

FITCH AFFIRMS MOMENTUM'S AND METLIFE'S IFS AT 'AA(ZAF)'; OUTLOOK STABLE

Fitch Ratings-London/Johannesburg-28 March 2012: Fitch Ratings has affirmed South Africa-based Momentum Group Limited's (Momentum) and Metropolitan Life Limited's (MetLife) National Insurer Financial Strength (IFS) ratings at 'AA(zaf)' and National Long-term ratings at 'AA-(zaf)'. The Outlooks are Stable. Fitch has simultaneously affirmed both Momentum's and MetLife's subordinated debt at 'A(zaf)'.

At the same time, Fitch has also affirmed Momentum's and MetLife's parent and the ultimate holding company of the MMI group, MMI Holdings Limited's (MMIH) National Long-term rating at 'A+(zaf)'. The Outlook is Stable.

The affirmations reflect the MMI group's solid performance despite the difficult operating conditions, 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 and the continued tough South African economic environment.

The group's performance improved for the six months ended 31 December 2011 (H112) with core headline earnings up 4% at ZAR1,294m (H111: ZAR1,243m). Despite this, the group's annualised return on embedded value (ROEV) fell to 7.1% (FY11: 11.0%). The deterioration was mainly attributable to the weak performance of the local equity market in the second half of 2011 relative to the second half of 2010 as well as the implementation of a more conservative investment mandate for MetLife's shareholder capital. The new mandate resulted in a one-off increase in the opportunity cost of capital in the embedded value (EV) calculation which in turn reduced EV by ZAR523m. Excluding this once-off cost, the group's annualised ROEV was only slightly lower at around 10.7% in H112 compared to FY11.

The improvement in earnings was supported by solid performances in the Metropolitan Retail and Metropolitan Health business units. New life business margin on a present value of new business premiums basis increased slightly to 1.5% in H112 (FY11: 1.4%; H111: 1.6%). Fitch expects the group to achieve revenue and cost synergies from the group's merger activities. By end-June 2014, the group expects to reduce its annual costs by ZAR500m.

The group's capital adequacy requirement (CAR) cover ratio remained unchanged at 2.3x at end-H112 (FYE11: 2.3x). Although the agency considers this to be a strong level it notes the group's capitalisation is somewhat sensitive to equity market volatility. At end-H112, 12% of assets backing the group's shareholders' capital comprised equities. MetLife and Momentum (the large life licenses of the MMI group) had CAR cover ratios of 2.7x and 2.1x respectively at end-H112 (FYE11: 2.3x and 2.3x respectively). The improvement in MetLife's CAR cover ratio was attributable to the implementation of a more conservative investment mandate for the shareholders' capital in H112. The deterioration in Momentum's CAR cover ratio was mainly due to the annual dividend payment to MMIH.

Although an upgrade is unlikely in the near term, the key rating drivers that could result in an upgrade in the medium-term include the group achieving the expected merger benefits (revenue and cost synergies), a significant improvement in profitability as indicated by operating return on assets, a sustained strong capital position at current levels, continued maintenance of market share, as well as an improvement in economic conditions.

If there is a substantial, sustained deterioration in capitalisation based on Fitch's assessment or a sustained drop in the group's regulatory CAR cover ratio to below 1.7x, and/or a sustained poor operating performance driven by a significant equity market decline, lower new business margins or

a severe weakening of market share, this would lead to negative rating action.

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The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Insurance Rating Methodology' dated 22 September 2011, is available at www.fitchratings.com.

Applicable Criteria and Related Research:
Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651018

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