

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

Fitch Ratings-Johannesburg/London-12 March 2015: 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)'. The Outlooks are Stable. Fitch has simultaneously affirmed MMI Group's subordinated notes.

Fitch has also affirmed Mauritius-based Guardrisk International Limited PCC's (GIL) IFS rating at 'BBB+' with a Negative Outlook.

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

The Negative Outlook on GIL's IFS rating reflects both the Guardrisk group's and its ultimate parent MMI Holdings' (MMI) concentration in South Africa and a weakening operating environment as indicated by the Negative Outlook on South Africa's sovereign ratings (see "Fitch Affirms South Africa at 'BBB'; Negative Outlook", dated 12 December 2014 at www.fitchratings.com).

The Stable Outlooks on the National ratings reflects Fitch's expectation that the MMI group's credit strength relative to the best credit in the country will remain stable.

KEY RATING DRIVERS

The affirmation reflects MMI's solid performance, well established domestic franchise, strong capital position and diversified distribution network. Offsetting these key rating drivers is the risk of earnings volatility stemming from the group's exposure to investment markets.

MMI's diluted core headline earnings improved 10% to ZAR1.9bn at 1H15 (1H14: ZAR1.7bn). This was supported by 52% operating profit growth in the Momentum Employee Benefits division in 1H15. However, net profit declined 22.7% to ZAR1.4bn in 1H15 following weaker equity market returns relative to 1H14.

MMI has a solid domestic franchise as one of South Africa's four largest insurance groups, with two strong client facing brands (Momentum and Metropolitan).

The group's capital adequacy, on both Fitch's internal assessment as well as a statutory solvency basis, is viewed as strong for the ratings. MMI reported group statutory cover of 2.7x at end-1H15 (FYE14: 2.8x).

MMI's equity exposure is considered high for the ratings. However, Fitch recognises that these holdings mostly back discretionary participating policies where clients assume most of the investment risk. Assets backing the group's shareholder funds are invested conservatively, and overall Fitch continues to view the investment risk as acceptable for the rating.

Fitch views Guardrisk's strategic status as 'Very Important', under Fitch's insurance group rating methodology, and has applied a one-notch uplift to its National IFS ratings compared with its standalone group assessment. This reflects Guardrisk's strategic alignment with its parent. Guardrisk is a wholly owned subsidiary of the MMI group.

From a standalone perspective, Guardrisk's rating benefits from being the leading provider of cell captive insurance services in South Africa, its strong capitalisation and low volatility of profits.

The majority of the Guardrisk group's income is generated through management fees, charged for services provided within the cell captive structure, such as underwriting, access to insurance licences, reserving and risk management. Only a small proportion of group profitability is generated through direct underwriting.

Around 95% of the Guardrisk group net revenues come from South Africa, with the remainder from Mauritius and Gibraltar.

RATING SENSITIVITIES

A downgrade of MMI Group's ratings could result from a substantial deterioration in capitalisation, based on either Fitch's internal assessment or on the statutory capital adequacy ratio (CAR), in particular if MMI's Prism Score falls below 'Strong' and/or if MMI's reported CAR fell below 2.0x for a sustained period.

A sustained weak operating performance driven by a decline in the equity market, a reduction in new business margins relative to its peers or a material loss of market share could also result in a downgrade of MMI group's ratings.

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

A downgrade of South Africa's Long-term foreign or local currency Issuer Default Ratings could trigger a downgrade of GIL's IFS rating. A downgrade of the sovereign ratings is not expected to affect the National IFS ratings of Guardrisk Insurance and Guardrisk Life, as the relativity of these ratings to that of the best credits in South African should remain unaffected.

Given Fitch's view that Guardrisk is 'Very Important' to the MMI group, any downgrade of MMI Group's ratings would have a similar impact on Guardrisk's ratings.

A downgrade could also be triggered by deterioration in Guardrisk's standalone profile so that Fitch would no longer consider it as 'Very Important' to MMI. This could arise from sustained weak operating performance or lower levels of capitalisation.

The rating actions are as follows:

MMI Group Limited

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

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

Subordinated notes: affirmed at 'A+(zaf)';

MMI Holdings Limited

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 Negative

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Additional information is available at www.fitchratings.com.

- (a) No part of the rating was influenced by any other business activities of the credit rating agency;
- (b) The rating was based solely on the merits of the rated entity, security or financial instrument being rated;
- (c) Such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Applicable criteria, 'Insurance Rating Methodology', dated 4 September 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650

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