South Africa
Full Rating Report

Momentum Group Limited, Metropolitan Life Limited and MMI Holdings Limited

Ratings

MMI Holdings Limited	
National Long-Term Rating	A+(zaf)
Metropolitan Life Limited	
National Insurer Financial Strength Rating	AA(zaf)
National Long-Term Rating	AA−(zaf)
Subordinated debt	A(zaf)
Momentum Group Limited	
National Insurer Financial Strength Rating	AA(zaf)
National Long-Term Rating	AA−(zaf)
Subordinated debt	A(zaf)
Sovereign Risk	
Foreign-Currency Long-Term IDR	BBB+
Local-Currency Long-Term IDR	A

Outlooks

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

Financial Data

Group cons. figures (ZARbn)	Metropolitan Jun 10 (H1)	Momentum Jun 10 (FY)
Total assets	70.8	198.9
Total equity	6.6	8.7
Net written premiums	5.0	7.5
Headline earnings	0.232	1.804

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Related Research

Applicable Criteria

- *Insurance Rating Methodology* (August 2010)
- *Life Insurance Rating Methodology* (March 2010)
- *National Ratings Methodology Update* (December 2006)

Rating Rationale

- On 12 November 2010, Fitch Ratings downgraded Momentum Group Limited's (Momentum) National Insurer Financial Strength (IFS) Rating to 'AA(zaf)' from 'AA+(zaf)' and upgraded Metropolitan Life Limited's (MetLife) National IFS Rating to 'AA(zaf)' from 'AA−(zaf)'. This followed the merger between the Momentum and Metropolitan groups. Momentum's and MetLife's ratings were removed from Rating Watch Negative and Rating Watch Positive respectively, where they were originally placed on 1 April 2010, and assigned a Stable Outlook.
- Fitch also upgraded the National Long-Term Rating of the enlarged group's holding company, MMI Holdings Limited (MMI), to 'A+(zaf)' from 'A(zaf)'. MMI's rating was removed from Rating Watch Positive and assigned a Stable Outlook. (MMI was previously known as Metropolitan Holdings Limited.)
- The equalisation of the IFS ratings reflects Fitch's view that the anticipated enlarged group's profile immediately following the merger will be weaker than Momentum's pre-merger profile but stronger than that of pre-merger MetLife.
- Fitch considers as key positive rating factors the strength and diversity of the enlarged group's distribution network, sound domestic franchise, healthy capital position and the strategic relationship (bancassurance channel) with the FirstRand group, a South African financial services group that provides banking, insurance and fund management services. Offsetting these are the uncertainties surrounding the operational execution of the merger.
- Fitch expects that the enlarged group will be 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.

Key Rating Drivers

- The agency considers that the enlarged group will benefit from growth opportunities, economies of scale through complementary target markets and resources, cross-selling of insurance-based financial products, and capital efficiencies through further risk diversification as part of a capital management programme. In addition, Fitch expects the enlarged group to achieve revenue and cost synergies and, with its enlarged footprint, to be well positioned to expand into additional African countries. If the enlarged group is successful in achieving the benefits expected from the merger, the ratings could be upgraded.
- Conversely, if the enlarged group is unsuccessful in realising the benefits expected from the merger or in managing the integration and execution risks, the ratings could be downgraded.

Key Rating Issues

Merger-Related Execution and Integration Risks

Although Fitch recognises the strategic benefits of the merger, there are significant integration and execution risks, as is usual with any major M&A transaction. As a result, the agency notes the uncertainties in achieving the planned revenue and cost synergies, maintaining market share and profitability, integrating the two technological and operational platforms, rationalising the product offering spectrum where there is overlap, and integrating the two culturally diverse organisations.

Strong Domestic Franchise

The merger is likely to solidify the new group's well-established position in South Africa and enhance its ability to develop a significant position and presence in the rest of Africa. Fitch believes that the enlarged group will benefit from the diversification of both Momentum's and Metropolitan's products, services, target markets and geographies. It is also likely to offer enhanced growth opportunities and better economies of scale, leading to revenue and cost synergies through each company's complementary target markets and resources.

In terms of the merging entities, Metropolitan has an established domestic franchise and strong business position in its target market of low- to middle-income clients and it has also expanded internationally within Africa. In addition, it is the largest administrator of restricted medical health schemes in South Africa, where it has a 60% market share.

Momentum has an established business position in its chosen market of clients with higher incomes and has been increasing its penetration into the mid- to low-income markets. Momentum is one of the largest fund managers in South Africa, through RMB Asset Management. It has a strong and diversified distribution network in South Africa and has also expanded into the rest of Africa.

Strong Capitalisation of the Overall Group

The capital strategy of the new group has not been finalised, but the group expects to maintain high capital buffers initially pending decisions on future capital management, as well as due to the forthcoming (but as yet unknown) capital requirements resulting from the Financial Services Board's (FSB) Solvency and Assessment Management project, South Africa's equivalent of Solvency II.

Fitch considers the enlarged group's current capital position to be strong. Momentum had a published capital adequacy requirement (CAR) cover of 2.1x at end-June 2010. MetLife and the Metropolitan group had statutory CAR covers of 2.3x and 3.0x respectively at the same date.

Diversified Business Position

The enlarged group will have a strong and increasingly diversified business position within the South African financial services market. In addition to offering retail life insurance and fund management, the group will offer retirement funding and healthcare operations. Fitch expects the enlarged group's international expansion into Africa to continue to be prudent, with the aim of further diversifying its operations geographically.

Strong and Diverse Distribution Network

The enlarged group has a strong and diverse distribution network that is underpinned by Momentum's well-established broker consultant network, Metropolitan's growing force of personal financial advisors, Momentum's growing agency force and the bancassurance channel with the FirstRand group.

Strategic Relationship with the FirstRand Group

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.

Peer Analysis

The enlarged group will be the third largest life insurer in terms of gross written premiums (GWP) in South Africa and, through Metropolitan, will be the country's largest administrator of restricted medical health schemes, as well as being one of the country's largest fund managers through Momentum's asset manager, RMB Asset Management (which will be rebranded). Through Metropolitan, the enlarged group will administer four of South Africa's largest restricted membership medical schemes.

Compared with its peers, the enlarged group will have a strong position in all income segments — the Metropolitan brand in the low- to middle-income segments and the Momentum brand in the upper-income segment. The enlarged group also has significant or leading market positions in each of its key market segments.

The enlarged group, through Metropolitan, has strong black economic empowerment (BEE) credentials that will support its business position and prospects. This has contributed to the (pre-merger) Metropolitan group winning attractive government business, including the GEMS administration contract for a second three-year term from 2009.

Table 1: Peer Comparison, End-2009[a]

	National IFS Rating/Outlook	CAR cover (x)	New business margin (% PVNBP)	Assets under management (ZARbn)
Old Mutual Life Assurance Company (South Africa) Limited	AAA(zaf)/Stable	4.1	2.3	441
Sanlam Life Insurance Limited	AA+(zaf)/Stable	3.1	2.3	441
Momentum Group Limited	AA(zaf)/Stable	1.8	2.0	301
Metropolitan Life Limited	AA(zaf)/Stable	2.8	1.4	103
Liberty Group Limited	AA(zaf)/Negative	2.8	1.3	363

[a] All insurers' financial year-ends are 31 December except for Momentum Group Ltd, whose year-end is 30 June
Source: Company announcements, Fitch

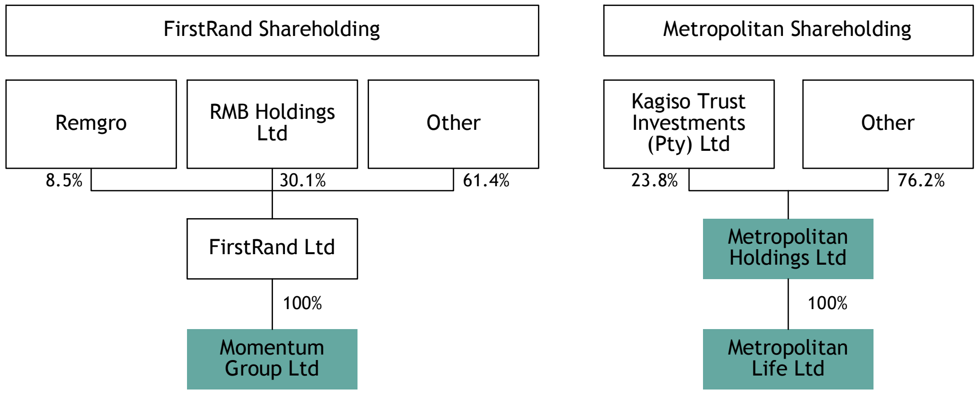
Company Profile

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

The structure diagram below illustrates Metropolitan's and Momentum's group structures before the merger.

Momentum and Metropolitan Group Structures Pre-Merger



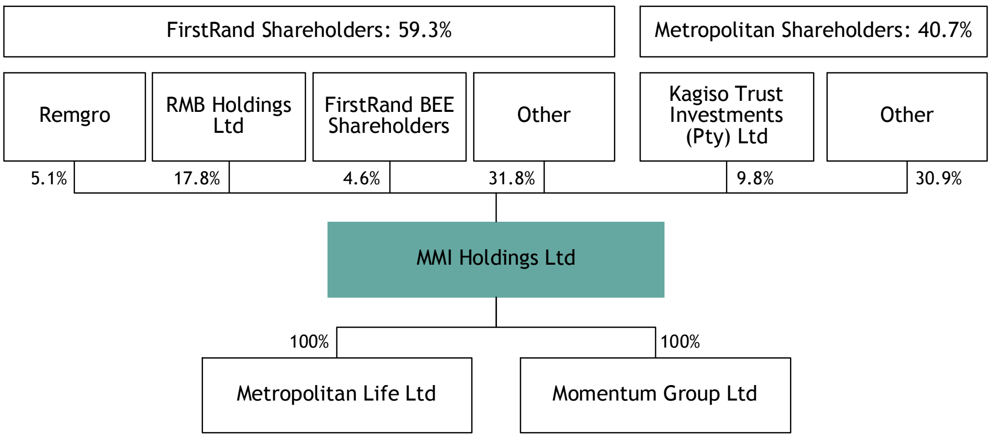
Source: Momentum and Metropolitan

Details of the Merger Transaction

In March 2010, Metropolitan and Momentum released a joint statement announcing a proposed merger of the two groups. All suspensive conditions for the transaction were fulfilled by 12 November 2010.

With effect from 1 December 2010, MMI became the ultimate holding company for the operating subsidiaries, with a listing on the JSE Securities Exchange. Step 1 of the transaction entailed FirstRand Limited (FirstRand), one of the top-four banking groups in South Africa, selling its entire issued ordinary share capital of Momentum to Metropolitan, for which Metropolitan issued new Metropolitan ordinary shares to FirstRand. Step 2 of the transaction entailed FirstRand unbundling its 59.3% shareholding in the enlarged group to its ordinary shareholders. FirstRand shareholders and current Metropolitan shareholders now own 59.3% and 40.7% respectively of the issued share capital of the enlarged group.

MMI Group Structure Post-Merger



Source: Momentum and Metropolitan

The rationale behind FirstRand unbundling all its ordinary shares in the enlarged group to its shareholders is that it will unlock value for FirstRand shareholders, ensure a substantial free float in the enlarged group's shares and create an appropriate public profile for the enlarged group.

MMI is the new name for Metropolitan Holdings Limited. This new name will only apply to the listed entity and will be used only as an investor brand. The established and well-recognised brands of Metropolitan and Momentum will continue to be used as operational brands. The enlarged group will have a material

BEE shareholding of 14.4% through FirstRand BEE shareholders and Kagiso Trust Investments (Pty) Ltd. RMB Holdings Limited has indicated that it would like to increase its shareholding in MMI to over 25%.

The essence of the rationale for the merger was that Momentum and Metropolitan operate in different target markets, with Momentum's key area of focus in the retail industry being the upper-income market segment while Metropolitan focuses predominantly on the low- to middle-income markets segments in the retail industry.

The MMI group will retain an operational footprint throughout South Africa and Africa, including the Centurion and Cape Town based centres. MMI's board includes nominees of FirstRand, Metropolitan and Momentum. The chief executive officers of Momentum and Metropolitan became the new group's chief and deputy chief executive officers respectively. The group finance director of Metropolitan has taken on the same role in the enlarged group.

Key Events

In March 2010, Momentum Medical Scheme Administrators purchased a 50% shareholding in Azralox, a health risk management company.

In January 2010, Metropolitan sold its 50% shareholding in Union Life Ltd, a life insurance company selling funeral insurance policies within Metropolitan's retail division.

Products

The new MMI group will have six operational business units, each with clearly defined areas of focus and targets: Momentum Retail, Metropolitan Retail, Investments, Employee Benefits, Health and International.

Momentum Retail

The Momentum Retail business unit will focus on providing life insurance to the upper-income retail market segment in South Africa, where the Momentum brand is well established. This business unit will provide wealth creation and preservation, protection, savings and income products.

Momentum Short-Term Insurance and Momentum Wealth (previously part of Momentum's investment business) will form part of this business unit. Momentum Retail will also be responsible for distribution and sales for the products of some other divisions (using financial advice channels).

Metropolitan Retail

This business unit will focus on the low- to middle-income retail market segment in South Africa, providing individual life insurance including the development, distribution and administration of savings, income and protection products. The Metropolitan brand is well-established in the low- and middle-income ends of the market and is predominantly a high-volume low-premium business.

Before the merger, Momentum's partnership with the FirstRand group's retail 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 Bank Limited ('BBB+'/Stable). The relationship with FirstRand will continue as a strategic partnership.

Employee Benefits

This segment will be responsible for the activities relating to the retirement funds business. Its primary focus will be providing group risk, income protection and continuation, asset structuring, liability-driven asset solutions and pension fund administration through the combination of Metropolitan's and Momentum's employee benefits businesses.

The MMI group will offer administration services to both standalone retirement and umbrella funds, whereas Momentum has just exited from the former. In particular, Metropolitan Retirement Administrators specialises in large-scale retirement fund administration.

Investments

This wealth management business unit will comprise all the businesses that provide investment management services for fees. It will offer all aspects of active asset management (the businesses of RMB Asset Management and Metropolitan Asset Managers will be combined), collective investment management, multi-management business, alternative investments, specialised insurance, international investments and property management and administration, on behalf of all businesses within the MMI group and third parties.

Momentum and Metropolitan had ZAR312.9bn and ZAR101.5bn respectively of assets under management at end-June 2010, of which ZAR114.0bn and ZAR30.4bn respectively were off balance sheet.

Health

This business unit will provide managed care services to both corporate and retail healthcare schemes. It will offer 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).

Momentum competes predominantly in the open medical schemes administration market segment, while Metropolitan administers closed or restricted medical schemes. Momentum's healthcare funding business administered 491,000 lives at FYE10 and had a market share of 7% in the healthcare administration market.

Metropolitan, 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 the second-largest healthcare administrator 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 MMI to continue to benefit from Metropolitan's strong BEE credentials and its growing pension fund administration business. Metropolitan's members under administration grew to 912,000 in H110 (H109: 829,000) and lives represented to 2,339,000 (H109: 2,099,000). Metropolitan has market shares of 60% in restricted medical aid scheme administration and 24% of total medical aid scheme administration in South Africa.

International

Outside South Africa, the group has a presence in 12 African countries. This business unit will be involved in the development, distribution and administration of individual life investment and risk products as well as retirement fund business to seven African countries: Namibia, Botswana, Lesotho, Kenya, Ghana, Nigeria, Swaziland and Mauritius. In addition, employee benefits and healthcare products are offered in the following 11 African counties: Swaziland, Lesotho, Botswana, Ghana, Mozambique, Zambia, Mauritius, Tanzania, Malawi, Kenya and Mauritius.

Furthermore, the group offers life insurance and investment products to the Namibian market through Momentum's 49% shareholding in Momentum Life

Assurance Namibia Limited and certain healthcare administration and asset management products through Metropolitan's 82%-owned subsidiary, Metropolitan Life (Namibia) Limited.

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. Both Momentum and Metropolitan are aware of these issues and Fitch expects that the enlarged group will continue to follow a cautious and measured approach in its African expansion strategy.

Target Markets

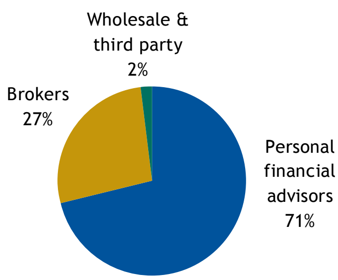
The MMI group's target market consists of all income segments. As discussed in the *Products* section above, the Metropolitan brand targets the low- to middle-income retail market segment while the Momentum brand targets the higher-income retail market segment.

Geographically, the group will operate predominantly in South Africa but, as discussed under *International* above, will also operate in 12 African countries, where Metropolitan and Momentum have expanded.

Distribution Channels

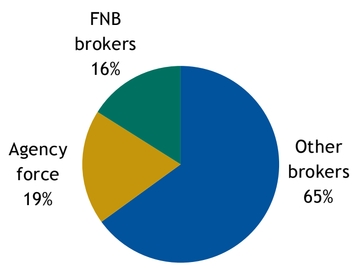
Charts 1 and 2 show the new business sourced from Metropolitan's and Momentum's respective distribution channels in the period to end-June 2010.

Chart 1: Metropolitan's Retail New Business by Distribution, H110



Source: Company

Chart 2: Momentum's New Business by Distribution, FY10



Source: Company

Metropolitan's (pre-merger) distribution is relatively diverse, despite the fact that it does not have any affiliation with a bank for distributing its products (unlike all the other major players). While Fitch considered this lack of affiliation with a bank to be a disadvantage before the merger, the MMI group's strategic relationship with FirstRand group addresses this point.

Momentum's (pre-merger) distribution strength is underpinned by its strong and well-established broker consultant network, a growing agency force and a growing bancassurance channel. Over the past six years it has been decreasing its dependency on "other brokers" for writing new business and increasing its distribution contribution from tied agents.

Financial Analysis

Profitability

Momentum

Momentum's performance has proven to be resilient in the face of the challenging economic environment. The 10% growth in normalised earnings to ZAR1,810m in

FY10 (FY09: ZAR1,649m) was attributable to good operational performance and a recovery in the investment markets. As a result, return on embedded value (ROEV) improved to 14.9% at FYE10 (FYE09: 3.3%). Excluding the impact of the investment markets, the ROEV based on profit from operations (based on Fitch's calculations) was lower at 9.4% at FYE10 (FYE10: 12.7%), as the group's core business of insurance has come under pressure, reflecting consumers' lower disposable income.

Momentum achieved a slightly lower normalised return on equity (ROE) of 21.9% at FYE10 (FYE09: 22.6%), which was mainly attributable to the increase in the retained capital, which Momentum deems prudent given the uncertain market outlook.

Table 2: Momentum's Normalised Earnings Breakdown

(ZARm)	FY10	FY09	Change (%)
Momentum[a]	1,114	994	12
FNB Insurance	416	334	25
Investment income on shareholders' funds	280	321	-13
Normalised earnings	**1,810**	**1,649**	**10**

[a] Comprises Momentum's retail, corporate, health and asset management businesses
Source: Company

While Momentum's volumes of new savings and retirement annuity business were subdued in FY10 due to consumers remaining under pressure, strong growth was seen in lump sum inflows. The overall new business margin, on a present value of new business premiums (PVNBP) basis, reduced to 1.8% (FY09: 2.0%), mainly as a result of more conservative actuarial assumptions and a change in the new business mix.

The improvement in FNB Life's performance was due to the continued success of the embedded credit life and funeral products. As a result, FNB Life's new business margin on a PVNBP basis grew to 30.0% in FY10 from 23.4% in FY09. The African operations had a breakeven position in FY10, reflecting their stage of development.

The performances in the employee benefits and healthcare businesses improved as a result of improved cost efficiencies stemming from the systems integration and rationalisation in these businesses. Despite this, new business volumes in the employee benefits business were adversely affected by an industry-wide issue attributable to further scheme terminations and member withdrawals, particularly in the small and medium-sized enterprise (SME) segment, which experienced higher levels of failure in the current depressed economic climate. As a result, umbrella fund and group risk sales were down, which reduced the division's new business margin on a PVNBP basis to 1.2% in FY10 from 1.6% in FY09.

The asset management business continued to experience a significant net outflow of funds of ZAR30.3bn in FY10 (FY09: net outflow of ZAR41.0bn): ZAR5.9bn relating to a withdrawal by a client of the multi-manager business; ZAR12bn relating to member withdrawals from existing pension fund clients due to the prevailing economic conditions; and a transfer of ZAR7.6bn in assets to another life insurer (relating to fund policies written by Futuregrowth Asset Management on Momentum's life licence, which were transferred to another life insurer following the sale of Futuregrowth).

Metropolitan

Metropolitan's performance has also been robust in the tough economic environment, with headline earnings improving to ZAR232m in H110 (H109: ZAR223m), attributable to an improved contribution from its South African life insurance business. As a result, ROEV increased to 4.1% in H110 (H109: 0%), driven by the group's improved underlying performance in its new and existing business.

The value of new business grew to ZAR143m in H110 (H109: ZAR104m), with the new business margin improving to 1.8% on a PVNBP basis (H109: 1.0%). The improvement was mainly attributable to an improved new business focus in the retail business unit.

Table 3 highlights the support to Metropolitan's operating profit from non-traditional life (the asset management and health business units) and international operations. South African life operations continued to be the largest contributor towards group operating profit at 60% (H109: 59%), while non-traditional life business contributed 13% (H109: 13%) and non-South African life operations contributed 11% (H109: 11%).

Table 3: Metropolitan's Business Units' Contributions to Operating Profit After Tax

(ZARm)	H110	(%)	H109	(%)
Retail	211	46	192	47
Corporate	62	14	50	12
Sub-total: South African life business	**273**	**60**	**242**	**59**
International	51	11	46	11
Sub-total: Non-South African life business	**51**	**11**	**46**	**11**
Asset management	10	3	10	3
Health	47	10	41	10
Sub-total: Non-traditional life business	**57**	**13**	**51**	**13**
Shareholder capital	73	16	69	17
Total	**454**	**100**	**408**	**100**

Source: Company

The improvement in the retail business unit's operating profit after tax was driven by higher average investment assets and good cost containment. Retail's value of new business more than doubled to ZAR54m in H110 (H109: ZAR26m) due to an improved new business focus, strengthening new business margins to 2.3% on a PVNBP basis (H109: 1.0%).

Corporate's performance improved and was attributable to higher average investment levels, a change in business mix written (more single premium and less recurring business written) and a recovery in risk profit. Corporate had a net outflow of funds of ZAR436m in H110 (H109: outflow of ZAR1,096m), reflecting an industry-wide issue attributable to the tough SME environment.

Despite the continued difficult operating conditions in Africa, as a result of lower start-up losses in the newer operations in H110, the international business unit's performance improved. The value of new business grew 50% to ZAR6m in H110 (H109: ZAR4m) due to an increase in new business written from all seven operations. This resulted in new business margins improving to 1.7% on a PVNBP basis (H109: 1.3%).

The continued growth in the health division's member numbers to 912,000 or 2.3 million lives (H109: 829,000 members; 2.0 million lives), as well as improved operational efficiencies, resulted in operating profit after tax growing by 15% to ZAR47m in H110.

Prospects

The agency expects Momentum's and Metropolitan's earnings to continue to improve into 2011 but to reflect the difficult South African and African economic conditions and continued pressure on disposable incomes in South Africa. In view of the diversified nature of both entities' operations, Fitch expects both performances to show resilience in the challenging economic conditions.

Investments and Liquidity

As discussed in the *Reserve Adequacy and Development* section below, 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 enlarged 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, Metropolitan and Momentum follow 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.

Assets backing Metropolitan's CAR were changed to a more conservative mixture of assets, with cash and cash equivalents accounting for 53% and property accounting for 42% in H110 from 100% equities in FY09. Assets backing Metropolitan's shareholders' funds are mainly invested in equity securities (35%), with cash and near cash accounting for 23%. Momentum supports its regulatory CAR with cash or near cash assets (FY10: 69%), while the balance of the shareholders' assets is invested in a combination of strategic investments and interest bearing assets.

In Fitch's view both Momentum's and Metropolitan's investments are well-diversified in terms of counterparty exposure and credit quality. Both set diversification limits per industry sector, per individual counterparties and the number of single obligor exposures within rating categories.

Reserve Adequacy and Development

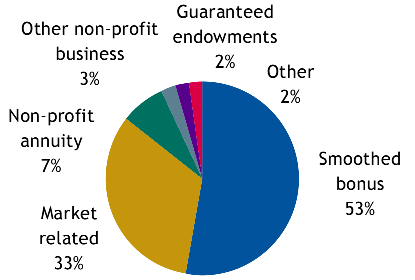
Fitch believes the South African insurance market to be well regulated. Non-bank financial services are regulated by the FSB. In addition, the ASSA issues professional guidance on, for example, statutory actuarial valuations of liabilities and calculations of embedded value. Regulations are typically 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, Metropolitan and Momentum hold significant discretionary margins. 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 enlarged group's reserving to be prudent.

Charts 3 and 4 illustrate the breakdown by type of business of MetLife's and Momentum's policyholder liabilities, respectively. The largest proportion of MetLife's business is DPF (ie smoothed-bonus and conventional with-profit), which accounted for 53% of policyholder liabilities at end-H110. Momentum's business is predominantly market-linked (accounted for 72% of total policyholder liabilities), so policyholders largely bear the risks of exposure to the investment markets — likewise for the 33% of Metropolitan's business which is market-linked.

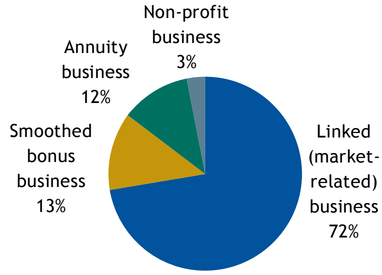
Investment guarantees are embedded in some of Momentum's main classes of business, for which policy reserves and capital are held. Both Momentum and Metropolitan use stochastic modelling techniques to calculate reserves for their guarantees, in accordance with the professional guidance prescribed by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

Chart 3: MetLife's Policyholder Liabilities, H110



Source: Company, Fitch

Chart 4: Momentum's Policyholder Liabilities, FY10



Source: Company, Fitch

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). Both MetLife's and Momentum's smoothed-bonus business exposes them 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 Metropolitan funds were below the disclosure limit of 92.5% at end-H110, a number of its retail and employee benefit smoothed-bonus funds had negative BSAs (ie funding level less than 100%), due to poor investment market performance. However, Metropolitan expects to restore these funding levels to 100% over the next three years. Therefore capital injections and/or the removal of non-vesting bonuses are not expected to be required. None of Momentum's smoothed-bonus funds had funding levels below 92.5% at end-FY10.

MetLife's and Momentum's annuity business (accounted for 7% and 12% of policyholder liabilities, respectively) 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 swap and derivatives) that have the same duration as the liabilities.

Both MetLife and Momentum issue 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, aiming to provide the required yield at the relevant durations. Furthermore, a portion of Momentum'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 insurance business was determined. Liabilities are matched by investing in assets with average comparable durations namely fixed interest investments.

Both Momentum and Metropolitan have established reserves for HIV/AIDS and other pandemics in a manner consistent with the guidance provided by the ASSA.

Capitalisation

Fitch believes that Metropolitan's capitalisation remains at adequate levels, despite CAR levels showing some deterioration. The Metropolitan group's and MetLife's statutory CAR cover reduced to 3.0x (FYE09: 3.7x) and 2.3x (FYE09: 2.8x) respectively at end-H110. The deterioration in the capital ratios was attributable to an increase in the statutory CAR stemming from lower funding levels, reduced level of hedging and lower levels of interim bonus available in H110 as well as a slight reduction in net asset value. While capitalisation remains adequate, the agency views negatively the sensitivity of Metropolitan's statutory capital levels to equity market volatility.

The agency considers Momentum's capitalisation to be strong, based on its own risk-adjusted assessment, as well as the statutory CAR coverage level. The CAR cover strengthened to 2.1x at FYE10 (FYE09: 1.8x), above the upper end of its targeted CAR cover range of 1.4x to 1.6x. The improvement was mainly due to an increase in the statutory surplus to ZAR8.1bn from ZAR7.1bn, reflecting the positive contribution from Momentum's attributable earnings and impact of the improved performance in the investment markets. Fitch considers Momentum's capital levels to be relatively resilient to equity market volatility.

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.

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. Under Fitch's treatment of hybrid debt instruments, both MetLife's and Momentum's issues receive 0% equity credit, in view of both outstanding terms to maturity having reduced.

Metropolitan's financial leverage (debt/debt plus equity) was 16% at end-H110 (end-2009: 14%), which is commensurate with the ratings. Based on Fitch's calculations, Metropolitan's interest coverage was 6.1x in H110.

Momentum's financial leverage (debt/debt plus equity) of 12% at FYE10 (FYE09: 10%) remains low. Based on Fitch's calculations, Momentum's interest coverage was 3.2x in FY10.

Metropolitan Holdings Ltd (Consolidated) - Balance Sheet

	Six months ended 30 June	Year ending 31 December		
(ZARm)	H110	2009	2008	2007
Assets				
Investments				
Real estate	3,394	3,416	3,709	3,362
Shares	25,717	26,239	18,721	30,207
Affiliates	1,207	856	698	466
Bonds (public-sector stocks and loans)	10,029	10,105	12,792	11,356
Loans (debentures, insurance policies and other loans)	733	725	763	742
Cash and bank deposits	8,828	8,884	8,810	8,274
Other invested assets	6,313	6,353	5,173	3,000
Total investments (non-linked)	**56,221**	**56,577**	**50,666**	**57,407**
Unit-linked investments	11,487	11,750	15,878	14,558
Insurance receivables	1,272	1,321	1,285	1,263
Reinsurance receivables	129	157	136	116
Other receivables	521	416	451	548
Deferred acquisition costs	59	58	55	47
Tangible assets	194	202	186	173
Goodwill	149	154	209	244
Other intangible assets	231	252	261	271
Other assets	568	442	274	377
Total assets	**70,831**	**71,329**	**69,401**	**75,004**
Liabilities				
Technical reserves				
Mathematical reserve	48,344	48,618	43,126	48,718
Reinsurers' share	-275	-242	-212	-179
Total life technical reserves	**48,069**	**48,376**	**42,914**	**48,539**
Unit-linked liabilities	11,487	11,750	15,878	14,558
Insurance payables	1,772	1,632	1,539	1,386
Reinsurance payables	58	56	56	63
Short-term debt	8	8	7	32
Long-term debt	711	711	841	837
Subordinated debt — liability	501	501	501	501
Other creditors	924	968	1,292	1,050
Other liabilities	682	652	385	1,097
Total liabilities	**64,212**	**64,550**	**63,413**	**68,063**
Equity				
Ordinary share capital	0	0	0	0
Share premium	186	183	51	19
Revaluation reserve	218	203	182	161
Other reserves	320	325	350	334
Reserve for own shares	0	0	0	0
Profit and loss account	5,792	5,901	5,264	6,303
Total shareholders' funds	**6,516**	**6,612**	**5,847**	**6,817**
Minority interests	103	167	141	124
Total equity	**6,619**	**6,779**	**5,988**	**6,941**

Source: Company, Fitch

Metropolitan Holdings Ltd (Consolidated) - Income Statement

(ZARm)	Six months ended 30 June H110	Year ending 31 December 2009	2008	2007
Gross written premiums	5,206	10,635	10,803	9,084
Premiums ceded	-242	-395	-398	-369
Net written premiums	**4,964**	**10,240**	**10,405**	**8,715**
Net premiums earned	4,964	10,240	10,405	8,715
Gross claims paid	-4,614	-8,793	-8,399	-6,474
Reinsurance recoveries	170	327	330	242
Net claims paid	**-4,444**	**-8,466**	**-8,069**	**-6,232**
Change in mathematical reserves	-457	-5,053	1,289	-4,131
Change in unit-linked provisions	371	-747	2,990	-1,562
Change in other provisions	-6	-7	-18	-13
Net claims incurred	**-4,536**	**-14,273**	**-3,808**	**-11,938**
Acquisition costs	0	0	0	0
Administrative expenses	-1,862	-3,807	-3,515	-3,046
Total underwriting expenses	**-1,862**	**-3,807**	**-3,515**	**-3,046**
Technical investment income (net of expenses)	1,672	3,995	4,396	3,613
Technical realised gains/(losses)	0	0	0	0
Technical unrealised gains/(losses)	-546	4,642	-8,484	4,407
Net investment income/gains on unit-linked business	0	0	0	0
Life underwriting result	**-308**	**797**	**-1,006**	**1,751**
Interest paid	-66	-168	-188	-174
Operating result	**-374**	**629**	**-1,194**	**1,577**
Amortisation of goodwill and intangibles	-100	-148	-221	-169
Other income/(expenses)	711	1,188	1,043	908
Pre-tax income before realized gains	**237**	**1,669**	**-372**	**2,316**
Realised capital gains/(losses)	0	0	0	0
Pre-tax income	**237**	**1,669**	**-372**	**2,316**
Tax	-16	-523	77	-788
Net income	**221**	**1,146**	**-295**	**1,528**

Source: Company, Fitch

Metropolitan Holdings Ltd (Consolidated) - Summary Data

	Six months ended 30 June	Year ending 31 December		
(ZARm)	H110	2009	2008	2007
Summary data				
Total revenue	1,672.0	3,995.0	4,396.0	3,613.0
Operating result	-374.0	629.0	-1,194.0	1,577.0
Net income	221.0	1,146.0	-295.0	1,528.0
Total assets	70,831.0	71,329.0	69,401.0	75,004.0
Total adjusted equity				
Premiums data				
Total gross written premiums	5,206.0	10,635.0	10,803.0	9,084.0
Annual change (%)	-51.0	-1.6	18.9	16.6
Total net written premiums	4,964.0	10,240.0	10,405.0	8,715.0
Annual change (%)	-51.5	-1.6	19.4	17.4
Operating data				
Total revenue	1,672.0	3,995.0	4,396.0	3,613.0
Operating result	-374.0	629.0	-1,194.0	1,577.0
Net income	221.0	1,146.0	-295.0	1,528
Return on adjusted equity (%)	3.3	18.0	-4.6	21.5
Portfolio performance				
Investment income	1,672.0	3,995.0	4,396.0	3,613.0
Running yield (%)	3.0	7.5	8.1	6.8
Portfolio composition (%)				
Real estate	5.0	5.0	5.6	4.7
Shares	38.0	38.4	28.1	42.0
Affiliates	1.8	1.3	1.0	0.6
Bonds	14.8	14.8	19.2	15.8
Loans	1.1	1.1	1.1	1.0
Cash & bank deposits	13.0	13.0	13.2	11.5
Other invested assets	9.3	9.3	7.8	4.2
Unit-linked investments	17.0	17.2	23.9	20.2
Total	100.0	100.0	100.0	100.0
Financial data				
Total assets	70,831.0	71,329.0	69,401.0	75,004.0
Total adjusted equity	6,619.0	6,779.0	5,988.0	6,941.0
Change in adjusted equity (%)	-2.4	13.2	-13.7	-4.3
Technical reserves/adjusted equity (%)	726.2	713.6	716.7	699.3
Liquid assets/technical reserves (%)	92.7	93.5	94.0	102.7
Debt/capital (%)	15.6	15.3	18.4	16.5
Life reinsurance utilisation ratio (%)	4.6	3.7	3.7	4.1

Source: Company, Fitch

Momentum Group Ltd (Consolidated) - Balance Sheet

(ZARm)	2010	2009[a]	2008	2007
	Year ending 30 June			
Assets				
Investments				
Real estate	0	0	4,322	2,818
Shares	0	0	0	4,381
Affiliates	7,949	8,078	6,641	6,146
Bonds (public sector stocks and loans)	8,040	6,566	0	14,113
Loans (debentures, ins policies and other loans)	0	0	0	0
Cash and bank deposits	39,946	23,824	31,153	21,768
Other invested assets	2,915	2,074	8,665	17,385
Total investments (non-linked)	**58,850**	**40,542**	**51,081**	**66,611**
Unit-linked investments	132,695	127,780	129,188	110,643
Insurance receivables	985	1,050	1,162	315
Reinsurance receivables	241	212	184	212
Other receivables	1,166	5,727	1,564	1,531
Deferred acquisition costs	1,859	1,728	1,606	1,450
Tangible assets	0	0	0	0
Goodwill	200	236	297	294
Other intangible assets	1,068	1,138	1,223	1,296
Other assets	1,803	9,281	1,481	1,736
Total assets	**198,867**	**187,656**	**187,786**	**184,088**
Liabilities				
Technical reserves				
Mathematical reserve	20,342	21,516	24,470	46,000
Total life technical reserves	**20,342**	**21,516**	**24,470**	**46,000**
Unit-linked liabilities	132,695	127,780	129,188	110,643
Insurance payables	1,448	1,276	1,352	1,380
Provisions for risks and charges	140	207	108	172
Short-term debt	72	54	40	91
Long-term debt	171	147	246	269
Subordinated debt — liability	953	926	849	976
Secured lending	6,346	4,334	2,908	3,217
Other creditors	24,875	19,648	14,919	3,329
Other liabilities	3,094	4,020	6,940	11,540
Total liabilities	**190,136**	**179,908**	**181,020**	**177,617**
Equity				
Ordinary share capital	9	9	9	9
Share premium	1,532	1,532	1,532	1,532
Revaluation reserve	658	590	638	522
Other reserves	41	58	70	73
Profit and loss account	41	5,606	4,521	4,316
Total shareholders' funds	**8,735**	**7,795**	**6,770**	**6,452**
Minority interests	-4	-9	-4	19
Total equity	**8,731**	**7,786**	**6,766**	**6,471**

[a] Restated
Source: Company, Fitch

Momentum Ltd (Consolidated) - Income Statement

	Year ending 30 June			
(ZARm)	2010	2009	2008	2007
Gross written premiums	8,299	7,249	5,971	5,512
Premiums ceded	-832	-694	-579	-489
Net written premiums	**7,467**	**6,555**	**5,392**	**5,023**
Net premiums earned	7,467	6,555	5,392	5,023
Gross claims paid	-7,176	-6,599	6,073	-6,125
Reinsurance recoveries	639	660	543	535
Net claims paid	**-6,537**	**-5,939**	**-5,530**	**-5,590**
Change in mathematical reserves	-13,615	6,809	-638	-25,535
Net claims incurred	**-20,152**	**870**	**-6,168**	**-31,125**
Acquisition costs	-1,587	-1,557	-1,509	-1,298
Administrative expenses	-3,346	-3,231	-2,703	-2,713
Other underwriting income/(expenses)	2,985	2,771	2,862	3,338
Total underwriting expenses	**-1,948**	**-2,017**	**-1,350**	**-673**
Technical investment income (net of expenses)	9,417	12,262	9,499	7,391
Technical realised gains/(losses)	6	7	28	685
Technical unrealised gains/(losses)	9,025	-14,911	3,982	22,587
Tax attributable to long-term business	-250	68	264	-771
Life underwriting result	**3,565**	**2,834**	**3,683**	**3,117**
Interest paid	-1,122	-852	-834	-569
Operating result	**2,443**	**1,982**	**2,849**	**2,548**
Amortisation of goodwill and intangibles	-147	-168	-140	-125
Other income/(expenses)	32	22	20	185
Pre-tax income	**2,328**	**1,836**	**2,729**	**2,608**
Tax	-608	-247	-733	-536
Net income	**1,720**	**1,589**	**1,996**	**2,072**

Source: Company, Fitch

Momentum Group Ltd (Consolidated) - Summary Data

	Year ending 30 June			
(ZARm)	**2010**	**2009**	**2008**	**2007**
Summary data				
Total revenue	9,417.0	12,262.0	9,499.0	7,391.0
Operating result	2,443.0	1,982.0	2,849.0	2,548.0
Net income	1,720.0	1,589.0	1,996.0	2,072.0
Total assets	198,867.3	187,694.0	187,786.0	184,088.0
Total adjusted equity	8,731.0	7,786.0	6,766.0	6,471.0
Premiums data				
Total gross written premiums	8,299.0	7,249.0	5,971.0	5,512.0
Annual change (%)	14.5	21.4	8.3	11.0
Total net written premiums	7,467.0	6,555.0	5,392.0	5,023.0
Annual change (%)	13.9	21.6	7.3	11.9
Operating data				
Total revenue	9,417.0	12,262.0	9,499.0	7,391.0
Operating result	2,443.0	1,982.0	2,849.0	2,548.0
Net income	1,720.0	1,589.0	1,996.0	2,072.0
Return on revenue (%)	25.9	16.2	30.0	34.5
Return on assets (includes gains) (%)	0.9	0.8	1.1	1.2
Return on adjusted equity (%)	20.8	21.8	30.2	30.5
Portfolio performance				
Investment income	9,417.0	12,262.0	9,499.0	7,391.0
Running yield (%)	18.9	26.8	16.1	10.5
Portfolio composition (%)				
Real estate	0.0	0.0	2.4	1.6
Shares	0.0	0.0	0.0	2.5
Affiliates	4.3	4.8	3.9	3.5
Bonds	4.3	3.3	0.0	8.0
Loans	0.0	0.0	0.0	0.0
Cash & bank deposits	21.4	14.8	17.3	12.3
Other invested assets	1.6	1.2	4.8	9.8
Unit-linked investments	68.5	75.9	71.7	62.4
Total	100.0	100.0	100.0	100.0
Financial data				
Total assets	198,867.3	187,694.0	187,786.0	184,088.0
Total adjusted equity	8,731.0	7,786.0	6,766.0	6,471.0
Change in adjusted equity (%)	12.1	15.1	4.6	-9.2
Life technical reserves/life net premiums written (%)	272.4	328.2	453.8	915.8
Technical reserves/adjusted equity (%)	233.0	276.3	361.7	710.9
Liquid assets/technical reserves (%)	235.9	141.5	127.3	87.5
Debt/capital (%)	38.5	41.2	37.4	41.3
Life reinsurance utilisation ratio (%)	9.6	9.6	9.7	8.9

Source: Company, Fitch