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CREDIT RATING ANNOUNCEMENT

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

Johannesburg, 30 June 2016 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned 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:

NNAC's healthy capital accumulation has contributed towards sustaining a fairly high level of solvency on a nominal basis. Furthermore, risk adjusted capital adequacy is supported by the relatively low degree of market risk and limited underwriting risk associated with the current portfolio composition. Going forward, capital adequacy is expected to be managed in accordance with the insurer's targeted Solvency Capital Requirement coverage levels under Solvency Assessment and Management. Furthermore, the insurer's key liquidity measures remain at prudent levels, and are expected to be maintained within a sound range in view of the conservative investment strategy.

NNAC's revised strategic objectives have provided for an enhanced degree of earnings diversification, with medium term projections indicating that improved diversification is expected to be sustained. Accordingly, positive impacts could be material, as newer books of business reach critical mass over the corresponding period. This notwithstanding, the multi-faceted growth objectives imply exposure to execution risk, while projected growth is unlikely to substantially improve the insurer's modest market share (FY15: 0.9%).

Earnings capacity is viewed to be thin, as a result of the weakened underwriting performance over the past four years. Positively, the fairly consistent level of net profit margins (a function of the steady stream of realised investment income) has served to sustain a somewhat healthy level of retained earnings (supported by conservative dividend distributions). Management expects the underwriting trend to return to profitability in FY16, following four consecutive years of losses. In this regard, note is taken of the consistent reduction in the gross loss ratio over the past three years, which is indicative of an improvement in the quality of the portfolio. Furthermore, the optimisation of the reinsurance programme is expected to strengthen net earnings capacity in FY16 and beyond. Continued feedthrough of corrective underwriting measures, together with the ability to manage new business growth at profitable levels, represent key rating considerations over the short to medium term.

Reinsurance arrangements are largely placed with highly rated counterparties, while the excess of loss deductibles are limited to conservative levels relative to capital. GCR believes that the strategic partnership with Munich Re of Africa allows NNAC to draw upon technical and reinsurance support.

A proven track record in terms of attaining key targets under the revised strategy, resulting in a strengthening in business profile (increased market share and enhanced earnings diversification), together with demonstrated improvements in underwriting profitability, could support upward rating movement over the medium term. A downgrade could result from a persistent deterioration in the underwriting result that adversely impacts on risk adjusted capitalisation and/or liquidity levels.

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NATIONAL SCALE RATINGS HISTORY

Initial rating (March 2006)
Claims paying ability: $A_{(ZA)}$
Outlook: Stable

Last rating (June 2015)
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 2015
NNAC rating reports, 2006 - 2015

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS. IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: HTTP://GLOBALRATINGS.NET/RATINGS-INFO. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT HTTP://GLOBALRATINGS.NET.

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

Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Coverage	The scope of the protection provided under a contract of insurance.
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.
Downgrade	The assignment of a lower credit rating to an insurer by a credit rating agency. Opposite of upgrade.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
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.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Portfolio	All of the insurer’s in-force policies and outstanding losses, with respect to described segments of its business.
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. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
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.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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 Result	The profit or loss that an insurer derives from providing insurance or reinsurance coverage, exclusive of investment income and other income.

For a detailed glossary of terms please click here

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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 2015
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial results to 31 December 2016
- Year to date management accounts to 31 March 2016
- Quantitative and qualitative statutory returns to 31 December 2016
- A summary of the 2016 reinsurance programme
- 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.