

AM Best

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

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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-" (Excellent) 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 assesses 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, National Agricultural Cooperative Federation (NACF).

NH P&C's risk-adjusted capitalisation remained at the very strong level, as measured by Best's Capital Adequacy Ratio (BCAR). The company's solid expansion of retained earnings in recent periods, backed by its no-dividend policy and improved earnings, provide some buffer against the recent pressure on its capital due to the impact of rapid interest rate rises on available-for-sale bond valuations. NH P&C demonstrated good accessibility to the capital market through its previous issuances of subordinated bonds and has secured additional financial flexibility from its immediate parent, NongHyup Financial Group Inc. (NHFG). Its conservative investment portfolio, which consists largely of fixed-income assets, also supports the current balance sheet strength assessment.

AM Best assesses NH P&C's operating performance as adequate, with a weighted five-year average operating ratio of 97.4% (2017-2021) and a return-on-equity ratio of 4.4%. The company's net profit improved materially in 2021, primarily driven by better underwriting performance in the general insurance line given fewer natural catastrophe events and large claim cases, coupled with a product redesign for government policy insurance. An improved expense ratio also contributed to its favourable performance, while its stable investment income continued to be a major source of earnings.

The company is a domestic non-life insurer in South Korea, with a 4.6% market share in terms of 2021 gross premium written, and it is an exclusive (or major) provider of government policy insurance products for farmers in the nation, such as crop, livestock and agricultural vehicle insurance. Although the long-term insurance remains its largest business line, general insurance, which mainly comprises government policy products, also showed strong growth over the past five years. Overall premium growth of the long-term line has been limited due to a gradual reduction in sales of savings products and strong market competition, despite the company's continued efforts to expand protection-type insurance sales. Distribution remains highly concentrated in the cooperative channel, which is a network of NACF's members. However, the company is aiming to grow its general agent and tied-agent channels for diversification.

As a wholly owned subsidiary of NHFG, which is the financial arm of NACF and one of the largest financial groups in South Korea, NH P&C is strategically important to its ultimate parent, NACF, given its role as the exclusive provider of government policy insurance products to cooperative members. AM Best also recognises various forms of explicit support such as capital support from NHFG, as well as direct reinsurance support and full expense reimbursement from the government for its crop insurance line.

Negative rating actions could occur if there is a sustained deteriorating trend in the company's operating performance. Negative rating actions also may arise if the level of support or the company's strategic importance to its ultimate parent is reduced to a degree that no longer supports the current level of enhancement. Positive rating actions could occur if its business profile improves in a sustainable manner, for example, through successful channel diversification that results in a materially enhanced market presence without deterioration in its risk-adjusted capitalisation and operating profitability.

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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AMB#	Company Name
093309	NongHyup Property & Casualty Ins Co Ltd
