

FITCH UPGRADES SEOUL GUARANTEE INSURANCE'S IFS TO 'A+'; OUTLOOK STABLE

Fitch Ratings-Singapore/Hong Kong-28 January 2011: Fitch Ratings has upgraded Seoul Guarantee Insurance Company's (SGIC) Insurer Financial Strength rating (IFS) to 'A+' from 'A'. The Outlook is Stable.

The upgrade takes into consideration SGIC's improvement in its standalone credit profile in terms of stronger profitability, declining debt leverage, well established market positioning and solid capital position in relation to its business profile. At the same time, the implicit parental support from the Korea Deposit Insurance Corporation (KDIC), a government agency, which is underpinned by SGIC's importance to the country's economic stability, remains unchanged. SGIC is currently 99.2% owned by KDIC, based on share value.

The Stable Outlook reflects Fitch's expectation that SGIC will maintain its healthy financial fundamentals at current levels. This is driven by prudent and seasoned management which places heavy emphasis on bottom line profitability as opposed to mere top line growth.

SGIC held up well during the recent financial crisis. Although its profitability dipped during FY08 ending 31 March 2009, it has since improved. Net income increased from KRW250bn in FY08 to KRW337bn in FY09 to KRW526bn in 1H FY10. The company's combined ratio remained healthy at about 70% to 75%.

Additionally, Fitch notes that the company continues to maintain a strong regulatory capital position, with manageable near-term liquidity needs. As at end September 2010, the company's regulatory solvency margin ratio was 1512.8%, an improvement from 1355.9% at end March 2010. Debt leverage has declined to 9.7% in FY09 from 17.0% in FY08. By virtue of its unique status as a state-owned guarantee and credit insurer, SGIC is an important component of Korea's economic infrastructure and enjoys an established market position in the local guarantee and credit insurance market. Implicit governmental support is derived from its ownership by Korea Deposit Insurance Corporation (KDIC), a government agency.

On the other hand, the key offsetting factors include the inherent business risks associated with the pro-cyclicality of the niche business, its relatively long average policy duration of one to two years, which could affect its ability to re-price as well as the company's vulnerability to the economic conditions of the South Korean market given its high business concentration risk and limited geographical diversification. Fitch views that any further upgrade of SGIC in the near term is unlikely unless there are very strong sustained improvements in SGIC's standalone financial fundamentals and/or positive sovereign rating action on the South Korean economy. On the other hand, a significant deterioration in the company's standalone credit profile in terms of market franchise, premium sustainability, operating performance and capital level relative to its business profile, as well as negative sovereign rating action on the South Korean economy could lead to a one-notch downgrade.

Established in Korea in 1969, SGIC enjoys a dominant market position in a number of segments in Korea's guarantee and credit insurance market. For FY09 ending 31 March 2010, the company's gross premiums amounted to above KRW1,127bn, making it one of the largest guarantee insurers in the world.

Contacts:

Primary Analyst
Wan Siew Wai
Senior Director

+65 6796 7217
Fitch Ratings Singapore PTE Ltd.
6 Temasek Boulevard
#35-05 Suntec Tower Four
Singapore 038986

Secondary Analyst
Jeffrey Liew
Senior Director
+852 2263 9939

Committee Chairperson
Federico Faccio
Senior Director
+44 20 3530 1394

Media Relations: Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email:
wailun.wan@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547766

Non-Life Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506369

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.