

FITCH AFFIRMS MMI GROUP'S & GUARDRISK'S IFS RATINGS AT 'AA+(ZAF)'

Fitch Ratings-London-07 March 2016: Fitch Ratings has affirmed MMI Group Limited's (MMI Group), Guardrisk Insurance Company Limited's (Guardrisk Insurance) and Guardrisk Life Limited's (Guardrisk Life) National Insurer Financial Strength (IFS) ratings at 'AA+(zaf)'. Fitch has also affirmed Mauritius-based Guardrisk International Limited PCC's (GIL) IFS rating at 'BBB'. The Outlooks are Stable.

A full list of rating actions is available at the end of this commentary.

KEY RATING DRIVERS

The affirmation reflects MMI's strong capital position, well diversified domestic franchise, and sound profitability. Offsetting these key rating drivers is the group's exposure to the weak South African operating environment, and the risk of earnings volatility stemming from the group's exposure to investment markets.

Fitch revised Guardrisk's strategic importance to 'Core' from 'Very Important' to its parent, MMI Holdings Ltd (MMI), under our insurance group rating methodology. This change reflects the Guardrisk group's continued improvement in run-rate profitability, which complements its strategic alignment with the parent. Guardrisk's cell captive expertise and strong client relationships also complement MMI's institutional business. Moreover, Guardrisk further strengthens the group's diversification. The ratings of the Guardrisk group are therefore aligned with those of MMI Group.

Fitch views group capital adequacy, both on the agency's internal metrics and on a statutory solvency basis, as strong for the ratings. Capital has remained broadly stable, with MMI Group's Prism Factor-based model (FBM) score remaining 'Very Strong' for the financial year ended June 2015. The group's financial leverage increased to 17.8% at FYE15 (FYE14: 16.9%), but remains acceptable for the ratings.

MMI's net income for FY15 declined 10.6% to ZAR2,857m as a result of weakening business growth and unfavourable investment markets. Despite these headwinds net income for six months to December 2015 improved 13.6% to ZAR1,537m. Although Fitch views the group's profitability as adequate (pre-tax return on assets 1.3%), the agency believes that the group is unlikely to outperform its major peers in 2016 and 2017.

MMI's earnings are exposed to movements in investment markets. However, the group reduced its investment risk exposure of shareholder assets in 2015. Its direct equity exposure of assets backing shareholder excess was lowered to ZAR0.5bn at end-2015 from ZAR1.7bn at end-2014, while cash and equivalents increased to ZAR7.7bn from ZAR6.4bn.

Fitch considers the weak domestic operating environment and credit exposures to be a major drag on South African insurers' international ratings. This is partly offset by the maturity and resilience of the domestic insurance market, and the availability of deep and liquid investment markets, compared with South Africa's emerging market peers.

RATING SENSITIVITIES

A downgrade could result from a substantial deterioration in the capitalisation base, evidenced by a fall in MMI's Prism FBM score to low in the 'Strong' category.

Weakening operating performance relative to peers, or a decline of market share, could lead to a downgrade.

A downgrade of South Africa's Long-term foreign- or local-currency ratings could trigger a downgrade of GIL's IFS rating. A downgrade in the sovereign ratings is not expected to affect the National IFS ratings of the operating entities of the group, as the relativity of these ratings to the best credits in South Africa should be unaffected.

Fitch considers an upgrade unlikely in the medium term. However, over the longer term, MMI Group's ratings could be upgraded if the group continues to improve its profitability significantly relative to peers, increases its market share and if its international operations become a material contributor to profitability.

FULL LIST OF RATING ACTIONS

MMI Group Ltd

- National IFS rating affirmed at 'AA+(zaf)'; Outlook Stable
- National Long-term rating affirmed at 'AA(zaf)'; Outlook Stable
- Subordinated debt affirmed at 'A+(zaf)'; Outlook Stable

MMI Holdings Ltd

- National Long-term rating affirmed at 'AA-(zaf)'; Outlook Stable

Guardrisk Insurance Company Limited

- National IFS rating affirmed at 'AA+(zaf)'; Outlook Stable

Guardrisk Life Limited

- National IFS rating affirmed at 'AA+(zaf)'; Outlook Stable

Guardrisk International Limited PCC

- IFS rating affirmed at 'BBB'; Outlook Stable

Contact:

Primary Analyst

Willem Loots

Director

+44 20 3530 1808

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Harish Gohil

Managing Director

+44 20 3530 1257

Committee Chairperson

Chris Waterman

Managing Director

+44 20 3530 1168

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 16 Sep 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172

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