

**Enhanced Credit Opinion
November 2009**

CENTRAS INSURANCE

**Key Indicators
Centras**

	2008	2007	2006	2005	2004
Total Assets (Tenge Mil.)	1,678	1,442	1,144	594	215
Equity (Tenge Mil.)	1,035	850	692	469	183
Net Income (Tenge Mil.)	35	162	117	3	1
Gross Premiums Written (Tenge Mil.)	2,221	1,675	1,003	171	118
Net Premiums Written (Tenge Mil.)	719	701	520	78	33
Gross Underwriting Leverage	2.3x	2.1x	1.5x	0.4x	-
Return on Equity (1 yr.)	3.7%	21.0%	20.2%	1.0%	1.3%
Sharpe Ratio of Growth in Net Income (5 yr.)	-	-	-	-	-
Financial Leverage	38.9%	35.5%	19.3%	7.9%	0.0%
Earnings Coverage (1 yr.)	4.9x	10.2x	15.8x	31.4x	-
Cashflow Coverage (1 yr.)	-	-	-	-	-
High Risk Assets % Invested Assets	78.3%	90.4%	9.9%	0.0%	13.8%
Reinsurance Recoverable % Equity	6.1%	6.7%	1.1%	0.6%	-
Goodwill % Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	-	-	-	-	-
A&E Net Funding Ratio (1 yr.)	-	-	-	-	-

[1] Information based on IFRS financial statements

SUMMARY RATING RATIONALE

Moody's B3 insurance financial strength rating for Centras Insurance reflects the good business model of the company focused on corporate and retail risks in Kazakhstan, with adequate business diversification and a well spread regional network which gives the company a good position to grow in retail lines, an investment policy favouring investments in local fixed income securities and bank deposits, as well as a satisfactory underwriting profitability. However, this is offset by high expenses, a very low capitalisation and significant asset risk. Furthermore, despite its fast growth, Centras is still a small company from a global perspective with a small market share in an increasingly competitive market.

Since 2005, Centras Insurance has been owned by Centras Capital, holding company of the Centras Group, an investment group headquartered in Kazakhstan which also includes an investment bank. Centras Insurance is a fast growing company and ranked number 16 in the Kazakh insurance market at year-end 2008.

Credit Strengths

The main credit strengths of Centras Insurance are as follows:

- satisfactory, if volatile, diversification and a good regional network, giving the company a good position to grow in retail lines
- a low and relatively diversified liability risk profile, focused on short-tail lines and with more and more products being sold to individuals
- a good underwriting profitability with consistent low loss ratios

Credit Challenges

The main credit challenges of Centras Insurance are as follows:

- the company is small from a global perspective, although in Kazakhstan it is growing in importance. Kazakhstan is an increasingly competitive market
- achieve sustainable growth while maintaining a good level of cost control and a adequate profitability
- potential over-reliance on reinsurance as a substitute for a strong capital base
- control the risk of investments concentrated in local markets, given the challenging operating environment and the pressure

Outlook

The rating outlook is positive, reflecting Moody's expectation that Centras Insurance will continue to improve its market position in the short to medium-term, as well as seek to improve its capital position through continued profitability and retained earnings.

What could change the rating UP

The following factors could put upward pressure on the rating:

- stabilisation of the Kazakhstan economy, as evidenced by a stable outlook on the Sovereign rating
- an improved capital position in order to finance the growth of the company inside and outside Kazakhstan and remove the pressure from potential for regulatory capital pressures
- reaching a top tier position in the Kazakh insurance market, while maintaining a conservative risk profile and a good profitability
- improvement in the credit quality of the investment portfolio

What could change the rating DOWN

The following factors could contribute to a ratings downgrade:

- a riskier business risk profile, with a significant growth in longer-tailed lines such as inwards reinsurance or commercial lines and a less comprehensive reinsurance programme
- a failure to grow in the Kazakh insurance market and a failure to maintain the current level of profitability, which would prevent the company from breaking-even on its fixed costs
- a deterioration of the credit quality of the investments portfolio, as evidenced by downgrades of local banks and corporates
- a decline in solvency ratio below 105%

Recent results and developments:

In 2008, Centras Insurance reported Gross Premiums Written of KZT2,221 million and net income of KZT35 million, compared to KZT1,675 million and KZT162 million in 2007. Shareholders' equity including minority interests was KZT1,035 million as at 31 December 2008.

DETAILED RATING CONSIDERATIONS

Moody's rates Centras Insurance B3, positive outlook, for insurance financial strength, which is lower than the rating indicated by Moody's insurance financial strength rating scorecard. The B3 rating is currently driven by the company's low capitalisation and poor asset quality.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 – Market Position, Brand and Distribution: Ba

Centras Insurance is a fast growing but small insurance company with a market share of 1% as of YE 2008 in the Kazakh insurance market. One of two insurance companies owned by the Centras group, it carries the Centras name and is focused towards commercial and industrial risks and aims to bring Western-style insurance products to the Kazakhstan market. Although the market share of 1% seems low, many of the local insurance companies are captives of large industrial or financial groups, and are not direct competitors of Centras Insurance. Centras has shown good growth in 2008 where it achieved gross premium growth of 33% compared to market decline of about 7.5%. In 2009 Centras is expected to grow strongly, and should see significant growth in its market share. The company is very well positioned to grow with a well geographically spread distribution network of branches, which has continued to grow in 2008 and 2009 as Centras aims to attract a greater share of premium through its own network than be reliant on brokers.

The company's expense ratio is extremely high on a net basis, with underwriting and operating expenses net of commissions at 80.2% of premium in 2008, reflecting the high level of reinsurance Centras obtains and also the subscale nature of the company. On a gross basis the expense ratio is a more modest 26%. Moody's notes that the business plan of the company may be challenged by increasing competition and growing entry of foreign players in this market.

Factor 2 – Product Focus and Diversification: Ba

Centras' product mix is quite volatile from year-to-year and concentrations to single clients on a gross basis will be quite high driven by the large amount of fronting business Centras participates in. Main lines of business in 2008 include Motor TPL (31% up from 10% in 2007), Employers Liability (13% from 8% in 2007), Motor hull (10%), Marine, Aviation and Transport (about 13%). General Liability – which – at 26% - was the largest line of business in 2007, has declined to 6% of the book.

Although the company mostly writes commercial insurance, reflecting the business mix in Kazakhstan, most of these risks are short-tailed. Going forward, the company expects to increase the volume of retail business and to develop life insurance, although due local laws life insurance would be written from a separate subsidiary. Inwards reinsurance may also be underwritten more actively in the medium term, but primary insurance will still be predominant. Geographically the exposure is limited to Kazakhstan, with international expansion plans currently on hold.

Factor 3 – Asset Quality: B

Goodwill and reinsurance recoverables represent a small fraction of the company's assets. Nonetheless, Moody's notes that insurance premiums receivables were fairly high at year-end 2008 (8.6% of total assets). This partly reflects the high proportion of commercial clients in Centras Insurance's portfolio, and Moody's expects this item to progressively decrease in the coming years, as it has done so in 2008 from higher levels in 2007.

The investment policy of Centras Insurance is considered to be fairly conservative, but has shifted during 2008 and 2009. Cash and bank deposits have reduced, and comprised 43% of the portfolio at YE 2008 and declined to about 10% during 2009. The remainder of the portfolio is invested in fixed income securities from Kazakh corporate and financial institutions. Centras has tried to increase the exposure to the non-banking sector during 2009 as the banks have suffered in the financial crisis, although it should be noted the credit quality of most issuers, other than government-supported entities remains low. Moody's notes that Centras does not invest in equities or properties, which is viewed as a credit positive. Overall, Moody's considers asset quality to be consistent with a B-range rating.

Factor 4 – Capital Adequacy: B

The good Gross Underwriting Leverage (2.3x at year-end 2008) reflects a low amount of loss reserve in the balance sheet, thanks to a very quick settlement of claims. However, Moody's considers the capitalisation of Centras Insurance to be very lean, bearing in mind the fast growth of the company and the credit risks accumulated on the asset side of the balance sheet. In addition, the solvency ratio was only 143% as of July 2009, which although improved from 2007, is more in line with a B-rating.

The company is highly reliant on a panel of reinsurers to absorb risk, as it passes 68% of its premium onto reinsurers. Moody's notes that many of the reinsurers are very highly rated, and as such credit risk is not a significant concern, but if reinsurance availability or pricing were to change Centras' ability to write growing levels of premium could be restrained

Factor 5 – Profitability: Ba

Centras Insurance has recorded a very good overall profitability in recent years with ROE of 20% in 2006 and 2007 although this declined in 2008 to 3.7% driven by significantly increased costs. Moody's expects the company's profitability to deteriorate in the medium term, since we expect the local insurance market to become increasingly competitive, although the strategy of the company focused on quality with above average tariffs should partly mitigate this trend.

Nonetheless, given the short operating history of the company, we also believe that Centras Insurance has yet to establish a track record of profitable growth.

Factor 6 – Reserve Adequacy: Ba

Centras Insurance does not disclose any information on prior year reserving, and the history of the company is too short to enable any statistical study. Although Moody's acknowledges that most claims are settled within one year, which limits the amount of technical liabilities on the balance sheet, we believe that Centras Insurance's reserve estimation may have to evolve further to achieve full accuracy.

Factor 7 – Financial Flexibility: B

Centras Insurance has not issued any financial debt so far. However, significant operating leases (rent expense) result in a financial leverage ratio of 39% as of year-end 2008. In addition, Moody's believes that Centras Insurance has limited access to capital or liquidity in times of financial distress at short notice.

Other Considerations**Accounting Policy and Disclosure**

Centras Insurance has reported under IFRS since 2005. The scope of disclosure, e.g. with regards to prior year reserve development and the more sensitive areas such as management compensation, is more limited than that of large Western insurance groups.

Sovereign and Regulatory Environment

Sovereign ceilings, such as the foreign currency bond ceiling and local currency deposit ceiling, do not feature as immediate constraints for Centras Insurance's rating. However, in addition to company-specific fundamentals, Centras Insurance's rating incorporates Moody's view that the operating environment in Kazakhstan – which reflects country-specific systemic risk – remains challenging. This assessment – which is based on a combination of political, economic and legal

system indicators in comparison with other countries worldwide – leads us to believe that the company’s credit profile is subject to additional pressures. The rates in compulsory motor insurance are for example fixed by law and may, in some period and/or in some region, not reflect the fair price of the guarantees. Furthermore, the Kazakh banking system has experienced liquidity issues as a result of the credit crisis since the Summer 2007. Adaptation of risk management practices and underwriting processes to these changes to the economic environment will constitute a major challenge for Centras Insurance as well as for the insurance industry as a whole in Kazakhstan.

Rating Factors
Centras

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	< Baa	Score	Adjusted Score
Business Profile						A	Ba
Market Position, Brand and Distribution (25%)						Baa	Ba
Market Share Ratio			X				
Relative Market Share Ratio			X				
Expense Ratio % NPW					X		
Product Focus and Diversification (10%)						A	Ba
Product Focus			X				
P&C Product Diversification			X				
Geographic Diversification					X		
Financial Profile						A	B
Asset Quality (5%)						Aa	B
High Risk Assets % Invested Assets					78.3%		
Reinsurance Recoverable % Equity	6.1%						
Goodwill % Equity	0.0%						
Capital Adequacy (15%)						Aa	B
Gross Underwriting Leverage		2.3x					
Profitability (15%)						A	Ba
Return on Equity (5 yr. avg.)			9.5%				
Sharpe Ratio of Growth in Net Income (5 yr.)							
Reserve Adequacy (10%)						Ba	Ba
Adv/(Fav) Reserve Dev. % Beg. Reserves (5 yr. avg.)					10.0%		
A&E Net Funding Ratio (5 yr. avg.)							
Financial Flexibility (20%)						Aa	B
Financial Leverage			38.9%				
Earnings Coverage (5 yr. avg.)	15.6x						
Cashflow Coverage (5 yr. avg.)							
Aggregate Profile						A2	Ba3

[1] Insert appropriate footnote regarding accounting (see below)

[2] The Scorecard rating is an important component of the company’s published rating, reflecting the stand-alone financial strength before other