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CREDIT RATING ANNOUNCEMENT

GCR affirms New National Assurance Company Limited's rating of A_(ZA); Outlook Stable

Johannesburg, 3 July 2017 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating accorded to New National Assurance Company Limited of A_(ZA), with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to New National Assurance Company Limited ("NNAC") based on the following key criteria:

The rating is underpinned by continued strength in nominal and risk adjusted solvency metrics, with the international solvency margin increasing to 72% at FY16 (FY15: 61%) and interim measure capital adequacy requirement ("CAR") cover registering at 1.8x (FY15: 1.6x). Solvency is expected to be sustained within a sound range over the outlook horizon, supported by a consistent capital management policy.

Furthermore, the insurer's key liquidity measures have been maintained at strong levels, with cash coverage of average monthly claims and net technical provisions equating to 10 months and 1.6x respectively at FY16 (FY15: 10 months and 1.4x). GCR expects liquidity metrics to remain strong over the rating horizon, underpinned by the conservative investment strategy.

NNAC has executed strategic objectives relatively well from a portfolio management perspective. Despite a slight reduction in market share (to around 0.9% from 1.1% in FY14), this is not viewed to have adversely impacted the insurer's business profile, given the enhanced revenue diversification and migration of business away from the motor class. Accordingly, positive impacts could materialise as newer books of business reach critical mass over the medium to longer term.

Earnings capacity has moderated incrementally over the review period, with the five year average underwriting margin equating to -1% in FY16 (FY12: 2%). While GCR recognises the corrective actions taken by management, the ability to achieve the anticipated turnaround is viewed to be susceptible to a degree of strategic execution risk, particularly in light of the challenging industry and economic conditions. Positively, the insurer has evidenced a somewhat healthy level of retained earnings, supported by a sustainable stream of realised investment income and conservative dividend policy.

Reinsurance arrangements are largely placed with highly rated counterparties, while the excess of loss ("XoL") deductibles are limited to conservative levels relative to capital. In GCR's view, the strategic partnership with Munich Re of Africa allows NNAC to draw upon technical and reinsurance support, which is viewed positively.

A sustained feedthrough of corrective underwriting measures, together with an enhanced business profile (stemming from profitable growth in newer portfolios), could support positive rating movement over the medium to longer term. This would need to be accompanied by continued strength in capital adequacy and liquidity levels. Conversely, negative rating action could follow a material deviation in profitability metrics relative to expectations, and/or a moderation in key credit protection metrics.

NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2005)

Claims paying ability: A_(ZA)

Outlook: Stable

Last rating (June 2016)

Claims paying ability: A_(ZA)

Outlook: Stable



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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2016
RSA Short Term Insurance Bulletins, 2001 – 2016
NNAC rating reports, 2005 - 2016

RATING LIMITATIONS AND DISCLAIMERS

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that 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; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

New National Assurance Company Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating has been disclosed to New National Assurance Company Limited with no contestation of the rating.

The information received from New National Assurance Company Limited and other reliable third parties to accord the credit rating included:

- The latest audited financial statements to 31 December 2016
- Four years of comparative audited financial statements to 31 December
- Budgeted financial statements to 31 December 2017
- Year to date management accounts to March 2017
- Quantitative statutory return to 31 December 2016
- The current reinsurance programme summary
- Other relevant documents

The rating above was solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the rating.



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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Investment Income	The income generated by a company's portfolio of investments.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Rating Horizon	The rating outlook period
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a detailed glossary of terms please click [here](#)



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