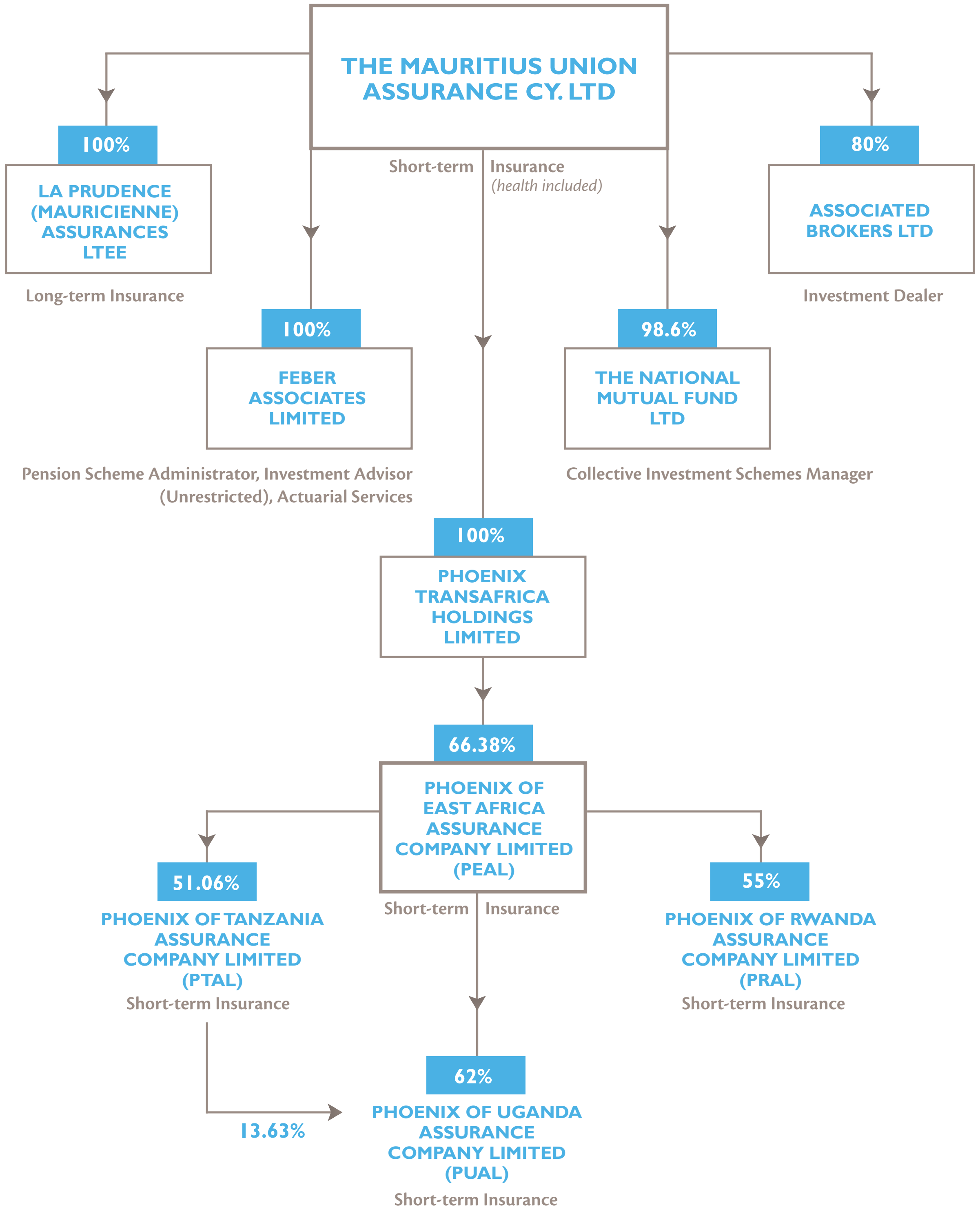
CUSTOMER SATISFACTION



EMPLOYEE ENGAGEMENT



OUR GROUP



CORPORATE INFORMATION

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AUDITORS
Ernst & Young

ACTUARIES
Deloitte Actuarial & Insurance Solutions, South Africa

MAIN BANKERS
ABC Banking Corporation Ltd
Afrasia Bank Limited
Bank One Limited
Banque des Mascareignes Ltee
Barclays Bank Plc
Hong Kong & Shanghai Banking Corporation Limited
The Mauritius Commercial Bank Ltd
SBI (Mauritius) Ltd
Standard Bank (Mauritius) Limited
State Bank of Mauritius Ltd

SECRETARY
ECS Secretaries Ltd

SHARE REGISTRY
Abax Corporate Services Ltd

Management Review

by Bertrand Casteres, Chief Executive Officer

"Dear Shareholder,

We are pleased to present you a review of the performance of the Group and the Company for the year ended 31 December 2016."

Mauritius General & Life Business

+29%

General Insurance Profits

General insurance profits rose to 29%

+18%

Health Portfolio

Our health portfolio continues to contribute significantly to the overall general insurance results, posting double digit growth of 18% in gross written premium

+10%

Gross Written Premiums

The non-motor business posted good growth of 10% in gross written premium

779million

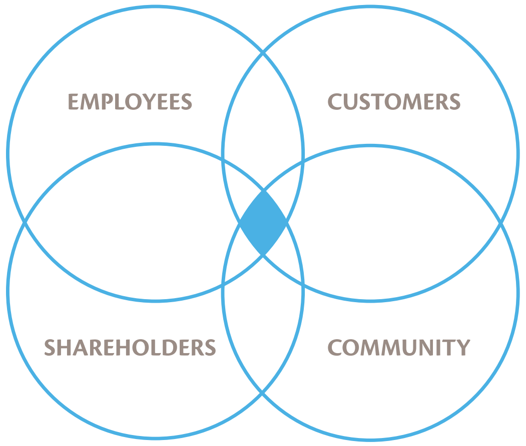
Gross Written Premiums

Our Life Insurance business posted a healthy increase of 14% in gross written premiums to Rs 779m

The 2016 year has yielded some encouraging results for the Group, driven primarily by the General and Life Insurances businesses in Mauritius. The results were in large part due to an ambitious strategic plan that continues to bear fruit, adding value to each aspect of our operations.

MUA Ambition 2017

2016 marked the second year of the company's 3-year strategic plan, aimed at creating shared value for all our Mauritian stakeholders – our employees, our customers, our shareholders and the community in which our business operates.



This value creation is measured using a number of key performance indicators: efficiency (measured by our Expense Ratio) and the Return on Equity for our **shareholders**; continuous improvement in **customer** satisfaction; the engagement of our **employees**. After two years, we have already reached our goals in 4 out of 5 metrics, well ahead of schedule. We are confident to reach all our targets in the plan's final year, delivering greater value for our stakeholders at the end of 2017.

Group premium earned was up 8% in 2016, reaching a new threshold of Rs 3.7 billion. The Mauritian operations posted positive growth despite continued soft market conditions.

General and life business profits rose 29% and 10% respectively before exceptional items, with stronger balance sheets for both local business units.

MANAGEMENT REVIEW

The overall performance of our African subsidiaries has been adversely impacted by the reversal of deferred tax assets and some major exceptional claims from our Kenyan operations (PEAL), that was partly mitigated by encouraging operating performance from our Ugandan, Tanzanian and Rwandan operations.

As part of the streamlining process involving our African subsidiaries, the Board has agreed to partially de-recognise our investment in Phoenix Transafrica Holdings Ltd by Rs 104m. Our earnings per share (EPS) fell from Rs 5.88 to Rs 3.52. However we remain fully confident in the long term contribution of our African subsidiaries, and the potential this investment represents for our shareholders.

We present below an appraisal of the main achievements and strategic intent of the local General Insurance and Life Insurance businesses of the Group:

FINANCIAL HIGHLIGHTS - GENERAL INSURANCE REVIEW

Rs M	2014	2015	2016
Gross Written Premium	1,661	1,789	1,905
Net Claims and Benefits	-740	-828	-917
Operations and Administrative Expenses	-523	-557	-629
Impairment of subsidiaries	-	-	-104
Profit from Operations	198	175	90
Profit before Tax	180	150	69
Income Tax Expense	-39	-25	-12
Profit After Tax	141	125	57

Despite an increasingly competitive local general insurance market, we have achieved **6% growth in gross written premiums in 2016, to reach Rs 1,905m**. We have steadfastly maintained a two pronged strategy of careful risk selection and cautious pricing. However the underwriting results fell by 3%, due to the continued increase in road accidents in Mauritius.

All lines of business continued their positive contribution to the overall underwriting results. The continued strict underwriting of risks on all lines of business, contributed to the improved underwriting results. The main drivers of growth came in the form of corporate business and significant new health business. With a focus towards greater efficiency, our lean culture implemented in the company in 2015 has continued to bear fruits as the Management expenses remained on par with 2015, contributing to reducing our management expense ratio.

The motor segment remains one of the most significant lines of business in our general insurance portfolio in terms of turnover. However this sector remains highly competitive, particularly in terms of pricing. The added increase of net claims by 8%, due to the continued increase in road accidents, impacted negatively this line of business. Our underwriting, marketing and sales teams have worked in concert to enhance our product offering, adjust the positioning of our products and services, in order to increase our sales volumes and our profitability in this segment.

Our health portfolio continues to contribute significantly to the overall general insurance results, posting **double digit growth of 18% in gross written premium**. The solid and encouraging increase in new business, in particular in the corporate sector, is due to customized product offering and efficient claims handling.

The non-motor business posted good growth of 10% in gross written premium. A strict underwriting strategy coupled with a better understanding and analysis of our commercial risks contributed to these positive results. Our task as a responsible insurer is to pursue the principles of prevention and rigorous risk assessment, most notably in this strategically significant line of business. As the economies of our home market and those of our subsidiaries continue to grow, we will play an ever greater role in providing adequate cover and expert risk advice.

LIFE INSURANCE REVIEW

The investment climate remained lacklustre throughout the year. The Semdex moved sideways and ended 2016 almost flat, whilst excess liquidity in the banking system continued to put downward pressure on yields of government bonds. Overall sentiment in the insurance sector did not improve following the collapse of the BAI group in 2015.

Against this negative backdrop, our Life Insurance business posted a healthy increase of **14% in gross written premiums to Rs 779m**. This was driven by strong performance of protection and unit-linked products. Despite the low rates of overall savings in Mauritius, we continue to underline the importance of investing in solid yet dynamic savings vehicles, whilst protecting the assets of clients.

Inflows from LPM Multi-Employer Fund, which was established as a trust under the Private Pension Scheme Act, **reached Rs 60m or an increase of 18%**. These inflows are accounted as investment contracts. Investment income rose by 9% to Rs 399m, helped by higher investment in government bonds. Expense ratio improved further and stood at 12.8%. The solvency level of the company stood comfortably above the regulatory requirement.

EAST AFRICA SUBSIDIARIES

2016 performance

The Mauritius Union Group operates general insurance business across East Africa in Kenya, Rwanda, Uganda and Tanzania since its acquisition of Phoenix Transafrica Holding Ltd (PTHL) in 2014. The maturity of the four markets and the position that each subsidiary occupies in each market varies.

Kenya

The performance of Phoenix Kenya in 2016 didn't meet our expectations. The unsatisfactory results were due to a number of factors, i.e, major claims in aviation and an extensive review of claims reserving for the past financial years, leading to a derecognition of a deferred tax asset.

Our Kenyan operations have clear strengths to build on and we are implementing several measures to improve the results. The industry has posted robust growth of around 10%. We have a well-diversified portfolio, strong technical foundations, the support of the Group and its global distribution reach. However, we need to reinforce underwriting discipline and reduce exposure to large losses. We have embarked on a sustainable cost saving program in the first quarter of 2017, the results of which will be appreciable the following year. The management team has also been actively consolidating our distribution channels in collaboration with our business partners. With the support of MUA, Phoenix Kenya has initiated the underwriting of risks outside of Kenya.

Finally, 2016 has been marked by several senior appointments in Phoenix Kenya. **Ashraf Musbally was appointed Group Managing Director of PEAL** in May and Anil Chopra joined the company in September as Head of General Insurance of the Kenyan operations.

Rwanda

Phoenix Rwanda outperformed the market with a **31% growth in gross written premiums** compared to an industry growth of 7%. Investment management delivered a break-out year with investment income up by a robust 54%. Consequently, **net profits after tax are up by 190%**, with a strengthened balance sheet. This is in sharp contrast to the market, where several insurance companies have been requested by the regulator to recapitalise their operations.

On the basis of this strong financial position, Phoenix Rwanda is now gearing up to launch a new phase in its development, with an intensive capital expenditure plan to upgrade its IT infrastructure. Phoenix Rwanda is now the third largest player in the market and is engaged in an investment process for its future development.

Uganda

The general insurance industry in Uganda registered a mere 3% growth in 2016. Against this backdrop, **Phoenix Uganda achieved a 90% increase in profits after tax**, despite a stable gross written premium. Given the limited growth in the industry, Phoenix Uganda has re-evaluated its commercial priorities, with a particular focus on the underwriting of unprofitable portfolios and exiting those deemed unattractive.

Nevertheless, with insurance penetration rates at less than 1% - amongst the lowest in the region - the market is expected to expand in the coming years. Business development is one of our key priorities. Latimer Mukasa has recently joined us as the new CEO of Phoenix Uganda. He is the Founding Chairman of the East African Insurance Brokers Association (EAIBA) and the Vice Chairman for the Forum of South African Businesses in Uganda (FOSABU). He will be responsible for strengthening our presence in the local market.

MANAGEMENT REVIEW

Tanzania

Phoenix Tanzania achieved a **27% growth in gross written premiums in 2016**, backed by a 10% growth in the general insurance industry. However, profit after tax declined compared to 2015 with lower investment income, due to a major property asset owned by Phoenix Tanzania remaining vacant. The multi-storeyed building, located in the centre of Dar es Salaam, was vacated by its principal tenant at the end of 2015. The building has been renovated and management is looking into various options to optimise revenue of this property.

As we look to 2017, we welcome the appointment of Pradeep Srivastava as the new CEO of Phoenix Tanzania. With his extensive experience on the Tanzanian market, Phoenix Tanzania will continue consolidating its distribution channels, by revamping its network of branches and strengthening the relationships the company has with its key business partners.

2017 way forward

Since our entrance into East African market in 2014, we have endeavoured to understand customer needs and behaviours and to adapt to the local markets. We have now launched the second phase of our expansion strategy with **an integration plan** which is being rolled out since early 2017. The aim of this integration plan is to standardize processes throughout the organisation and to get synergies in operations and management in order to work more efficiently and share specialised competencies across the organisation.

Our objective is to become a prominent player in these **four high-potential African markets** where we have foothold. We want our local teams to focus on business development and quality of our customers' experience, with the full support of the specialist teams at MUA. We are focusing on specific segments for value creation and taking measures to grow our market share. We are also **strengthening our support capabilities** that underpin our ambitions. This means enabling transfer knowledge and expertise across the organisation, investing in efficient and cost-effective operations and technology, and building our brand and reputation in East Africa.

FINANCIAL SERVICES

Our Financial Services business continued on its positive growth path, with a 2% increase in revenue compared to 2015. This was primarily driven by an **11% growth at Feber Associates**, our pension scheme specialist. This business unit ended 2016 on a high note with the **integration of the Sugar Industry Pension Fund** into its operations and the management of this key pension fund. The SIPF management team and staff were fully integrated into Feber's offices at the Caudan Waterfront.

Associated Brokers (ABL) and the National Mutual Fund (NMF) both had a more challenging year. Revenue and profits were under pressure for ABL off the back of an exceptional year in 2015 Lower investment returns and assets under management negatively affected the NMF's results. Better prospects for the SEM and more buoyant domestic economic forecasts, should benefit both these business units in 2017.

PROSPECTS

As 2016 drew to a close, we noted very similar market trends that marked our Mauritian over the last few years: increased competition, continued pressure on premiums and the higher number and severity of vehicle accidents. These market conditions justify our prudent underwriting approach and cautious pricing strategy.

Despite a mixed bag of results from our African subsidiaries, we remain confident that our expansion strategy into four key markets will provide us with the required impetus to sustain our growth rate over the long term.

The close of 2016 also marks the end of the second year of our three-year strategic plan, **'MUA Ambition 2017'**. It has been a **year of strategic consolidation and maturation**, in terms of our markets and our overall management plan. In many areas, we are well ahead of projections in terms of our strategic goals, which bodes well for the last year of this plan. We will soon be preparing the foundations for our next three-year plan towards 2020, building on the achievements of our previous plan and the potential of our diversified business units.

BERTRAND CASTERES
Chief Executive Officer

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