

CREDIT RATING ANNOUNCEMENT

GCR affirms Coface South Africa Insurance Company Limited's rating of AA+(ZA); Outlook Stable.

Johannesburg, 30 Jun 2015 -- Global Credit Ratings has today affirmed the national scale rating assigned to Coface South Africa Insurance Company Limited of AA+(ZA); with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Coface South Africa Insurance Company Limited ("Coface ZA") based on the following key criteria:

Coface ZA's risk adjusted capitalisation has been measured at moderately strong levels. Inclusive of the EUR7m guarantee from Cofinpar, a 100% owned subsidiary of Compagnie Francaise d'Assurance pour le commerce Exterieur ("Coface SA"), which GCR views as offering financial flexibility in adverse operating conditions, capital adequacy increases considerably. GCR expects capitalisation to remain at sound levels relative to expected Solvency Assessment and Management ("SAM") parameters, supported by the capital management strategy in place and the insurer's targets of CAR coverage ranging between 1.5x and 1.8x.

GCR expects the insurer's investment philosophy to remain prudent, with the insurer holding a large portion of its assets in cash and equivalents to meet short term obligations and limit market risk. Coface ZA expects to align its investment strategy with Coface Group ("the Group") in 2H F15, with diversification efforts expected to include corporate bonds, treasury bills, and money market instruments into the investment portfolio, from the pure cash holding.

Liquidity metrics have remained at strong levels, albeit trending downwards over the review period. Cash covered net technical liabilities by a strong 1.9x at FYE14 (FYE13: 2.5x; FYE12: 2.9x), and cash claims coverage remained high at 52 months. GCR expects liquidity metrics to remain within a moderately strong range.

Reinsurance arrangements are placed internally with the Group, with the high degree of reinsurance support underpinning underwriting capacity. This is accompanied by the integrated relationship with the Group providing Coface ZA with technical expertise and operational platforms. Furthermore, the insurer benefits from business from key multinational clients sourced through the Group.

Coface ZA has registered strong profitability over the review period, with an average net underwriting margin equating to 13%. Strong profitability has been supported by the insurer's core capabilities in portfolio management and strict underwriting disciplines. In this regard, GCR views Coface ZA's through-the-cycle profitability to be indicative of sustained earnings capacity going forward. Cognisance is, however, taken of the elevated margin volatility due to the inherent linkages to high variability in the broader credit cycle.

The business profile reflects strong competitive positioning, with the insurer's market share remaining relatively stable around 15% over the review period. This is partly offset by the high product risk emanating from the monoline focus of trade credit insurance and the long tail nature of the portfolio.

The rating derives upliftment from the strong implicit support from Coface SA. This view is supported by high levels of strategic, branding and operational alignment, success in supporting Group objectives, and comparability of capital and risk management frameworks.

The stand-alone rating may be upgraded if Coface ZA's business profile evidences material development (by way of increased market share and enhanced exposure diversification), while underwriting profitability is maintained. Furthermore, a strengthening in the insurer's strategic status within the Group may lead to positive rating movement. Conversely, the rating may be downgraded if risk adjusted capitalisation and/or liquidity metrics deteriorate substantially. Negative rating action may also result on the back of a material negative revision to the rating of Coface SA, an amendment and/ or withdrawal of the guarantee or a change in the strategic importance of Coface ZA within the Group.

NATIONAL SCALE RATINGS HISTORY

Initial rating (August 2006)
Claims paying ability: AAA_(ZA)
Outlook: Stable

Last rating (June 2014)
Claims paying ability: AA+_(ZA)
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Insurance Companies, updated July 2014
Coface ZA rating reports, 2006 – 2014
RSA Short Term Insurance Bulletins 2001-2014

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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.

Coface South Africa Insurance 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 Coface South Africa Insurance Company Limited with no contestation of the rating.

The information received from Coface South Africa Insurance Company Limited and other reliable third parties to accord the credit rating included:

- Audited financial results as per 31 Dec 2014
- Unaudited interim results of as at 30 Apr 2015
- Four years of comparative audited numbers
- Budgeted financial statements for 2015
- The current year reinsurance cover notes
- Statutory returns as per 31 Dec 2014 and as at 31 Mar 2015, and
- Other related 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.

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

Assets	The items on the balance sheet of the insurer which show the book value of property owned. Under regulations, not all property or other resources may be admitted in the statement of the insurer. This gives rise to the term 'non-admitted assets.'
Balance Sheet	An accounting term which refers to a listing of the assets, liabilities, and surplus of a company or individual as of a specific date.
Capacity	The largest amount of insurance or reinsurance available from a company. In a broader sense, it can refer to the largest amount of insurance or reinsurance available in the marketplace.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer to agents and brokers.
Insurer	The party to the insurance contract whom promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public.
Interest	Money paid for the use of money.
Liquidity	The ability of an insurer to convert its assets into cash to pay claims if necessary.
Loss Ratio	The ratio of claims to premiums. It may be calculated in several different ways, using paid premiums or earned premiums, and using paid claims with or without changes in claim reserves and with or without changes in active life reserves.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance also called the policy contract or the contract.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.
Reserve	An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders.
Retention	The net amount of risk the ceding company keeps for its own account
Risk	Uncertainty as to the outcome of an event when two or more possibilities exist.
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.
Statutory	Required by or having to do with law or statute.
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.

For a more detailed glossary of terms/acronyms used as per GCR insurance glossary, please click [here](#)

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