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INVESTORS SERVICE

CREDIT OPINION
13 April 2022

Update

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RATINGS

Momentum Metropolitan Life Limited

Domicile	South Africa
Long Term Rating	Ba1
Type	Insurance Financial Strength
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Momentum Metropolitan Life Limited

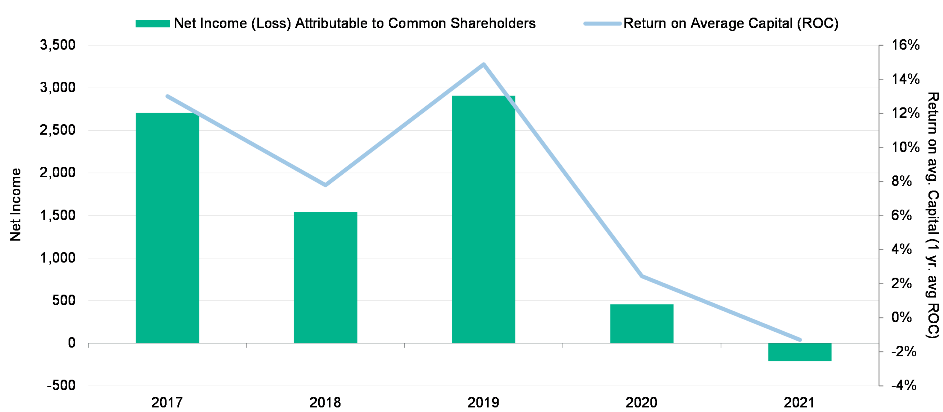
Update following ratings affirmation and outlook change to stable

Summary

Momentum Metropolitan Life Limited's (MML) Ba1 global scale and Aaa.za national scale, Insurance Financial Strength (IFS) ratings reflect 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. MML's solvency cover ratio declined to 1.73x at 30 June 2021 from 1.85x at 30 June 2020 largely due to high coronavirus-related mortality claims and additional provisions established over the year. However, the group remains well-capitalised - MML's solvency cover ratio improved to 1.77x at H1 FY22 - and within its stated solvency target ranges. These strengths are partially offset by the group's exposure to South Africa, both in the form of its invested assets and revenues. These are susceptible to the pressure on the domestic economy and the effects of coronavirus which has significantly impacted earnings via high mortality claims and additional life insurance provisions, thus hampering the group's ability to achieve its previous “Reset and Grow” profitability target.

On 5 April 2022, MML's ratings were affirmed and the outlook changed to stable from negative following Moody's affirmation of South Africa government's Ba2 issuer rating and change of outlook to stable from negative on 1 April 2022.

Exhibit 1
Net Income and Return on Capital (1 yr. avg.)



Sources: Moody's Investors Service and company filings

MML's ratings are constrained by the sovereign credit environment, due to linkages as a result of i) invested assets (government, banking or other securities) and ii) correlation of operating performance to the local economy. However, our Ba1 stable IFS rating for MML is one notch above the sovereign rating of the Government of South Africa (Ba2, stable), and reflects our view that its solid capitalisation and the flexible liability profile of some of its products limits its exposure to possible stress at the sovereign level.

In 2018, the Momentum Metropolitan Holdings Limited group (MMH) implemented its “Reset and Grow” strategy to address declining profitability. With the strategy, the group has taken decisive action in response to the ongoing decline in performance with the goal to grow normalised headline earnings to between R3.6 billion and R4.0 billion by FY 2021. However, as a result of the pandemic the Group was unable to achieve this target in FY 2021. As part of its new “Reinvent and Grow” strategy, MMH has set up a new target to grow its normalised headline earnings to R5 billion for FY 2024.

In May 2021, MMH announced its new ‘Reinvent and Grow’ strategy, which sets out the group's strategic plans to the end of FY 2024. The key elements of the strategy include significant focus on and investment in digital initiatives to generate efficiencies and to improve the ease of doing business for the group's clients and advisors, growth of existing distribution channels, complimented by development of alternative distribution opportunities, targeting normalised headline earnings growth for the Group to R5 billion for FY 2024, dynamic but disciplined approach to capital management, with the objective to improve the return on equity of the Group to 20% by FY 2024.

Credit strengths

» Top tier market position in South Africa, with strong positions in the group and corporate benefits, and retail affluent segments

» Predominance of flexible liability products (unit-linked, market related, participating) allows the insurer to share a meaningful amount of asset losses with policyholders in a stress scenario

» Solid capitalisation and solvency buffer

Credit challenges

» Concentration in South African investments weighs on MML's capitalisation and investment quality

» Challenging operating environment in South Africa which could lead to negative persistency, potential lower volumes of new business value as well as investment volatility that can weigh on solvency and earnings

» High exposure to equities, albeit partially mitigated by flexible liability profile in the participating products

» Sustaining improvement in underlying operating performance

Rating outlook

The outlook for MML's global scale ratings is stable and reflects the stable outlook on the South African sovereign, and the linkage between MML and South Africa.

Factors that could lead to an upgrade

The following factors could lead to upward pressure on the ratings:

(i) positive rating action on the South African sovereign or banking sector;

(ii) diversification of the group's geographic footprint as concerns its invested assets and earnings that meaningfully reduces is exposure to South Africa, or other highly correlated regions.

Factors that could lead to a downgrade

The following factors could lead to downward pressure on the ratings:

(i) negative rating action on the South African sovereign or banking sector;

(ii) failure to maintain regulatory capital, comfortably above management's minimum target level;

(iii) meaningful reduction in the proportion of its flexible liability products relative to its overall non-unit linked liabilities.

Key indicators

Momentum Metropolitan Life Limited

Momentum Metropolitan Life Limited [1][2]	2021	2020	2019	2018	2017
As Reported (Rand Millions)					
Total Assets	487,782	446,353	404,040	392,119	381,222
Total Shareholders' Equity	10,726	12,311	15,311	14,157	17,000
Net Income (Loss) Attributable to Common Shareholders	(209)	461	2,909	1,543	2,709
Total Revenue	87,584	33,983	48,805	53,464	36,514
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	1908.3%	1588.0%	1124.3%	998.0%	619.0%
Goodwill & Intangibles % Shareholders' Equity[3]	44.8%	44.8%	41.4%	46.6%	48.5%
Shareholders' Equity % Total Assets	-2.1%	-1.7%	-0.5%	0.0%	1.7%
Return on Average Capital (ROC)	-1.3%	2.4%	14.9%	7.8%	13.0%
Sharpe Ratio of ROC (5 yr.)	107.5%	201.5%	409.6%	368.7%	622.4%
Adjusted Financial Leverage[3]	25.8%	23.6%	21.8%	20.4%	17.9%
Total Leverage[3]	27.5%	25.2%	22.6%	21.2%	18.7%
Earnings Coverage[3]	6.6x	5.3x	11.0x	9.5x	10.5x
Cash Flow Coverage[3]	NA	NA	NA	NA	NA

[1] Information based on IFRS financial statements as of the fiscal year ended 30 June. Key indicators for the years 2017-2019 are based on the non-consolidated audited financial statements of Momentum Metropolitan Life Limited. From 2020 onwards key indicators are based on the consolidated audited financial statements of Momentum Metropolitan Life Limited and its subsidiaries. [2] Certain items may have been relabeled and/or reclassified for global consistency. [3] Information based on IFRS financial statements of Momentum Metropolitan Holdings Limited as of the fiscal year ended 30 June.
Sources: Moody's Investors Service and company filings

Profile

MML is the primary life insurance subsidiary of Momentum Metropolitan Holdings Limited (MMH), 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. In July 2019, MML and MMH changed their names from MMI Group Limited and MMI Holdings Limited respectively. MMH'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, including its recently concluded acquisition of the Alexander Forbes Short-term Insurance business which was renamed Momentum Insurance and subsequently merged into Momentum Short-term Insurance with the merged business now called Momentum Insure, and the 2014 acquisition of the Guardrisk Group.

Detailed credit considerations

The group's credit profile is meaningfully linked to the South African sovereign and banking system. The primary reasons for this link include (i) the significant majority of the group's invested assets being held in domestic securities, including government or government-related debt and deposits with domestic banks, and (ii) sensitivity of the group's operating performance to the South African economy and financial markets. However, we believe that MML's solid capitalisation, together with the flexible liability profile of some of its products, limits the impact of potential credit pressures at the sovereign level. In particular, the products with discretionary participating features offer an ability to share a portion of investment losses with policyholders, reducing the impact of investment losses on MML's capital.

MML's Ba1 IFS rating is two notches below the Baa2 adjusted scorecard-indicated outcome as shown in Moody's scorecard (Exhibit 4) reflecting the constraint of the sovereign rating.

Insurance financial strength rating

Market Position and Brand – Strong market position with improving brand strength

MMH is one of largest life insurance groups in South Africa, with MML, the group's main insurance entity, being the third largest long-term insurer, as measured by total assets in 2020. MMH is well represented across all key market segments in the South African life insurance market, including Retail Affluent, Entry Level and Employee Benefits. In addition, it has a presence outside of South Africa, although remains more concentrated in South Africa than its larger peers.

From a product perspective, MMH's strongest position is in the investment products (unit-linked and market related business), where it primarily earns fee income based on asset values and guarantees included in some of the products. MMH also maintains a solid position as one of the largest providers of protection products and of annuities. While MMH is clearly a top tier life insurer in South Africa, we consider it to have a weaker market position than its two larger life insurance peers given their top business ranking and more established and diversified business profile.

While still predominantly a life and investments focused insurer, MMH has been developing its short-term insurance business in recent years. Expansion of the group's short-term insurance business will increase diversification of the group's income streams and risk exposures, while strengthening its brand and franchise in South Africa. In addition to its Momentum Short Term Insurance (MSTI) business, MMH purchased Guardrisk in 2014, and more recently, in January 2020 it concluded the acquisition of Alexander Forbes Short-term business (AFI). The acquisition of AFI and its merger into MSTI - on 1 July the integrated business was launched as "Momentum Insure" - will add scale and efficiencies to the group's non-life platform and will contribute positively to group earnings.

MMH's new business volumes, as measured by the present value of new business premiums ("PVNBP") increased by 31% to R66.0 billion for the FY 2021, while the value of new business more than doubled year-on-year from R280 million to R725 million, driven by a good level of new business volumes, good expense management and a change in new business mix towards higher margin products. At H1 FY22, PVNBP increased by 23% to R37 billion and VNB increased 20% to R400 million.

Distribution – Good mix of distribution channels tempered by lack of scale, and measures to correct instability in distribution force

Distribution is good, with the group benefiting from a mix of tied and independent sales channels. Domestic sales are primarily sourced through the group's main platforms, Momentum Investments (63% of PVP; Wealth and asset management business segment), Momentum Corporate (12% of PVP; Employee benefits), Momentum Life (11% of PVP; Retail middle and affluent market segment), Metropolitan Life (9% of PVP; Entry-Level market segment) and Momentum Metropolitan Africa (4% of PVP; African operations). The group has a large tied agent force, primarily in the Metropolitan Life platform, but the majority of its sales are still sourced through brokers and independent financial advisors, which decreases the level of control the group has over its sales channels.

As part of its "Reset and Grow" strategy, the group has been implementing wide-ranging improvements to its distribution capabilities across the main platforms over the last years. For the historic segment, Momentum Retail, which has been split into Momentum Life and Momentum Investments, the group has been focusing on increasing the scale of its various channels, including agents, consultants and brokers, while also improving service levels and product offerings. The Metropolitan platform has seen significant instability in its retail agency distribution force in recent years, and has been taking steps to improve the quality of its agent force and stability thereof. The group has rebuilt and diversified its Momentum Corporate distribution capabilities, which had languished somewhat. The AFI acquisition will provide MMH's short-term insurance platform with improved access to short-term insurance tied distribution channels. In addition to its distribution force, the group is investing in digitalisation and improving the customer and adviser experience. Strengthening and growing existing distribution channels will be a key element of the new strategy "Reinvent and Grow".

MMH continues to invest in its health insurance joint venture with Aditya Birla Group, the third largest private sector conglomerate in India, to sell individual and group health and wellness products into the Indian market. The group expects this to become a strong contributor to earnings over time, however, meaningful capital investment will continue to be required to support development and growth of the joint venture. At year-end 31 March 2021, the joint venture's gross written premium increased by 43% to R2.7 billion year-on-year, with the prevailing majority of the customer being onboarded digitally. Despite the rise in coronavirus-related claims the business has experienced, the claims ratio continued to improve to 120% at 31 March 2021, down from 134% at 31 March 2020. The in-force lives covered increased by 61% in the previous year to 13.4 million as at March 2021, up from 8.3 million lives covered as at 31 March 2020. While growth has been very strong, the venture is not yet profitable, and continues to require significant investment from MMH.

A tightening regulatory environment presents challenges to MML and the South African Life industry in general. As was the case in the UK, the upcoming implementation of Retail Distribution Review (RDR) regulations will lead to changes in adviser remuneration structure, and could lead to disruption in sales for insurers.

Product Focus and Diversification – Moderate product risk due to predominance of flexible liability products

The major components of MML's in-force liabilities include unit-linked and investment-related business (69%), insurance and investment contracts with discretionary participating features (DPF) (16%), and annuities and guaranteed endowments (15%). While the group's business volume is well diversified by product, it is not geographically diversified, with approximately 95% of PV new business premiums being sourced from South Africa.

We consider the group's product risk to be moderate, as a majority of its business relates to lower risk, capital efficient, unit-linked business. This business limits the group's exposure to investment risk, as gains and losses are passed on to policyholders, with the group bearing the risk of any guarantees it has written on this business. Unit-linked business generates fee income for the insurer, based on assets-under-management (AUM) and investment performance, exposing the group to earnings volatility as AUM fluctuates.

A significant portion of the DPF business includes a bonus smoothing feature, which allows the insurer to pass a portion of investment losses onto policyholders through its ability to declare lower policyholder bonuses or to retract non-vested bonuses. These product features significantly reduce the group's investment risk, including to the South African sovereign and banking system. However, despite the buffer created by bonus stabilisation accounts and gradual vesting of bonuses, the company's elevated exposure to local equities and South African sovereign debt contributes to a structural limitation on its credit profile.

MMH is highly exposed to the South African economic and operating environment, with approximately 95% of its premiums being sourced locally, along with the significant majority of its investments being in local assets. Headwinds facing the South African economy are expected to have an impact on MMH and its life insurance peers, on a number of fronts, including lower sales/higher threat of lapses upon any meaningful decline in consumer sentiment and discretionary income.

Asset Quality – Significant exposure to high risk assets reflects local debt and equity concentration

Investment in non-linked high risk assets (HRA) remains one of the most significant risks for MML which has a high risk asset ratio of approximately 1908% of shareholders' equity at fiscal FY 2021 (FY 2020: 1588%). MML's significant exposure to HRA reflects the high domestic debt and equity securities concentration in its investment portfolio. While MML's fixed income securities are high-quality in the South African context, they tend to be correlated with the credit profile of the sovereign, and therefore we consider MML's credit profile to be linked to that of the South African government and banking sector, as reflected in the Ba score for Asset Quality.

Consistent with its South African peers, the company holds a significant amount of its invested assets in equities, which is a key driver of high risk assets. The elevated level of high risk assets exposes the group's solvency capital to meaningful market risk, particularly with respect to volatility in South African equities. Somewhat offsetting the risk of elevated equity exposure, is the fact that a meaningful portion of these assets relate to products with participating or pass-through features, which will reduce the impact of investment losses on the insurer's solvency capital.

Goodwill and intangible assets are evaluated at the MMH level, and amount to approximately 45% of shareholder's equity at YE 2021, which is somewhat elevated relative to global insurers, and places a dampener on asset quality. The majority of this amount relates to policyholder intangible assets (i.e. DAC and VIF). Elevated policyholder intangibles could amplify pressure on the group's earnings and capital in the event of investment or insurance experience being worse than expected.

Capital Adequacy - Solid capitalisation despite negative impact of coronavirus

MML is well capitalised with a SCR coverage ratio of 1.73x at 30 June 2021, under the SAM capital requirements, declining from 1.85x at 30 June 2020. MML's capitalisation has been negatively impacted by high coronavirus-related mortality claims and additional provisions established over the year. For the six months ended December 2021, MML's solvency ratio improved to 1.77x which is at the midpoint of the management's target range of between 1.6x - 2.0x which was reduced during 2021 from the previous target range of 1.7x to 2.1x the SCR. Going forward, we expect MML's solvency ratio to remain resilient and within the target range. MML's capital coverage under the SAM regulatory regime is lower than under the previous insurance capital regulations, where its CAR coverage was 2.7x at 30 June 2018. However, this is in line with peers and a result of increased capital requirements under the SAM regulations, intended to be broadly equivalent to Solvency II.

In addition to good capitalisation, the prevalence of flexible products, which pass a meaningful amount of investment risk to policyholders, supports the group's capital adequacy. MML's capitalisation is a credit strength and provides a strong buffer over minimum economic solvency requirements, and is further strengthened by a flexible liability profile that adds protection against volatility in its investment portfolio. Nevertheless, MML's solvency is sensitive to equity market movements.

Notwithstanding MML's good capital position, the investment concentration in ZAR-denominated assets partially constrains our view of the company's economic capitalisation.

Profitability – Coronavirus-related losses continue to pressure profitability

For the year ended 30 June 2021, MML reported a net loss attributable to shareholders of R0.2 billion, down from net income of R0.5 billion for 2020 adversely impacted by the coronavirus. The broader group, MMH, reported normalised headline earnings of R1.0 billion in 2021, a decline of 34% compared to the R1.5 billion generated in 2020. The decline was largely attributable to the additional Covid-19 provision of R2.2 billion established for potential adverse claims experience, with R2.1 billion related to mortality claims, as well as policyholder lapses and withdrawals resulting from the pandemic. The earnings have been further impacted by negative mortality experience variance of R702 million. The group reported total mortality losses for FY 2021 of R2.8 billion, with Momentum Life and Momentum Corporate most severely impacted and reporting overall operating losses for FY 2021 of R1.0 billion and R0.6 billion respectively. Excluding the impact of the coronavirus on claims and investment variances, the group's underlying normalised headline earnings were R3.5 billion.

For the six months ended December 2021, the group's normalised headline earnings increased by 51% to R1.5 billion driven by a significantly improved investment return. Operating profit increased by 1% to R895 million impacted by net mortality losses of R378 million (net of reinsurance, releases from existing Covid-19 provisions, and tax), after the release of R1,113 million of existing Covid-19 provisions.

The group has taken a number of steps to further improve performance over the recent years, including its "Reset and Grow" strategic plan focused on simplifying the operating model, increasing line of business accountability, and focusing the group on its core business in South Africa. Before the coronavirus, MMH had made steady progress to achieve its "Reset and Grow" target of growing its normalised headline earnings to between R3.6 billion to R4 billion by the 2021 financial year. However, as a result of the pandemic the Group was unable to achieve this target in FY 2021. As part of its new "Reinvent and Grow" strategy, MMH has set up a new target to grow its normalised headline earnings to R5 billion for FY 2024.

The group's new business margin (NBM) improved significantly at 30 June 2021 to 1.1%, from 0.6% at 30 June 2020. In addition to the strong new business volumes, continued expense management, focus on improving the quality of new business and changes in the new business mix towards higher margin lines of business contributed to the value of new business more than doubling to R725 million from R280 million in the prior year. For the six months ended December 2021, the group's VNB increased by 20% to R400 million with new business margin (NBM) stable at 1.1% compared to a year ago.

The group's normalised headline earnings (NHE) are comprised of earnings generated by its seven key operating segments and investment returns on shareholder capital. For the six months ended December 2021, Momentum Investments (~31% of NHE) was the largest contributor to the earnings excluding new investments and shareholders, followed by Momentum Corporate (~24% of NHE), Non-Life Insurance (~19% of NHE), Metropolitan Life (~17% of NHE), Metropolitan Health (~6% of NHE) and Momentum Life (~2% of NHE), while Momentum Metropolitan Africa earnings were only R7 million for the period. Metropolitan Life is the group's highest new business margin segment with NBM of 4.3% as of December 2021 (6M 2020: 4.6%), the decline mainly attributable to actuarial assumption changes and expense growth. The value of new business of Momentum Life declined to R5 million resulting in a NBM of 0.1%. The NBM of Momentum Life is generally considerably lower than the NBM of Metropolitan Life, which is mainly due to its focus on the highly competitive retail affluent market and emphasis on lower margin single premium business.

The group's performance remains relatively sensitive to investment results, in particular the performance of the South African equity market. Beyond MMH's shareholder portfolio, which accounted for R263 million of normalised headline earnings for the six months ended December 2021 (6M 2020: loss of R267 million), a significant portion of its sales are sourced from unit-linked or market-related business, in which it earns fee income based on the AUM amount. Weaker than expected financial market performance will place pressure on fee income, both as a result of the reduction in AUM as well of the possible outflows of policyholder funds.

Liquidity and Asset/Liability Management - Good liquidity management and low risk liability profile provides offset to potentially volatile asset base

MML's liquidity is strong, with liquid assets significantly in excess of insurance liabilities with short-term payment profiles. This is primarily due to the predominance of flexible liability products, including unit-linked, investment related and discretionary participating feature products. For policies without flexible liability profiles, the group seeks to match liability maturities with similarly dated assets, and it often uses derivatives to manage interest rate and market risk, where ALM using direct assets is not feasible or possible. The group's annuity and guaranteed exposures are effectively hedged against the first-order effects of interest rate movements, however, the long duration of some exposures makes it impractical to hedge all interest rate risks, particularly those associated with convexity.

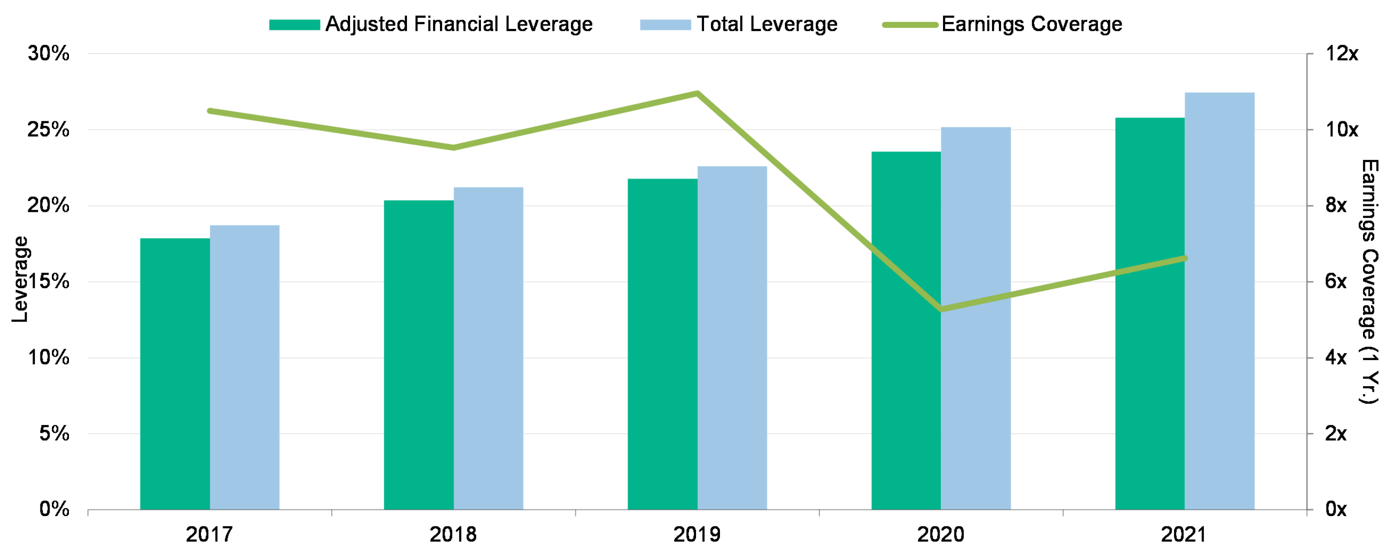
Financial Flexibility – Moderate leverage and solid coverage metrics despite deterioration due to coronavirus

Moody's assesses the financial flexibility of MML and other rated entities in the group at the MMH level. MMH's leverage remains moderate, although slighly increased, with Moody's adjusted financial leverage of 25.8% for FY 2021 (FY 2020: 23.6%). Approximately R0.4 billion of debt related to property development loans is not included in the financial leverage metric, because the debt is secured on the related real estate without recourse to MMH. Also, approximately R0.4 billion of preference shares via a consolidated special purpose vehicle are excluded from the metric. R1,252 million of financial liabilities, classified as "other" in the financial accounts, with no additional public disclosure, is included in the financial and total leverage metrics. However, we understand that this debt, which is held by MMH property assets SPVs and Isabelo employee ownership shares SPVs, is ring-fenced with no recourse to MMH.

Earnings cover improved in 2021 to 6.6x, from 5.3x in 2020, which was driven by both the increase in MMH's earnings for FY 2021 and the lower interest expense. While MMH's financial flexibility is relatively strong, on an unconstrained basis, in line with its peers, MMH's financial flexibility is constrained at the Ba level in line with the rating of the South African sovereign.

Exhibit 3

Declining financial flexibility as leverage edges up



Financial Flexibility metrics for Momentum Metropolitan Holdings Limited

Source: Moody's Investors Service and company filings

MMH's capital structure primarily includes common equity, preference shares and subordinated debt. The subordinated debt, amounting to R4.4 billion at 30 June 2021 with maturities well spread out, is issued by MML and qualifies as Tier 2 capital for regulatory capital purposes. In February 2021, MML issued two new subordinated debt instruments with the combined value of R750 million. The issuances have refinanced R750 million of MML's subordinated debt which matured in March 2021, and therefore do not impact MMH's adjusted financial leverage. However, the coupon on the notes is lower than the 10.07% of the matured notes which benefits MMH's earnings coverage.

Environmental, Social and Governance (ESG) Considerations

Social

Like its life insurance peers, MML faces a range of social risks that are potentially material to its business. It operates in a sector which is highly regulated and provides the majority of its products through diverse distribution channels. Customer relations are important because of the sector's reliance on handling customer data and privacy. Human capital risks are potentially significant, primarily in respect of recruiting and retaining key employees. Demographic and societal trends, including longer lifespans and aging populations, will affect retirement and estate planning products, as well as the pricing of life and health risks as the group manages mortality, longevity and morbidity risks. Societal trends could also limit the group's ability to share adverse experience through higher premiums for holders of life and long-term care insurance policies. Digital innovations are disrupting distribution patterns for life insurers. Effects range from the underwriting process itself to how life insurance and retirement products are purchased.

Governance

Like all other corporate credits, the credit quality of MML is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention. While MML's risk exposures are complex, the group has strong risk management processes and internal controls that mitigate various governance risks. Under the oversight of its Board of Directors, the group's management team has a strong track record and experience. MML and the broader MMH group operates within a strong regulatory environment, being overseen by the South African Reserve Bank's Prudential Authority, and various national regulators in other jurisdictions.

National scale rating

Moody's National Scale Credit Ratings (NSRs) are opinions of the relative creditworthiness of issuers and financial obligations within a particular country. NSRs are not designed to be compared among countries. Rather, they address relative credit risks within a given country. Moody's assigns NSRs in certain local capital markets in which investors have found that the global rating scale provides inadequate differentiation among credits or is inconsistent with a rating scale already in common use in the country. The last two characters of the national scale rating indicate the country in which the issuer is located or the market of issuance.

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_1216309.

MML's Aaa.za national scale IFS rating is based on the application of Moody's mapping criteria for a Ba1 global scale IFS rating to the South African national scale. MML's Aa1.za long-term issuer rating and its Aa3.za subordinated debt rating are mapped to the upper end of the national scale rating ranges for their respective global scale ratings, reflecting our view of MML's top tier market position in the South African life insurance sector, and solid capitalisation.

Rating methodology and scorecard factors

Exhibit 4

Momentum Metropolitan Life Limited

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (15%)								Aa	A
-Relative Market Share Ratio		X							
Distribution (10%)								Baa	Baa
-Distribution Control				X					
-Diversity of Distribution				X					
Product Focus and Diversification (10%)								Aa	A
-Product Risk	X								
-Life Insurance Product Diversification		X							
Financial Profile								Ba	Baa
Asset Quality (10%)								B	Ba
-High Risk Assets % Shareholders' Equity							1908.3%		
-Goodwill & Intangibles % Shareholders' Equity[3]				44.8%					
Capital Adequacy (15%)								Caa	Baa
-Shareholders' Equity % Total Assets							-2.1%		
Profitability (15%)								Baa	Baa
-Return on Capital (5 yr. avg.)			7.4%						
-Sharpe Ratio of ROC (5 yr.)				107.5%					
Liquidity and Asset/Liability Management (10%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Ba	Ba
-Adjusted Financial Leverage[3]		25.8%							
-Total Leverage[3]		27.5%							
-Earnings Coverage (5 yr. avg.)[3]		8.6x							
-Cash Flow Coverage (5 yr. avg.)[3]									
Operating Environment								Baa	Baa
Preliminary Standalone Outcome								Baa2	Baa2

[1] Information based on IFRS financial statements as of fiscal year ended June 30, 2021. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Information based on IFRS financial statements of Momentum Metropolitan Holdings Limited as of fiscal year ended June 30, 2021.
Source: Moody's Investors Service

Support and structural considerations

MML's Aaa.za national scale IFS rating is based on its Ba1 global scale IFS rating. In addition, the following ratings have also been assigned on the global scale, and serve as the basis for their respective national scale ratings: MML long-term issuer rating at Ba2, and MML subordinated notes at Ba3, which reflects the standard two-notches off the IFS rating.

MML's Ba2 long-term issuer rating is one-notch lower than the IFS rating. The current insurance legislation does not stipulate priority for policyholders over unsecured creditors in the event of insolvency or wind-up of an insurer, and senior unsecured creditors could therefore be treated pari-passu with policyholders. However, we believe a one-notch differential between the IFS rating and the long-term issuer rating is appropriate for the following reasons: (i) While we consider MML's IFS rating to be stronger than the South African sovereign we do not believe that unsecured creditors would benefit to the same extent as policyholders from the insurer's ability to withstand stress at the sovereign level, and (ii) South African insurance regulation appears to be progressing toward stipulating preferential treatment for policyholders.

Ratings

Exhibit 5

Category	Moody's Rating
MOMENTUM METROPOLITAN LIFE LIMITED	
Rating Outlook	STA
Insurance Financial Strength	Ba1
Insurance Financial Strength--National Scale	Aaa.za
LT Issuer Rating	Ba2
Subordinate	Ba3 (hyb)

Source: Moody's Investors Service

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Americas	1-212-553-1653
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