

FITCH AFFIRMS MMI GROUP'S IFS AT 'AA(ZAF)'; OUTLOOK POSITIVE

Fitch Ratings-London-13 August 2013: Fitch Ratings has affirmed South Africa-based MMI Group Limited's (MMI Group; formerly Momentum Group Limited) National Insurer Financial Strength (IFS) rating at 'AA(zaf)' and National Long-term rating at 'AA-(zaf)' and MMI Holdings Limited's (MMI) National Long-term rating at 'A+(zaf)'. The Outlooks are Positive. Concurrently, Fitch has withdrawn the ratings on Metropolitan Life Limited (Metropolitan) following the transfer of all its assets and liabilities into MMI Group. Fitch has simultaneously affirmed the subordinated debt issued by MMI Group at 'A(zaf)'.

KEY RATING DRIVERS

The affirmations reflect MMI group's solid performance, strong capital position, well established domestic franchise and strong and diversified distribution network. Offsetting these key rating drivers is some earnings volatility stemming from the group's exposure to investment markets.

The Positive Outlook continues to reflect the improved profitability achieved by MMI group since the merger between Momentum and Metropolitan on 1 December 2010. At the half year ending 31 December 2012 (HY13) the group reported realised recurring cost savings of ZAR256m and is on track to meet its synergy target of recurring cost savings of ZAR500m per annum by June 2014. The group reported improved core headline earnings of ZAR1.5bn at HY12 (HY11: ZAR1.3bn).

Group capital adequacy, both on Fitch's internal assessment as well as on a statutory solvency basis, is viewed as strong for the ratings. Momentum and Metropolitan reported statutory cover of 2.2x and 2.7x, respectively, at HY13 (FY12: 2.3x/2.5x). The group's low financial leverage of 9.3% at FY12 (FY11: 11.5%) is also supportive of the rating.

MMI's equity exposure is considered high for the rating. However, Fitch recognises that these holdings mostly back discretionary participating policies where the group can partly share investment losses with clients. Assets backing MMI's shareholder funds are conservative, and overall Fitch views MMI's investment risk as acceptable for the rating level.

RATING SENSITIVITIES

The group's ratings could be upgraded if it continues to improve its profitability, maintains its current market share as well as strong capitalisation, and realises synergies according to its merger plan.

A downgrade could result from a substantial, sustained deterioration in capitalisation either based on Fitch's internal assessment or on the statutory capital adequacy ratio (CAR). The agency would be concerned if MMI reported a CAR of below 1.7x. A sustained poor operating performance driven by a marked equity market decline, lower new business margins or a material loss of market share would also create negative rating pressure.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Insurance Rating Methodology', dated 11 January 2013 are available at
www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology — Amended

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=698731

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