

Credit Opinion: Centras Insurance

Centras Insurance

Almaty, Kazakhstan

Ratings

Category	Moody's Rating
Rating Outlook	POS
Insurance Financial Strength	B3

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Key Indicators

[1][2]

Centras Insurance

	2007	2006	2005	2004
Total Assets (KZT Mil.)	1,442	1,144	594	215
Equity (KZT Mil.)	850	692	469	183
Net Income (KZT Mil.)	162	117	3	1
Gross Premiums Written (KZT Mil.)	1,675	1,003	171	118
Net Premiums Written (KZT Mil.)	701	520	78	33
Gross Underwriting Leverage	2.1x	1.5x	0.4x	-
Return on Equity (1 yr.)	21.0%	20.2%	1.0%	1.3%
Financial Leverage	35.5%	19.3%	7.9%	0.0%
Earnings Coverage (1 yr.)	10.2x	15.8x	31.4x	-
High Risk Assets % Invested Assets [3]	0.0%	9.9%	0.0%	13.8%
Reinsurance Recoverable % Equity	6.7%	1.1%	0.6%	-
Goodwill % Equity	0.0%	0.0%	0.0%	0.0%

[1] Information based on IFRS financial statements [2] 1 KZT = 0.0056443 EUR as of 31 December 2007 [3] Calculated figures do not include adjustments for bank deposits with below investment grade rating

Opinion

SUMMARY RATING RATIONALE

Moody's B3 insurance financial strength rating for Centras Insurance reflects the sustainable business model of the company, with a very good business diversification and a well spread regional network which gives the company a good position to grow in retail lines, a conservative management as evidenced by a very comprehensive reinsurance programme placed with quality Western reinsurers and an investment policy favouring investments in local bank deposits, as well as a good underwriting profitability. However, this is offset by a very low capitalisation and a significant asset risk, the most prominent local banks in Centras Insurance's portfolio being rated in the B-range. Furthermore, despite its fast growth, Centras is still a relatively small company 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 17 in the Kazakh insurance market at year-end 2007. The company's main business lines are General Liability (26% of GPW in 2007), Motor (20%), Aviation (16%) and Property (12%).

Credit Strengths

The main credit strengths of Centras Insurance are as follows:

- a very good product diversification and a good regional network, giving the company a good position to grow in retail lines
- an excellent comprehensive reinsurance programme with large quota shares placed with quality reinsurers, enabling the company to control its rapid growth and to reduce the risks inherent to commercial lines which are predominant in the premiums mix in the Kazakh market
- 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 reasonable acquisition costs and consistent low loss ratios
- a conservative risk management

Credit Challenges

The main credit challenges of Centras Insurance are as follows:

- the company is still a relatively small player, while Kazakhstan is an increasing competitive market
- achieve sustainable growth while maintaining a conservative risk profile and a good profitability
- control the risk of investments concentrated in local banks, given the challenging operating environment and the pressure suffered by local banks
- the level of capitalisation is currently low, therefore the solvency position is very reliant on reinsurance and any adverse event would expose the company to a regulatory capital pressure

Rating 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:

- 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
- a decline in solvency ratio below 105%

Recent Results and Company Events

In 2007, Centras Insurance reported Gross Premiums Written of KZT1.675 million and net income of KZT162 million, compared to KZT1.003 million and KZT117 million in 2006. Shareholders' equity including minority interests was KZT850 million as at 31 December 2007.

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 recent, fast growing but small insurance company with a market share of 1% in the Kazakh insurance market. However, most of the local insurance companies are captives of large industrial or financial groups, and are not competitors of Centras Insurance. In fact, the company belongs to the top-10 of the diversified insurance companies in Kazakhstan. The company is very well positioned to grow in retail lines, thanks to a well geographically spread distribution network of 16 branches, one of the largest in Kazakhstan. Hence, Centras Insurance expects to grow significantly in Motor Insurance, targeting a market share at around 7% in Motor TPL in the short-term.

The company's expense ratio is high (34% on a gross basis in 2007), partly reflecting the subscale nature of the company, but the commissions (10% of premiums on average) are in line with the industry in Kazakhstan. Nonetheless 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: A

Centras Insurance has a very well diversified liability profile. In 2007, the main business lines were General Liability (26% of GPW), Motor (20%), Aviation (16%), Health and Accident (14%) and Property (12%). Although the company mostly writes commercial insurance, reflecting the business mix in Kazakhstan, most of these risks are short-tailed. Furthermore Centras Insurance benefits from a very comprehensive reinsurance programme (the retention ratio was 42% in 2007) placed with high quality reinsurers. Going forward, the company expects to increase the volume of retail business and to develop life insurance. Inwards reinsurance may also be underwritten more actively in the medium term, but primary insurance will still be predominant. The low business risk profile is also partly offset by a lack of geographic diversification, most of the exposure being concentrated in Almaty.

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 2007 (17% 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.

The investment policy of Centras Insurance appears to be conservative, with a predominance of bank deposits (63% of investments at year-end 2007), fixed income securities (20%) and cash (8%). However, Centras Insurance's investments portfolio is lowly diversified and heavily exposed to credit risk of local banks. Four banks with an average credit quality of B1 represent around 75% of the investments portfolio (90% of shareholders' equity). Moody's further notes that the Kazakh banking has seen liquidity issues as a result of the credit crisis since the Summer 2007. Therefore, Moody's considers asset quality to be consistent with a B-range rating.

Factor 4 - Capital Adequacy: B

The good Gross Underwriting Leverage (2.1x at year-end 2007) 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 112% as of 31 December 2007 and has been decreasing since 2005, which is more in line with a B-rating. Nonetheless, Moody's believes that the company will seek to improve its capital position, through for example continued profitability and retained earnings.

Factor 5 - Profitability: Baa

Financial Profile						Aa	Ba
Asset Quality (5%)						Aaa	B
High Risk Assets % Invested Assets	0.0%						
Reinsurance Recoverable % Equity	6.7%						
Goodwill % Equity	0.0%						
Capital Adequacy (15%)						Aa	B
Gross Underwriting Leverage		2.1x					
Profitability (15%)						Aa	Baa
Return on Equity (5 yr. avg.)		10.9%					
Sharpe Ratio of Growth in Net Income (5 yr.)							
Reserve Adequacy (10%)							Baa
Adv/(Fav) Reserve Dev. % Beg. Reserves (5 yr. avg.)							
Financial Flexibility (20%)						Aa	Baa
Financial Leverage			35.5%				
Earnings Coverage (5 yr. avg.)	19.1x						
Aggregate Profile						A1	Baa3

[1] Information based on IFRS financial statements [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

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