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CREDIT OPINION
30 October 2018

Update

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RATINGS

KazakhExport EIC JSC

Domicile	Kazakhstan
Long Term Rating	Baa3
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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KazakhExport EIC JSC

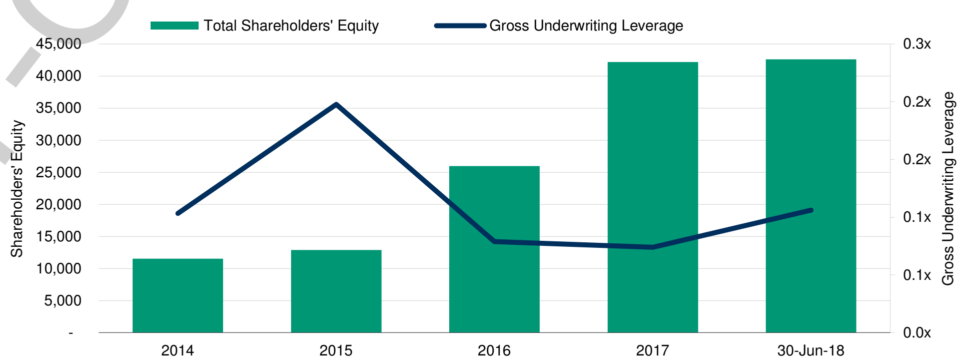
Update to credit analysis

Summary

We assign KazakhExport EIC JSC (KazakhExport) a Baa3 insurance financial strength rating (IFSR) with a stable outlook. KazakhExport is 100% owned by the Government of Kazakhstan (Baa3 stable) through the Baiterek National Management Holding, JSC (Baiterek; Baa3 Stable)[1]. Therefore, in accordance with our Government-Related Issuer rating methodology, KazakhExport's Baa3 IFSR reflects a combination of (1) the insurer's ba1 stand-alone credit profile,(2) the Baa3 long-term issuer rating of Kazakhstan, and (3) our assessment of a very high dependence and a strong probability of support from the Government of Kazakhstan.

On a standalone basis, KazakhExport's credit profile reflects the company's very strong capitalisation, in particular its limited underwriting leverage relative to its very strong capital and sound investment return supporting profitability. However, in our view, these strengths are tempered by the company's modest size, targeted growth in higher-risk export credit insurance, high concentrations in the insurance book and exposure to political risks in lower-rated countries, which can challenge its profitability and reserve adequacy.

Exhibit 1
Strong underwriting leverage supported by increasing shareholders' equity
In KZT million



Note: As of 30 June 2018, Gross Underwriting Leverage is presented as annualized
Source: Company's IFRS reports, Moody's Investors Service

Credit strengths

- 100% ownership by the Kazakh government and its public policy role
- Very strong capitalisation relative to the current premiums written
- Well positioned to become the major company in the Kazakh trade credit insurance market

Credit challenges

- The company's modest size and exposure to political risk in lower-rated countries, which can challenge its profitability and reserve adequacy
- Volatile underwriting profitability performance
- High concentrations in the insurance book and operating risk, given the underdeveloped nature of the Kazakh insurance market

Rating outlook

The outlook on KazakhExport's IFSR is stable, in line with the outlook on Kazakhstan's sovereign rating.

Factors that could lead to an upgrade

- With KazakhExport's IFSR already being positioned at the sovereign rating level, an upgrade is unlikely in the absence of a corresponding change in the sovereign rating and foreign-currency bond ceiling.

Factors that could lead to a downgrade

- Conversely, the company's rating could be revised downwards in case of a downgrade of the sovereign rating. We might also consider negative rating action if observe a substantial deterioration in the macroeconomic environment (which is not currently expected), a weakening in KazakhExport's stand-alone financial profile, or if the Kazakhstan government's capacity or propensity to render support to the company diminishes.

Key indicators

Exhibit 2

KazakhExport EIC JSC [1][2][3]	30-Jun-18	2017	2016	2015	2014	2013
As Reported (Kazakhstani Tenge Millions)						
Total Assets	47,887	46,164	28,708	15,352	12,753	12,381
Total Shareholders' Equity	42,632	42,188	25,955	12,903	11,527	11,240
Net income (loss) attributable to common shareholders	971	2,131	110	1,947	631	799
Gross Premiums Written	1,502	1,905	1,113	1,662	724	649
Net Premiums Written	936	1,333	842	1,151	705	612
Moody's Adjusted Ratios						
High Risk Assets % Shareholders' Equity	91.0%	86.1%	80.4%	59.0%	43.1%	36.0%
Reinsurance Recoverable % Shareholders' Equity	2.4%	2.4%	2.2%	4.1%	1.2%	1.1%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Underwriting Leverage	0.1	0.1	0.1	0.2	0.1	7.7%
Return on avg. capital (1 yr. avg ROC)	4.5%	6.2%	0.6%	15.2%	5.2%	5.7%
Sharpe Ratio of ROC (5 yr. avg)	117.2%	123.1%	79.8%	105.3%	135.3%	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	17.7%	82.5%	-30.2%	16.6%	34.5%	-26.9%
Financial Leverage	1.6%	1.0%	1.8%	4.0%	4.8%	6.2%
Total Leverage	1.6%	1.0%	1.8%	4.0%	4.8%	6.2%
Earnings Coverage (1 yr.)	6447.4%	6592.8%	345.6%	4995.1%	1560.3%	437.3%

[1] Information is based on annual and semiannual IFRS financial statements.
[2] As of 30 June 2018, Return On average Capital ratio (ROC), Sharpe Ratio of ROC, Gross Underwriting Leverage, and Adverse Reserve Development ratio are presented as annualized.
[3] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Company's IFRS reports, Moody's Investors Service

Profile

KazakhExport was established by the government with three key strategic priorities: (1) help Kazakh companies export goods and diversify geographically by providing financial support via export credit insurance, (2) promote awareness and the financial advantages of insurance among local companies via consulting and advisory services, and (3) assist in the development of the reinsurance business infrastructure in Kazakhstan.

In March 2017, KazakhExport was included in the list of national companies of the Republic of Kazakhstan, and in August 2017, it was excluded from the privatisation plan. The company is the key operator of the National Export Strategy of the Republic of Kazakhstan. In 2016-17, the company received KZT27.9 billion in capital injections from the government for the targeted development of credit insurance business.

As of 30 June 2018, KazakhExport reported total assets of KZT47.9 billion ($140.4 million) and shareholder's equity of KZT42.6 billion ($125.0 million).

Detailed credit considerations

Market position and brand: Niche position in the credit insurance market, with strong growth potential in Kazakhstan, offset by its small size globally

KazakhExport is a niche company in the Kazakh insurance market, with a modest market share of 0.5% by net premiums written as of 1 October 2018. The company ranks 7th by total assets among 30 insurance companies in Kazakhstan. Despite its position as the sole trade credit insurer in Kazakhstan, until recently, KazakhExport derives a material part of its premiums from property and casualty (P&C) (re)insurance operations. The company targets active business growth, with a focus on the credit insurance segment, supporting domestic exports.

Over the next 12-18 months, we expect KazakhExport to benefit from its unique position in the market and materially grow its trade credit insurance portfolio, supported by national export strategy and the government's target for the development of non-commodity and non-raw-material exports.

An existing co-operation agreement with the Eurasian Development Bank (EDB; Baa1 stable)[2] is also likely to stimulate exports and provide new opportunities for KazakhExport to sell trade credit insurance, as well as other products and services (for example, pre-export financing and factoring).

Since 2004, KazakhExport has been a member of the Prague Club of the Berne Union — the largest association of export credit agencies in the world. Furthermore, in 2014, the company became a full member of the Aman Union. These unions impose certain standards of underwriting, which we view positively and enable KazakhExport to learn from and access information from other export credit agencies.

Product risk and diversification: Focus on export credit insurance exacerbates and large concentrations increase underwriting risks

KazakhExport's primary focus is to provide credit insurance, which accounted for 72.5% of gross insurance liabilities as of 30 June 2018 (YE2016: 63%; YE2016: 68%), underpinned by growth in credit insurance premiums.

Compared with other Kazakh-based insurance companies, KazakhExport is adequately diversified, and in 2017 the portfolio was split on a net insurance claims liability basis: 80.2% credit insurance, 7.8% property, 7.1% employer's liability, 0.4% transport and cargo, and the rest (other lines of business). Geographical diversity is limited, with the vast majority of risk linked with the economic environment in Kazakhstan. The company also supports exports to Russia and other CIS countries, including Azerbaijan, Armenia and Georgia.

In terms of its customer base, KazakhExport offers trade credit and insurance products to local Kazakh companies exporting goods abroad, banks that provide financing to domestic companies to support their exports from Kazakhstan and foreign importers buying products from Kazakh companies. Priority sectors for export credit insurance include the machine, building, metallurgy, chemical and food industries.

In addition, KazakhExport offers credit insurance products, including loans insurance, factoring and pre-export financing. Although positive from a diversification perspective, these lines of business typically have long durations of up to 10 years, which increase product risk and expose KazakhExport to the potential weakening of companies or a deterioration in the economic climate. In 2017, the company started to provide insurance for bank guarantees.

In general, we view export credit insurance products as entailing very high risk. Limited historical data in the immature Kazakh market increases pricing and reserving risk for KazakhExport. Furthermore, high credit concentrations pose additional risks. In 2015, KazakhExport provided export insurance on a large transaction, with exposure to Tajikistan bank amounting to 17.8% of equity as of the year-end period, which resulted in material losses incurred in 2016. KazakhExport paid insurance claims totaling KZT2.4 billion in 2016 and the first half 2017, whereas it received KZT1.2 billion under regress from the Tajikistan bank, with the ultimate losses excluding premiums comprising around KZT1.0 billion.

Conversely, the company's P&C (re)insurance portfolio is short tailed in nature, which lowers underwriting risk. However, the focus on corporate clients, limited granularity and the geographical concentration in Kazakhstan also represent product risks and increase volatility to a greater extent that is typical for a P&C insurer with a retail-oriented business in a developed market.

Asset quality: Increase in high-risk assets, predominantly deposits at domestic banks

KazakhExport's high-risk investments, including funds at not rated Citibank Kazakhstan, subsidiary of Citibank, N.A. (A1 positive; baa2)[3], increased to 91% of equity as of 30 June 2018 from 80.4% in 2016, given fund allocations following capital injections made in 2016-2017. These investments are concentrated in domestic assets and comprise mainly current accounts and demand deposits at non-investment-grade Kazakhstan banks (59.1% of the total high-risk portfolio), with the rest comprising term deposits at Kazakhstan banks (35%) and corporate bonds (5.9%) as of 30 June 2018. Investments in Kazakhstan sovereign bonds represented 13.6% of total invested assets and foreign government bonds represented 0.5% as of the same date. Single-name concentrations in the investment portfolio are high, with the largest net exposure accounting for 15.5% of equity and the top 10 net exposures equaling to equity at the end of June 2018.

Over the past several years, the portfolio has been shifting from government bonds towards deposits with Kazakhstan banks, which we expect to continue further as KazakhExport looks to reduce the magnitude of market price volatility on its fixed-income portfolio.

However, we view the counterparty risk of Kazakhstan banks in the majority of cases as higher than that of Kazakhstan sovereign bonds. As such, this shift has a negative impact on KazakhExport's asset quality.

Capital adequacy: Very high capital level supported by state capital injections provides a buffer for planned business growth and potential losses

We view the capitalisation of KazakhExport as a key credit strength of the company. In 2016-2017, the company was supported by capital injections from the government, amounting to KZT14.0 billion and KZT13.9 billion, respectively, for the purpose of credit export insurance business development, which more than tripled the insurer's equity.

KazakhExport's gross underwriting leverage is very low at 0.1x, driven by a currently low level of insurance risk. The company's shareholders' equity as a proportion of total assets amounted to a very high 89% as of 30 June 2018 (YE2017: 91.4%; YE2016: 90.4%). KazakhExport's strong capital level provides room for targeted credit insurance expansion and serves as a buffer against potential losses and risks stemming from the investment portfolio and insurance underwriting.

KazakhExport reported a very strong regulatory solvency ratio of 38.3x at the end of June 2018. We belive that the company's capital adequacy will remain high in the next 12 months. However, we will continue to monitor the changes in KazakhExport's risk profile, in particular the company's net trade credit exposures relative to shareholders' equity and the extent to which the company can manage these exposures in an economic downturn scenario.

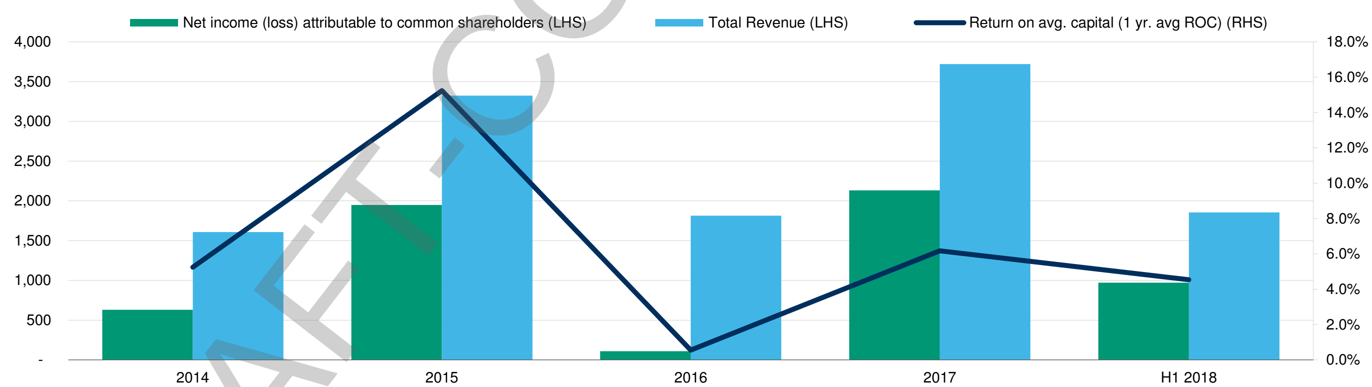
Profitability: Substantial volatility in earnings

KazakhExport's bottom-line profitability exhibits high volatility. In H1 2018, the company's net income amounted to KZT970.9 million translating into annualized ROC of 4.5%, which is moderate in Moody's view (YE2017: 6.2%; YE2016: 0.6%). Five-year average ROC stood at the adequate level of 6.3%. We expect the company's ROC to be in the range from 4.0% to 6.0% over the next 12-18 months. We believe that overall performance in the future will continue to be driven by investment returns, whereas insurance premiums will grow steadily amid targeted credit insurance business development.

Exhibit 3

Volatile profitability results in 2014 - H1 2018

In KZT million



Note: 1) Total Revenue includes net premiums earned, net F&C income, interest income, gains/(losses) on operations with securities designated at fair value, gains/(losses) on foreign-exchange operations, other operating income 2) As of 30 June 2018, ROC ratio is presented as annualized.
Source: Company reports, Moody's Investors Service

Underwriting performance has been historically weak. KazakhExport's combined ratio exceeded 100% in 2015-2017 and exceeded 250% in 2016, driven by claims paid on a large transaction. The company's underwriting performance reflects the relatively low granularity of the insured book but also the fact that the company was established by the Kazakh government to assist in reaching certain national development goals, meaning its performance is evaluated based on criteria other than profitability. As such, we expect the company to continue reporting combined ratios in excess of 100% in the next 12 months.

Reserve adequacy: The low granularity of its portfolio leads to volatile reserve development and elevates reserving risk

As at 30 June 2018, the seven-year average reserve development stood at 10.4% of additional provisioning charges over beginning reserves. Reserve development has been very volatile, as reflected in strengthening of 82.5% in 2017, release of opening reserves accounting for 30% in 2016, and strengthening of 17% in 2015. In H1 2018, KazakhExport continued to accrue additional provisions (17.7% annualized increase was reported at the end of June 2018).

With regard to the company's reserving methodology, claims reported but not settled are estimated at the full potential loss and typically settled within 10 days. The incurred but not reported reserve is calculated on the basis of the regulator's directive, at 5% of net written premiums. Therefore, given the simplistic incurred but not reported reserve estimate, together with the low granularity of the insurance book, we see reserving risk as relatively high and expect volatile reserve development to continue.

Financial flexibility: Limited access to the external capital markets, but good historical track record of government support

Financial and total leverage remained very low at 1.6% as of 30 June 2018 (down from 4.0% in 2015, following two consecutive capital injections). According to Kazakhstan law, insurance companies are not allowed to issue fixed-income securities, preference shares or similar instruments. Furthermore, bank loans may not exceed 10% of shareholders' equity and must be repaid within three months. It is, therefore, unlikely that KazakhExport will issue any debt in the near future unless amendments to the law are introduced.

Despite the company's unleveraged position, we regard the financial flexibility of KazakhExport as limited, given the practical limitations of sourcing capital instruments externally. However, the equity injections provided in the past serve as an evidence of the government's willingness and ability to provide support to KazakhExport.

Support and structural considerations

Government support

We believe there is a strong likelihood of support from and very high dependence on the Kazakh government, resulting in a one notch uplift from KazakhExport's stand-alone credit profile of ba1. We view the linkages between the Government of Kazakhstan and KazakhExport as very strong based on the following: (1) full ownership by the government; (2) dependence on the Kazakhstan economy for the company's revenue and operating profits; (3) investment portfolio being mainly concentrated in Kazakhstan sovereign bonds and deposits at Kazakhstan banks; (4) historical track record of financial support from the government for the purpose of further business development; (5) KazakhExport was excluded from the privatisation list according to the government's decision as of 3 August 2017.

Methodology and scorecard

Note on data

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the document titled Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 4

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Ba	Ba
Market Position and Brand (20%)								Ba	Ba
- Relative Market Share Ratio							X		
- Business profile - reinsurance - direct premiums % GPW (rating)		X							
Product Focus and Diversification (15%)								Ba	Ba
- Business and Geographic Diversification					X				
Financial Profile								A	A
Asset Quality (10%)								Aa	Aa
- High Risk Assets % Shareholders' Equity			86.1%						
- Reinsurance Recoverable % Shareholders' Equity	2.4%								
- Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (20%)								Aaa	Aaa
- Gross Underwriting Leverage	0.1x								
- Gross Natural Catastrophe Exposure									
- Net Natural Catastrophe Exposure									
Profitability (10%)								Baa	Baa
- Return on Capital (5 yr. avg)			6.6%						
- Sharpe Ratio of ROC (5 yr. avg)				123.1%					
Reserve Adequacy (10%)								Ba	Baa
- Adverse (favorable) development % Beg. Reserves (7 yr. avg)					6.1%				
Financial Flexibility (15%)								Baa	Baa
- Financial Leverage	1.0%								
- Total Leverage	1.0%								
- Earnings Coverage (5 yr. avg)	27.9x								
Operating Environment								B	B
Aggregate Profile								Ba2	Ba1

[1] Information based on IFRS financial statements as of YE December 31.
[2] Aggregate Profile score reflects the company's stand-alone financial strength before other considerations (discussed above).
Sources: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
KAZAKHEXPORT EIC JSC	
Rating Outlook	STA
Insurance Financial Strength	Baa3
BAITEREK NATIONAL MANAGEMENT HOLDING, JSC	
Rating Outlook	STA
LT Issuer Rating	Baa3

Source: Moody's Investors Service

Endnotes

1 Baiterek's rating presented in this report is long-term foreign-currency Issuer Rating with the outlook.

2 EDB's rating presented in this report is long-term foreign-currency Issuer Rating with the outlook.

3 Parent Citibank's ratings presented in this report is long-term local-currency Ibank deposit rating with the outlook, and its baseline credit assessment (BCA).

REPORT NUMBER 1147180

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