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CREDIT RATING ANNOUNCEMENT

GCR upgrades Société Nationale d'Assurances et de Réassurances' rating to A_(BF); Outlook Stable.

Johannesburg, 31 October 2018 -- Global Credit Ratings has today upgraded the national scale claims paying ability rating assigned to Société Nationale d'Assurances et de Réassurances to A_(BF) from A_(BF), with the outlook accorded as Stable. The rating is valid until October 2019.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating to Société Nationale d'Assurances et de Réassurances ("SONAR-IARD") based on the following key factors:

The rating upgrade is on the back of sustained strength in SONAR-IARD's liquidity profile which is expected to persist at similar levels. The improvement was on the back of a rebalancing of the investment portfolio towards cash and equivalents at FY17. As such, cash coverage of net technical liabilities equated to 0.9x (FY16: 0.7x; FY15: 0.9x). In GCR's view, liquidity measures are likely to remain within a moderately strong range, supported by enhanced potential for cash generation from core operations and management commitment to conservative asset allocation.

Earnings capacity improved over the last two years, with the underwriting margin averaging 5% over the past two years (FY17: 6%), compared to -0.5% over the review period. The improvement was driven by scale efficiencies, following increased premium retention in FY17 (70%; FY16: 62%). Going forward, management's ability to stabilise earnings represents a key rating input. Whilst the maximum deductible per risk and event remains conservative relative to earnings and counterparty exposures were moderated in FY17, a planned comprehensive review of the reinsurance could further guide the evolution of earnings capacity over the medium term.

Risk adjusted capitalisation registered within a strong range, supported by sound internal capital generation. This was compounded by a prudent profit retention policy that is structured to facilitate capital build to XOF12bn by FY21 (FY17: XOF8.4bn). As such, the insurer's international solvency margin registered at a higher 99% (FY16: 94%). GCR expects risk adjusted capitalisation to register within a similar range over the rating horizon, supported by growth in available capital and corresponding exposures to underwriting and market risks.

Sonar's competitive position remained strong, supported by the insurer's strong brand in the Burkina Faso short term market, coupled with well entrenched relationships with market participants. As such, the insurer successfully retained the market leader position despite a lower share of 26% of the short-term industry (FY16: 28%), underpinned by continued enforcement of prudent underwriting disciplines. Given increasing competitive dynamics, market share could further moderate over the medium term, albeit with the insurer building a more sustainable business model.

The insurer's earnings profile remained moderately strong, with motor, accident and miscellaneous lines accounting for at least 10% of gross premiums. This was in spite of reduced risk uptake in transport (due to loss making contracts), albeit with aggregate product risk remaining at limited levels. Going forward, management's focus on retail business may further increase risk granularity and earnings quality; thus offsetting the narrower risk premium spread.

Positive rating action may arise from a sustained improvement in earnings capacity, while liquidity and risk adjusted capitalisation are maintained at strong levels. Conversely, negative rating action could follow a material weakening in earnings capacity or changes in asset allocation, which may weigh against credit protection metrics.

NATIONAL SCALE RATINGS HISTORY

Initial rating (October 2009)

Claims paying ability: A_(BF)

Outlook: Stable

Last rating (October 2017)

Claims paying ability: A_(BF)

Outlook: Positive

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated May 2018
Société Nationale d'Assurances et de Réassurances (SONAR-IARD) rating reports, 2009-2017

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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; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Société Nationale d'Assurances et de Réassurances (SONAR-IARD) 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 Société Nationale d'Assurances et de Réassurances (SONAR-IARD).

The information received from Société Nationale d'Assurances et de Réassurances (SONAR-IARD) and other reliable third parties to accord the credit rating included:

- Audited financial statements to 31 December 2017
- Four years of comparative audited numbers
- Unaudited interim results to 30 June 2018
- Budgeted financial statements for 2019
- Statutory Annual Returns for 2017
- 2018 reinsurance summary
- Industry comparative data, and
- Other related documents.

The rating above was solicited by, or on behalf of, the rated entity, 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

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.
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.
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.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
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.
International Scale Rating ("ISR")	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.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating ("NSR")	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period, spanning a time of twelve to eighteen months.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term	Current; ordinarily less than one year.
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.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
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 more detailed glossary of terms, please click [here](#)

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