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**Research Update:**

# Kenya-Based African Trade Insurance Agency Assigned Long-Term Rating Of 'A'; Outlook Stable

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## Research Update:

# Kenya-Based African Trade Insurance Agency Assigned Long-Term Rating Of 'A'; Outlook Stable

## Rationale

On April 17, 2008, Standard & Poor's Ratings Services assigned its long-term 'A' counterparty and insurer financial strength ratings to Kenya-based African Trade Insurance Agency (ATI). The outlook is stable.

The ratings on ATI reflect very strong capitalization, strong investments, and strong liquidity. Constraints on the rating reflect the undeveloped nature of the target insurance markets in the African region, and the lack of a proven track record for operational control within the business. Furthermore, the financial flexibility is constrained by the economic limits of the member governments, although it benefits from supranational status and a fundamentally economic business motive. ATI's core strategy is to promote trade and investment in Africa through the provision of political investment risk insurance and export credit insurance.

## Major rating factors

- Very strong capitalization. ATI is very strongly capitalized, following the norms of peer group supnationals. Current capital adequacy is extremely strong, with total capital at Dec. 31, 2007 equivalent to over 90% of gross underwriting exposure. Although capitalization will weaken as business volume grows, we expect capital utilization controls to ensure capitalization remains very strong (greater than 43% of net exposure).
- Strong investments. ATI places invested funds in strongly rated banking institutions, with funds overwhelmingly in U.S. dollars.
- Strong liquidity. By reference to its gross and net underwriting exposure, ATI has strong liquidity, with available current funds in excess of gross exposure. As business volume increases, we expect this strength to weaken, but to remain a strength for the rating.
- The rating is constrained by the lack of a track record of operational control for ATI. This reflects the small business volume handled to date.
- We do not generally consider the member countries of ATI able to sustain sovereign ratings better than weak to marginal, and this affects ATI's potential financial flexibility and ability to recover qualifying losses from member states. The potential for adverse economic conditions in the African region are significant, but are partially offset by ATI's preferred creditor status with its member countries, and by the implicit backing of the World Bank's International Development Association (not rated) for the member states and ATI's operational agenda.

## Outlook

The stable outlook reflects Standard & Poor's expectation that as business volumes expand, ATI will maintain very strong capitalization of no less than 43% of net exposure. We do not expect reinsurance utilization to exceed 60% of ATI's gross exposure. Servicing regional economic growth will continue to be ATI's primary goal, with adequate profitability supporting the expansion.

A negative rating action could be caused by any wavering of shareholder support in terms of either capital raising, provision of liquidity, or loss recoveries.

Though positive rating action is unlikely in the medium term, it would be triggered by management sustaining strong operational control in realizing goals to increase the income stream and deliver profits that exceed expectations.

## Ratings List

Counterparty credit rating	A/Stable/--
Insurer financial strength rating	A/Stable

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