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## AM Best Affirms Credit Ratings of NongHyup Property and Casualty Insurance Company Limited

Hong Kong - **AM Best** has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" of NongHyup Property and Casualty Insurance Company Limited (NH P&C) (South Korea). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect NH P&C's balance sheet strength, which AM Best categorizes as strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management. The ratings also consider the support received from the ultimate parent company, the National Agricultural Cooperative Federation (NACF).

NH P&C's strong balance sheet is underpinned by its risk-adjusted capitalization at the very strong level, as measured by Best's Capital Adequacy Ratio (BCAR). Although the investment portfolio is conservative, the company's asset has grown three times faster than capital and surplus over the past five years. This high asset leverage is an offsetting factor as it increases volatility in NH P&C's capital and surplus due to fluctuation in asset valuation.

NH P&C has a track record of profitable operating performance, attributed to a growing net investment income, which fully offset the company's negative underwriting results. Underwriting performance has deteriorated over the past five years, driven by the deterioration in the loss ratio and expense ratio. Conversely, net investment income more than doubled over the same period, reflecting the fast growth in investment assets.

As a small non-life insurer in South Korea's competitive insurance market, NH P&C has a limited business profile. In 2017, the company had a market share of 4.1% in terms of direct premium written. The company's business mix has a high exposure to the long-term savings business, which has a low profit margin and carries a high level of interest rate risk. In the distribution channel, NH P&C benefits from exclusive access to NACF's member cooperatives, from which it generates the majority of its premium income.

NACF is a key entity in the execution of government policies and provision of support to farmers in South Korea. Therefore, NH P&C is important to NACF as a provider of

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#### AMB# Company Name

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policy insurance to farmers. In 2017, government policy insurance represented 64% of NH P&C's gross premium written in general insurance, being a significant top line contributor. In crop insurance, the major policy insurance product, NH P&C receives reinsurance support and coverage of expenses from the government. Given its strategic role, NH P&C received capital injections in 2012, 2014 and 2015.

Positive rating actions are unlikely in the near term. Negative rating actions could occur if there is a material deterioration in the company's risk-adjusted capitalization. Negative rating actions could occur if the level of support or the strategic importance to its ultimate parent company decrease significantly.

**Ratings are communicated to rated entities prior to publication. Unless stated otherwise, the ratings were not amended subsequent to that communication.**

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