

FITCH ASSIGNS MMI GROUP'S SUBORDINATED DEBT ISSUE 'A+(ZAF)(EXP)' RATING, AFFIRMS IFS AT 'AA+(ZAF)'

Fitch Ratings-Johannesburg/London-21 November 2014: Fitch Ratings has assigned South Africa-based MMI Group Limited's (MMI) proposed issue of subordinated debt securities a 'A+(zaf)(EXP)' expected rating, and affirmed MMI Group's outstanding subordinated debt at 'A+(zaf)'. The rating is in line with Fitch's standard notching practices.

The final rating is contingent on the receipt of final documents conforming to the information already received.

Fitch has simultaneously affirmed MMI's National Insurer Financial Strength (IFS) rating at 'AA+(zaf)' and National Long-term rating at 'AA(zaf)' and MMI Holdings Limited's National Long-term rating at 'AA-(zaf)'. The Outlooks are Stable.

KEY RATING DRIVERS

MMI expects to use the proceeds of the proposed subordinated debt issue to finance the redemption of ZAR500m 9.25% fixed coupon notes (MET01). MMI will redeem these notes on 15 December 2014.

MMI is proposing to issue a floating rate note (MMIG03) with a 10.5-year maturity, callable after 5.5 years. The floating rate coupon will be payable quarterly, and will be determined on the auction date by reference to three-month JIBAR. The note includes a mandatory interest deferral feature which is triggered when the company's level of regulatory minimum capital requirement is breached.

The subordinated debt has been structured for Tier 2 Own Funds eligibility according to QIS3 specifications under the Solvency Assessment and Management regime. According to Fitch's methodology, this subordinated bond is classified as 100% capital due to regulatory override within Fitch's risk-based capital calculation and is classified as 100% debt for the agency's financial leverage calculations.

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 profitability has continued to improve since the merger between Momentum Group Limited and Metropolitan Holdings Limited on 1 December 2010. The group reported an improvement in core headline earnings to ZAR3.6bn at FYE14 (FYE13: ZAR3.2bn).

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's Prism factor-based model (Prism FBM) score was 'Very Strong' based on year-end 2014 financials, and the group reported statutory cover of 2.9x at FYE14 (FYE13: 2.6x).

The group's financial leverage increased to 16.9% at FYE14 (FYE13: 8.9%). Financial leverage is expected to remain commensurate with the ratings following the proposed redemption of the 9.25% notes.

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 its investment risk as acceptable for the rating.

RATING SENSITIVITIES

A downgrade could result from a substantial deterioration in capitalisation, either based on 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.

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.

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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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