

FITCH AFFIRMS NAVY MUTUAL AID ASSOCIATION'S IFS RATING AT 'A+'

Fitch Ratings-Chicago-26 June 2015: Fitch Ratings has affirmed Navy Mutual Aid Association's (NMAA) Insurer Financial Strength (IFS) rating at 'A+'. The Rating Outlook is Stable.

KEY RATING DRIVERS

NMAA's IFS rating and Stable Outlook reflect the association's extremely strong capitalization, high-quality and liquid investment portfolio, and modest profitability. The ratings also consider the company's interest-sensitive product profile along with its narrow focus and relatively small scale.

NMAA maintains extremely strong capitalization with an RBC ratio of 503% at year-end 2014 compared with 469% at year-end 2013. The company's TAC increased 5% to \$269 million in 2014, driven primarily by investment performance and modest earnings.

NMAA has one of the most conservative investment portfolios in Fitch's universe. The association's fixed income assets are 99% investment-grade with an average credit rating of 'AA-'. Total risky assets, which include below investment-grade bonds, lower quality real estate, unaffiliated common stock and Schedule BA assets, in relation to TAC was exceptionally low at 38% compared with an industry average of 82%.

NMAA has maintained solid investment yields at just above 6% for the past several years, which has allowed it to credit high levels of interest on its life insurance policies and maintain favorable persistency. The association's investment yield is expected to decline in 2015, as maturing higher yielding bonds are replaced by lower yielding bonds. To mitigate the impact, the company reduced its crediting rate in the fourth quarter of 2014. The association also continues to trade liquidity for yield by increasing its exposure to private placement bonds, which accounted for 23% of total bonds at year-end 2014 compared with 12% in 2010.

NMAA's profitability trails peers, given its strategy of distributing excess earnings to its members through relatively high crediting rates. The company targets a level of profitability that maximizes value to its members while supporting new business growth and providing a cushion against unexpected losses. The company reported a net operating gain of \$8 million in 2014 compared with \$20 million in 2013.

Fitch views NMAA at the upper end of its IFS range, due to its narrow focus and the long-term challenge of membership growth. NMAA has a solid niche position as a low-cost provider of insurance protection products to the United States Sea Services and their families.

RATING SENSITIVITIES

Fitch does not anticipate an upgrade in the intermediate term, as NMAA's modest scale and narrow market focus limit the upside in its rating.

Key ratings triggers that could result in a downgrade include:

- A decline in estimated RBC to below 350% company action level;
- A spike in investment-related losses or a trend of sustained net operating losses;
- A significant change in war risk exposure and experience;
- An unfavorable change in tax/regulatory status.

Fitch affirms the following rating with a Stable Outlook:

Navy Mutual Aid Association
--IFS at 'A+'.

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Applicable Criteria

Exposure Draft: Insurance Notching Criteria (Proposed Methodology Changes) (pub. 12 May 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865576

Insurance Rating Methodology (pub. 04 Sep 2014)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650

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