Moody's Investors Service

Global Credit Research
Credit Opinion
5 DEC 2007

Credit Opinion: KECIC

State Ins.Corp.for the Ins.of Exp. Credit & Inv't

Kazakhstan

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Baa1

Contacts

Analyst	Phone
Timour Boudkeev/London	44.20.7772.5454
Benjamin Serra/London	
Simon Harris/London	

Key Indicators

[1]
State Ins.Corp.for the Ins.of Exp. Credit & Inv't

	2005	2004	2003
Total Assets (KZT million) [2]	9,038	8,159	7,828
Equity (KZT million) [2]	8,793	8,016	7,825
Net Income (KZT million) [2]	206	133	63
Gross Premiums Written (KZT million) [2]	141	8	0
Net Premiums Written (KZT million) [2]	104	8	0
Gross Underwriting Leverage	3%	1%	0%
Return on Equity (1 yr.)	2.4%	1.7%	0.8%
Financial Leverage	3.2%	3.3%	0.4%
Earnings Coverage (1 yr.)	13.8x	9.8x	35.1x
High Risk Assets % Invested Assets	0.0%	0.0%	0.0%
Reinsurance Recoverable % Equity	0.0%	0.0%	0.0%
Goodwill % Equity	0.0%	0.0%	0.0%
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	N/A	N/A	N/A

[1] Information based on IFRS financial statements [2] 1 KZT = 0.005984 EUR as of 31 December 2006

Opinion

SUMMARY RATING RATIONALE

Kecic's Baa1 insurance financial strength rating (IFSR) reflects its very strong capitalisation, conservative investment policy and ownership by the Republic of Kazakhstan. In Moody's view, Kecic is well positioned to tap into the profitable Kazakh reinsurance market by exploiting its strong capital base. The company is expected to achieve a level of profitability commensurate with its current rating through a combination of strong underwriting performance in reinsurance and a circumspect investment policy. Nevertheless, total premiums, both from export credit insurance and inward reinsurance, may remain low as a percentage of Kecic's shareholders equity over the medium term.

At the same time, Kecic has yet to demonstrate a track record of profitability and sound risk management. The current rating is predicated on a substantial enhancement of Kecic's risk management systems and processes as the company's exposure increases. In addition, Moody's expects that the Republic of Kazakhstan will not withdraw substantial amounts of capital from the company as the exceptionally strong capitalisation is one of the key factors supporting the rating at its current level.

In accordance with Moody's GRI (Government Related Issuer) rating methodology, the rating of Kecic reflects a combination of the following inputs: (i) Baseline credit assessment of 9 (on a scale of 1 to 21, where 1 represents the lowest credit risk), (ii) 100% dependence, reflecting the company's operating and financial proximity to the government and (iii) 60% support, reflecting the importance of Kecic in its capacity as Export Credit Agency, offset by its reinsurance activities, business associated with more limited support from the government.

Credit Strengths

Credit strengths of Kecic are as follows:

- Very strong capitalisation relative to current and prospective premiums written

- Conservative investment policy focussed on Kazakh government bonds

- 100% ownership by the Republic of Kazakhstan

- Well positioned to become a significant player in the profitable Kazakh reinsurance market

Credit Challenges

Credit challenges for the company are as follows:

- The company has yet to prove it has a sustainable business model

- Profitability in export credit insurance and possibly inward reinsurance may be challenging to achieve

- The Kazakh reinsurance market can be expected to become increasingly competitive over time

- Comprehensive retrocession programme has yet to be put in place

- Overall profitability will be predicated on the company's ability to attain a high degree of underwriting acumen and sophisticated risk management

- Kecic may accumulate a sizeable commercial credit and political risk exposure to the main trading partners of Kazakhstan, such as China, Russia, Iran and Central Asian countries

Rating Outlook

The outlook is stable.

What Could Change the Rating - Up

The following factors may put upward pressure on the rating:

- A track record of profitability in the main lines of business, i.e. export credit insurance and reinsurance

- Further enhancement of the capital base, e.g. as a result of a circumspect dividend payout policy

- Improvements in the quality of the company's asset portfolio, e.g. following an upgrade of the Republic of Kazakhstan's debt rating

What Could Change the Rating - Down

The following factors may put downward pressure on the rating:

- Decision of the Republic of Kazakhstan to withdraw capital from the company

- Substantial changes in the ownership structure

- Refocusing of the asset allocation strategy from Kazakh government bonds to more risky instruments

- Unsatisfactory underwriting performance, such as a combined ratio exceeding 105%

- Failure to put in place a comprehensive retrocession programme

Recent Results and Developments

In 2006, Kecic reported Gross Premiums Written of KZT211.6 million and net income of KZT222.4 million, compared to KZT140.8 million and KZT205.5 million in 2005. Shareholders' equity was KZT8,257.4 million as at 31 December 2006.

DETAILED RATING CONSIDERATIONS

Kecic is a niche player in the Kazakh insurance market, focussing primarily on insurance of export credit and investment by Kazakh companies abroad. Premium volumes in this line are expected to remain low in the next few years as the majority of exporters prefer to retain credit risk. In 2006, the company reported GPW of KZT33.1.9 million in this segment (versus KZT14.9 million in 2005), and management expects that this figure will progressively increase.

The company also writes inward reinsurance. Liability lines accounted for most of the reinsurance book in 2006, but property reinsurance should play a greater role going forward. Kecic generated GPW of KZT206.7 million in 2006 (versus KZT126 million in 2005), thanks to growth of the Kazakh insurance market. By becoming an active player in the reinsurance market, the company is seeking to diversify its premium mix and enhance its earnings. However, the small size of the portfolio, as well as limited geographic diversification outside Kazakhstan, does not enable Kecic to fully benefit from diversification effects.

In export credit insurance, Kecic may accumulate a commercial credit and political risk exposure to China, Russia, Iran and Central Asian states (the main trading partners of Kazakhstan). Also, pricing in this line of business may be less than fully adequate.

We also note that a comprehensive retrocession programme has yet to be put in place.

Kecic's investment policy is conservative. As of 31 December 2006, 90.5% of assets were invested in Kazakh government bonds (Baa1 local currency debt rating / Baa2 foreign currency debt rating, stable outlook) with the balance in cash, crrent accounts with Kazakh banks and corporate bonds. However, the portfolio is exposed to concentration risk. A default by the Kazakh government would almost certainly result in default by Kecic. Another potential concern in the longer term is currency mismatch as some losses from the inward reinsurance business may be denominated in roubles or US dollars.

Kecic's capitalisation is outstanding with a de minimis level of underwriting leverage (gross premiums written plus loss reserves divided by equity). This level of capital is fully adequate to sustain the prospective growth of the company. We do not expect that the Republic of Kazakhstan, sole shareholder of the company, will withdraw substantial amounts of capital from the company.

It is too early to make a definitive judgement about the profitability of the insurance activities, as Kecic's business book is small and volatile. So far, the main revenue generator has been the investment income which reached KZT519.1 million in 2006. Return on equity was 2.6% in 2006 (2.5% in 2005), and a meaningful increase is unlikely in the foreseeable future. While profitability is low, it should also be borne in mind that so is the level of exposure. We do not therefore view a low return on equity as a credit weakness for Kecic.

Kecic's carried reserves as of 31 December 2006 were KZT96.9 million, of which KZT68.3 million was accounted for by an "additional reserve", comparable to an equalisation reserve. The IBNR reserve was calculated on the basis of the directive of the National Bank of Kazakhstan at 10% of net written premiums, and probably overstates the actual IBNR.

Kecic has no debt on its balance sheet. According to Kazakh law, insurance companies are not allowed to issue fixed-income securities, preference shares or similar instruments. Bank loans may not exceed 10% of shareholders' equity and must be repaid within three months. It is therefore unlikely that Kecic will issue any debt in the foreseeable future, unless amendments to the law are introduced.

Other Considerations

In Moody's view, ownership by, and close association with, the Kazakh government is a strong credit positive for the company. Kecic has been mandated by Kazakh government to assist in reaching certain national development goals, and its performance will be evaluated by the authorities based on criteria other than profitability. We therefore expect that the single most important driver of Kecic's rating going forward will be the debt rating of the Republic of Kazakhstan.
