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CREDIT OPINION
16 November 2022

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 to credit analysis

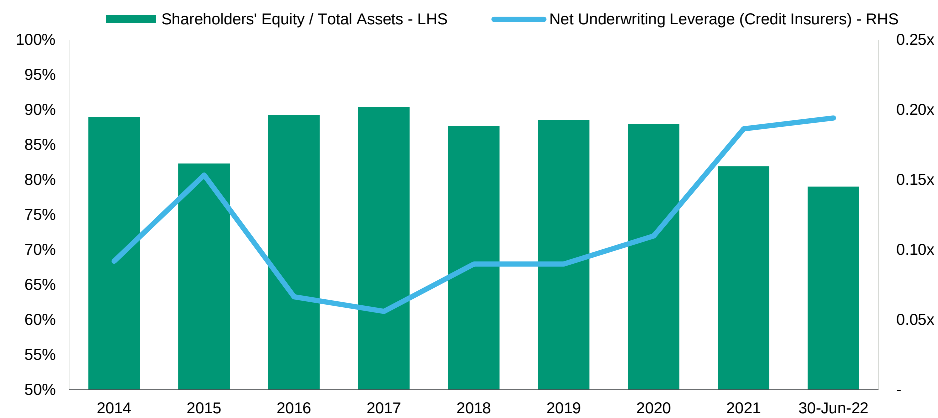
Summary

KazakhExport's Baa2 IFSR is supported by two-notch uplift from its standalone credit profile of ba1 because of the implicit and explicit support from its direct parent, Baiterek National Management Holding, JSC (Baa2 stable) and the Government of Kazakhstan (Baa2 stable).

KazakhExport's standalone assessment benefits from the insurer's consistently strong capitalisation, as reflected in its limited underwriting leverage, sound asset quality with around half of its investments in investment-grade assets, and good financial flexibility. 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 profitability.

Exhibit 1

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



Note: 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 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]	H1 2022	2021	2020	2019	2018
As Reported (Tenge Millions)					
Gross Premiums Written	2,186	6,839	3,757	2,324	2,679
Net Premiums Written	2,014	5,644	3,747	2,279	2,117
Net Income (Loss) Attributable to Common Shareholders	3,015	2,012	3,864	2,356	1,586
Total Shareholders' Equity	113,545	114,214	109,440	79,193	43,310
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	20.6%	53.2%	57.0%	63.3%	50.1%
Reinsurance Recoverable % Shareholders' Equity	-3.8%	1.2%	0.2%	0.4%	1.3%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net Total Exposure % Shareholders' Equity	2.1x	2.3x	1.4x	1.6x	2.7x
Net Underwriting Leverage (Credit Insurers)	0.2x	0.2x	0.1x	0.1x	0.1x
Combined Ratio (1 yr.)	453.0%	342.8%	322.2%	271.5%	105.3%
Sharpe Ratio of ROC (5 yr.)	-/-	250.1%	181.6%	105.2%	112.2%
Adjusted Financial Leverage	-/-	0.7%	0.7%	0.9%	1.5%
Total Leverage	0.0x	0.0x	0.0x	0.0x	0.0x
Earnings Coverage	-/-	58.61x	124.6x	58.7x	41.0x

[1] Information is based on IFRS financial statements as for the first 6 months of 2022.
[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 national 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.

The company is the key operator of the National Export Strategy of the Republic of Kazakhstan. Since 2016 the company receives funds in form of capital injections from the government through Baiterek for development of credit insurance and non-commodity exports in Kazakhstan.

The national government provided KazakhExport with a 10-year state guarantee totalling KZT412 billion against its insurance portfolio, which covered around 70% of KazakhExport's insurance portfolio. A state guarantee enables KazakhExport to increase its insurance capacity to support domestic exporters and ensure the fulfilment of its insurance liabilities.

As of 30 June 2022, KazakhExport reported total assets of KZT143.7 billion (around $307 million) and shareholders' equity of KZT113.5 billion ($242 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 0.6% of gross premiums written (GPW) in Kazakhstan as of 1 September 2022 (year-end 2021: 0.9%). 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 around 80% of its net insurance liabilities as of 30 June 2022. 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 82% of its insurance portfolio as of 1 January 2022, while the second-largest geographical exposure at 7.9% was in Russia. Uzbekistan (B1 positive) accounted for 3.3%, while the Ba-rated countries Azerbaijan (Ba1 stable) and Armenia (Ba3 negative) together made up 3% of the company's insurance portfolio as of the same date. Other low-rated (i.e., B-rated) countries, including Kyrgyz Republic (B3 negative), Tajikistan (B3 negative), Belarus (Ca negative) and Mongolia (B3 stable), accounted for around 1.4%.

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 more than 90% of net insurance liabilities as of 30 June 2022. 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, Asian Development Bank (Aaa stable[1]), 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 75% of total invested assets as of the mid 2022 (year-end 2021: 47%) and included deposits, and bonds issued by the state and international financial organisations and a large amount of assets pledged under REPO transactions.

KazakhExport's high-risk investments, mainly deposits with Ba-rated local banks, accounted for around 21% of its equity as of 30 June 2022 (year-end 2021: 53%). Inside the fiscal year the company redirected its investments from placements with banks towards less risky REPO contracts. 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 80%-90%. The last capital injection of KZT5 billion in Q1 2021 strengthened KazakhExport's capitalisation and will support its business growth. As at 30 June 2022 the company's equity-to-assets ratio remained strong at 79%, compared with 82% as of year-end 2021.

Although the company has increased its credit exposure since 2019 amid business expansion, its ratio of net total exposure to equity remained strong at 2.0x (year-end 2021: 2.2x). KazakhExport's underwriting leverage was also strong at 0.2x as of the mid 2022 (year-end 2021: 0.2x) 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 30.9x as of 30 September 2022 (year-end 2019: 46.1x).

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 73% of its insurance portfolio as of 1 October 2022.

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 453% for the first half of 2022, up from 258% for the first half of 2021. 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. 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% or more in 2018-22 and will likely grow further amid targeted credit insurance business development. For 2021, the company's net income amounted to KZT2.0 billion, up from KZT3.9 billion in 2020. The decrease was driven mainly by high changes in the gross provisions for unsecured claims amountilng to KZT1.1 billion compared to minus KZT0.4 last year, as well as reimbersment from resource claims accounting for KZT1.4 billion.

For the first 6 months of 2022, KazakhExport reported a net income of KZT4.1 billion, which was higher than the KZT2.8 billion reported for the same period of 2021, supported by high foreign exchange gains (10 times growth compared to 6 months of 2021).

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

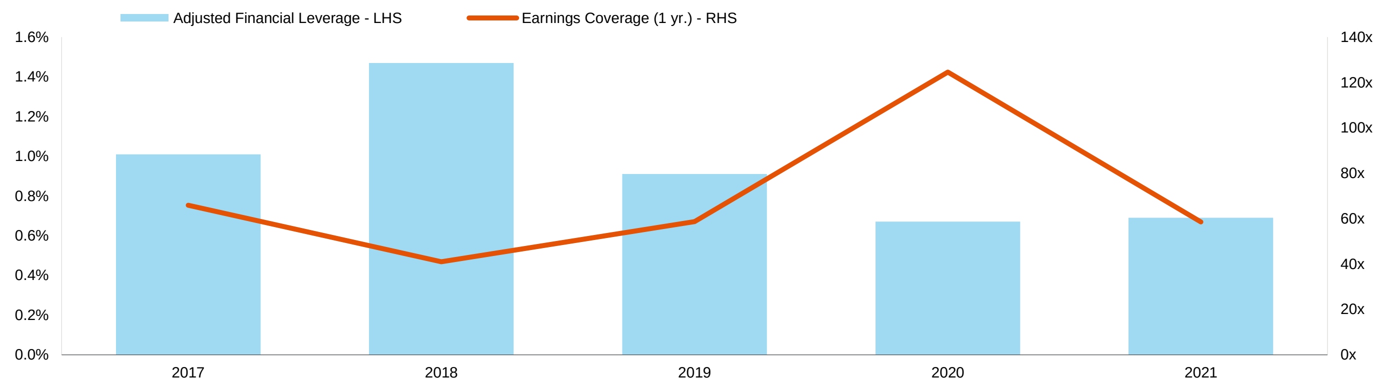
KazakhExport reported positive reserve development in 2020 because of the high provisions for reported but not settled claims on loan insurance. After 2017, KazakhExport has generally improved its reserving approach. In recent years, the company strengthened the reserves for its rapidly growing credit 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 2021: 0.7%; year-end 2019: 0.7%), reflecting almost no financial debt on its balance sheet. The company repaid its last loan granted by the state Sovereign Wealth Fund Samruk-Kazyna and now the leverage is represented by a small amount of operating leases we adjust for as debt.

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.

ESG considerations

KazakhExport EIC JSC's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

KazakhExport's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the fact that government support buffers the impact of environmental, social and governance factors on the ratings. Environmental and social factors have had a moderate impact on the insurer's credit profile to date. KazakhExport's corporate governance risks stem from its government ownership.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-3
Moderately Negative	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
KazakhExport faces moderate environmental risks, in particular carbon transition risks through the exposures they insure. These include, for example, companies which exposed to carbon transition risk, and manufacturers and retailers with large physical footprints that are meaningfully exposed to physical climate risks. These indirect risks are significantly mitigated by the sectoral diversification and extensive use of the government guarantees.

Social
KazakhExport 'has moderate social risk mainly driven by demographic and societal trends. Social pressures may affect KazakhExport indirectly because central Asia and Russia are main trading partners and its clients or its insured exposures, particularly Russia exports may be affected by new societal trends and geopolitical risks including new sanctions, but the impact is limited because of the exposures' short-term nature and extensive diversification.

Governance
KazakhExport has moderate governance risks, weighed down by the corporate governance concern mainly stemming from its ultimate government ownership, which sometimes requires it to conduct businesses to fulfill certain policy roles, supporting Kazakhstan's foreign economic and trade development. That said, its operations, risk management and financial discipline are closely supervised by the government, which provides ongoing support to the company through its parent Baiterek and public-policy role. The insurer also has an experienced and stable senior management team and its compliance and reporting are in line with industry.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural consideration

Implicit and explicit support
KazakhExport is 100% owned by the Government of Kazakhstan through Baiterek, and its Baa2 IFSR benefits from a two-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 6

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 7

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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