

FITCH REVISES MMI AND SUBSIDIARIES' OUTLOOKS TO POSITIVE; RATINGS AFFIRMED

Fitch Ratings-London-14 December 2012: Fitch Ratings has revised South Africa-based Momentum Group Limited's (Momentum) and Metropolitan Life Limited's (Metropolitan), as well as their ultimate parent MMI Holdings Limited's (MMI) Outlooks to Positive from Stable. At the same time, Fitch has affirmed Momentum and Metropolitan's 'AA(zaf)' National Insurer Financial Strength (IFS) ratings and 'AA-(zaf)' National Long-term ratings, as well as MMI's 'A+(zaf)' National Long-term rating. The subordinated debt issued by Momentum and Metropolitan has also been affirmed at 'A(zaf)'.

The Positive Outlook reflects the improved profitability achieved by the MMI group since the merger between Momentum and Metropolitan on 1 December 2010. In the financial year to June 2012 (FY12) the group reported realised recurring cost savings of R201m per annum over the past year and is on track to meet its synergy target of recurring cost savings of R500m per annum by June 2014. The group reported core headline earnings of R3.0bn (FY11:R2.6bn) and pre-tax return on assets, as calculated by Fitch, of 1.3% (1.1%).

The group's ratings reflect its solid domestic franchise as one of South Africa's four largest life insurance groups as well as a strong capital position and low financial leverage. The main offsetting factor is the continued challenging South African economy.

Fitch believes that the enlarged group that was created through the merger of Momentum and Metropolitan has created a more competitive insurance-based financial services group with businesses in life insurance, healthcare administration, asset management and employee benefits. It benefits from both a diverse customer base (spanning all income groups) and distribution network. Furthermore, it is well positioned to expand its activities into additional African countries.

Group capital adequacy, both on Fitch's internal assessment as well as on a statutory solvency basis, is viewed as strong for the rating levels. Both Momentum and Metropolitan reported statutory cover of 2.3x at FYE12 (FYE11: 2.3x/2.5x). The group's low financial leverage of 9.3% at FYE12 (FYE11: 11.5%) is also supportive of the rating.

MMI's equity exposure is considered high for the rating level. 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.

The group 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 either sub-group 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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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 Oct 2012, 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=692293

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