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CREDIT RATING ANNOUNCEMENT

GCR affirms Mayfair Insurance Company Limited's rating of A_(KE); Outlook Positive.

Johannesburg, 07 June 2017-- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Mayfair Insurance Company Limited of A_(KE), with the outlook accorded as Positive. The rating is valid until June 2018.

SUMMARY RATING RATIONALE

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

The Positive Outlook reflects the potential for upward rating movement over the rating horizon, should strengthened earnings capacity be sustained. In this respect, the insurer's three-year average underwriting margin equated to 18% (FY16: 15%; BGT17: 27%), while the operating margin averaged 36%. This has been a function of prudent underwriting and risk selection returning low portfolio loss ratio, coupled with consistent commission relief from the low retained fire industrial line. In GCR's view, earnings capacity may be maintained at or above a strong range over the rating horizon, supported by stable earnings drivers.

The insurer's rating is supported by very strong risk adjusted capitalisation, reflecting robust capital generation from operations (five-year capital CAGR: 37%) and a conservative dividend policy. This has been further supported by well contained underwriting and market risks. In this respect, the international solvency margin registered at a very high 156% at FY16, and is budgeted to remain very high at 158% in FY17. Accordingly, capitalisation is expected to remain very strong over the rating horizon, supported by continued profit retention and a planned capital injection of KES150m in FY17.

Liquidity metrics have been maintained at strong levels, supported by sound cash generation from operations, as well as management's policy to invest 90% of operating cash proceeds in short term deposits. This has facilitated the maintenance of strong liquidity metrics, with cash coverage of average monthly claims and technical reserves equating to 35 months (FY15: 38 months) and 0.9x (FY15: 0.8x) at FY16 respectively. Liquidity is expected to remain within a strong range, underpinned by sound operating cash flow generative capacity.

Asset quality is viewed to be intermediate, impacted in part by high exposure to high risk financial assets. In this respect, high risk assets equated to 81% of capital at FY16 (FY15: 89%; FY14: 113%). Going forward, asset quality may improve, given management's planned disposal of select illiquid assets and commitment to place realised funds in liquid assets.

Mayfair's earnings profile is considered sound. Gross premiums were generated from three lines of business, which accounted for more than 10% of the business mix, with increased emphasis on fire industrial. Aggregate product risk is expected to be maintained at moderately low levels reflecting dilution of long tail workmen's compensation business and high value risks by the overall skew towards retail lines.

The rating may be upgraded on the back of sustained strength in earnings capacity. This would need to be supported by key credit protection measures remaining at very strong levels. Conversely, negative ratings pressure could develop on the back of prolonged deterioration in earnings capacity, coupled with a weakening in solvency protection metrics.

NATIONAL SCALE RATINGS HISTORY

Initial rating (June 2015)
Claims paying ability: BBB_(KE)
Outlook: Positive

Last rating (June 2016)
Claims paying ability: A_(KE)
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2016
Mayfair Insurance Company Limited rating reports, 2015-2016

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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.

Mayfair Insurance Company Limited participated in the rating process via 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 Mayfair Insurance Company Limited with no contestation of the rating.

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

- Audited financial results to 31 December 2016
- Unaudited interim results to 31 March 2017
- Four years of comparative audited numbers
- Budgeted financial statements for 2017
- Financial Condition report for 31 December 2016
- The current year reinsurance cover notes
- Other non-public statistical 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

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



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