MMI Holdings Limited, Momentum Group Limited and Metropolitan Life Limited

Full Rating Report

Ratings

MMI Holdings Limited

National Long-Term Rating	A+(zaf)

Momentum Group Limited

National Long-Term Rating	AA−(zaf)
National Insurer Financial Strength	AA(zaf)
Subordinated Debt	A(zaf)

Metropolitan Life Limited

National Long-Term Rating	AA−(zaf))
National Insurer Financial Strength	AA(zaf)
Subordinated Debt	A(zaf)

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB+
Long-Term Local-Currency IDR	A

Outlooks

National Insurer Financial Strength Ratings	Stable
National Long-Term Ratings	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

MMI Holdings Limited (consolidated)

	2011[a]	2010[b]
Total assets (ZARbn)	293	198
Total equity (ZARbn)	23.1	9.2
Insurance premium revenue (ZARbn)	15.0	9.3
Diluted core headline earnings (ZARm)	2,099	1,276

[a] Due to the merger becoming effective 1 December 2010, the 2011 figures in the table above represent the Momentum group's results for the 12 months ended 30 June 2011 and the Metropolitan group's results for the seven months ended 30 June 2011. Pre-merger, the Metropolitan group had a 31 December year-end and the Momentum group had a 30 June year-end. The MMI group has adopted a 30 June year-end.
[b] The 2010 figures in the above table represent the Momentum group's results for the 12 months ended 30 June 2010.

Amendment

This report, which was originally published on 12 December 2011, is being amended to change Figure 3 on page 5.

Related Research

South African Life Insurance: Improved Performance Despite Tough Economic Conditions (February 2011)

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Key Rating Drivers

Strong Domestic Franchise: The MMI group, which is the product of a merger between the Momentum and Metropolitan groups effective 1 December 2010, has a well-established diversified business position in South Africa. It benefits from the diversification of both the merging entities' products, services and target markets. It is one of South Africa's four largest life insurance groups, the country's largest administrator of restricted medical health schemes and administers four of South Africa's largest restricted membership medical schemes.

Robust Performance: The MMI group generated 12% higher segmental diluted core headline earnings of ZAR2,588m in 2011[1] (2010: ZAR2,311m), with a return on embedded value (ROEV) of 11.4%. This was mainly attributable to the improved performance in the two retail (Metropolitan Retail and Momentum Retail) and health business units. The new life business margin on a present value of new business premiums (PVNBP) basis improved to 1.4% in 2011 (2010: 1.2%).

Strong Capitalisation: Fitch Ratings considers the group's capital level to be strong, despite equity market volatility. The group's statutory capital adequacy requirement (CAR) cover ratio was 2.3x at end-June 2011, which is above the minimum regulatory requirement of 1.0x. However, Fitch notes that the group's capitalisation is somewhat sensitive to equity market volatility.

Strong, Diversified Distribution Network: The group has a strong and diverse distribution network, underpinned by a well-established broker consultant network, a growing force of personal financial advisors, a growing agency force and the bancassurance channel with the FirstRand group.

Delivery of Merger Benefits: The agency expects the enlarged group to benefit from growth opportunities, economies of scale (through MetLife's and Momentum's complementary target markets and resources), cross-selling of insurance-based financial products and capital efficiencies (through further risk diversification as part of an ongoing capital management programme). In addition, Fitch expects the group to achieve revenue and cost synergies. By end-June 2014 the group expects to reduce its annual costs by ZAR500m.

What Could Trigger a Rating Action

Merger Benefits and Performance: An upgrade is unlikely in the near term. However, the key rating drivers that could result in an upgrade in the medium term are the group achieving the expected merger revenue and cost synergies, a significant improvement in profitability as indicated by operating return on assets, a sustained strong capital position at current levels and continued maintenance of market share, as well as an improvement in economic conditions.

Weakening Performance: Negative rating action could follow 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. In addition, it could follow a sustained poor operating performance driven by a significant equity market decline, lower new business margins or a severe weakening of market share.

[1] For comparative purposes the 2011 and 2010 figures in this paragraph assume that the Metropolitan and Momentum groups were merged from 1 July 2010 and 1 July 2009, respectively.

Peer Analysis

The MMI group is one of the four largest life insurers in terms of gross written premium (GWP) in South Africa. It is the country's largest administrator of restricted medical health schemes (67% market share).

Compared with its peers, the MMI group has strong positions in all income segments: the Metropolitan brand in the low- to middle-income segments; and the Momentum brand in the upper-income segment. It also has significant or leading market positions in each of its key market segments.

The group, through Metropolitan, has strong black economic empowerment (BEE) credentials that will support its business position and prospects. This has contributed to the Metropolitan group winning attractive government business, including the Government Employees Medical Scheme (GEMS) administration contract for a third three-year term from 2012.

Figure 1
Peer Comparison (30 June 2011)

	National IFS Rating/Outlook	CAR cover (x)	New business margin (% PVNBP)	ROEV/ ROGEV (%) annualised	Assets under management (ZARbn)
Old Mutual Life Assurance Company (South Africa) Ltd	AAA(zaf)/Stable	4.1	2.1	13.3	526
Sanlam Limited	AA+(zaf)/Stable[a]	3.2	2.5	13.5	504
Liberty Group Limited	AA(zaf)/Stable	2.9	1.3	13.0	386
MMI Holdings Limited	AA(zaf)/Stable[b]	2.3	1.4	11.4	443

ROEV/ROGEV – Return on Embedded Value/Return on Group Equity Value. PVNBP: Present Value of New Business Premiums
The key indicators in this table for MMI Holdings Limited are for 12 months ended 30 June 2011 while the other peers are for six months ended 30 June 2011
[a] The National IFS Rating/Outlook applies to Sanlam Life Insurance Limited and not Sanlam Limited. Sanlam Limited is the holding company of the group and has a National Long-Term Rating of 'AA−(zaf)'
[b] The National IFS Rating/Outlook applies to Momentum Group Limited and Metropolitan Life Limited and not MMI Holdings Limited. MMI Holdings Limited is the holding company of the group and has a National Long-Term Rating of 'A+(zaf)'
Source: Company announcements, Fitch

Company Profile

The MMI group is the product of a merger between two large South African life insurance groups, the Momentum and Metropolitan groups, which became effective on 1 December 2010. The enlarged group is a diversified financial services company, based in and operating primarily in South Africa. Its primary activity is life insurance, servicing all income segments of the market. It also offers healthcare administration, asset management and employee benefits. In addition to South Africa it operates in 12 African countries: Namibia, Botswana, Lesotho, Kenya, Ghana, Nigeria, Swaziland, Mozambique, Zambia, Mauritius, Tanzania and Malawi.

Ownership Structure

MMI Holdings Limited (MMIH) is the ultimate holding company for the operating subsidiaries, with a listing on the Johannesburg Stock Exchange (JSE). The MMI name only applies to the listed entity and is used only as an investor brand. The established and well-recognised brands of Metropolitan and Momentum are used as operational brands.

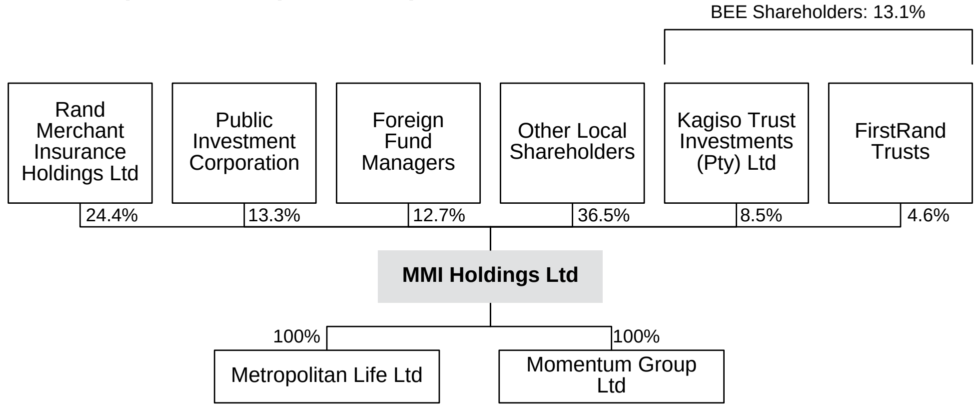
Figure 2 illustrates the structure and ownership of the MMI group.

Related Criteria

Insurance Rating Methodology
(September 2011)

Figure 2

MMI Group Structure (June 2011)



Source: Company

Products

The group has six operational business units, each with clearly defined areas of focus and targets, as well as a shareholder capital segment.

Momentum Retail

This business unit comprises Momentum's existing retail business including Momentum Wealth (previously part of Momentum's investment business unit pre-merger) and Metropolitan Odyssey (part of Metropolitan's retail business unit pre-merger). It focuses on providing life insurance to the middle-to-upper-income retail market segment in South Africa, where the Momentum brand is well established. This division provides individual life wealth creation and preservation, risk and savings products. Momentum Retail has 1.5 million lives insured.

Momentum Retail is also responsible for distribution and sales for the products of some other divisions (using broker distribution and agency sales channels).

Metropolitan Retail

The Metropolitan Retail division comprises Metropolitan's existing retail business, Momentum New Markets (part of Momentum's retail business unit pre-merger) and 10% of FNB Life. Pre-merger, Momentum's partnership with the FirstRand group's retail bank, First National Bank (FNB), enabled it to access the low- to middle-income market segments, under the FNB Insurance brand. FNB Insurance distributes credit life, funeral, personal accident and law-on-call products, mainly to the lower income clients of FirstRand. The relationship with the FirstRand group is continuing as a strategic partnership.

This business unit targets the entry level market (ELM) segment in South Africa, providing individual life insurance, including the development, distribution and administration of individual life savings, income and protection products. The Metropolitan brand is well established in the ELM and is predominantly a high-volume low-premium business. Metropolitan Retail has 4.5 million individual life beneficiaries.

Momentum Employee Benefits

The Momentum Employee Benefits division comprises the existing Metropolitan and Momentum employee benefits businesses. It is responsible for the activities relating to the retirement funds business. Its primary focus is the provision of administration, insurance and investment solutions for employers and retirement funds in the large corporate and small, medium and micro enterprise market segments in South Africa.

Administration services are offered to both standalone retirement and umbrella funds. In particular, Metropolitan Retirement Administrators specialises in large-scale retirement fund administration. Both the Metropolitan and Momentum brands are used in the appropriate segments of the market.

Metropolitan International

The Metropolitan International division is made up of Metropolitan's life assurance businesses and Momentum's life assurance and health businesses in Africa. This business unit is involved in the development, distribution and administration of individual life investment, risk and savings products, as well as retirement fund administration, health insurance and administration, and short-term insurance. Members under administration in the health business grew to 125,000 in 2011 (2010: 117,000).

Momentum Investments

This business unit comprises Momentum's asset management businesses including its United Kingdom operations and Metropolitan's asset management businesses. It offers all aspects of active and passive asset management (local and international), collective investment management, multi-management, alternative investment management and property investment management, on behalf of all businesses within the MMI group and third parties. Momentum Investments' assets under management grew to ZAR275bn in 2011 (2010: ZAR267bn).

Metropolitan Health

Metropolitan Health is made up of Metropolitan's and Momentum's South African health businesses. It provides managed care services to both corporate and retail healthcare schemes. It offers both open medical scheme administration (where membership of the medical scheme is not restricted and is open to the public to join), and closed or restricted medical scheme administration (where membership of the medical scheme is restricted to certain qualifying individuals and is not open to the general public to join).

The Momentum brand is used in the open medical schemes administration market segment, while the Metropolitan brand is used in the closed or restricted medical schemes market. The MMI group, through Metropolitan Health Group (MHG), administers the four largest restricted health schemes in South Africa: Bankmed, GEMS, Polmed, and Transmed. MHG is the largest healthcare administrator for restricted health schemes and one of the largest healthcare administrators in South Africa in the entire market (including both open and closed health schemes).

MHG differentiates itself from its competitors by offering a cheaper service than the industry average. A further competitive advantage is Metropolitan's strong BEE credentials, which have helped Metropolitan to win attractive government business such as the administration of GEMS. Fitch expects the MMI group to continue to benefit from Metropolitan's strong BEE credentials (despite the dilution caused by the merger with Momentum) and its growing pension fund administration business.

Total members under administration grew to 1.2m in 2011 (2010: 1.1m) and represented over 3m lives. Of this, Momentum's open scheme comprised 94,000 principal members (2010: 91,000), GEMS comprised 560,000 (2010: 475,000) and other schemes comprised 544,000 (2010: 532,000). The group has market shares of 67% in the South African closed medical aid scheme administration market and 32% in the South African total medical aid scheme administration market.

Shareholder Capital

The Shareholder Capital division comprises holding company related activities and the management of the group's capital and shareholder balance sheet risks. It also includes the run-off of Momentum's corporate policy business and operational items managed centrally by the group.

Target Markets

The MMI group's target market consists of all income segments. Momentum and Metropolitan operate in different target markets, with the Metropolitan brand targeting the low- to middle-income retail market segment while the Momentum brand targets the higher-income retail market segment. Geographically, the group operates predominantly in South Africa but, as discussed under *Metropolitan International* above, it also operates in 12 African countries.

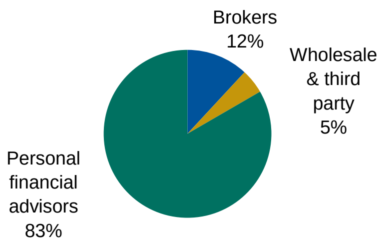
While expansion into Africa offers the prospect of good growth opportunities (in view of current low penetration of insurance products and services) and diversification of earnings, Fitch believes that this comes with challenges and execution risks: potential shortages of financial skills and expertise; political instability; pressure from regulators to localise infrastructure; and the need for local partners.

Distribution Channels

Figures 3 and 4 show the new business sourced from Metropolitan Retail's and Momentum Retail's respective distribution channels at end-June 2011.

Figure 3

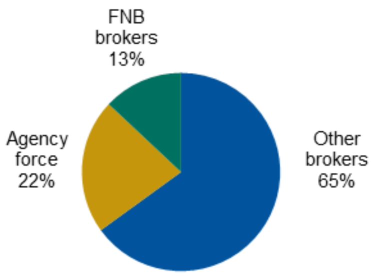
Metropolitan Retail's New Business by Distribution, 30 June 2011



Source: Company

Figure 4

Momentum Retail's New Business by Distribution, 30 June 2011



Source: Company

Metropolitan Retail's distribution is relatively diverse. Pre-merger, Metropolitan did not have any affiliation with a bank for distributing its products (unlike all the other major players in South Africa) which Fitch viewed to be a disadvantage. However, the MMI group's strategic relationship with the FirstRand group addresses this point.

The FirstRand group will continue to pursue the synergistic benefits that exist between banking, insurance and asset management activities with the enlarged group, particularly given the success of FNB Insurance and the significant growth opportunities for the enlarged group. The FirstRand group's future relationship with the enlarged group has been formalised through a strategic relationship agreement.

Momentum's distribution strength is underpinned by its strong and well-established broker consultant network and a growing agency force.

Financial Analysis

The group's financial performance has been robust in the face of a difficult economic environment, which Fitch views as favourable. Segmental diluted core headline earnings, as indicated in Figure 5, were 12% higher at ZAR2,588m in FYE2011, with a ROEV of 11.4%.

The improved results were driven mainly by good performances in the two retail and health business units. Momentum Retail remained the largest contributor to the group's value of new business (accounted for 46%) and operating profit (accounted for 40%). Although Momentum Retail's value of new business was up 16% at ZAR288m in 2011, its new business margin on a PVNBP basis remained unchanged at 1.0% as a result of the sales mix.

Figure 5

Business Units Contribution to Diluted Core Headline Earnings

	2011 (12 months ended 30 June)		2010 (12 months ended 30 June)	
	(ZARm)	(%)	(ZARm)	(%)
Momentum Retail	699	27	600	26
Metropolitan Retail	394	15	367	16
Momentum Employee Benefits	187	7	204	9
Metropolitan International	32	1	77	3
Momentum Investments	131	5	165	7
Metropolitan Health	114	5	97	4
Shareholder Capital	1,031	40	801	35
Segmental total[a]	**2,588**	**100**	**2,311**	**100**
Metropolitan pre-merger[b, c]	-489	-	-1,035	-
Total[d, e]	**2,099**	**-**	**1,276**	**-**

[a] The 2011 and 2010 segmental figures assume that the Metropolitan and Momentum groups were merged from 1 July 2010 and 1 July 2009, respectively
[b] The 2011 "Metropolitan pre-merger" figure represents the financial information for the Metropolitan group for the five months before the merger
[C] The 2010 "Metropolitan pre-merger" figure represents the financial information for the Metropolitan group for the twelve months ended 30 June 2010. For comparative purposes, the figure assumes that that the Metropolitan and Momentum groups were merged from 1 July 2009
[d] The 2011 "Total" figure represents the Momentum group's results for the 12 months ended 30 June 2011 and the Metropolitan group's results for the seven months ended 30 June 2011. The merger was effective 1 December 2010
[e] The 2010 "Total" figure represents the Momentum group's results for the 12 months ended 30 June 2010
Source: Company

Metropolitan Retail's new business margin on a PVNBP basis improved significantly to 4.5% in 2011 (2010: 2.8%). This was attributable to strong new business growth (particularly new business sourced from the traditional agency channels), a focus on writing quality business combined with the removal of underperforming products and good expense management.

Although Momentum Employee Benefits experienced strong growth in its umbrella fund and risk offerings, its new business margin on a PVNBP basis fell to 0.7% (2010: 1.3%) as a result of the change in new business mix. The reduction in this division's contribution to the group's segmental diluted core headline earnings was primarily due to once-off profits in 2010 and an increase in production expenses.

Metropolitan International's lower contribution to the group's segmental diluted core headline earnings in 2011 was as a result of the health business incurring an operating loss, attributable mainly to a strong rand and higher than expected claims experience in certain countries. Despite this, the value of new business grew 79% to ZAR25m in 2011, with large new business contributions from Botswana and Nigeria.

Overall the group's value of new business grew 35% to ZAR632m in 2011, with the group's new business margin on a PVBNP basis improving to 1.4% (2010: 1.2%). The improvement in the margin was mainly attributable to Metropolitan Retail and Metropolitan International.

The group had a net fund inflow into its life insurance business of ZAR1,611m in 2011 (2010: net fund outflow of ZAR9,248m) attributable to net fund inflows from Momentum Retail, Metropolitan Retail and Metropolitan International. Overall, however the group had a total net fund outflow of ZAR5,449m in 2011 (2010: net fund outflow of ZAR17,266m) attributable mainly to net fund outflows from Momentum Investments (due to net outflows in the equity and balanced funds) and Momentum Employee Benefits (mainly due to net fund outflows in the smoothed bonus business).

The group's total assets under management totalled ZAR443bn at end-June 2011, of which ZAR150bn was off-balance sheet.

Investments and Liquidity

As discussed in the *Reserve Adequacy and Development* section below, the majority of the group's liabilities are market-linked. In terms of the two largest life companies in the group, MetLife has a significant discretionary participation features (DPF) or smoothed-bonus book of business, while the majority of Momentum's liabilities are market-linked and exposure to investment guarantees in its in-force book is moderate.

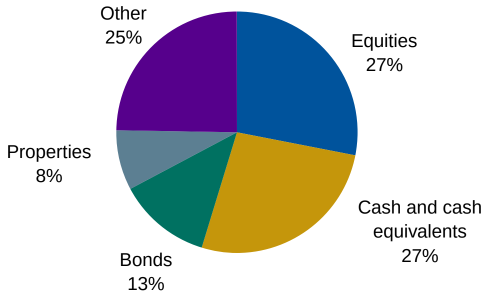
The chosen investment mix of smoothed-bonus business affects the statutory CAR. The group uses stochastic models, in line with professional guidance issued by the Actuarial Society of South Africa (ASSA), for asset-liability management purposes, for setting reserves for investment guarantees, to guide decisions on strategic asset allocation and appropriate levels of capitalisation.

For their non-participating and non-linked business, the group follows a policy of either cash flow matching assets and liabilities as closely as possible, or hedging liabilities as closely as possible using the appropriate assets available in South Africa.

Fitch considers the group's investment portfolio to be well diversified. Diversification limits are set per industry sector, per individual counterparties and the number of single obligor exposures within rating categories. The majority of assets backing the group's shareholders' funds of ZAR22.8bn at end-June 2011 are invested in equities and cash, as indicated by Figure 6.

Figure 6

Assets Backing the Group's Shareholders' Funds, 30 June 2011



Source: Company, Fitch

Assets backing MetLife's CAR comprise mainly property (47%), fixed interest instruments (26%) and cash and near cash (25%). Assets backing MetLife's shareholders' funds are mainly invested in equity securities (40%), with cash and near cash accounting for 22%. Momentum supports its regulatory CAR mainly with cash or near cash assets. Assets backing Momentum's shareholders' funds are mainly invested in cash and near cash (50%). The MMI board has recently approved a more conservative investment policy, moving towards cash and near cash instruments with no equities backing the regulatory CAR of the group's life subsidiaries.

Reserve Adequacy and Development

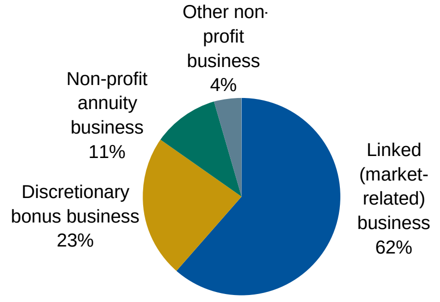
Fitch believes the South African insurance market to be well regulated. Non-bank financial services are regulated by the FSB. In addition, the ASSA issues professional guidance on, for example, statutory actuarial valuations of liabilities and calculations of embedded value. Regulations are typically modelled on international standards.

The valuation of the liabilities is based on the financial soundness valuation methodology. This requires the use of realistic best-estimate assumptions of future experience, plus prescribed prudential margins for solvency purposes, on top of which the statutory actuary may add further discretionary margins. In addition to the prescribed regulatory margins, the group held significant discretionary margins at end-June 2011. In view of the South African regulatory regime and requirements to comply with professional guidance, as well as the significant additional discretionary margins held, Fitch considers the group's reserving to be prudent.

Figures 7 to 9 illustrate the breakdown by type of business of the group's, MetLife's and Momentum's policyholder liabilities, respectively. The largest portion of the group's business is market-linked (accounting for 62% of total policyholder liabilities), so policyholders largely bear the risks of exposure to the investment markets — likewise for the 72% and 30% of Momentum's and MetLife's business, respectively, which are market-linked.

Figure 7

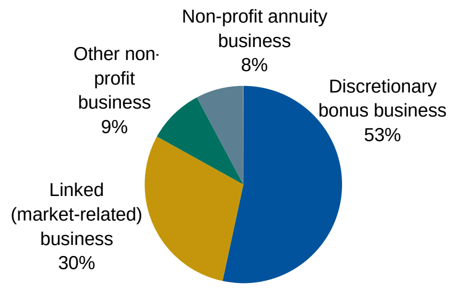
MMI's Policyholder Liabilities, 30 June 2011



Source: Company

Figure 8

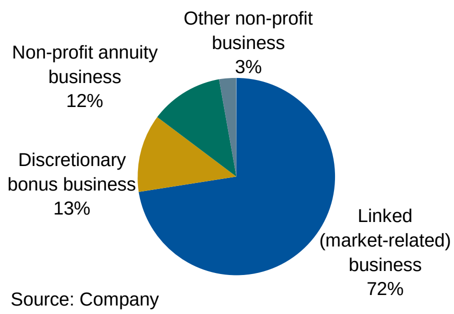
MetLife's Policyholder Liabilities, 30 June 2011



Source: Company

Figure 9

Momentum's Policyholder Liabilities, 30 June 2011



Source: Company

Investment guarantees are embedded in some of Momentum's main classes of business, for which policy reserves and capital are held. Both Momentum and MetLife use stochastic modelling techniques to calculate reserves for their guarantees, in accordance with the professional guidance prescribed by the ASSA. Fitch believes that both have made prudent allowance for the value of all their guarantees.

The largest proportion of MetLife's business is DPF (ie, smoothed-bonus and conventional with-profit), which accounted for 53% of total policyholder liabilities in 2011. The group's and Momentum's DPF business accounted for 23% and 13%, respectively, in 2011. With smoothed-bonus business, smoothed investment profit belongs entirely to policyholders, bonuses are managed through bonus smoothing accounts (BSAs), there are explicit fund-based charges, and policyholders take no business risk (such as financing the writing of non-participating business). The group's smoothed-bonus business exposes it to market risk to the extent that declared bonuses are vested and other investment guarantees are provided.

The South African regulatory regime requires companies to disclose funding levels (defined as the market value of underlying assets in relation to accumulated fund accounts) for all smoothed-bonus portfolios that become less than 92.5% funded. Although no Momentum funds were below the disclosure limit of 92.5% at end-June 2011, a number of its reversionary bonus and secured funds had small negative BSAs (ie, funding levels below 100%), due to poor investment market performance. However, Momentum expects to restore these funding levels to 100% by way of minor reductions in future bonuses for a period of one year. All of MetLife's smoothed-bonus funds had positive BSAs (funding levels above 100%) at end-June 2011.

Momentum has an additional BSA which amounted to ZAR1,037m at end-June 2011. It is used to top up its BSA on a temporary or permanent basis and serves as a buffer to provide protection in case of a severe fall in the market value of assets backing smooth bonus business. Injections of ZAR35m and ZAR5m were made from Momentum's additional BSA into one of its secured funds during 2011. No further injections are anticipated in the short term.

The group's, MetLife's and Momentum's non-profit annuity business (which accounted for 11%, 8% and 12% of total policyholder liabilities, respectively, in 2011) exposes them to interest rate risk, given the long-term profile of these liabilities. These liabilities are matched with assets (mainly comprising a combination of bonds of appropriate duration and interest rate derivatives) that have the same duration as the liabilities.

Both MetLife and Momentum issue guaranteed endowment policies which provide guaranteed maturity values to policyholders. The risk of being unable to meet the guaranteed maturity value is managed by investing in assets that will provide the required yield at the relevant durations, such as a combination of bonds and interest rate derivatives. Furthermore, a portion of the group's guaranteed endowment policies is reinsured with reputable reinsurers.

Both MetLife's and Momentum's other non-profit business exposes them to mortality risk, morbidity risk, expense risk, persistency risk as well as the risk that the investment return experienced may be lower than that assumed when the price of the insurance business was determined. Liabilities are matched by investing in assets, namely bonds with appropriate duration and interest rate derivatives.

Capitalisation

Fitch considers the group's capital position to be strong, based on its own risk-adjusted assessment, as well as the statutory CAR coverage level. The group's statutory CAR cover ratio strengthened to 2.3x at end-June 2011 (end-June 2010: 2.2x[2]), benefiting from higher available capital for prudential regulatory purposes of ZAR15.1bn (2010: ZAR13.8bn). The group's CAR cover ratio is above the minimum regulatory requirement of 1.0x. Fitch notes that the group's capitalisation is somewhat sensitive to equity market volatility.

Both MetLife and Momentum had CAR cover ratios of 2.3x at end-June 2011. The deterioration in MetLife's CAR cover ratio from 2.8x at end-December 2011 was attributable to an increase in the CAR and dividends paid to MMIH. The improvement in Momentum's CAR cover ratio from 2.1x at end-June 2010 was due to a higher proportionate increase in the statutory surplus compared to the increase in the CAR. Although MetLife's and Momentum's CAR cover ratios fell to 2.2x and 2.0x, respectively, after the payment of dividends to MMIH in October 2011, the agency considers these ratios to be strong, based on its own risk-adjusted assessment.

South African life insurers usually allow for anticipated management actions in their CAR calculation, meaning that the CAR is lower than it would otherwise be, as the CAR is reduced to reflect assumed management actions that are likely to be taken in the event of the adverse scenarios materialising. In line with this industry regulatory practice, both MetLife and Momentum take significant credit for assumed management actions in their respective CAR calculations.

[2] The CAR cover ratio at end-June 2010 has been restated to assume that the Momentum and Metropolitan groups were merged as at 30 June 2010

The FSB is in the process of developing a new risk-based solvency regime for South Africa, known as Solvency Assessment and Management (SAM), based on the principles of the Solvency II Directive, but adapted to South African-specific circumstances where necessary. The introduction of SAM is likely to result in increased capital requirements for insurers.

Financial Leverage and Debt-Servicing Capabilities

Following regulatory approval, MetLife issued ZAR500m of unsecured subordinated callable notes in November 2006 and Momentum ZAR1bn in April 2006. The notes mature on 15 December 2019 and on 15 September 2020, respectively. Both issues receive 100% credit for regulatory solvency purposes and serve to reduce the average cost of capital while supporting CAR cover. Both issues receive 100% equity credit in Fitch's risk-adjusted capital assessment but 0% equity credit in the agency's financial leverage calculation.

The group's financial leverage (debt/debt plus equity) was 11% at end-June 2011, which is considered by Fitch as low.

Figure 10

MMI Holdings Limited: Balance Sheet (Group Consolidated Figures)

	Year ending 30 June	
(ZARm)	2011[a]	2010[b]
Assets		
Investments		
Real estate	7,451	3,281
Shares	85,019	53,738
Affiliates	6,804	7,797
Bonds (public-sector stocks and loans)	71,519	53,958
Loans (debentures, insurance policies and other loans)	1,542	762
Cash and bank deposits	31,579	27,084
Other invested assets	2,848	1,823
Total investments (non-linked)	**207,755**	**147,450**
Unit-linked investments	63,423	39,529
Insurance receivables	1,765	176
Reinsurance receivables	399	241
Other receivables	4,840	7,024
Deferred acquisition costs	1,790	1,859
Tangible assets	0	0
Goodwill	345	200
Other intangible assets	10,122	1,068
Other assets	964	305
Total assets	**291,403**	**197,852**
Liabilities		
Technical reserves		
Mathematical reserve	62,801	20,342
Reinsurers’ share	1,148	-628
Total life technical reserves	**61,653**	**19,714**
Unit-linked liabilities	166,079	132,836
Insurance payables	4,141	1,415
Reinsurance payables	190	33
Provisions	109	140
Short-term debt	487	72
Long-term debt	402	171
Subordinated debt - liability	1,517	953
Secured lending	6,741	6,346
Other creditors	20,880	24,875
Other liabilities	6,066	2,125
Total liabilities	**268,265**	**188,680**
Equity		
Ordinary share capital	9	9
Share premium	13,412	1,032
Revaluation reserve	1,157	1,099
Other reserves	960	41
Reserve for own shares	0	0
Profit and loss account	6,803	6,495
Total shareholders’ funds	**22,341**	**8,676**
Preference shares	500	500
Minority interests	298	-4
Total equity	**23,139**	**9,172**

[a] Due to the merger becoming effective 1 December 2010, the 2011 figures represent the Momentum group’s results for the 12 months ended 30 June 2011 and the Metropolitan group’s results for the seven months ended 30 June 2011. Pre-merger, the Metropolitan group had a 31 December year-end and the Momentum group had a 30 June year-end. The MMI group has adopted a 30 June year-end
[b] The 2010 figures are restated and represent the Momentum group’s results for the 12 months ended 30 June 2010
Source: Company, Fitch

Figure 11

MMI Holdings Limited: Profit and Loss Account (Group Consolidated Figures)

	Year ending 30 June	
(ZARm)	**2011[a]**	**2010[b]**
Gross written premiums	16,841	10,141
Premiums ceded	-1,812	-832
Net written premiums	**15,029**	**9,309**
Fee income	4,232	2,982
Investment income	11,711	9,571
Net realised and fair value gains	13,846	9,730
Net income	**44,818**	**31,592**
Gross claims paid	17,215	10,052
Reinsurance recoveries	-1,317	-711
Net claims paid	**15,898**	**9,341**
Change in liabilities	2,265	983
Fair value adjustments on investment contract liabilities	12,106	11,508
Fair value adjustments on collective investment scheme liabilities	1,506	744
Depreciation, amortisation and impairment expenses	676	249
Employee benefit expenses	3,202	2,307
Sales remuneration	2,697	1,587
Other expenses	2,783	1,546
Total expenses	**41,133**	**27,995**
Result of operations	**3,685**	**3,597**
Share of profit of associates	44	32
Finance costs	-1,147	-1,122
Profit before tax	**2,582**	**2,507**
Income tax expense	-919	-830
Earnings for year	**1,663**	**1,677**

[a] Due to the merger becoming effective 1 December 2010, the 2011 figures represent the Momentum group's results for the 12 months ended 30 June 2011 and the Metropolitan group's results for the seven months ended 30 June 2011. Pre-merger, the Metropolitan group had a 31 December year-end and the Momentum group had a 30 June year-end. The MMI group has adopted a 30 June year-end
[b] The 2010 figures are restated and represent the Momentum group's results for the 12 months ended 30 June 2010
Source: Company, Fitch

Figure 12

MMI Holdings Limited: Summary Data (Group Consolidated Figures)

	Year ending 30 June	
(ZARm and %)	2011[a]	2010[b]
Summary data		
Total revenue	9,571	11,711
Operating result	2,627	2,129
Net income	1,663	1,677
Total assets	291,403	197,852
Total adjusted equity	23,139	9,172
Premiums data		
Total gross written premiums	16,841	10,141
Annual change (%)	66.1	-
Total net written premiums	16,841	10,141
Annual change (%)	66.1	-
Operating data		
Total revenue	9,571	11,711
Operating result	2,627	2,129
Net income	1,663	1,677
Return on revenue (%)	22.4	22.2
Return on assets (includes gains) (%)	0.7	0.8
Return on adjusted equity (%)	10.3	18.3
Portfolio performance		
Investment income	11,711	9,571
Running yield (%)	6.6	6.5
Portfolio composition (%)		
Real estate	2.7	1.8
Shares	31.4	28.7
Affiliates	2.9	3.6
Bonds	26.4	28.9
Loans	0.6	0.4
Cash & bank deposits	11.6	14.5
Other invested assets	1.1	1.0
Unit-linked investments	23.4	21.1
Total	100.0	100.0
Financial data		
Total assets	291,403	197,852
Total adjusted equity	23,139	9,172
Change in adjusted equity (%)	152.3	-
Life technical reserves/life net premiums written (%)	410.2	211.8
Technical reserves/adjusted equity (%)	266.4	214.9
Liquid assets/technical reserves (%)	305.1	683.7
Debt/capital (%)	28.3	45.1
Life reinsurance utilisation ratio (%)	10.8	8.2

[a] Due to the merger becoming effective 1 December 2010, the 2011 figures represent the Momentum group's results for the 12 months ended 30 June 2011 and the Metropolitan group's results for the seven months ended 30 June 2011. Pre-merger, the Metropolitan group had a 31 December year-end and the Momentum group had a 30 June year-end. The MMI group has adopted a 30 June year-end

[b] The 2010 figures are restated and represent the Momentum group's results for the 12 months ended 30 June 2010

Source: Company, Fitch

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