

Rating Action: Moody's affirms Kyobo Life's A2 IFS rating; outlook stable

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Hong Kong, April 15, 2010 -- Moody's Investors Service has affirmed the A2 insurance financial strength (IFS) rating of Kyobo Life Insurance Co Ltd (Kyobo Life). At the same time, Moody's has changed the rating outlook to stable from negative.

"The change to a stable outlook reflects the improvement in Kyobo Life's profitability and capital adequacy over the past year," says Sally Yim, a Moody's Vice President and Senior Analyst.

"Specifically, Kyobo Life's profitability has improved due to higher realized investment gains and lower losses recognized for the valuation of its foreign currency swaps. Both these factors were themselves supported by the recovery in the financial markets," adds Yim.

"The company's capital position has recovered because of this growth in profitability and increased unrealized gains on its investment portfolio. As of December 31, 2009, its capital-to-asset ratio -- on a stand-alone basis -- was 6.7%, up from 5.8% as of end-FY2008," says Yim.

Previously, Moody's was concerned about potential asset losses arising from its large exposures to project finance, and unsecured corporate and retail loans, which were pressured by weak economic conditions in Korea. But, this loan portfolio has performed better than expected, resulting in only small impairment losses.

"Further, Kyobo Life's financial flexibility is improving, attributable to its low level of financial leverage and its potential listing on the Korea Exchange in the medium term," says Yim.

Moody's notes that Kyobo Life repaid all its outstanding KRW 250 billion in subordinated debt in early April 2010; a credit positive development as it has substantially reduced its financial leverage to a minimal level.

In addition, its possible listing in the Korea Exchange would help improve financial flexibility through better access to the capital markets and the exchange's requirement for increased financial transparency.

Historically Kyobo Life's hedge ratio for its foreign investment portfolio was above 100%. As such, it took on interest rate and foreign exchange risk. This has caused significant losses. The company is reducing its hedge ratio gradually so that its hedging strategy is more aligned to its foreign investment exposure. "Nonetheless, Moody's believes that profitability could still be subject to large fluctuations in the valuations of its foreign currency swaps as exchange rate movements remain highly volatile. And while the valuation losses recorded for FY2009 were below FY2008, such potential volatility remains a credit challenge," says Yim.

Moody's notes that Kyobo Life has begun to sell variable annuity with minimum guarantees. Material growth in such products could be increasing the company's product risk if no proper hedging programs are in place or if the product design is aggressive. Moody's will closely monitor the company's risk management on this new product and the resultant change on its risk profile.

The A2 IFS rating reflects Kyobo Life's strong brand recognition as one of the "Big 3" life insurers in Korea, its diversified product portfolio, and its improving financial flexibility. These strengths, however, are offset by the lingering issue of negative spread, as related to the legacy of its high guarantee policies. In addition, while liquidity is not an issue, its level is lower than its regional peers due to its large holdings of investments in project finance, as well as corporate and individual loans.

Upward rating pressure could emerge if Kyobo Life: (1) effectively reduces its duration gap and negative spread burden; (2) improves its capital adequacy with a capital-to-assets ratio consistently above 7%; (3) successfully diversifies its distribution channels; (4) reduces its holdings of illiquid and risky investments.

On the other hand, one or more of the following factors could lead to a downgrade: (1) Its capital-to-asset ratio falls to below 4%; or its solvency margin ratio falls below 150%; (2) its profitability further deteriorates with an ROE consistently below 10%; (3) its financial leverage increases to above 25%; or (4) it fails to maintain its leading market position.

The following rating has been affirmed with a stable outlook:

Kyobo Life Insurance Company Ltd: insurance financial strength at A2.

Moody's last rating action on Kyobo Life took place on March 3, 2009, when Moody's changed its rating outlook from stable to negative.

The principal methodology used in rating Kyobo Life is "Moody's Global Rating Methodology for Life Insurers", published in September 2006. This is available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this company can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Seoul, Kyobo Life is one of the "Big 3" life insurers in Korea, offering whole life, traditional savings, annuities, health and investment-linked products, etc. At the company level, for the nine months ended December 31, 2009, net income was KRW 383.5 billion. Shareholders' equity was KRW 3.5 trillion as of end-December 2009.

Moody's insurance financial strength ratings are opinions about the ability of insurance companies to punctually repay senior policyholder claims and obligations. For more information, please visit our website at www.moody's.com/insurance.

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