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of Kazakhstan

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13.12.2018 № 19/5695

## АО «Казакстанская фондовая биржа»

АО «Банк Развития Казахстана» (далее – Банк), в соответствии с требованиями Листинговых правил АО «Казакстанская фондовая биржа», сообщает о том, что рейтинговое агентство S&P Global Ratings (далее – Агентство) подтвердило Банку кредитный рейтинг по международной шкале эмитента «BB+/B» и по национальной шкале эмитента «kzAA+». Рейтинг был пересмотрен ввиду возросших отраслевых рисков.

Одновременно рейтинг приоритетного необеспеченного долга Банка (ISIN: XS0220743776, XS0248160102, XS0860582435) подтвержден Агентством на уровне «BB+»

*Приложение: Пресс-релиз Агентства от 12 декабря 2018 года на 9 л.*

**Заместитель Председателя Правления**

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## **RatingsDirect®**

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Research Update:

### **DAMU And DBK 'BB+/B' Ratings Affirmed, Despite Increased Industry Risks In Kazakhstan's Banking System; Outlooks Stable**

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## Research Update:

# DAMU And DBK 'BB+/B' Ratings Affirmed, Despite Increased Industry Risks In Kazakhstan's Banking System; Outlooks Stable

## Overview

- We believe that industry risks in Kazakhstan's banking system have increased due to the influence on the competitive landscape from the government, government related-entities, and well-connected banks' owners.
- In our view, the creditworthiness of DAMU Entrepreneurship Development Fund (DAMU) and Development Bank of Kazakhstan (DBK) will remain resilient against the increased industry risks, thanks to an almost certain likelihood of government support for the Baiterek Holding group, of which both entities are core subsidiaries.
- We are therefore affirming our 'BB+/B' ratings on DAMU and DBK.
- The stable outlooks on DAMU and DBK mirror our outlook on the sovereign ratings on Kazakhstan.

## Rating Action

On Dec. 12, 2018, S&P Global Ratings affirmed its 'BB+/B' long- and short-term foreign- and local-currency issuer credit ratings on Kazakhstan-based DAMU Entrepreneurship Development Fund (DAMU) and Development Bank of Kazakhstan (DBK). The outlook on both entities is stable.

At the same time, we affirmed our 'kzAA+' long-term Kazakhstan national scale rating on the entities.

## Rationale

The affirmation follows the revision of our banking industry country risk assessment (BICRA) on Kazakhstan. We believe that industry risk in the Kazakh banking system has increased because of a harsher competitive landscape following various actions by the government, government related-entities (GREs), and well-connected bank owners. The banking system has become more polarized, in our view, with smaller banks pushed out of the market, while larger players benefit from government support and ad hoc government decisions, as well as customers' flight to quality. Although the share of state ownership in the Kazakh banking sector is currently low (below 5%), banks are highly confidence sensitive, typically have franchises that depend in part on the perceived reputation of their owners, and some rely



meaningfully on public sector financing in the form of GRE deposits. As a result, we think that the stability of individual banks is highly dependent on decisions taken by the government, which could be unpredictable and lack consistency for external observers. We believe Kazakhstan's banking regulators are also prone to regulatory forbearance policies, for example with regard to provisioning adequacy and capitalization.

We think that allocation of GREs' deposits, which account for about a quarter of total deposits in the system, is confidence-sensitive, volatile, and highly dependent on one-off government decisions. We have observed that the distribution of GRE deposits across Kazakh banks has supported some relatively weak large banks, while withdrawing funds from weak small banks.

We think that the negative impact of the prolonged correction phase on the banking sector will ease over the next two years. We therefore expect credit losses in the banking system to stabilize at 1.5%-2.0% in 2018-2020, following a spike of 9% in 2017.

The affirmation also reflects our belief that DAMU and DBK remain core institutions within the Baiterek Holding group (Baiterek group), for which we believe there is an almost certain likelihood of support from the government of Kazakhstan. In our view, their positions within the group support their creditworthiness, despite increased industry risks in Kazakhstan's banking sector.

We have affirmed DBK's SACP at 'b', reflecting our view that it is likely to maintain its capitalization at adequate levels, with capital injections from the government in December 2018 and 2019 supporting our forecast risk-adjusted capital (RAC) ratio of 7%-8%.

We have revised DAMU's SACP to 'b-' from 'b', reflecting our view that its capitalization is likely to weaken due to increased industry risks in the Kazakh banking system, reflecting that DAMU lends to Kazakh commercial banks. We expect the bank's RAC ratio will decrease to 8%-9% in 2019-2020 due to high planned balance sheet growth.

The Baiterek-supported group credit profile (GCP) of 'bb+' reflects the creditworthiness of the consolidated operations group, taking into account potential extraordinary government support and the 'BBB-' sovereign credit ratings on Kazakhstan. Our assessment of the supported GCP at 'bb+' is one notch lower than the sovereign ratings, which balances the negative trends in Kazakhstan's GRE sector (for more details, see "Ratings On Kazakhstan's DAMU Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative," and "Ratings On Development Bank of Kazakhstan Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative," both published on June 30, 2017, on RatingsDirect)

In our view, both DAMU and DBK play a core role within the Baiterek group and therefore we equalize their ratings with the group's supported GCP. At year-end 2017, DAMU accounted for about 10% of the group's consolidated assets

and DBK accounted for about 60%. DAMU's general mandate to contribute to the development of Kazakhstan's entrepreneurship and the small and medium enterprise (SME) sector, and DBK's general mandate to contribute to the development of Kazakhstan's economy through investments in priority sectors, both closely align with the Baiterek group's overall strategy. We consider it highly unlikely that either entity would be sold.

We believe there is an extremely high likelihood that the government would provide timely extraordinary support to DAMU if needed, based on:

- DAMU's integral link with the government of Kazakhstan, which fully owns DAMU through National Management Holding Baiterek. DAMU was established in 1997 by presidential decree. The status of DAMU is reflected in the law "On Private Entrepreneurship," which refers to the fund as an institution contributing to entrepreneurship development on behalf of the government. We do not expect DAMU will be privatized in the foreseeable future.
- DAMU's very important role for the government as the institution supporting the SME sector in Kazakhstan. The government has set out the expansion of the sector as a priority for the development and diversification of the Kazakh economy. DAMU contributes to implementing several government development programs including the SME support program Business Roadmap 2020, the infrastructure program Nurly Zhol, as well as a new program focused on the development of productive employment and entrepreneurship for 2017-2021.

We believe there is an almost certain likelihood that the government would provide timely extraordinary support to DBK if needed, 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) 20 billion in 2016 and by a further KZT25 billion in 2017.
- 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.



## Outlook

The stable outlooks on DAMU and DBK mirror our outlook on the sovereign ratings on Kazakhstan. Any rating action on the sovereign would likely result in a similar action on both entities.

We could lower our ratings if we saw signs of waning government support to the Baiterek group, or, more broadly, to other Kazakhstan-based GRES over the next 12 months.

We could raise the ratings if Kazakhstan's monitoring of its GRE debt and the efficiency of its administrative mechanisms to provide extraordinary support to its GRES improved.

## Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Ratings On 11 Kazakh Banks Affirmed Despite Increased Industry Risks; Tengri Bank Downgraded To 'B-' On Capitalization, Nov. 28, 2018.

## Ratings List

Ratings Affirmed

*Research Update: DAMU And DBK 'BB+/B' Ratings Affirmed, Despite Increased Industry Risks In Kazakhstan's Banking System; Outlooks Stable*

DAMU Entrepreneurship Development Fund JSC  
Issuer Credit Rating BB+/Stable/B  
Kazakhstan National Scale kzAA+/--/--

Development Bank of Kazakhstan  
Issuer Credit Rating BB+/Stable/B  
Kazakhstan National Scale kzAA+/--/--  
Senior Unsecured BB+

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

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