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CREDIT RATING ANNOUNCEMENT

GCR affirms Compass Insurance Company Limited's rating of AA_(ZA); Outlook Stable

Johannesburg, 29 March 2018 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Compass 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 Compass Insurance Company Limited ("Compass") based on the following key criteria:

Compass's very strong liquidity levels are viewed to be a key rating strength. On a conservative basis (net of reinsurance deposits), cash coverage of net technical provisions and average monthly claims registered at 4.5x and 44 months respectively at FY17 (FY16: 4.9x and 56 months). GCR expects liquidity metrics to remain very strong over the rating horizon, given the conservative investment strategy and capacity for strong internal cash flow generation.

The insurer has evidenced a strengthened level of earnings capacity over the past three years, with modest gross underwriting profitability having been supplemented by reinsurance commission recoveries and robust realised investment income. Accordingly, the return on net earned premiums has averaged 38% between FY15 and FY17. Despite sensitivity to weather related claims (with continuing operations having been impacted by the severe weather events in FY17), GCR expects cross cycle net profitability to be sustained, given contained aggregate attritional claims experience and a consistent stream of realised investment income.

The strengthening in net profitability has supported sound internal capital generation in recent years, with capital accumulation being sufficient to cater for the level of underwriting and market risk carried by the insurer. Risk adjusted capitalisation is expected to be maintained at adequate to strong levels going forward, based on management's targeted Solvency Capital Requirement coverage range under Solvency Assessment and Management parameters. Capital adequacy is further supported by the strong reinsurance counterparties and conservative risk and event net deductibles.

Given the consolidation in the Underwriting Management Agency base in earlier review years, the insurer's market share remains limited, at around 1% of overall industry gross premiums. Note is, however, taken of the strong growth in continuing lines of business over the past two years, which together with the launch of new technology driven products, could support a strengthening in the company's competitive profile over the medium to longer term. Furthermore, the rating considers the relatively contained product risk associated with continuing lines of business.

The insurer's rating is supported by its strategic importance to Hannover Reinsurance Group Africa (Pty) Limited ("Hannover Re Group Africa"; "the group"), given the strategic integration and alignment with group risk and capital management frameworks.

Positive rating movement could follow a strengthening in competitive positioning, together with the maintenance of enhanced cross cycle earnings capacity and current balance sheet strength. In contrast, a severe and prolonged reduction in risk adjusted capitalisation and/or liquidity levels, or a persistent deterioration in earnings capacity could weaken the insurer's standalone credit profile. Furthermore, reassessment of the insurer's strategic importance to Hannover Re Group Africa could prompt negative rating action.

NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2004)

Claims paying ability: A_(ZA)

Outlook: Stable

Last rating (March 2017)

Claims paying ability: AA_(ZA)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2017
RSA Short Term Insurance Bulletins, 2001-2017
Compass rating reports, 2004 - 2017

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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.

Compass 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 Compass Insurance Company Limited with no contestation of the rating.

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

- Draft financial statements to 31 December 2017
- Four years of comparative audited financial statements to 31 December
- Budgeted financial results to 31 December 2018
- Statutory returns to 31 December 2017
- The current year reinsurance cover notes
- Other relevant company specific information

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

Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Earned Premium	That part of the premium applicable to the expired part of the policy period.
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.
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.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.
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.

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

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