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от 15.10.2018 № 19/4741

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 Moody's Investors Service (далее – Агентство) подтвердило Банку долгосрочные кредитные рейтинги эмитента в иностранной и национальной валютах на уровне «Baa3/Стабильный».

Одновременно долгосрочные рейтинги приоритетных необеспеченных долговых обязательств Банка (ISIN: XS0220743776, XS0248160102, XS0860582435, KZ2C00003002, XS1734574137, XS1814831563) подтверждены Агентством на уровне «Baa3».

Приложение: Пресс-релиз Агентства от 12 октября 2018 года.

Заместитель Председателя Правления **Д. Бабичев**

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CREDIT OPINION
12 October 2018

Update

Rate this Research

RATINGS

Domicile	Kazakhstan
Long Term CRR	Not Assigned
Long Term Debt	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Not Assigned

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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Development Bank of Kazakhstan

Update to credit analysis

Summary

We assign Baa3 long-term local- and foreign-currency issuer and senior unsecured debt ratings to Development Bank of Kazakhstan (DBK). The ratings incorporate a three-notch uplift from the issuer's ba3 stand-alone credit profile, reflecting our assessment of very high affiliate support from and the bank's very high dependence on its parent, Baiterek National Management Holding, JSC (Baiterek, Baa3 stable), which is 100% owned by the Government of Kazakhstan (Baa3 stable). DBK has a special legal status and a good track record of budgetary funding and capital injections by the Kazakh government and Baiterek.

DBK's ratings benefit from its public policy role as a national development bank and regular government support directed through its parent. At the same time, DBK's stand-alone credit profile is constrained by its (1) susceptibility to politically motivated decisions; (2) high credit concentrations; and (3) long-term foreign-currency exposures, which could lead to a deterioration in its asset quality. The bank's significant dependence on wholesale funding denominated in foreign currencies also constrains the stand-alone credit profile.

Credit strengths

» The bank benefits from its public policy role and strong government support.

» The bank's capitalization is regularly supported by the government.

Credit challenges

» Asset quality could suffer because of the bank's susceptibility to politically motivated decisions, high credit concentrations and foreign-currency exposure.

» The bank has a high share of wholesale funds in foreign currency, with refinancing risks in the longer term.

Outlook

The outlook on DBK's ratings is stable, in line with that of Baiterek and the sovereign.

Factors that could lead to an upgrade

» We would consider a positive rating action on the bank's stand-alone credit profile in the event of further strengthening in the bank's financial fundamentals, in particular asset quality and funding.

» The long-term ratings could benefit from a positive rating action on Baiterek.

Factors that could lead to a downgrade

» DBK's long-term ratings could be downgraded in the event of a lowering of Baiterek's rating or reduced support for DBK.

» Downward pressure could be exerted on DBK's standalone credit profile as a result of (1) an increase in the bank's risk appetite; or (2) a material deterioration in the bank's asset quality and erosion of capital, which might occur if the government's capital injections were to cease or be delayed.

Key indicators

Exhibit 1

Development Bank of Kazakhstan (Consolidated Financials) [1]

	6-18 [2]	12-17 [2]	12-16 [2]	12-15 [2]	12-14 [2]	CAGR/Avg [3]
Total managed assets (KZT million)	2,562,984.51	2,563,541.18	2,449,179.86	2,128,122.00	1,306,686.04	21.2 [4]
Total managed assets (USD million)	7,512	7,705	7,340	6,248	7,160	1.4 [4]
Pretax Preprovision profits / Average Managed Assets (%)	1.8	1.6	1.3	2.1	1.5	1.7 [5]
Net Income / Average Managed Assets (%)	-0.3	0.2	0.3	0.4	1.0	0.3 [5]
ROE (%)	-2.3	1.2	1.8	1.8	4.3	1.4 [5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	13.7	14.8	13.9	15.0	21.3	15.7 [5]
Effective Leverage (%)	606.8	556.6	598.0	523.3	349.3	526.8 [5]
Problem Loans / Gross Loans (Finance) (%)	7.4	13.5	5.8	5.3	10.0	8.4 [5]
Problem Loans / (Shareholders' Equity + Loan Loss Reserve) (Finance) (%)	26.7	47.8	23.5	20.5	25.0	28.7 [5]
Net Charge-Offs / Gross Loans (%)	-	-	0.0	2.2	3.6	1.9 [5]

Source: Moody's Financial Metrics

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime.

Profile

Development Bank of Kazakhstan (DBK) was established in 2001 for the specific purpose of facilitating the development of the non-extractive industry sectors in Kazakhstan by providing long-term financing in line with the strategic directions determined by the Kazakh government. The bank is fully owned by the Kazakh government via a holding company, Baiterek. Baiterek is a financial arm of the government, which uses the holding company to provide financial support to the economy's non-oil sectors through a number of development institutions that come under Baiterek's umbrella, including DBK.

DBK has a special legal status and public policy mandate, whereby it is not required to have a banking license to pursue its operations.

Detailed credit considerations

Benefits from its public policy role and strong government support

DBK's special status enables it to access key economic development programs and obtain cheaper and longer-term funding from the Kazakh government (through Baiterek) and its affiliates, as well as from the capital markets. The regular capital injections also support the bank's franchise development.

DBK is the key operator of a government-run industrialization program, with a competitive market position in lending to long-term large-scale industrial projects. To facilitate better search and monitoring of smaller projects, the bank has involved local commercial banks, to which it channels government funding according to its mandate.

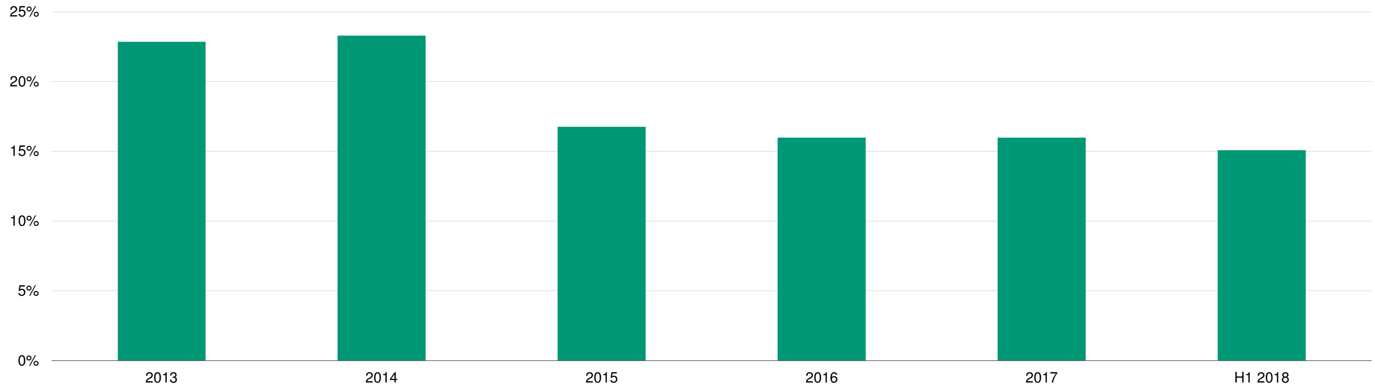
Capitalization regularly supported by the government

We expect DBK's capitalization to remain adequate in the next 18 months despite a decline since 2014, following asset growth, low internal capital generation, the tenge devaluation in 2015 and the consequent revaluation of foreign-currency-denominated assets. The bank's tangible common equity/tangible managed assets declined to a still-reasonable 15% as of the end of the first half of 2018 from 23% as of year-end 2014, according to the International Financial Reporting Standards (IFRS) report (see Exhibit 2).

Exhibit 2

Capitalization has declined but remains adequate

Tangible common equity/tangible managed assets



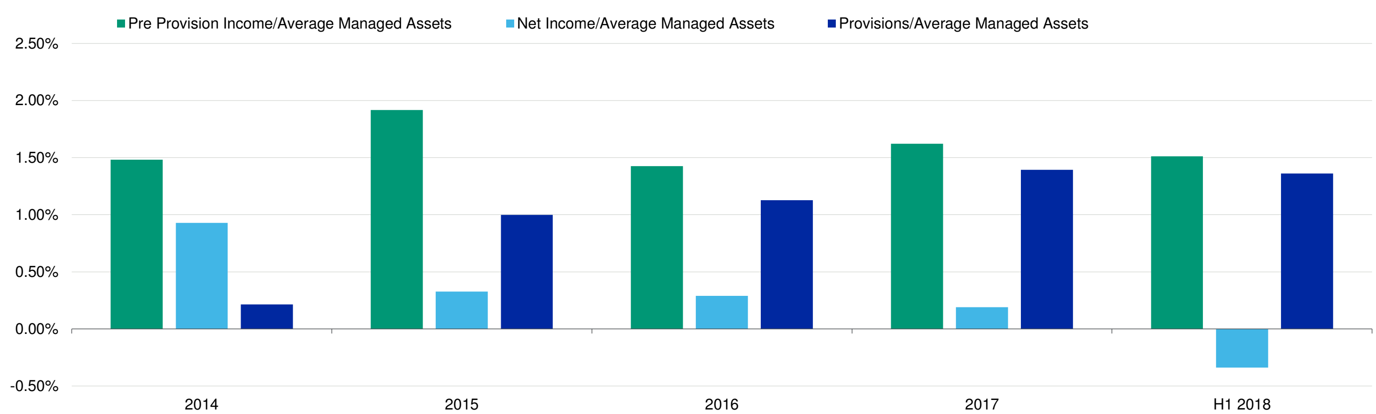
Source: Bank's IFRS reports

DBK benefits from regular capital support from the government. A capital injection of KZT25 billion was provided in 2017, which DBK channeled for the capitalization of its leasing subsidiary, DBK Leasing. Although DBK is not subject to regulatory capital adequacy requirements, a decline in its total capital adequacy ratio under Basel II below 8% could lead to a breach of covenants on market borrowings. In case of capital constraint, the bank can apply for additional support from the government, as we have seen in the past. Any failure to maintain sound capital adequacy might signal that our assessment of government support should be revised downward.

Like for other state-related development institutions, profitability is not a priority for DBK because it transfers cheap government funding to customers at low rates. The loan book consisting predominantly of long-term projects (some in foreign currency) also puts pressure on asset quality and the bottom-line. We expect the bank's financial performance to remain under pressure from the inherently low net interest margin (around 2% under our methodology) and from a provisioning burden.

Exhibit 3

Dynamics of profitability



Note: H1 2018 loss was mainly a result of one-off loss from termination of tax benefits due to changes in accounting principles.
Source: IFRS

Asset quality could suffer from the bank's susceptibility to politically motivated decisions, high credit concentrations and foreign-currency exposure

Asset quality will remain under pressure from the bank's high credit concentrations, risks associated with long-term projects and foreign-currency exposure. Given its policy role, the bank is subject to politically motivated decisions, which can often prevail over risk considerations. In accordance with its strategic role, DBK focuses on major ventures, with the loan portfolio being heavily dominated by large-scale projects, resulting in high concentrations. The top 20 borrowers have usually exceeded 70% of the bank's gross loans, or 3x equity. The bank's major projects are in the petrochemicals, mining and metallurgy, energy infrastructure, machinery, chemistry, telecoms, manufacturing and transport industries. The longer-term maturity and often greenfield nature of these projects imply higher credit risk. Positively, a significant part of the loans are affiliated with or have guarantees from state-owned companies, which partially mitigates the risk.

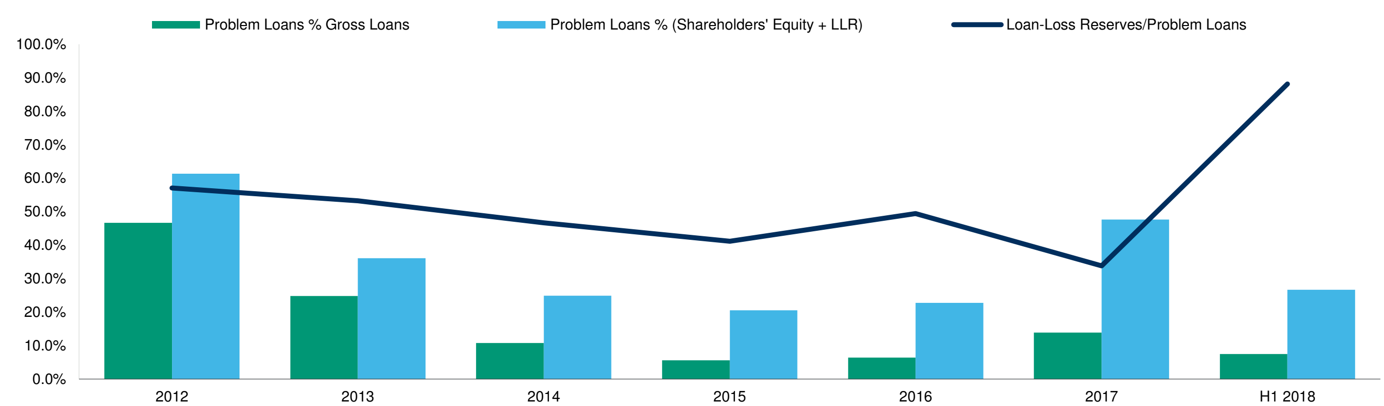
Historically, DBK has had a high share of foreign-currency loans. The bank has decreased its foreign-currency exposure by converting such loans into local currency since September 2015. The share of foreign-currency loans was at around 57% of the net loan book as of year-end 2017, down from 79% as of year-end 2014. The remaining foreign-currency loans are mainly to export-oriented companies and projects with foreign cofinancing.

DBK's level of problem loans under Moody's definition (which now include stage 3 loans and leases and loans and leases in other categories overdue more than 90 days) was 7% of total loans and leases as of the end of H1 2018. The bank's problem loan ratio fluctuates, given its high concentration in the loan portfolio. We consider that current level of provisions created for some of the loans may not fully reflect the expected losses, given the long-term nature of the loan book (as some projects may become problematic) and foreign-currency exposure and could cause additional volatility of the profitability in the future. However, at the current stage of the credit cycle, the reserves look adequate, as reflected in the loan-loss reserve/problem loan ratio of 88% as of the end of H1 2018. This ratio improved from 34% as of year-end 2017, mainly because of the application of IFRS 9 and an improvement in the financial condition of one borrower.

The bank has exposure to a company (KTZ65 billion as of the end of H1 2018) that represents some assets received in exchange for problem loans, which are currently under realization. This exposure is not provided for and is accounted at book value; therefore, we assess that there is a reserve shortfall. At the same time, if appropriate reserves are created, it would still be manageable for the bank's solvency. Overall, we consider that potential asset-quality problems are adequately covered by capital, as reflected in the Texas ratio (problem loans as a percentage of shareholders' equity plus loan-loss reserves) of only 27% at end-H1 2018.

Exhibit 4

DBK's problem loans are adequate



H1 2018 numbers are calculated under IFRS 9 and are not strictly comparable with previous data.
Source: Bank's IFRS reports

High share of wholesale funds in foreign currency, with refinancing risks in the long term

DBK is sensitive to long-term refinancing risk because of its significant dependence on capital markets. Market borrowings funded over 65% of the bank's total assets as of the end of H1 2018. A substantial portion of the bank's wholesale funding is represented by long-term loans from foreign banks, development institutions and export credit agencies (including Chinese counterparties) for financing particular projects, as well as issued bonds. Large repayments of foreign debt are due in 2022, 2023 and 2025, which could strain business volumes if the bank is unable to refinance the debt. Another material share of funding relates to government financing for interbank lending (to be on-lent to customers) and financing of industrial projects, which benefits the bank in terms of lower cost and a stable funding source. Foreign-currency-denominated liabilities dominate the funding base (around 60% of total liabilities), exposing the bank to higher funding costs and refinancing risk.

DBK's liquidity buffer, at around 10%-12% of the bank's total assets as of the end of H1 2018, is more than adequate to meet its upcoming debt repayments in the medium term, although there could be refinancing risk in the long term.

Support and structural considerations

Affiliate support

We believe there is a very high probability of support from and very high dependence on DBK's parent, Baiterek, resulting in a three-notch uplift from the bank's stand-alone credit profile of ba3. Our assessment of a very high probability of support reflects (1) DBK's 100% ownership by Baiterek, (2) the bank's special legal status, and (3) the track record of loans and capital injections provided by the Kazakh government through the bank's parent. The very high correlation between the default of DBK and the default of the parent reflects the bank's dependence on Baiterek's and the government's decisions regarding its investment policy, funding and capitalization, and DBK's high sensitivity to downturns in Kazakhstan's economy because most of its projects are located domestically.

Baiterek is a financial arm of the Kazakh government, which uses the holding company to provide financial support to the economy's non-oil sectors through a number of development institutions that come under Baiterek's umbrella. DBK is Baiterek's largest subsidiary, accounting for around 60% of the holding company's consolidated assets and 70% of its loan portfolio. We believe the Kazakh government will be the key source of extraordinary support channeled through Baiterek.

In accordance with our rating methodology, DBK's ratings reflect a combination of the following inputs: (1) the ba3 stand-alone credit profile, (2) the Baa3 long-term issuer rating of Baiterek, (3) the very high correlation between the default of the issuer and that of the parent, and (4) our assessment of very high support considerations using government funds.

Rating methodology and scorecard factors

The methodologies used in these ratings were our Finance Companies (published in December 2016) and Banks (published in September 2017) rating methodologies.

Exhibit 5

Development Bank of Kazakhstan

Rating Factors	Aa/A	Baa	Ba	B	Caa	Historical View		Forward View
Non-Financial Factors						**Ba**		**Ba**
Factor: Franchise Positioning						**Ba**		**Ba**
- Market Position and Sustainability		x						
- Operational Diversification				x				
Factor: Risk Positioning						**Ba**		**Ba**
- Potential Volatility of Assets/Cashflows			x					
- Governance and Management Quality			x					
- Risk Management			x					
- Key Relationship Concentrations				x				
- Liquidity Management		x						
Factor: Operating Environment						**Ba**		**Ba**
- Economic Strength		x						
- Institutional Strength				x				
- Susceptibility to Event Risk			x					
Financial Factors						**B**		**B**
Factor: Profitability						**Ba**		**Ba**
- PPI / AMA			**1.65%**					
- Net Income / AMA				**0.27%**				
- Pre-tax Income Coefficient of Variation			**46.74%**					
Factor: Liquidity						**Baa**		**Baa**
- 24 Month Coverage Ratio		**93.53%**						
- Secured Debt / Gross Tangible Assets	**6.19%**							
Factor: Capital Adequacy						**Baa**		**Baa**
Capital Bucket: Traditional Finance Company								
- TCE / TMA		**15.98%**						
Factor: Asset Quality						**Caa**		**Caa**
- Problem Loans / Gross Loans					**8.64%**			
- Problem Loans / (Shareholders Equity + LLR)					**30.30%**			
Scorecard estimated stand-alone credit assessment:						**Ba3**		**Ba3**
Assigned stand-alone credit profile:							**Ba3**	

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
DEVELOPMENT BANK OF KAZAKHSTAN	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
Subordinate MTN -Dom Curr	(P)Ba1
Other Short Term -Dom Curr	(P)P-3
PARENT: BAITEREK NATIONAL MANAGEMENT HOLDING, JSC	
Outlook	Stable
Issuer Rating	Baa3
ST Issuer Rating	P-3
DBK LEASING	
Outlook	Stable
Corporate Family Rating	Ba3
Issuer Rating	Ba3
ST Issuer Rating	NP

Source: Moody's Investors Service

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