

## **FITCH DOWNGRADES MOMENTUM AND UPGRADES METLIFE TO 'AA(ZAF)' ON ANTICIPATED MERGER; OUTLOOK STABLE**

Fitch Ratings-London/Johannesburg-12 November 2010: Fitch Ratings has downgraded South Africa-based 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 follows the anticipated merger between Momentum and MetLife. Momentum's and MetLife's ratings have been removed from Rating Watch Negative (RWN) and Rating Watch Positive (RWP) respectively where they were originally placed on 1 April 2010, and assigned a Stable Outlook.

A full rating breakdown is provided at the end of this commentary.

The equalisation of the ratings reflects Fitch's view that the anticipated merged entity'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 the strength and diversity of the anticipated merged entity's distribution network, strong domestic franchise, strong 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) as key positive rating drivers. Offsetting these are the uncertainties surrounding the integration of the merger.

Fitch expects that the anticipated merged entity will create 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, the agency is of the opinion that the merged entity will 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 merged entity to achieve revenue and cost synergies, and with its enlarged footprint, to be well positioned to expand its activities into additional African countries. If these benefits are realised, the ratings could be upgraded.

Although Fitch recognises the strategic benefits of the merger, there are accompanying integration and execution risks. As a result, the agency notes the uncertainties over the new group's capital strategy, achieving the expected 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 as well as integrating the two culturally diverse institutions. If the group is unsuccessful in achieving the benefits that are expected to be realised from the merger, there could be negative rating action.

On completion, Metropolitan Holdings Ltd (the holding company of MetLife) will be renamed MMI Holdings Ltd. This new name will only apply to the listed entity and the established and well-recognised brands of MetLife and Momentum will continue to be used.

### **Momentum**

National IFS rating downgraded to 'AA(zaf)' from 'AA+(zaf)'; off RWN; Outlook Stable  
National Long-term rating downgraded to 'AA-(zaf)' from 'AA(zaf)'; off RWN; Outlook Stable  
Subordinated debt downgraded to 'A(zaf)' from 'A+(zaf)'; off RWN

### **MetLife**

National IFS rating upgraded to 'AA(zaf)' from 'AA-(zaf)'; off RWP; Outlook Stable  
National Long-term rating upgraded to 'AA-(zaf)' from 'A+(zaf)'; off RWP; Outlook Stable  
Subordinated debt upgraded to 'A(zaf)' from 'A-(zaf)'; off RWP

Metropolitan Holdings Limited's (MetHold)  
National Long-term rating upgraded to 'A+(zaf)' from 'A(zaf)'; off RWP; Outlook Stable

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Applicable criteria, 'Insurance Rating Methodology', dated 16 August 2010; 'Life Insurance Rating Methodology (Global)' dated 24 March 2010, 'National Ratings - Methodology Update', dated 18 December 2006, and 'Insurance Industry: Global Notching Methodology and Recovery Analysis', dated 29 December 2009, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Insurance Rating Methodology  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=547766](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547766)  
Life Insurance Rating Methodology  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=506285](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506285)  
National Ratings - Methodology Update  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=305544](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=305544)  
Insurance Industry: Global Notching Methodology and Recovery Analysis  
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