MMI Holdings Ltd.

And Core Insurance Subsidiaries

Full Rating Report

Summary of Ratings

MMI Holdings Limited

National Long-Term Rating	AA−(zaf)

MMI Group Limited

National Insurer Financial Strength Rating	AA+(zaf)

See *Appendix A* for a complete ratings list for the MMI group

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
Long-Term Local-Currency IDR	BBB

Outlooks

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

Financial Data

MMI Holdings Ltd (Consolidated)

	2014	2015
Total assets (ZARbn)	414	447
Total equity (ZARbn)	25	25
Net Insurance premium revenue (ZARbn)	23	27
Diluted core headline earnings (ZARm)	3,621	3,836

As at 30 June

Analysts

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Key Rating Drivers

Adequate but Declining Profitability: MMI Holdings Ltd's (MMI) net income for financial year ending 30 June 2015 (FY15) declined 10.6% to ZAR2,857m as a result of weakening business growth and unfavourable investment markets. Despite these headwinds, net income for the six-months to end-2015 improved 13.6% to ZAR1,537m. Although Fitch Ratings 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.

Strong Capitalisation: Fitch views group capital adequacy, both on the agency's internal metrics and on a statutory solvency basis, as strong for the ratings. Capital was stable, with MMI's Prism Factor-based model (FBM) score at 'Very Strong' at end-June 2015 (FYE15, FYE14: 'Very Strong'). The group's financial leverage increased to 17.8% at FYE15 (FYE14: 16.9%), which is commensurate with the ratings.

Investment Risk Lowered: MMI's earnings are exposed to movements in investment markets. However, the group reduced the investment risk exposure of its 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, and the exposure to cash and equivalents increased to ZAR7.7bn from ZAR6.4bn.

Operating Environment a Rating Weakness: 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 relative availability of deep and liquid investment markets, compared with South Africa's emerging market peers.

Guardrisk Core Part of Group: Fitch views the Guardrisk group as 'Core' to its parent, MMI, under our insurance group rating methodology. This reflects Guardrisk's strategic alignment with the group. Fitch has aligned Guardrisk's National Insurer Financial Strength (IFS) ratings with those of MMI Group.

Rating Sensitivities

Weakened Capital Position: 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.

Deterioration in Relative Operating Performance: Weakening operating performance relative to peers, or a weakening of market share, could lead to a downgrade.

Sovereign Downgrade: A downgrade of South Africa's Long-Term Foreign- or Local-Currency ratings could trigger a downgrade of GIL's (part of Guardrisk Insurance) 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.

Upgrade Unlikely: Fitch considers an upgrade unlikely in the medium term. However, over the longer term, the 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.

Market Position and Size/Scale

Large Domestic Insurer

- Leading market position in South African life insurance
- Diversified customer and distribution base
- Growing international exposure

Leading Market Position in South African Life Insurance

MMI group's ratings are supported by its solid domestic franchise as one of South Africa's four largest life insurance groups, with two strong client-facing brands (Metropolitan and Momentum). MMI is a well-diversified, insurance-based financial services group, active in life insurance, healthcare administration, asset management, employee benefits and a small amount of short-term insurance. In addition, Guardrisk is the leading cell captive provider in both life and non-life insurance in South Africa. The MMI group benefits from diversity in its customer base, which spans all income groups, and its broad distribution network.

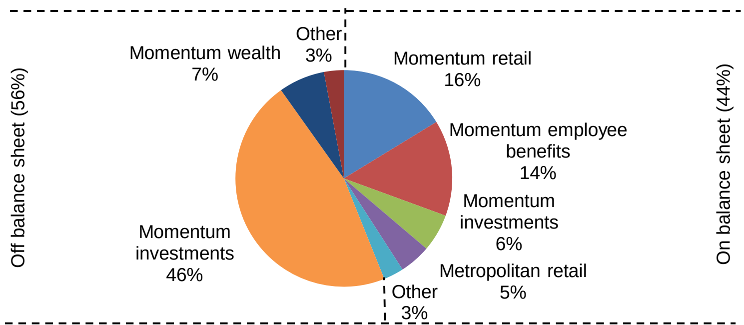
The cell arrangements entail Guardrisk entering into a contractual arrangement (the shareholder agreement) with a cell shareholder, usually a corporate entity, where Guardrisk provides insurance and financial management of the cell for a fee. This includes underwriting, reserving, reinsurance, claims management, actuarial, investment and accounting services and access to Guardrisk's insurance licences.

Cell shareholders are usually enterprises that wish to self-insure their own risks (first-party cells) or their customers' risks (third-party cells) in a capital-efficient way without the costs and regulatory burdens of running a fully-fledged insurance company. The creation of a cell allows the cell owner to act as an insurance company.

Off-Balance Sheet Business Represents Higher Proportion of Flows

Off-balance sheet business is becoming increasingly important to the MMI group, with 56% of funds received attributed to it, mainly through investment management. The inflow/(and outflow) of such funds is less stable than traditional life insurance business, and more exposed to competition, especially from private asset managers.

Figure 1
Gross Funds Received by Business Unit, 2015



Source: Company, Fitch

Diversified Customer and Distribution Base

Fitch views MMI's client diversification positively from a ratings perspective. The group's target market consists of all income segments, with the Metropolitan and Momentum brands serving different clientele. The Metropolitan brand targets the low-income retail market segment, while the Momentum brand is aimed at middle- to higher-income customers.

Related Criteria

Insurance Rating Methodology (September 2015)

The brands also differ in product distribution. Momentum's distribution strength is underpinned by its strong and well-established broker consultant network, supported by a growing agency force as well as a bancassurance agreement with FirstRand Bank. Metropolitan makes use of employed personal advisors and, to a lesser extent, brokers.

Guardrisk's business is well diversified, albeit weighted toward commercial lines. The group writes predominantly non-life business. The non-life business is split into property (30%), motor (28%), accident and health (22%), liability (7%), transportation (7%) and miscellaneous (6%).

Guardrisk Life writes third-party risk benefits such as death, funeral, credit life and disability, third-party individual annuity business and first-party, post-retirement healthcare business, funeral, group life assurance and disability and annuity and investment-linked benefits.

Growing International Exposure

Although MMI is still predominantly operating in South Africa, it has ambitions to grow in selected African countries, India and south-east Asia. The MMI International business unit grew its core headline earnings by 25% to ZAR152m in FY15. This made up 4% of the group's core headline earnings.

Expansion into Africa offers the prospect of good growth (given the low penetration of insurance products and services) and diversification of earnings. While this comes with challenges and execution risks, Fitch considers MMI's approach to African expansion to be measured. The agency views the international cell captive capability of MMI's Guardrisk subsidiary as supportive of this strategy.

International business is generated through Guardrisk's South African client base and international markets, and written through GIL but also through Euroguard Insurance Company PCC Limited (Euroguard), a Gibraltar-based company. Euroguard allows Guardrisk's clients to write business directly in European markets.

GIL is 100% owned by Guardrisk Insurance and provides protected cell facilities for non-life business. A life licence has been put in place at GIL, and it is expected that life income will be generated in the medium term.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating. The Board of Directors have significant independent representation and strong governance frameworks in place, including measurement against the King III Principles of Corporate Governance.

Ownership is Neutral to Rating

MMI is the holding company of the operating subsidiaries of the MMI group, with a listing on the Johannesburg Stock Exchange. The major operating brands are Metropolitan, Momentum and Guardrisk. MMI Group Limited is the main insurance operating entity.

Rand Merchant Insurance Holdings Limited, a listed investment holdings company, is the largest individual shareholder, with a holding of 24.5%.

Guardrisk was established in 1993 and was fully acquired by MMI from the Alexander Forbes Group in 2014. Fitch considers Guardrisk as strategically 'Core' to the MMI group, based on its strong alignment with the MMI group strategy. Guardrisk's cell captive expertise and strong client relationships complement MMI's institutional business and strengthen the group's diversification.

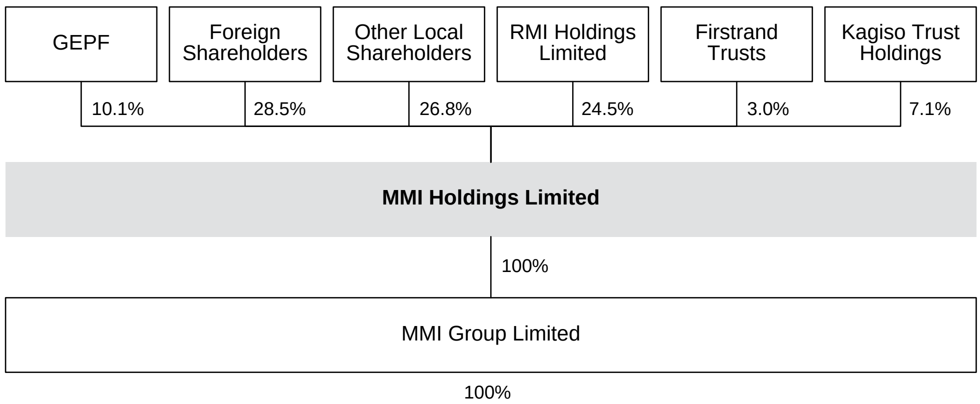
Guardrisk's ability to attract new business is set to benefit from its new ownership. As an insurance parent, MMI can accept and manage insurance risk where new opportunities arise. In addition, Guardrisk's presence within an insurance group, as opposed to a predominantly financial intermediary services group, enables it to write business through those large brokers that compete with its previous owner, Alexander Forbes.

Fitch believes integration of Guardrisk will be limited in the medium term, with the business case of the acquisition not dependent on benefits derived from back-office integration.

Guardrisk Insurance and Guardrisk Life are licensed insurance companies, regulated by the Financial Services Board (FSB). Guardrisk Allied Products & Services Ltd (GAPS) is a non-life underwriting manager and administration services provider. GIL is a licenced insurance company based in Mauritius and regulated by the Financial Service Commission (FSC). It is 100% owned by Guardrisk Insurance.

Figure 2

Structure Diagram



The shareholding shown includes holdings in unlisted preference shares
Source: Company

Sovereign and Country Related Constraints

Fitch rates the Local-Currency sovereign obligations of South Africa at 'BBB' with a Stable Outlook.

At current levels, the ratings of South African insurance organisations and other corporate issuers could be constrained by sovereign or macroeconomic risks. In the case of MMI Group, its ratings are not directly constrained by the international sovereign ratings of South Africa.

Industry Profile and Operating Environment

Equity Performance Supports Life Insurers

The South African equity market posted strong positive returns in 2014 and 1H15, continuing its recovery since the 2009 global financial crisis, with a compound total return of 127% for 2010-2014, and 6.7% for 1H15. This boosted insurers' earnings, but equity market returns fell to minus 2.9% for 2H15. A downturn in equity markets represents a significant risk to earnings in 2016 and beyond.

Equity market performance is of particular significance for South African insurers compared with other jurisdictions because of the industry's high exposure. Earnings exposure is mainly from direct equity holdings in shareholder capital and through fee income based on policyholder investments under management.

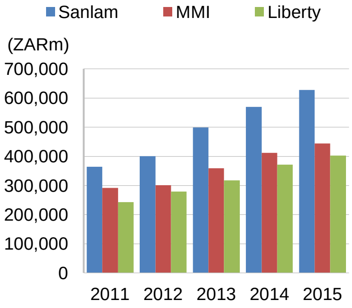
On 4 December 2015, Fitch downgraded South Africa's Long-Term Foreign- and Local-Currency IDRs to 'BBB−' and 'BBB', respectively (see *Fitch Downgrades South Africa to 'BBB−'; Outlook Stable*). This rating action had no impact on MMI's National Scale ratings, as, in Fitch's view, its relative creditworthiness to the sovereign is unchanged.

The downgrade partly reflected weak economic growth and a deteriorating outlook for South Africa. Combined with the maturity of the South African insurance market, this means that recurring premium growth rates have come under pressure.

Single-premium sales (predominantly investment business) have been more robust, largely because of the wealth effect from strong equity market performance although this was not the only factor. Good returns on retirement savings increase the lump sums that policyholders have available to purchase single-premium investment products, such as annuities, from insurers.

The Solvency Assessment and Management (SAM) regime, planned to be fully implemented by end-2016, is likely to result in a similar increase in the absolute value of both available capital resources and solvency capital requirements for most insurers. As a result, it is likely that the industry will have a lower average capital adequacy coverage ratio. Fitch believes most life insurers are well prepared for SAM. The life insurers rated by Fitch are the four largest groups in the country, with good capital modelling capabilities and strong risk management

Figure 3
Total Assets
(As at 30 June)



Source: Company reports, Fitch

Peer Analysis

Strong Market Position Relative to Peers

Compared with its peers, MMI group has strong positions in all customer income segments. It has significant or leading market positions in each of its key market segments. However, this advantage has not translated into significant growth outperformance compared with its closest rivals over the past four years (see Figure 4). Measured by overall balance sheet growth, MMI's compound growth over the four years to June 2015 was 52%, compared with 66% for Liberty and 72% for Sanlam.

MMI's operating return on assets (1.3%) is marginally lower than the weighted average return on assets of its peer group (1.5%). Fitch expects South African life insurance groups' profitability to weaken further as a result of low returns in equity markets in 2H16.

A direct peer comparison of Guardrisk is difficult due to fundamental differences in the companies' operating structures. While some of the peers in Figure 6 are traditional insurance writers with income predominantly generated through underwriting and investment income, Guardrisk's profits are mainly fee based and are thus less volatile.

Figure 4
Peer Analysis – South African Peers (2014/5)

(ZARbn)	National IFS Rating of primary operating entities	Total assets	Total equity	CAR cover (x)[a]	Financial leverage (%)	Operating profit	Operating return on assets (%)
Life insurance							
Old mutual	AAA(zaf)/Stable	2,565	172	3.1	20	29	1.1
Sanlam	AA+(zaf)/Stable	611	51	4.5	8	14	2.3
MMI	AA+(zaf)/Stable	447	25	2.8	17.8	7	1.3
Liberty	AA(zaf)/Stable	376	24	3.1	16	7	1.8
Discovery	Not Rated	89	27	3.9	n.a.	5	6.5
(ZARbn)	**National IFS Rating of primary operating entities**	**Gross written premiums**	**Net written premiums**	**CAR cover (x)[a]**	**Underwriting profit**	**Net profit**	**Combined ratio (%)**
Non-life insurance							
Santam	AA+(zaf)	22.7	17.2	n.a.	1.5	1.7	91.0
Mutual & federal[b]	AAA(zaf)	10.8	8.6	1.6	0.1	0.5	99.0
OUTsurance	Not rated	6.6	6.5	1.7	1.4	n.a.	75.0
Guardrisk insurance	AA+(zaf)	7.1	3.5	1.7	n.a.	0.1	88.0
Standard insurance	AA(zaf)	1.9	1.8	2.3	0.4	0.4	77.0

Ranked by National IFS Rating
IFS - Insurer Financial Strength
The key indicators in this table for the peers are for 12 months ended 31 December 2014, except for MMI Holdings Limited, Discovery Limited and OUTsurance Holdings which are for the 12 months ended 30 June 2015, and Guardrisk Insurance Company Limited which are for the 15 months ended 30 June 2015.
Old Mutual – Old Mutual Plc, primary operating entity Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA)
Sanlam – Sanlam Limited, primary operating entity Sanlam Life Insurance Limited
MMI – MMI Holdings Ltd, primary operating entity MMI Group Limited
Liberty – Liberty Holdings Limited, primary operating entity Liberty Group Limited
Discovery – Discovery Holdings Limited, primary operating entity Discovery Life Limited
[a] The CAR cover ratios for the primary operating entities
[b] Group basis, unless stated otherwise
Source: Company results, Fitch

Figure 5

Capitalisation and Leverage

(ZARm)	FY11	FY12	FY13	FY14	FY15	Fitch's expectation
MMI group						MMI is expected to maintain strong capital adequacy, but for SAM capital cover ratios will be lower than those reported on the previous statutory basis. Financial leverage, which is commensurate for the rating, is expected to be stable.
Total equity	22,639	23,798	23,864	25,214	25,048	
Total financing and commitments (TFC) ratio (x)	0.5	0.5	0.4	0.4	0.6	
MMI group statutory CAR (x)[a]	n.a.	2.4	2.6	2.9	2.8	
Financial leverage (%)	11.5	9.3	8.9	16.9	17.8	
Operating leverage (x)[b]	2.4	4.6	5.1	5.4	5.5	
Guardrisk entities						
CAR cover guardrisk insurance	32%	1.08x[c]	1.6x[c]	1.4x[c]	1.7x[c]	
CAR cover guardrisk life (x)	5.5	4.8	5.7	3.7	2.6	
CAR cover GIL (x)	3.6	3.9	4.2	6.3	7.5	
Guardrisk Insurance NWP to equity (x)[d]	3.1	3	2.5	3	3	

The financial year-end for the Guardrisk entities changed from 31 March (FY11-FY14) to 30 June in 2015 (FY15)
[a] The life insurance licences of Metropolitan and Momentum have been amalgamated under MMI Group Limited. MMI Group's statutory CAR for FY12 reflects a pro-forma statutory CAR calculation
[b] Total technical reserves (excluding unit-linked business)/total equity
[c] Solvency Capital Requirement under current FSB approved calculation on statutory basis. With effect from 1 January 2012, solvency capital coverage needs to be established on the basis of risk-based solvency requirements with a minimum level of 1.0x
[d] NWP = Net written premiums; The calculation includes first-party and third-party cell premium, based on FSB statutory returns
Source: Company accounts, Fitch

Capital Strength a Positive Rating Factor

- 'Very Strong' Prism score maintained
- Stable group capital adequacy
- Financial leverage commensurate
- Supportive operating leverage
- Solvency monitored at cell level

'Very Strong' Prism Score Maintained

MMI maintained a 'Very Strong' score on the Prism factor-based capital model (Prism FBM), based on FY15 results (FY14: 'Very Strong'). The Prism FBM score is the ratio of total available capital (TAC) to target capital (TC) at various stress levels, with the Prism score itself equal to the highest category where TAC exceeds TC.

MMI's asset risk component is the biggest driver of TC. South African insurers' assets are predominantly invested locally, as liabilities are largely rand denominated. As South Africa is an emerging market, domestic bonds and equities carry a high risk charge relative to developed-market securities. This both weakens the Prism score and increases its sensitivity to changes in the investment mix for South African insurers compared with international insurers whose balance sheets are invested in developed economies.

Stable Group Capital Adequacy

Stable group capital adequacy underpins the ratings. Total equity was steady at ZAR25bn at FYE15 (FYE14: ZAR25.2bn). The group statutory CAR ratio for MMI Holdings weakened slightly to 2.7x from 2.8x. Fitch views MMI's capital management as sound, and expects group capital to move in line with peers as a result of the introduction of SAM.

Guardrisk's regulatory solvency is strong, with capital levels above regulatory minimums for all entities within the group. The statutory solvency coverage for Guardrisk Insurance and Guardrisk Life was 1.7x and 2.6x respectively at FYE15, well above the regulatory minimum of 1.0x. Uncertainties remain around the final approval of Guardrisk Insurance's internal model for SAM, which is crucial for Guardrisk to reflect the capital needs within the cell captive structure appropriately. This model is being reviewed by the regulator.

GIL is subject to Mauritian solvency capital requirements prescribed and enforced by the FSC. At FYE15, GIL reported an available capital/required capital ratio of 7.5x. Fitch considers the Mauritian entity as adequately capitalised for the current rating.

Financial Leverage Commensurate

The group's financial leverage increased to 17.8% at FYE14 (FYE13: 16.9%), a level which is commensurate with the ratings. In November 2014 MMI raised ZAR750m in subordinated debt securities. ZAR500m of the proceeds were used to redeem a separate tranche of ZAR500m debt securities in December 2014. The net result of this transaction is a small increase in financial leverage.

The consolidated Fitch-calculated total financing and commitments (TFC) ratio is a more comprehensive measure of debt leverage, which makes use of a broader definition of debt including all finance activities. It was 0.6x at FYE14 (FYE14: 0.4x) and within the agency's tolerance for the ratings. The main factor influencing the TFC ratio is the repo liabilities that the company holds. Repo trading is done for liquidity management, and Fitch views this as acceptable for the ratings level.

Supportive Operating Leverage

The operating leverage ratio was 5.5x at FYE14. This is considered low and supportive of the ratings level.

Solvency Monitored at Cell Level

Guardrisk monitors and enforces solvency at the cell level, a policy that Fitch views positively. The cell shareholder agreements specify that all cells are ring-fenced i.e. surplus capital held in one cell cannot be used to meet claims of another cell that might require this. Each cell is capitalised individually and levels are monitored monthly by Guardrisk.

When a cell's capital levels fall below the regulatory solvency level, the cell is required to recapitalise. In such a case, Guardrisk's promoter capital – i.e. capital held within Guardrisk – can provide capital support as a last resort.

Figure 6

Debt Service Capabilities and Financial Flexibility

	FY11	FY12	FY13	FY14	FY15	Fitch's expectation
Fixed-charge coverage ratio (x)	14.7	17.2	12.4	21.9	17.9	Fitch expects MMI's fixed-charge coverage to remain stable in FY16, and to remain commensurate with the rating level.
Interest expense (ZARm)	256	275	412	326	531	

Source: Company accounts, Fitch

Strong Coverage and Good Financial Flexibility

- High fixed-charge coverage
- Good financial flexibility

High Fixed-Charge Coverage

Fitch views MMI's interest coverage and debt-servicing capabilities as strong for its rating level. Fixed-charge coverage was 17.9x in 2015 (2014: 21.9x), above its five-year average of 17x.

Good Financial Flexibility

Fitch views MMI's financial flexibility as good, with access to equity as well as capital markets, including the ability to raise hybrid capital. Financial flexibility is complemented by strong capital and liquidity management.

Figure 7

Financial Performance and Earnings

(ZARm)	FY11	FY12	FY13	FY14	FY15	Fitch's expectation
MMI group						Fitch expects the pre-tax return on assets to remain above 1.1% in the medium term but that the group will underperform its major peers. Equity market performance is the most significant single downside risk to profitability.
Net income	1,663	2,337	2,587	3,197	2,857	
Profit before tax	2,590	3,641	4,455	5,758	5,408	
Pre-tax return on assets (%)[a]	1.1	1.2	1.3	1.5	1.3	
Pre-tax operating profit[a]	3,518	4,445	5,854	7,073	6,995	
Pre-tax operating return on assets (%)[a]	1.3	1.4	1.6	1.7	1.6	
New business margin (%)	1.2	1.4	1.9	1.8	1.9	
Change in total assets (%)	47.3	3.3	19.4	14.5	7.8	
Market change in total assets (%)	10.7	13.3	16.1	13.9	7.1	
Guardrisk entities						
GWP (non-life)[b]	4,799	6,072	6,904	8,039	10,500	
Claims ratio (non-life) (%)[b]	39	41	39	33	38	
Combined ratio (non-life) (%)[b]	89	92	90	86	88	
GWP (non-life) growth (%)	14	27	14	16	31	
GWP (non-life) growth (cell captive industry) (%)	n.a.	n.a.	11	13	18	

The claims ratios and combined ratios are calculated using the statutory returns of Guardrisk Insurance. These include all business written, including the insurance business on which Guardrisk does not take on the underwriting risk itself
n.a. - Not available
[a] Fitch calculated
[b] All financial metrics for Guardrisk relate to the financial years ending 31 March for 2011-2014, and the 15 months to 30 June for 2015. GWP includes GIL.
Source: Company, Financial Services Board, Fitch

Earnings Growth Halted

- Financial performance weakened in FY15
- Fee-based business increasingly important
- Guardrisk - stable income and profitable underwriting

Financial Performance Weakened in FY15

Fitch views the group's financial performance as supportive of the rating, but further weakness in run-rate profitability could lead to a downgrade. Pre-tax return on assets weakened to 1.3% in FY15 (FY14: 1.5%), and IFRS net income declined 10.6% to ZAR2.9bn. The weakness was driven by a fall in fair-value gains on excess assets.

Diluted core headline earnings, the group's preferred operating performance metric, improved 6% to ZAR3.8bn (FY13: ZAR3.6bn). The improvement was supported by the first-time full inclusion of the earnings of Guardrisk and Carecross, as well as positive experience variances across the business. This was offset by a reduction in performance fees earned in the Momentum Investment business.

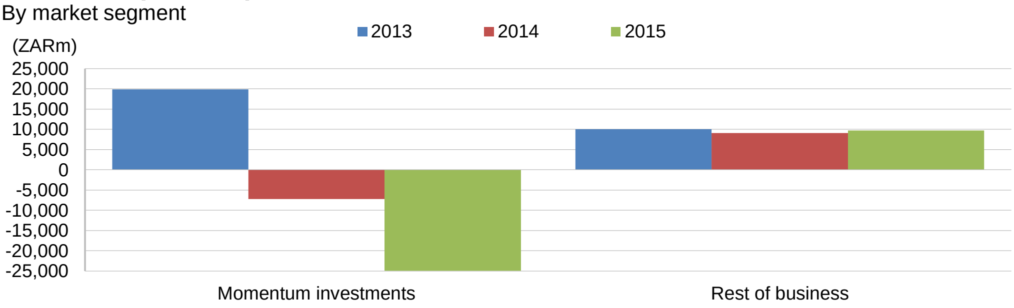
Momentum Retail remains the largest contributor to diluted core earnings (39,9%), followed by Metropolitan Retail (19.2%) and Momentum Employee Benefits, which includes Guardrisk, at 17.2%. Fitch views positively the earnings diversification achieved through the combination of the Metropolitan and Momentum brands, which serve different customers. Although diluted core headline earnings provide insight into the relative performance of individual business units, Fitch places limited reliance on this metric.

Fee-based Business Increasingly Important

Although earnings are well diversified, the fee-based investment business revenue is becoming an increasingly important driver of profits. A large portion of the balance of business is also fee based.

A key driver of fee-based revenue is the net flow of client funds. Momentum Investments reported significant net outflows in 2015 (see Figure 9), thereby resulting in combined group net outflows of ZAR15.3bn in FY15. Net inflows in FY14 and FY13 (ZAR0.5bn and ZAR23.9bn respectively) were positive.

Figure 8
Net Inflow/(Outflow) of Funds
By market segment



Note: Total inflow/(outflow) of funds = Total funds received minus payments to clients
Momentum Investments' 2013 inflow includes the effect of the Eris Property Group Acquisition
Source: Company, Fitch

Guardrisk - Stable Income and Profitable Underwriting

Fitch views the low volatility in Guardrisk's results positively. The majority of Guardrisk's income is generated through fees charged for different services, such as underwriting, access to insurance licences, reserving and risk management. The fee is usually a percentage of premium written or income. Guardrisk collects an investment fee from its cells for the investment services provided. Guardrisk Insurance only takes on a small amount of underwriting risk itself.

Underwriting performance within Guardrisk Insurance as a whole has historically been strong, reflected in a five-year average combined ratio of 89%. This ratio includes all business written in and through the Guardrisk Insurance licence, including cell business on which Guardrisk's promoter takes no underwriting risk (e.g. first-party cell business).

Guardrisk is responsible for the insurance and financial management of all cells and provides underwriting guidelines and minimum standards that are implemented by individual cells. These factors are monitored on a monthly basis by a cell manager who can advise on action in case of adverse developments. These are also brought to management's attention. Such actions can include the repricing of business, the purchase of additional reinsurance cover and adjustments in reserving levels. As a last resort, Guardrisk has the ability to stop a cell from underwriting.

Figure 9
Investment and Asset Risk

(%)	FY11	FY12	FY13	FY14	FY15	Fitch's expectation
Equities/equity[a]	n.a.[b]	45.3	45.4	36.8	28.3	Fitch expects MMI to maintain its high equity exposure given the inflation protection this asset class potentially offers.
Investments in affiliates to equity[c]	1.1	0.5	0.5	0.7	0.6	

[a] Ratios exclude assets backing unit-linked polices and discretionary participating business
[b] The information to calculate these ratios is not available
[c] Investment in affiliates excludes investment in collective investment schemes
Source: Company accounts, Fitch

Investment Risk Commensurate for Ratings Level

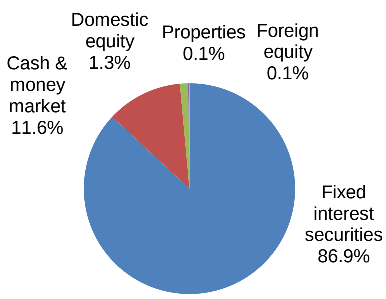
- Significant equity holdings common for South African life insurers
- Overall diversification strong

Significant Equity Holdings Common for South African Life Insurers

In the group's investment portfolio, the proportion of total equities (excluding equities backing unit-linked and discretionary participating policies) fell to 28.3% at FYE15 (FYE14: 36.8%, FYE13: 45.4%). Fitch views favourably this reduction, which started in FY13. Fitch's Prism FBM takes account of the level of equity risk taken by shareholders.

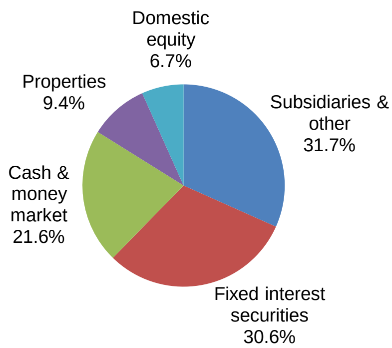
The group is directly exposed to investment risk related to Guaranteed Liabilities (Figure 8) and the shareholders' investment portfolio (Figure 9). Although policyholders assume the investment risk on linked products and smoothed bonus products, the group is exposed to secondary risk through fee income derived from the investment value of these products. This risk also extends to collective investment scheme products, for which the assets are not on the MMI balance sheet.

Figure 10
Guaranteed Liabilities



Source: Company, Fitch

Figure 11
Shareholders' Portfolio



Source: Company, Fitch

Overall Diversification Strong

Fitch considers the group's investment portfolio to be well diversified. Diversification limits are set by MMI for industry sector, individual counterparties and the number of single obligor exposures within rating categories.

Figure 12

Asset/Liability and Liquidity Management

	FY11	FY12	FY13	FY14	FY15	Fitch's expectation
Liquid assets to policyholder liabilities (%)[a]	n.a.	106.4	103.1	88.5	92.5	The group is expected to maintain an adequate liquidity position and a low duration mismatch.

[a] Duration information provided in respect of guaranteed endowment and guaranteed annuity products
Source: Company, Fitch

Good Asset/Liability Management

- Significant experience risk shared with policyholders
- Strong asset-liability management
- High liquidity viewed positively

Significant Experience Risk Shared with Policyholders

Fitch views as positive that unit-linked and smoothed-bonus investment policies, where policyholders bear the majority of investment risk, accounted for 60% of total group statutory reserves at FYE15. In addition, 13% at FYE15 of total liabilities were with-profits, which provides significant risk-sharing with policyholders.

Strong Asset-Liability Management (ALM)

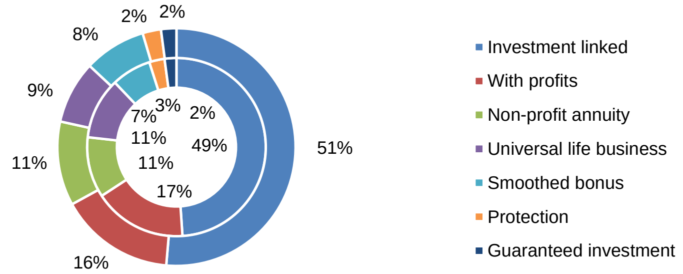
Fitch views MMI's ALM as strong. The group's non-profit annuity business exposes it to interest rate risk given the long-term profile of these liabilities. These liabilities are matched with assets (bonds and interest rate derivatives) that have a similar duration. Duration management is also required for guaranteed endowment policies where MMI is obliged to provide a guaranteed value at maturity.

Exposure to guaranteed liabilities such as investment guarantees, pure risk products and non-profit annuities is low (see Figure 14).

Figure 13

Statistical Reserves by Business Class

Inner ring: 2014
Outer ring: 2015



Source: Company, Fitch

Fitch views Guardrisk's asset-liability management (ALM) capabilities as good. Guardrisk Life provides ALM services including reviews of duration mismatches, which are observed and fed back to individual cell shareholders. Any dividend payments to cell shareholders from profits accrued within the cells are determined with reference to the returns earned on the assets held in one cell, thus passing on the potential mismatch risk to cell shareholders.

High Liquidity Viewed Positively

The liquid assets to policyholder liabilities ratio (excluding unit-linked liabilities) improved to 92.5% at FYE14 from 88.5% at FYE14. Fitch considers this liquidity as high for the rating.

Liquidity risk is low for unit-linked business because the amount paid to policyholders is directly linked to the realisable market value of the underlying assets.

Reinsurance, Risk Management and Catastrophe Risk

Risk Management Supportive of Rating Level

- Balance sheet management strong
- Risk management adequate
- Reinsurance important for Guardrisk

Balance Sheet Management Strong

MMI's Balance Sheet Management (BSM) division's role is to manage the financial risks associated with guaranteed liabilities and capital. This mandate is broken down into market risk, credit risk and liquidity risk. Fitch views the presence of a management process to create a structured balance sheet as an important part of overall risk management.

Risk Management Adequate

The overall risk management framework and supporting policies are expanding as part of the requirements under SAM. This is expected to improve the risk management processes within different divisions, as well as the reporting capability across the group.

Fitch considers Guardrisk's risk management to be adequate. The promoter is the lender of last resort should a third-party cell require solvency support. Guardrisk's promoter capital is exposed to underwriting risks through its underwriting managing agencies (UMAs), contingency policies and third-party cells. Exposure to first-party cells is capped by policy limits to capital available within the cell. UMAs generate business through binders who can underwrite within the parameters set in the mandates signed off by Guardrisk.

To ensure that cell owners operate within given mandates, Guardrisk employs dedicated portfolio managers. Each manager is responsible for 10-20 cells, depending on the size and complexity of business of the individual cells. With the help of an independent audit firm, Guardrisk collects claims data, policy information, and information about solvency and compliance for each cell. In addition, Guardrisk monitors exposure to the promoter with the help of its own internal model.

Reinsurance Important for Guardrisk

MMI does not cede a large portion of its overall risk through reinsurance. This is a reflection of the mix of the business, which is significantly weighted toward savings products.

Where necessary, each cell within the Guardrisk structure has its own reinsurance programme and own panel of reinsurers due to the contractual ring-fencing within the shareholder agreements. In addition, reinsurance is bought for the promoter, taking into account the various risks that the promoter is exposed to such as direct business, contingency business and third-party business.

Maximum risk retentions are low relative to Guardrisk Insurance's equity. Reinsurance counterparties are selected from an approved list, limiting maximum exposure to any one reinsurer based on its international credit rating and the total amount reinsured. The majority of Guardrisk's reinsurance counterparties are rated 'A−' and above.

Appendix A: Other Ratings Considerations

Below is a summary of additional ratings considerations of a "technical" nature that are part of Fitch's ratings criteria.

Group IFS Rating Approach

The operating subsidiaries of MMI Holdings Ltd are all seen by Fitch to be 'Core', and their ratings are based on a consolidated group assessment.

Figure 14
Complete Ratings List

Entity	Rating type	Rating	Outlook
MMI Holdings Limited	National Long-Term Rating	AA-(zaf)	Stable
MMI Group Limited	National Insurer Financial Strength Rating	AA+(zaf)	Stable
	National Long-Term Rating	AA(zaf)	Stable
	Subordinated Debt Rating	A+(zaf)	
Guardrisk Insurance Company Limited	National Insurer Financial Strength Rating	AA+(zaf)	Stable
Guardrisk Life Limited	National Insurer Financial Strength Rating	AA+(zaf)	Stable
Guardrisk International Limited PCC	Financial Strength Rating	BBB	Stable

Source: Fitch

Notching

For notching purposes, South Africa's regulatory environment is assessed by Fitch as 'Effective', and classified as following a Group Solvency approach.

Figure 15
Notching Summary

IFS Ratings
Standard notching was used. MMI Group's National IFS rating is lifted by one notch from its National Long-Term Rating to 'AA+(zaf)', reflecting the priority of policyholder claims. As Fitch regards Guardrisk as a core entity within the group, its National IFS ratings are aligned with that of MMI Group, the other core group entity, at 'AA+(zaf)'.

Operating Company Debt
None.

Holding Company National Long-Term Rating
Standard notching was used. As MMI Holdings is a pure holding company, its National Long-Term Rating is notched down one notch from operating company MMI Group's National Long-Term Rating to 'AA−(zaf)'.

Holding Company Debt
None.

Hybrids
Standard notching was used. Fitch used a baseline recovery assumption of 'Below Average' for all outstanding subordinated note issues/hybrids. In addition, a non-performance risk assessment of 'Moderate' was used for all subordinated issues. Two notches were applied relative to MMI Group's National Long-Term Rating, one for recovery and one for non-performance risk.

Source: Fitch

Short-Term Ratings

None.

Hybrids – Equity/Debt Treatment

Figure 16
Hybrids Treatment

Hybrid	Nominal amount (ZARm)	Coupon rate (%)[a]	Coupon type	Maturity date	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
ZAG000128505	270	11.3	Fixed	Aug 25	0	100	100
ZAG000114059	750	10.065	Fixed	Mar 26	0	100	100
ZAG000121674	750	-	Floating	Jun 25	0	100	100
ZAG000114042	750	-	Floating	Mar 24	0	100	100
ZAG000128513	980	8.5	Fixed	Aug 22	0	100	100

CAR – Capitalisation ratio; FLR – Financial leverage ratio
For CAR, % tells portion of hybrid value included as available capital, both before (Fitch %) and after the Regulatory Override
For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio
[a] The coupon rate represents the instrument coupon, and does not consider any hedging put in place
Source: Fitch

Fitch classifies the group's ZAR3.5bn of unsecured subordinated callable notes as 100% capital within its risk-based capital assessment due to the regulatory override, and 100% debt in its financial leverage calculations.

Exceptions to Criteria/Ratings Limitations

None.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.