

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

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### Related Companies

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AMB#	Company Name
033780	Natl Agricultural Cooperative Federation
094084	NongHyup Property & Casualty Ins Co Ltd
093309	NongHyup Property & Casualty Ins Co Ltd

### FOR IMMEDIATE RELEASE

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**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 reflect the implicit and explicit support the company receives from its ultimate parent company, the National Agricultural Cooperative Federation (NACF).

NH P&C's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is assessed as very strong, following the capital injection of KRW 160 billion (approximately USD 140 million) from its immediate parent, NongHyup Financial Group Inc. (NHFG), in September 2019. Since NH P&C's establishment in 2012, NHFG has provided capital support to NH P&C to back the company's business growth. The company halted dividend payouts in 2017 to secure a more sound capital position and prepare for the pending implementation of the IFRS 17 accounting standards and the new regulatory solvency standards (K-ICS) in 2022. Its conservative investment strategy also supports the strong balance sheet strength assessment, with approximately 80% of the total invested assets allocated to fixed-income securities. However, an offsetting factor is the company's high asset and underwriting leverage, which remains the highest among its peers after its recent capital injection.

AM Best assesses NH P&C's operating performance as adequate; the company continues to be profitable since its establishment, although its key profitability metrics lag domestic peers. The five-year average return on equity is 4.5%, while the operating ratio is 98.7% (2014-2018). However, the company's underwriting profitability has declined over the past few years, mainly because of rising expenses, as well as large losses in the government policy line, which were driven by abnormal weather conditions such as severe heat waves in South Korea in recent years. Nonetheless, the stable and growing stream of investment income, backed by solid expansion of its invested assets, supports the company's overall operating performance by partially offsetting the negative trend in underwriting performance.

NH P&C is a small non-life insurer in South Korea, with a market share of less than 5% in terms of direct premium written (DPW) in the first half of 2019. As a wholly owned subsidiary of NHFG, the financial arm of NACF, NH P&C provides government policy insurance such as crop and livestock insurance to farmers in South Korea. Long-term insurance is the largest business line for NH P&C, although the general insurance business increased to 40% of total DPW during the first half of 2019; this growth was attributable largely to the increased demand for government policy products. Distribution is highly concentrated in the cooperative channel, which is a network of NACF's cooperative members.

NH P&C is strategically important to its ultimate parent, NACF, due to its role as an exclusive provider of government policy insurance to cooperative members. The rating enhancement reflects the operational and financial benefits that NH P&C derives from being a key operation within NACF, including government subsidies for government policy insurance, exclusive access to NACF's cooperative channel, and capital support from its immediate parent, NHFG.

Negative rating actions could occur if there is a significant deterioration in the company's risk-adjusted capitalization or sustained deterioration in the company's operating performance. Negative rating actions also could occur if the level of support or the company's strategic importance to its ultimate parent decreases 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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