MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa.za national scale IFS rating to MMI Group Limited; subordinated debt at Aa2.za on the national scale

Global Credit Research - 27 May 2016

London, 27 May 2016 -- Moody's Investors Service, ("Moody's") has assigned an Aaa.za national scale insurance financial strength (IFS) rating to MMI Group Limited (MMIGL). Moody's also assigned a Aaa.za long-term issuer rating and a Aa2.za rating to MMIGL's subordinated notes on the national scale.

At the same time, Moody's assigned the following ratings on the global scale, which serve as the basis for the national scale ratings: MMIGL IFS at Baa1, MMIGL long-term issuer rating at Baa2 and MMIGL subordinated notes at Baa3. The outlook is negative, on a global scale basis, and follows from the negative outlook for the Government of South Africa (Baa2, negative).

MMIGL is the primary life insurance subsidiary of MMI Holdings Limited (MMI), a leading insurance group in South Africa, that was formed in 2010 following the merger of two long-established life insurance and investment groups, Momentum and Metropolitan. MMI's primary focus is life insurance and investment products for the South African market, although the group has been expanding into other developing markets and building its presence in the non-life insurance sector.

RATINGS RATIONALE

MMIGL's Aaa.za national scale IFS rating, which is derived from its Baa1 global scale IFS rating, reflects the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the group from stress related to credit pressures at the sovereign level (Government of South Africa, Baa2, negative). Moody's added that these strengths are partially offset by the group's exposure to South Africa, both in the form of its invested assets and premium income, which is sensitive to the pressure on the domestic economy, and lower insurance profit margins relative to peers.

MMIGL is the third largest long-term insurer in South Africa, as measured by total assets in 2015. The group is well positioned in various segments of the South African market, including the retail-affluent segment (Momentum Retail), the entry-level segment (Metropolitan Retail) and the corporate and public sector market (Momentum Employee Benefits). Distribution capabilities include both independent and tied agents and advisors, as well as direct channels and a moderate sized branch network. In addition, the group has a growing presence outside of South Africa, through its International division, and is expanding in the health and short-term insurance sectors in South Africa.

MMIGL is well capitalised with net assets equal to 2.8x the regulatory requirement (CAR) at December 31, 2015. While the insurer maintains a solid level of capitalisation, its coverage of the CAR requirement is on the lower end of its peer group. The group expects to be compliant with the upcoming SAM capital requirements, that are intended to follow Solvency II guidelines.

Moody's views the group's credit profile as having a meaningful link to the South African sovereign and banking system. The primary reasons for this link include, the significant majority of the group's invested assets being held in domestic securities, including deposits with domestic banks, and sensitivity of the group's operating performance to the South African economy and financial markets. However, Moody's added that MMIGL's solid capitalization, together with the flexible liability profile of some of its products, contributes to lifting the group's credit profile one-notch above that of the sovereign. In particular, the products' flexibility offers a relatively high ability to share asset losses with policyholders by permitting MMIGL the right to retract non-vested policyholder bonuses, or to utilize funds in the bonus stabilisation accounts and/or make negative bonus declarations to policyholders.

RATINGS OUTLOOK

The negative outlook on the group's global scale ratings reflects the negative outlook on South Africa's Baa2 government bond rating. No outlook has been assigned to the national scale ratings.

WHAT COULD CHANGE THE RATING UP OR DOWN

Moody's stated that the following factors could lead to an upgrade of the group's ratings on the global scale: (i) an upgrade of South Africa's sovereign rating, and (ii) diversification of the group's geographic footprint, related to its invested assets and policyholder base, that meaningfully reduces is exposure to South Africa, or other highly correlated regions. Conversely, Moody's noted that the following factors could lead to a downgrade of the group's ratings on the global scale: (i) a downgrade of South Africa's government debt rating and/or a downgrade of the South African banking sector, (ii) meaningful reduction in the proportion of its flexible liability products relative to its overall non-unit linked liabilities, and (iii) failure to maintain regulatory capital levels, under the upcoming SAM regulations, comfortably above management's minimum target level.

LIST OF NEW RATINGS

The following new ratings were assigned in this action:

Ratings assigned on the global scale:

MMI Group Limited insurance financial strength at Baa1

MMI Group Limited long-term issuer rating at Baa2

MMI Group Limited subordinated notes at Baa3

MMI Group Limited subordinated note programme at (P)Baa3

Negative outlook assigned on the global scale

Ratings assigned on the national scale:

MMI Group Limited insurance financial strength at Aaa.za

MMI Group Limited long-term issuer rating at Aaa.za

MMI Group Limited subordinated notes at Aa2.za

MMI Group Limited subordinated note programme at Aa2.za

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Life Insurers published in April 2016. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530 .

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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