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

Fitch Ratings-London/Johannesburg-01 November 2011: 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)'. Fitch has simultaneously affirmed both Momentum's and MetLife's subordinated debt at 'A(zaf)'. The Outlooks are Stable.

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 National Long-term rating at 'A+(zaf)'. The Outlook is Stable.

The affirmations are based on the MMI group's strong capital position, solid domestic franchise, strong and diversified distribution network and robust performance. Offsetting these key rating drivers is some earnings volatility stemming from the group's exposure to investment markets and the continued challenging South African economic environment.

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 1 December 2010. Fitch believes that the enlarged group has created a stronger and more competitive, insurance-based financial services group both locally and in Africa with businesses in life insurance (spanning all income groups), healthcare administration, asset management and employee benefits. Furthermore, with its enlarged footprint, it is well positioned to expand its activities into additional African countries. The agency expects the MMI 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. In response to the Competition Tribunal's condition stating that no staff (except for senior management) may be retrenched during the first two years, the group created a redeployment centre to manage this process and staff movements. The continuity of senior management in the MMI group is not a major concern and is in line with expectations.

In 2011, the group's segmental diluted core headline earnings were up by 12% at ZAR2,588m (2010: ZAR2,311m) with a return on group embedded value of 11.4%. Although the merger only became effective on 1 December 2010, for comparative purposes all the 2011 figures in this comment assume that the Metropolitan and Momentum groups were merged from 1 July 2010. This is due to the Metropolitan group having a 31 December year-end and the Momentum group having a 30 June year-end. The MMI group has adopted a 30 June year-end. For comparative purposes all the 2010 figures in this comment assume that the Metropolitan and Momentum groups were merged from 1 July 2009.

This increase was driven mainly by the improved performance in the two retail (Metropolitan Retail and Momentum Retail) and health business units. New life business margin on a present value of new business premiums basis strengthened to 1.4% in 2011 (2010: 1.2%). Although the agency considers the group's capital position to be strong, with a published capital adequacy requirement (CAR) cover ratio of 2.3x at end-2011 (end-2010: 2.2x), it notes that there is some sensitivity to equity market volatility. MetLife and Momentum (the large life licenses of the MMI group) both had CAR cover ratios of 2.3x at end-2011.

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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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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