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CREDIT OPINION
3 July 2020

Update

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RATINGS

KazakhExport EIC JSC

Domicile	NUR-SULTAN, Kazakhstan
Long Term Rating	Baa3
Type	Insurance Financial Strength - Fgn Curr
Outlook	Positive

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.

Contacts

Lev Dorf +7.495.228.6056
AVP-Analyst
lev.dorf@moodys.com

Maksim Maliutin +7.495.228.6117
Associate Analyst
maksim.maliutin@moodys.com

Yaroslav Sovgyra, CFA +7.495.228.6076
Associate Managing Director
yaroslav.sovgyra@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

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KazakhExport EIC JSC

Update to credit analysis

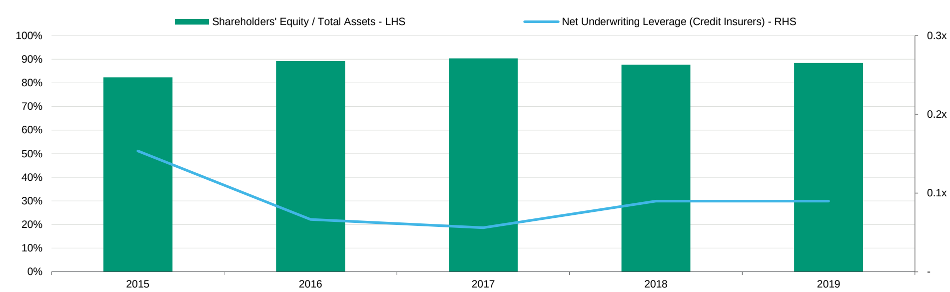
Summary

KazakhExport EIC JSC's (KazakhExport) Baa3 insurance financial strength rating (IFSR) reflects a combination of the insurer's ba1 standalone assessment and our assumption of explicit support from the Government of Kazakhstan in case of need, which results in a one-notch rating uplift. KazakhExport is 100% owned by the Government of Kazakhstan (Baa3 positive[1]) through Baiterek National Management Holding, JSC (Baiterek, Baa3 positive[2]).

KazakhExport's ba1 standalone assessment benefits from the insurer's consistently strong capitalisation, as reflected in its limited underwriting leverage, and good financial flexibility with low financial leverage. At the same time, these strengths are tempered by the company's modest size, limited product diversification because of its niche market position in credit insurance, and limited geographical diversification with some exposure to lower-rated countries, which can challenge its profitability and reserve adequacy.

Exhibit 1

The company's underwriting leverage is low because of its high capitalization



Source: Moody's Investors Service

Credit strengths

» 100% ownership by the Kazakh government through Baiterek, and its 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 and limited geographical diversification with some exposure to lower-rated countries

» Volatile underwriting profitability performance

» Low granularity of the insurance book amid rapid business growth, which leads to elevated reserving risk

Outlook

The outlook on KazakhExport's IFSR is positive, in line with the outlook on Kazakhstan's Baa3 sovereign rating and Baiterek's Baa3 long-term issuer rating. This reflects strong links between KazakhExport, its parent and the Government of Kazakhstan.

Factors that could lead to an upgrade

» KazakhExport's IFSR will be upgraded if Baiterek's rating is upgraded.

Factors that could lead to a downgrade

» Downward pressure on KazakhExport's IFSR is limited, but the outlook could return to stable if the outlook on the ratings of the sovereign and the parent stabilises.

» If our assessment of external support diminishes, it could lead to a rating downgrade.

» A material deterioration in asset quality, including a significant increase in the exposure to low-investment-grade and non-investment-grade fixed income securities, could lead to a rating downgrade.

Key indicators

Exhibit 2

KazakhExport EIC JSC [1][2]	2019	2018	2017	2016	2015
As Reported (Tenge Millions)					
Gross Premiums Written	2,324	2,679	1,905	1,113	1,662
Net Premiums Written	2,279	2,117	1,333	842	1,151
Net Income (Loss) Attributable to Common Shareholders	2,356	1,586	2,131	110	1,947
Total Shareholders' Equity	79,193	43,310	42,188	25,955	12,903
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	63.3%	50.1%	76.7%	72.6%	59.0%
Reinsurance Recoverable % Shareholders' Equity	0.4%	1.3%	2.4%	2.2%	4.1%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net Total Exposure % Shareholders' Equity	1.6x	2.7x	1.0x	0.6x	1.2x
Net Underwriting Leverage (Credit Insurers)	0.1x	0.1x	0.1x	0.1x	0.2x
Combined Ratio (1 yr.)	271.5%	105.3%	213.8%	208.2%	75.3%
Sharpe Ratio of ROC (5 yr.)	105.2%	112.2%	-	-	-
Adjusted Financial Leverage	0.9%	1.5%	1.0%	1.8%	4.0%
Total Leverage	0.0x	0.0x	0.0x	0.0x	0.0x
Earnings Coverage	58.4x	41.0x	65.9x	3.5x	50.0x

[1] Information is based on IFRS financial statements as of the fiscal year ended December 31.
[2] Certain items may have been relabeled and/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. In 2016-19, the company received KZT61.9 billion in capital injections from the government for the targeted development of the credit insurance business. In May 2020, KazakhExport received an additional capital injection of KZT29 billion to support the development of non-commodity exports in Kazakhstan.

In December 2019, the national government provided KazakhExport with a 10-year state guarantee against its insurance portfolio. The guarantee amounts to KZT102 billion or 77% of the company's insurance portfolio as of year-end 2019. A state guarantee enables KazakhExport to increase its insurance capacity to support domestic exporters and ensure the fulfillment of its insurance liabilities.

As of 31 December 2019, KazakhExport reported total assets of KZT88.2 billion ($231.4 million) and shareholders' equity of KZT72.2 billion ($207.8 million), according to IFRS reports.

Detailed credit considerations

Recent developments

The coronavirus-related economic downturn is creating a severe and extensive credit shock across many sectors, regions and markets. Since March 2020, Kazakhstan's economy has been hurt by the oil price plunge, which has resulted in local currency depreciation, and the coronavirus outbreak, which particularly affected a large array of SMEs working in the segments of passenger transport, tourism, nonfood retail, cafes, restaurants, hotels and others. Larger corporates, in general, remain more resilient to the current economic slump. However, they will also face a reduction in revenue because of weakened demand. Trade credit insurers protect sellers of goods or services from nonpayment by buyers. They face higher losses during economic downturns, when buyer defaults become more frequent. In case of KazakhExport, its growth strategy will likely remain unchanged and business volumes will increase over the next 12 months. Its performance, however, could be negatively impacted by higher claims rates because of higher default rates on insured loans. Mitigating this effect are the company's strong capitalization and government guarantees.

Insurance financial strength rating

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% of total premiums written in Kazakhstan as of 1 January 2020. The company ranks sixth by total assets among 28 insurance companies in Kazakhstan.

As a state-owned export credit agency, KazakhExport is the major provider of credit insurance in Kazakhstan and accounts for around 90% of total credit insurance premiums. 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 materially grow its trade 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: Focus on export credit insurance and exposure to the Kazakhstan market

KazakhExport's primary product is credit insurance, with loan insurance accounting for 56% of its net insurance liabilities as of 31 December 2019. 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 and Russia (Baa3 stable), which accounted for around 56% and 25% of its insurance portfolio, respectively. Other low-rated (non-investment grade) countries, including Azerbaijan (Ba2 stable), Georgia (Ba2 stable), Armenia (Ba3 stable), Uzbekistan (B1 stable), Kyrgyz Republic (B2 stable) and Tajikistan (B3 negative) accounted for about 18%.

In terms of its customer base, 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. 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 91% of net insurance liabilities as of 31 December 2019. 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: High exposure to high-risk assets, predominantly deposits in domestic banks

KazakhExport's asset-quality metrics reflect a high concentration of its investments in domestic assets, which comprise mainly current accounts and deposits at Kazakhstan-based banks, and investments in local bonds issued by the government and corporates. The current composition increases the level of correlation between its assets and insured exposures.

Investment-grade assets comprised 42% of total financial assets (year-end 2018: 55%), and included government bonds and National Bank of Kazakhstan (NBK) notes, corporate bonds and deposits.

KazakhExport's high-risk investments (mainly deposits at Ba-rated local banks) accounted for around 63% of its equity as of 31 December 2019 (year-end 2018: 50%). We do not expect the level of high-risk investments to materially increase as the company will likely preserve the quality and composition of its investment portfolio.

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

KazakhExport's capitalisation has been and will remain strong, supported by regular capital injections from the government through Baiterek for the purpose of developing the credit export insurance business. During 2016-19, the company received capital injections from the government amounting to KZT61.9 billion for the above-mentioned purpose. In May 2020, the national government provided an additional capital injection of KZT29 billion through Baiterek.

The company's shareholders' equity as a proportion of total assets has consistently averaged at a very high level of around 90% (89% as of year-end 2019 and 2018, and 91% as of year-end 2017). The recent capital injection in May 2020 strengthened KazakhExport's capitalization and will support its business growth. Although the company increased its credit exposure in 2019 amid business expansion, its ratio of net total exposure to equity remained strong at 1.6x (year-end 2018: 2.7x). KazakhExport's underwriting leverage was also adequate at 2.5x as of year-end 2019 (year-end 2018: 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 46.4x as of year-end 2019 (year-end 2018: 38.9x).

KazakhExport's strong capital level 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.

Profitability: Volatile underwriting profitability performance

KazakhExport's profitability improved in recent years, and we expect its profitability to remain supported by investment returns, whereas insurance premiums will grow steadily amid the targeted credit insurance business development. In 2019, the company's net income amounted to KZT2.4 billion, compared with KZT1.6 billion reported in 2018. KazakhExport's performance, however, could be negatively impacted by higher claims rates because of higher default rates on insured loans.

Net earned premiums increased year over year by 61% in 2018 and 51% in 2019. Underwriting profitability has been volatile for the past three years, with a credit insurance combined ratio of 272% in 2019, up from 105% in 2018 (year-end 2017: 214%). KazakhExport's five-year average combined ratio (taking into account all claims incurred) exceeded 200% in 2019, and was exacerbated by a poor performance in 2019 driven by a single large claim on loan insurance and in 2016 (208%) as a result of claims paid on a large transaction with the failed Tajikistan-based OJSC Tojiksodirotbank. On a positive front, the company historically recognized the substantial claims recovery of the claims paid.

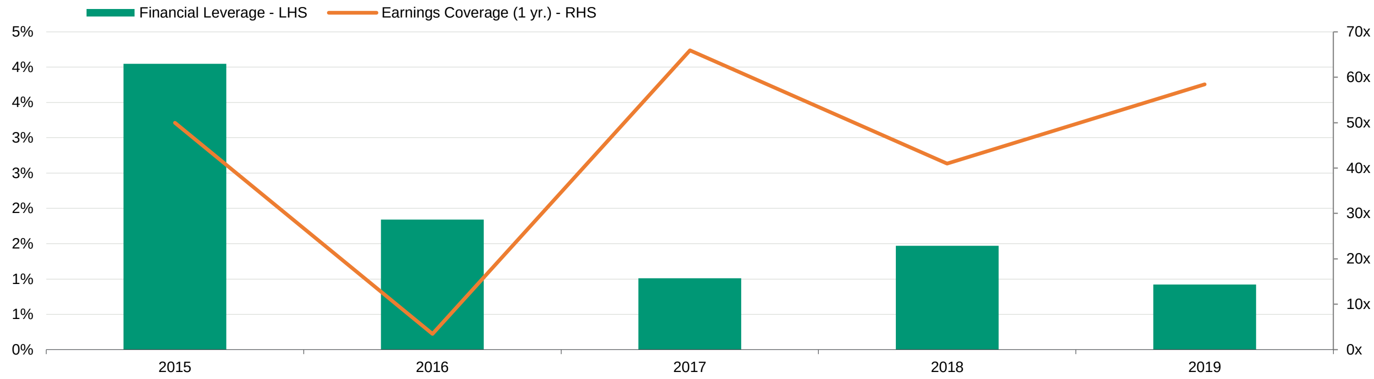
Reserve adequacy: Reserving risk remains elevated because of the low granularity of the insurance book

KazakhExport reported negative reserve development in 2019 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 historical claims' frequency and severity to predict expected portfolio losses. However, considering the low granularity of the insurance book amid rapid business growth, reserving risk remain elevated.

Financial flexibility: Strong leverage and coverage metrics

KazakhExport's financial flexibility has been very good because its financial leverage remains low compared with that of its peers (year-end 2019: 0.9%; year-end 2018: 1.5%), reflecting a limited amount of financial debt on its balance sheet. The company's financial debt is represented by the loan granted by the state Sovereign Wealth Fund Samruk-Kazyna. As of year-end 2019, the share of this loan accounted for 12% of total liabilities (year-end 2018: 16%). We do not expect any material increase in its leverage in the next 12-18 months.

Exhibit 3
The company's financial flexibility is strong



Financial Leverage is defined as financial debt divided by financial debt plus shareholders' equity. Earnings Coverage is defined as 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 Kazakh law, 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. It is therefore unlikely that KazakhExport will issue any debt in the foreseeable future, unless amendments to the law are introduced.

Environmental, social and governance considerations

Social

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The rapid global spread of the coronavirus has led to a deteriorating economic outlook, sharply lower 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.

We place KazakhExport in line with our general view for the insurance sector, which indicates a low exposure to social risks.

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.

We believe that KazakhExport's exposure to governance-related issues is limited given 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 the most 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%)								Ba	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								Baa	Ba
Asset Quality (15%)								Aa	Baa
-High Risk Assets % Shareholders' Equity			63.3%						
-Reinsurance Recoverable % Shareholders' Equity	0.4%								
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (20%)								Aaa	Baa
-Net Total Exposure % Shareholders' Equity	1.6x								
-Net Underwriting Leverage (Credit Insurers)	0.1x								
Profitability (20%)								B	Ba
-Combined Ratio (5 yr. avg.)							174.8%		
-Sharpe Ratio of ROC (5 yr.)				105.2%					
Reserve Adequacy (5%)								Caa	Ba
-Worst Reserve Development for the Last 10 Years % Beg. Reserves							230.5%		
Financial Flexibility (10%)								Baa	Baa
-Adjusted Financial Leverage	0.9%								
-Earnings Coverage (5 yr. avg.)	43.8x								
Operating Environment								Ba	Ba
Preliminary Standalone Outcome								Baa3	Ba1

[1]Information based on IFRS financial statements as of fiscal year ended December 31, 2019. [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	POS
Insurance Financial Strength	Baa3
BAITEREK NATIONAL MANAGEMENT HOLDING, JSC	
Rating Outlook	POS
LT Issuer Rating	Baa3

Source: Moody's Investors Service

Endnotes

1 Sovereign ratings presented in this report are foreign-currency long-term issuer ratings.

2 Baiterek's rating presented in this report is its foreign-currency long-term issuer rating.

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