

**CREDIT RATING ANNOUNCEMENT****GCR accords an initial rating of AA-(ZA) to Auto & General Insurance Company Limited; Outlook Stable.**

Johannesburg, 20 May 2014 -- Global Credit Ratings has today assigned a national scale claims paying ability rating to Auto & General Insurance Company Limited of AA-(ZA); with the outlook accorded as Stable.

**RATING RATIONALE**

Global Credit Ratings has accorded the above credit rating(s) to Auto & General Insurance Company Limited based on the following key criteria:

The rating is positively impacted by Auto and General Insurance Company Limited's ("A&G") strong stand-alone market position, as well as its status as the flagship brand within the Telesure Insurance Group. In terms of the latter, the centralised platform underpinning risk-based pricing, policy administration and the claims procurement network is shared across the Group's four short term insurance subsidiaries. Accordingly, the consolidated market position of the Telesure Insurance Group (5%) supports A&G's stand-alone business profile.

A&G's capitalisation is viewed to be strong. Risk-adjusted capital adequacy reflects surplus capital well in excess of internally measured base requirements, supported by contained insurance risk, limited market exposure, and a track-record of high profitability. GCR's view of capital management capabilities is enhanced by the insurer's well-developed and entrenched internally developed capital model. A&G reports a healthy liquidity position, underpinned by a cash-heavy investment portfolio. Cash coverage of net technical liabilities is projected to remain at very high levels going forward, while operational cash requirements are managed at comfortable levels.

Earnings capacity is viewed as strong, and represents a relative competitive strength. A&G's profit track record has been supported by advanced underwriting modelling and claims controls that are viewed to be supportive of continued underwriting surpluses in excess multiline peers going of forward.

Counterparty exposure represents a relative rating weakness. In this regard, unsecured loans to related companies correspond to 57% of FYE13 capital. This notwithstanding, the insurer will enter into an OTC transaction that will effectively terminate the inter-group counterparty exposure in the short term, which will serve to alleviate balance sheet exposure. The insurer's business profile is constrained by limited earnings diversification in terms of line of business spread. This is partially offset by the low level of product risk associated with the insurer's motor-based offerings.

A strengthened business profile, by way of both enhanced market positioning and increased level of earnings diversification, would increase the insurer's credit strength going forward. Positive rating movement may also stem from increased distribution across reinsurance counterparties. A downgrade may arise if there is a material weakening in capital adequacy below internal measures, and/or reduction in liquidity metrics (in particular coverage of net technical liabilities). A sustained weakening in earnings and cash flow generative capacity may also give rise to rating pressure.

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Insurance Companies (July 2013)

RSA Short Term Insurance Bulletin 2001-2013.

**RATING LIMITATIONS AND DISCLAIMERS**

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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.

Auto & General 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/s has been disclosed to Auto & General Insurance Company Limited with no contestation of the rating.

The information received from Auto & General Insurance Company Limited and other reliable third parties to accord the credit rating(s) included the latest available audited annual financial statements to June 2013 (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements to June 2014, year to date management accounts to December 2013, the 2014 reinsurance cover notes, ST annual returns to June 2013 (plus four years of comparative numbers), and other documentation related to the rating exercise.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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