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АО «Казахстанская фондовая биржа»

АО «Банк Развития Казахстана» (далее – Банк), в соответствии с требованиями Листинговых правил АО «Казахстанская фондовая биржа», сообщает о том, что рейтинговое агентство S&P Global Ratings (далее – Агентство) понизило Банку долгосрочные и краткосрочные кредитные рейтинги Банка в иностранной и национальной валютах до уровня «BB+/B» с «BBB-/A-3», прогноз – «Негативный».

Одновременно долгосрочные рейтинги приоритетных необеспеченных долговых обязательств Банка (ISIN: XS0860582435, XS0248160102, XS0220743776, MYBVI1202859) понижены Агентством до уровня «BB+» с «BBB-». Рейтинг по казахстанской национальной шкале понижен с «kzAA» до «kzAA-».

Понижение кредитных рейтингов Банка обусловлено тем, что, по мнению Агентства, случаи задержки в государственной поддержке нескольких организаций, связанных с государством (ОСГ) за последние 18 месяцев, указывают на тенденцию к снижению готовности государства представлять ресурсы для своевременного погашения обязательств ОСГ.

Негативный прогноз отражает долгосрочные кредитные рейтинги Казахстана.

Приложение: Пресс-релиз Агентства от 30 июня 2017 года на 8 л.

И. о. Председателя Правления **Д. Бабичев**

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Research Update:

Ratings On Development Bank of Kazakhstan Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative

Sovereigns And International Public Finance:
SovereignEurope; SovereignEurope@spglobal.com

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Research Update:

Ratings On Development Bank of Kazakhstan Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative

Overview

- We believe that instances of delays in government support to several government-related entities (GREs) over the last 18 months indicate a broader trend in declining government willingness to provide resources for timely debt service to GREs in need.
- We are therefore lowering our long-term ratings on Development Bank of Kazakhstan (DBK) to 'BB+' from 'BBB-'.
- The negative outlook reflects that on the long-term ratings on Kazakhstan.

Rating Action

On June 30, 2017, S&P Global Ratings lowered its long- and short-term foreign and local currency issuer credit ratings on Development Bank of Kazakhstan (DBK) to 'BB+/B' from 'BBB-/A-3'. At the same time, we lowered the Kazakhstan national scale rating to 'kzAA-' from 'kzAA'. The outlook is negative.

Rationale

The downgrade primarily reflects our view of the gradual decline in the Kazakhstani government's willingness to provide resources for timely debt service to the government-related entity (GRE) sector in case of need. This is evidenced by the authorities' comparatively limited involvement in ensuring a timely payment on the obligations of several GREs in Kazakhstan over the past 18 months.

Nevertheless, we still believe that the Baiterek group remains an essential government tool, and the likelihood of the group receiving extraordinary support from the government remains almost certain. DBK remains a core institution within the Baiterek group. Correspondingly, the ratings on DBK incorporate several notches of support, being higher than what its intrinsic, stand-alone creditworthiness would warrant. We assess at 'b' DBK's creditworthiness on an autonomous basis, that is, without factoring in the potential for extraordinary government support.

Under our approach, by extraordinary support we typically mean support to ensure the full and timely servicing of an organization's debt in a stress scenario. Government transfers that sustain or expand the activities of an institution, such as government programs aimed at development of specific projects or supporting certain economic sectors, form part of our assessment of ongoing support. The latter is incorporated into our analysis of stand-alone creditworthiness.

Over the past 18 months, there have been several instances whereby timely extraordinary government support was weaker than we would have expected. The cases involved two 100% government-owned GREs: the railway company Kazakhstan Temir Zholy (KTZ) and the energy company Samruk-Energy, both of which are key subsidiaries of the Samruk-Kazyna holding company.

We have observed that in the case of KTZ, the administrative procedures for receiving extraordinary support were complex and time consuming. Last year KTZ still did not have financing secured for its $350 million notes three weeks before the maturity on May 11, 2016 (see "Research Update: Railway Operator Kazakhstan Temir Zholy And Subsidiary Kaztemirtrans 'BB' Ratings On CreditWatch Negative," published April 20, 2016). Later, the government did not intervene in a timely manner to prevent late payment of more than five business days by Vostokmashzavod, a relatively small subsidiary of KTZ, on its payments to Halyk Bank on its loan of $31.9 million, which is partially guaranteed by KTZ. The event came close to triggering the cross-default clauses on KTZ's bonds. We subsequently lowered our ratings on KTZ in October 2016 ("Research Update: Railway Operator Kazakhstan Temir Zholy Downgraded To 'BB-' On Weaker Assessment Of Government Support; Outlook Negative," Oct. 19, 2016).

Currently, Samruk-Energy, another portfolio company of Samruk-Kazyna, is facing the upcoming maturity of $500 million in Eurobonds in December 2017. We understand that within about half a year before the repayment, the available cash and equivalents and committed lines covered only about one-half of the annual liquidity needed for 2017. We have therefore lowered our ratings on Samruk-Energy by a cumulative two notches over the last six months and they currently remain on CreditWatch negative ("Research Update: Kazakh Electricity Group Samruk-Energy Cut To 'B+' And 'kzBBB-' On Increasing Refinancing Risk; Still On CreditWatch Neg," April 12, 2017).

In our opinion, these precedents indicate declining willingness of the government to provide extraordinary support to the GRE sector. Against this background, we also note that, in general, the government provides no explicit guarantees on the liabilities of the GRE sector.

Although we continue to assess the likelihood of extraordinary government support to the consolidated Baiterek group as almost certain, we no longer equalize the group credit profile (GCP)--which reflects the creditworthiness of the consolidated operations group, taking into account extraordinary government support--with the 'BBB-' sovereign credit ratings on Kazakhstan. Our assessment of the GCP is now one notch lower, at 'bb+', which balances the aforementioned negative trends against the still sizable risks for the government emanating from not bailing out the entities within Baiterek Group if they were under stress.

We view DBK as playing a core role within the Baiterek group. It accounted for close to 60% of the group's consolidated assets as of end-2016. DBK's general mandate to contribute to the development of Kazakhstan's economy through investments in priority sectors closely aligns with the overall Baiterek group strategy. We also consider it highly unlikely that DBK would be sold. As we now assess the Baiterek group's credit profile at 'bb+' and, owing to DBK's core status within the Baiterek group, our ratings on DBK are four notches higher than its 'b' stand-alone credit profile (SACP).

Our 'BB+' long-term ratings on DBK factor in the negative trends in government support in Kazakhstan, but we still expect the institution to benefit from a considerable degree of government backing. Specifically, we assess the likelihood of extraordinary government support as almost certain based on:

- DBK's integral link with the government of Kazakhstan, which fully owns and monitors DBK through National Management Holding Baiterek. DBK was established in 2001 by a Presidential Decree, and it has special public status as a national development institution under the Law On Development Bank of Kazakhstan. For instance, DBK is not required to have a banking license or to comply with prudential regulations applicable to commercial banks. The government has injected additional capital into DBK in the past via Baiterek Holding. For instance, the share capital was increased by Kazakhstani tenge (KZT) 40 billion in 2015 and by a further KZT20 billion in 2016.
- DBK's critical role as the primary institution mandated to develop Kazakhstan's production infrastructure and the processing industry. It generally provides long-term funding to large and capital-intensive investment projects that have strategic significance for the government of Kazakhstan for economic or social reasons. DBK plays a key role in implementing several government programs including the five-year State Program of Industrial and Innovative Development (SPIID) 2015-2019 and the Nurly-Zhol State Program for Infrastructure Development.

In March 2017, Baiterek Holding amended its development strategy through 2023. We understand that DBK aims to follow in the third quarter of 2017. According to management, the amended strategy will include an increasing focus on attracting nongovernment funds, as well as a closer focus on financing the non-commodity-related sectors of Kazakhstan's economy. We also understand that the rules governing DBK's financials have been amended, with the bank now allowed to achieve a higher maximum leverage of 7 to 1 instead of 6 to 1 previously.

DBK's stand-alone credit profile (SACP) remains 'b', reflecting the anchor of 'bb-' for a financial institution operating in Kazakhstan, as well as its adequate business position, adequate capital and earnings, moderate risk position, below average funding, and adequate liquidity.

Our assessment of DBK's business position balances its public-policy role as a specialized development institution financing infrastructure and industrial projects in the private and public sectors, against the government-directed nature of its lending, which impedes its business stability. DBK is Baiterek's largest subsidiary and accounted for 60% of Baiterek's consolidated assets at year-end 2016. That said, DBK had assets of KZT2.3 trillion ($7 billion) as of March 31, 2017, making it somewhat smaller than the largest two commercial banks--Kazkommertsbank JSC (KKB) and Halyk Savings Bank of Kazakhstan (Halyk), both of which have assets of about KZT4.7 trillion, but comparable in size to the third largest bank, Tsesnabank.

Our assessment of DBK's capital and earnings reflects our view of the bank's adequate capitalization and moderate loan growth plans. We forecast that our risk-adjusted capital (RAC) ratio will reduce to about 9.5%-10.0% by year-end 2018 from

10.3% as of year-end 2016. During 2016, the bank received an unexpected KZT20 billion capital increase from the government, which was not included in our original forecast. DBK does not have to comply with minimum regulatory capital requirements; however, its regulatory Tier 1 and total capital adequacy ratios were 16.3% and 19.7% as of March 31, 2017 with a leverage ratio of 5.2x.

As a state development bank, DBK's business strategy is not primarily profit-driven but is, rather, policy-role focused. Nevertheless, the bank seeks to ensure that earnings are sufficient to cover its operating and borrowing costs. DBK's income has been volatile and core profitability low over the past six years. Its ROA was 0.27% in 2016 and 2015.

Our assessment of DBK's risk position mainly reflects weaker loss experience than Kazakh commercial banks that have not been restructured during the past financial crisis; a high share of loans in foreign currencies; and high industry concentrations. The loan portfolio is concentrated in the manufacturing and carbon & petrochemicals sectors. The share of top-20 loans reduced to about 2.6x of total adjusted capital (TAC) as of March 31, 2017 from 3.4x a year earlier, which compares well with large Kazakh banks but is high when compared globally.

DBK's loss track record compares poorly with the nonrestructured commercial Kazakh banks due to its mandate of government-directed lending, which has invariably been advanced to weaker quality borrowers. Nonperforming loans (NPLs), as a percentage of total loans, peaked at 41% at year-end 2012. In 2013-2015, however, DBK transferred all its NPLs to Investment Fund of Kazakhstan, which is a sister company within the Baiterek group. New NPLs have been significantly lower in 2016, at about 1% of loans and mainly relate to a few small leasing projects and loans to Kazinvestbank, which is a small Kazakh bank that defaulted in late December 2016. On the other hand, restructured loans are fairly high, accounting for about 19.5% of total loans as of March 31, 2017, and reflect mainly loans in foreign currency that were converted into tenge. We expect NPLs to increase over the next two years when DBK's loans season and the grace period on some loans ends. The maturity profile of the loan portfolio is fairly long term with 76% of total loans having a remaining maturity of more than five years.

In our opinion, DBK's funding is below average reflecting a high refinancing risk due to its concentrated wholesale funding profile. This is despite our stable funding ratio being consistently above 100% over the past five years, albeit on a clear declining trend. Since 2017, DBK's aim is to increase the share of nongovernment funding by replacing maturing government funding with market sources.

Of loans from financial institutions, about 90% was accounted for by Export-Import Bank of China and China Development Bank, to which DBK repaid ahead of term $200 million in January 2017. Debt securities are comprised of Eurobonds (67% of total as year-end 2016), tenge bonds (31%), and Islamic bonds (2%). In 2016 DBK issued KZT212.5 billion of local bonds.

We assess liquidity as adequate, reflecting adequate holdings of liquid assets and moderate wholesale debt repayments. Cash, cash equivalents, and placements with banks accounted for 12% of total assets as of March 31, 2017. Investments in available-for-sale securities accounted for an additional 12%.

Outlook

The negative outlook on DBK mirrors our outlook on the sovereign ratings on Kazakhstan. We would likely revise the outlook or change the ratings on DBK if we took similar rating actions on Kazakhstan.

We could lower the ratings on DBK if we saw signs of waning government support to the group or, more broadly, to other government-related entities over the next 12 months. We could also lower the ratings if we perceived the role of DBK for the government as reducing in contrast to the role of the overall group.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004

Related Research

- Republic of Kazakhstan Ratings Affirmed At 'BBB-/A-3'; Outlook Remains Negative, March 10, 2017

Ratings List

	Rating	
	To	From
Development Bank of Kazakhstan		
Issuer Credit Rating		
Foreign and Local Currency	BB+/Negative/B	BBB-/Negative/A-3
Kazakhstan National Scale	kzAA-/--/--	kzAA/--/--
Senior Unsecured		
Foreign and Local Currency	BB+	BBB-
Foreign Currency	BB+	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.