MOODY'S INVESTORS SERVICE

CREDIT OPINION
20 August 2021

Update

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RATINGS

KazakhExport EIC JSC

Domicile	NUR-SULTAN, Kazakhstan
Long Term Rating	Baa2
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

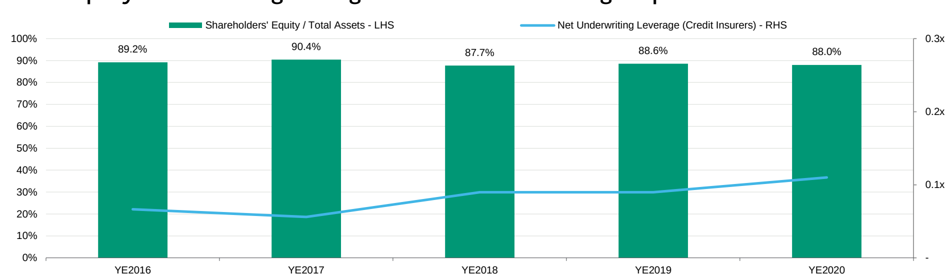
Update following rating upgrade to Baa2

Summary

KazakhExport's Baa2 IFSR reflects (1) a ba1 standalone credit assessment and (2) a two-notch uplift from its standalone credit profile because of the implicit and explicit support from its direct parent and the Kazakh government. This is based on the full ownership of KazakhExport by the Government of Kazakhstan through Baiterek, its public policy role in development of credit insurance business in Kazakhstan, and the track record of regular support provided to KazakhExport in the form of both capital injections and state guarantees against a significant part of its insurance portfolio.

KazakhExport's ba1 standalone assessment benefits from the insurer's consistently strong capitalisation, as reflected in its limited underwriting leverage (see Exhibit below), sound asset quality with around half of its investments in investment-grade assets, and good financial flexibility with low financial leverage. At the same time, these strengths are tempered by the company's modest size in global terms, low granularity of its insurance book, limited geographical diversification with exposure to lower-rated countries, which can challenge its reserve adequacy, and weak underwriting profitability.

Exhibit 1
The company's underwriting leverage is low because of its high capitalisation



Net underwriting leverage is defined as net premiums written plus incurred but not reported provisions and reported but not settled provisions (excluding reinsurers' share), as well as provisions for unearned premiums divided by shareholders' equity minus high-risk assets.
Source: Moody's Investors Service

Credit strengths

» Support from the Kazakh government through Baiterek and public-policy role

» Very strong capitalisation relative to its insured exposures

» Strong financial flexibility

» Leading position in the Kazakh trade credit insurance market

Credit challenges

» Modest size in global terms and limited geographical diversification with some exposure to lower-rated countries

» Low granularity of the insurance book, which leads to high reserving risk

» Weak underwriting profitability

Outlook

The outlook on KazakhExport's IFSR is stable, in line with the outlook on Kazakhstan's Baa2 sovereign ratings and Baiterek's Baa2 long-term issuer ratings. This reflects the strong links between KazakhExport, its parent and the Government of Kazakhstan.

Factors that could lead to an upgrade

» KazakhExport's IFSR could be upgraded in case of the further sovereign ratings upgrade, while maintaining the explicit external support from the government.

Factors that could lead to a downgrade

» Lower support assumption, the downgrade of Baiterek's ratings or KazakhExport's weaker standalone assessment could trigger a downgrade of the company's IFSR.

Key indicators

Exhibit 2

KazakhExport EIC JSC [1][2]	2020	2019	2018	2017	2016
As Reported (Tenge Millions)					
Gross Premiums Written	3,757	2,324	2,679	1,905	1,113
Net Premiums Written	3,747	2,279	2,117	1,333	842
Net Income (Loss) Attributable to Common Shareholders	3,864	2,356	1,586	2,131	110
Total Shareholders' Equity	109,440	79,193	43,310	42,188	25,955
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	57.0%	63.3%	50.1%	76.7%	72.6%
Reinsurance Recoverable % Shareholders' Equity	0.2%	0.4%	1.3%	2.4%	2.2%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net Total Exposure % Shareholders' Equity	1.4x	1.6x	2.7x	1.0x	0.6x
Net Underwriting Leverage (Credit Insurers)	0.1x	0.1x	0.1x	0.1x	0.1x
Combined Ratio (1 yr.)	322.2%	271.5%	105.3%	213.8%	208.2%
Sharpe Ratio of ROC (5 yr.)	181.6%	105.2%	112.2%	-	-
Adjusted Financial Leverage	0.7%	0.9%	1.5%	1.0%	1.8%
Total Leverage	0.0x	0.0x	0.0x	0.0x	0.0x
Earnings Coverage	124.6x	58.7x	41.0x	65.9x	3.5x

[1] Information is based on IFRS financial statements as of the fiscal year that ended December 31.
[2] Certain items may have been relabeled or reclassified for global consistency.
Sources: Moody's Investors Service and company filings

Profile

KazakhExport EIC JSC (KazakhExport) was established by the government to help Kazakh companies export goods and diversify geographically by providing financial support via export credit insurance, and to promote the financial advantages of insurance among local companies via consulting and advisory services. The company is the key operator of the National Export Strategy of the Republic of 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. Since 2016 the company received KZT95.9 billion in capital injections from the government through Baiterek for the development of the credit insurance and non-commodity exports in Kazakhstan.

In December 2019, the national government provided KazakhExport with a 10-year state guarantee totalling KZT102 billion against its insurance portfolio, which covered around 50% of KazakhExport's insurance portfolio as of 1 July 2021. A state guarantee enables KazakhExport to increase its insurance capacity to support domestic exporters and ensure the fulfilment of its insurance liabilities.

As of 31 December 2020, KazakhExport reported total assets of KZT122.9 billion ($292.1 million) and shareholders' equity of KZT109.4 billion ($260.1 million), under IFRS accounting standards.

Detailed credit considerations

Insurance financial strength rating

Market position and brand: Ba - 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% of gross premiums written (GPW) in Kazakhstan as of 1 June 2021 (year-end 2020: 0.8%). The company ranks fifth by total assets among 27 insurance companies in Kazakhstan.

As a state-owned export credit agency, KazakhExport is the major provider of credit insurance in Kazakhstan and accounts for more than 90% of the total credit insurance premiums written in the country. At the same time, the company's share in the total credit insurance market (including the following segments: loan insurance, other financial losses insurance, and insurance of financial institutions' losses) was 22.8% as of 1 June 2021 (year-end 2020: 16.4%). The company targets active business growth with a focus on the credit insurance segment supporting domestic exports.

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 promote certain standards of underwriting, which we view as credit positive, and enable KazakhExport to learn and access information from other export credit agencies.

Over the next 12-18 months, we expect KazakhExport to benefit from its unique position in the market and significantly grow its credit insurance portfolio, supported by the National Export Strategy and the government's target of increasing non-commodity and non-raw-material exports.

Product risk and diversification: Ba - Focus on export credit insurance and exposure to the Kazakhstan market

KazakhExport's primary product is credit insurance, with loan insurance accounting for 75% of its net insurance liabilities as of 31 December 2020. The insurer's Product Risk and Diversification factor is constrained by its limited geographical diversification with some exposure to lower-rated countries. Most of the risk stems from the economic environment in Kazakhstan, which accounted for 74% of its insurance portfolio as of 1 July 2021, while the second-largest geographical exposure at 9.4% was in Uzbekistan (B1 positive). Russia (Baa3 stable) accounted for 7.8%, while the Ba-rated countries Azerbaijan (Ba2 positive) and Armenia (Ba3 stable) together made up 4.2% of the company's insurance portfolio as of the same date. Other low-rated (i.e., B-rated) countries, including Kyrgyz Republic (B2 negative), Tajikistan (B3 stable), Belarus (B3 stable) and Mongolia (B3 stable), accounted for around 4%.

KazakhExport offers trade credit and insurance products to local Kazakh companies exporting goods, banks that provide financing to domestic companies to support their exports from Kazakhstan, and foreign importers buying products from Kazakh companies. The priority sectors for export credit insurance include the machine, building, metallurgy, chemical and food industries.

In addition, KazakhExport offers credit insurance products, including coverage for credit line insurance, factoring and pre-export financing. Other financial loss insurance, along with loan insurance, accounted for 94% of net insurance liabilities as of 31 December 2020. Although positive from a diversification perspective, these lines of business typically have durations of up to three years, which increases product risk and exposes KazakhExport to the potential weakening of companies' performance or a deterioration in the economic environment.

Asset quality: Baa - Sound asset quality with around half of its investments in investment-grade assets

KazakhExport's asset-quality metrics reflect the concentration of its investments in domestic assets, which mainly comprise current accounts and deposits with Kazakhstan-based banks, investments in local bonds issued by the government and the National Bank of Kazakhstan (NBK), and foreign-currency bonds issued by high-rated international financial organisations, such as Eurasian Development Bank (Baa1 stable[1]), Asian Development Bank (Aaa stable), International Finance Corporation (Aaa stable) and European Bank for Reconstruction and Development (Aaa stable). The dominant share of investments in domestic instruments increases the level of correlation between the company's assets and insured exposures.

Investment-grade assets comprised 48% of total invested assets as of year-end 2020 (year-end 2019: 42%) and included deposits, and bonds issued by the state and international financial organisations.

KazakhExport's high-risk investments, mainly deposits with Ba-rated local banks, accounted for around 57% of its equity as of 31 December 2020 (year-end 2019: 63%). We do not expect high-risk investments to increase significantly because the company will likely preserve the quality and composition of its investment portfolio.

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

KazakhExport's capitalisation remains strong, supported by regular capital injections from the government through Baiterek for the purpose of developing the credit export insurance business.

The company's shareholders' equity as a proportion of total assets (equity-to-assets ratio) has consistently averaged at a very high level of around 90%. The recent capital injection of KZT5 billion in Q1 2021 strengthened KazakhExport's capitalisation and will support its business growth. Under local GAAP, the company's equity-to-assets ratio remained strong at 88% as of 31 March 2021, compared with 89% as of year-end 2020 and 90% as of year-end 2019.

Although the company has increased its credit exposure since 2019 amid business expansion, its ratio of net total exposure to equity remained strong at 1.4x (year-end 2019: 1.6x). KazakhExport's underwriting leverage was also strong at 0.1x as of year-end 2020 (year-end 2019: 0.1x) compared with that of global peers, driven by a currently low level of insurance risk relative to its capital. According to regulatory filings, KazakhExport reported a strong regulatory solvency ratio of 55.6x as of 31 December 2020 (year-end 2019: 46.4x).

KazakhExport's strong capital provides room for its targeted credit insurance expansion and serves as a buffer against the potential losses and risks stemming from the investment portfolio and insurance underwriting. In addition, KazakhExport's loss absorption buffer is underpinned by state guarantees for around 50% of its insurance portfolio as of 1 July 2021.

Profitability: Ba - Weak and weak underwriting profitability

KazakhExport's underwriting profitability has been weak and volatile for the past three years, with a credit insurance combined ratio of 322% in 2020, up from 272% in 2019 (year-end 2018: 105%). KazakhExport's five-year average combined ratio (taking into account all claims incurred) has exceeded 200% since 2019. The ratio was exacerbated by a weak performance of the credit insurance portfolio in 2020 because of the deteriorated operating environment in Kazakhstan and a single large claim on loan insurance in 2019, and as a result of claims paid on a large transaction with the failed Tajikistan-based OJSC Tojiksodirotbank in 2016. On the positive side, the company historically recognised the substantial claims recovery of the claims paid.

At the same time, KazakhExport's bottom-line profitability is underpinned by solid investment returns and continued business growth. Net earned premiums increased year over year by 70% in 2018-20 and will likely grow further amid targeted credit insurance business development. In 2020, the company's net income amounted to KZT3.9 billion, up from KZT2.4 billion in 2019. The increase was driven mainly by investment income increase of KZT7.2 billion on its deposits and fixed-income portfolio, as well as gains from foreign-exchange operations of KZT1.2 billion that compensated for a 7% increase in operating expenses and a 20% rise in net claims paid because of the pandemic-induced increase in default cases of insured loans.

In H1 2021, KazakhExport reported a net income of KZT2.1 billion under local GAAP, which was higher than the KZT1.2 billion reported in the year-earlier period, underpinned by the growth in gross premiums written and higher investment gains offsetting high provisioning.

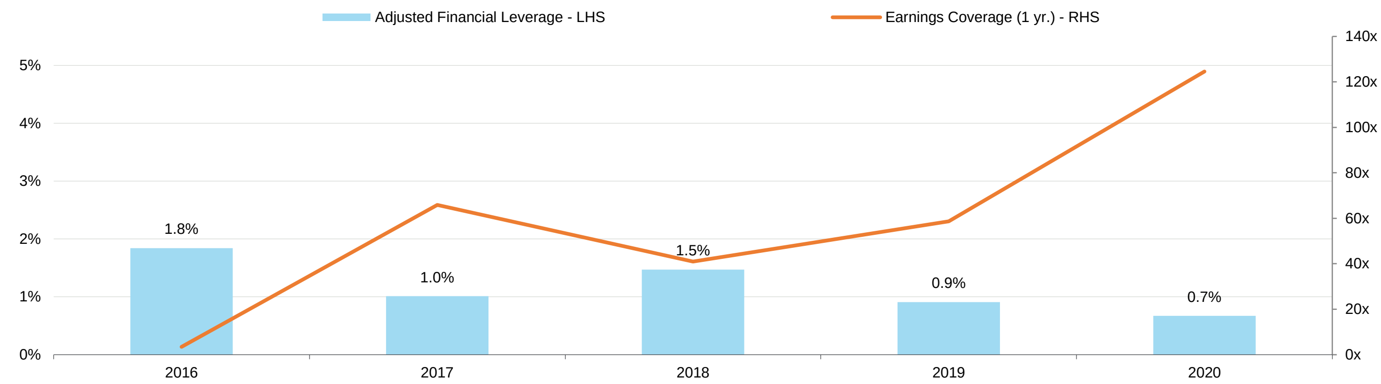
Reserve adequacy: Ba - Reserving risk remains high because of the low granularity of the insurance book

KazakhExport reported positive reserve development in 2020 because of the high provisions for reported but not settled claims on loan insurance. After 2017, KazakhExport has generally improved its reserving approach. In recent years, the company strengthened the reserves for its rapidly growing credit insurance business, calculating reserves based on incurred but not reported reserves (IBNRs) and also on a more forward-looking basis that takes into account the historical claims' frequency and severity to predict expected portfolio losses. However, reserving risk remains high because of the low granularity of the insurance book.

Financial flexibility: Baa - Strong leverage and coverage metrics

KazakhExport's financial flexibility is good because its adjusted financial leverage remains low compared with that of peers (year-end 2020: 0.7%; year-end 2019: 0.9%), reflecting a limited amount of financial debt on its balance sheet. The company's financial debt is a loan granted by the state Sovereign Wealth Fund Samruk-Kazyna. We do not expect any significant increase in its leverage in the next 12-18 months.

Exhibit 3
The company's financial flexibility is good



Adjusted financial leverage is defined as financial debt divided by financial debt plus shareholders' equity. Earnings coverage is defined as the net income plus interest expense on financial debt and income tax expense divided by interest expense on financial debt.
Source: Moody's Investors Service

According to Kazakhstan legislation, insurance companies are not allowed to issue fixed-income securities, preference shares or similar instruments. Bank loans may not exceed 10% of shareholders' equity and must be repaid within three months. Therefore, it is unlikely that KazakhExport will issue any debt in the foreseeable future, unless amendments to the legislation are introduced.

Environmental, social and governance considerations

Environmental

KazakhExport has low exposure to environmental risks, in line with our general view of the global title and trade credit insurance sector (see our environmental risks heat map for further information). Trade credit insurance protects suppliers against the risk of non-payment for goods and services by their customers, typically for periods of one year or less. Credit insurers are exposed to a wide array of industries, including some that are more exposed to carbon transition and other environmental, social and governance (ESG) risks. Theoretically, credit insurers' profitability could be hurt if a natural catastrophe led to a sharp deterioration in a specific economy and a sudden increase in corporate insolvencies. However, credit insurers are diversified by geography and sector. Also, trade credit exposures are short term in nature, allowing the insurers to manage down their exposures to sectors facing carbon transition risk or economic challenges. Like its credit insurance peers, KazakhExport is exposed to the economic consequences of environmental risks, including climate change.

Social

KazakhExport's exposure to social risks is low, consistent with our general assessment for the global title and trade credit insurance sector (see our social risks heat map for further information). Trade credit insurers are exposed to social risks, both through their own operations and through the insurance exposures they underwrite for debtors in a wide variety of industries. Trade credit is a highly specialised and relatively niche business that requires the ability to assess the credit risk of individual companies across the globe, driving the need to recruit and retain specialised skills. Social pressures affecting the wide variety of sectors that use trade credit insurance have an effect on credit insurers; however, the effect is low because of the exposures' short-term nature and extensive diversification.

We regard the pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. The rapid global spread of the pandemic has led to a deteriorating economic outlook, sharp declines in oil prices and broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Small- and medium-sized enterprises (SMEs), to which the credit insurers have significant exposure, are especially vulnerable in the current environment, with many at risk of insolvency because of a prolonged disruption of their businesses in the absence of effective government support.

Governance

Like all other corporate credits, the credit quality of KazakhExport is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

KazakhExport's exposure to governance-related issues is limited because of its state ownership through Baiterek and its public-policy role.

Support and structural considerations

Implicit and explicit support

KazakhExport is 100% owned by the Government of Kazakhstan through Baiterek, and its Baa3 IFSR benefits from a one-notch uplift from its standalone credit profile of Ba1 because of the implicit and explicit support provided by its parent and the Government of Kazakhstan. We view the links between Baiterek and KazakhExport as very strong based on the full ownership of KazakhExport by the government through Baiterek; the company's dependence on the Kazakhstan economy for revenue and operating profit; the concentration of its investment portfolio in Kazakhstan sovereign bonds and deposits at Kazakhstan banks; and the existence of state guarantees against a significant part of KazakhExport's insurance portfolio.

Rating methodology and scorecard factors

Exhibit 4

KazakhExport EIC JSC

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Ba	Ba
Market Position and Brand (10%)								Baa	Ba
-Relative Market Share Ratio				X					
-Distribution and Access to New Markets			X						
Product Focus and Diversification (20%)								Ba	Ba
-Business Diversification					X				
-Flexibility of Underwriting					X				
-Risk Diversification					X				
Financial Profile								A	Baa
Asset Quality (15%)								Aa	Baa
-High Risk Assets % Shareholders' Equity			57.0%						
-Reinsurance Recoverable % Shareholders' Equity	0.2%								
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (20%)								Aaa	Baa
-Net Total Exposure to Shareholders' Equity	1.4x								
-Net Underwriting Leverage (Credit Insurers)	0.1x								
Profitability (20%)								Ba	Ba
-Combined Ratio (5 yr. avg.)							224.2%		
-Sharpe Ratio of ROC (5 yr.)				181.6%					
Reserve Adequacy (5%)								Caa	Ba
-Worst Reserve Development for the Last 10 Years % Beg. Reserves							128.4%		
Financial Flexibility (10%)								Baa	Baa
-Adjusted Financial Leverage	0.7%								
-Earnings Coverage (5 yr. avg.)	58.7x								
Operating Environment								Ba	Ba
Preliminary Standalone Outcome								Baa2	Ba1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2020. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
KAZAKHEXPORT EIC JSC	
Rating Outlook	STA
Insurance Financial Strength	Baa2
BAITEREK NATIONAL MANAGEMENT HOLDING, JSC	
Rating Outlook	STA
LT Issuer Rating	Baa2

Source: Moody's Investors Service

Endnotes

1 The ratings of international financial organisations presented in this report are their foreign-currency long-term issuer ratings with the issuer outlook.

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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EMEA	44-20-7772-5454

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