

Press Release - JULY 24, 2019

AM Best Affirms Credit Ratings of Société Tunisienne de Réassurance

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FOR IMMEDIATE RELEASE

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AM Best has affirmed the Financial Strength Rating of **B+ (Good)** and Long-Term Issuer Credit Rating of “**bbb-**” of Société Tunisienne de Réassurance (**Tunis Re**) (Tunisia). **The outlook of these Credit Ratings (ratings) is stable.**

The ratings reflect Tunis Re’s balance sheet strength, which AM Best categorises as very strong, as well as the company’s adequate operating performance, limited business profile and appropriate enterprise risk management (ERM).

Tunis Re’s balance sheet strength is underpinned by risk-adjusted capitalisation, which was at the strongest level at year-end 2018, as measured by Best’s Capital Adequacy Ratio (BCAR). AM Best expects risk-adjusted capitalisation to remain at the strongest level over the medium term, supported by good organic capital generation despite the company’s relatively onerous dividend policy, which is based on a percentage of paid-up capital. The balance sheet strength assessment also considers Tunis Re’s highly liquid investment portfolio and its good financial flexibility, as the company is listed on the Tunis stock exchange and has no debt leverage. However, with approximately 95% of assets invested domestically, the reinsurer is heavily exposed to the elevated levels of economic, political and financial system risk associated with Tunisia.

Tunis Re has a track record of adequate operating performance, with a five-year (2014-2018) weighted average return on equity of 8.2%. The technical account has

produced volatile results over the past five years (2014-2018), generating a weighted average combined ratio of 101.2% (as calculated by AM Best). This includes particularly weak performance in 2017 and 2018 (combined ratios of 104.3% and 111.7%, respectively), partly impacted by the depreciation of the Tunisian Dinar, which contributed to higher claim levels. However, the non-technical account benefited from significant exchange gains in both years. Tunis Re's management has taken measures to reduce the sensitivity of performance to attritional losses, and AM Best expects technical results to improve moving forward. If underwriting profitability does not improve, there is likely to be negative pressure on the company's operating performance assessment.

Tunis Re's business profile assessment takes into account its leading position in Tunisia, where it benefits from a market share of approximately 20% (measured by ceded premium), and increasing diversification into regional markets. The proportion of premium generated outside Tunisia increased to over half of its total business for the first time in 2018, supported by ongoing commercial efforts. Nevertheless, Tunis Re's operations remain limited on a global scale and its ability to grow its portfolio in a profitable manner may be hampered by competitive pressures domestically and abroad.

Tunis Re has strengthened its risk management capabilities in recent years and AM Best expects further developments in the company's ERM framework in the medium term, including the third party validation of the company's recently developed capital model. AM Best will continue to assess how these risk management tools are deployed effectively across the company's operations.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Understanding Best's Credit Ratings. For information on the proper media use of Best's Credit Ratings and AM Best press releases, please view Guide for Media - Proper Use of Best's Credit Ratings and AM Best Rating Action Press Releases.

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