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26.02.2019 № 19/965

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Приложение: Кредитный отчёт Агентства от 22 февраля 2019 года.

Заместитель Председателя Правления

Д. Бабичев

Исп. Айтенов С..
8 7172 79 26 52

CREDIT OPINION

22 February 2019

Update

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 standalone assessment, 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, which results in reasonable capitalisation and liquidity profile. At the same time, DBK's standalone assessment is constrained by its (1) susceptibility to risky credit decisions due to its policy role which could elevate asset risk; (2) high credit concentrations; and (3) long-term foreign-currency exposures, which could lead to a deterioration in its asset quality.

Exhibit 1
Modest and pro-cyclical asset quality



Q3 2018 numbers are calculated under IFRS 9 and are not strictly comparable with previous data.

Source: Bank's IFRS reports

Credit strengths

- » Public policy role and strong government support.
- » Capitalisation is regularly supported by the government.
- » Adequate liquidity

Credit challenges

- » Marginal profitability as a not-for-profit organisation
- » Asset quality could suffer because of the bank's susceptibility to risky credit decisions due to its policy role, high credit concentrations and foreign-currency exposure.

Outlook

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

Factors that could lead to an upgrade

- » The long-term ratings could benefit from a positive rating action on Baiterek provided its standalone assessment does not deteriorate.
- » An improvement in DBK's standalone credit profile is likely to compress the currently applicable ratings uplift, given that DBK's Baa3 issuer ratings are at the same level as Baiterek's ratings.

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.
- » A mild weakening of DBK's standalone credit profile is unlikely to lead to lower issuer ratings and could be compensated by higher ratings uplift, provided our current very high affiliate support assumptions remain applicable.

Key indicators

Exhibit 2

Development Bank of Kazakhstan (Consolidated Financials) [1]

	9-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg. ³
Total managed assets (KZT million)	2,562,579	2,563,541	2,449,180	2,128,122	1,306,686	19.7 ⁴
Total managed assets (USD million)	7,056	7,705	7,340	6,248	7,160	-0.4 ⁴
Pretax Preprovision profits / Average Managed Assets (%)	1.8	1.6	1.3	2.1	1.5	1.6 ⁵
Net Income / Average Managed Assets (%)	0.1	0.2	0.3	0.4	1.0	0.4 ⁵
ROE (%)	0.7	1.2	1.8	1.8	4.3	2.0 ⁵
Short Term Debt / Total Debt (%)	-	1.0	6.0	0.3	5.4	3.2 ⁵
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	14.0	14.8	13.9	15.0	21.3	15.8 ⁵
Effective Leverage (%)	588.0	556.6	598.0	523.3	349.3	523.1 ⁵
Problem Loans / Gross Loans (Finance) (%)	6.6	13.5	5.8	5.3	10.0	8.3 ⁵
Problem Loans / (Shareholders' Equity + Loan Loss Reserve) (Finance) (%)	25.5	47.8	23.5	20.5	25.0	28.4 ⁵
Net Charge-Offs / Gross Loans (%)	-0.0	-	0.0	2.2	3.6	1.5 ⁵

[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.

Source: Moody's Financial Metrics

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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

DBK has a special legal status and public policy mandate, whereby it is not required to have a banking license to pursue its operations. DBK's special status enables it to access key economic development programmes 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 industrialisation programme, 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.

Detailed credit considerations

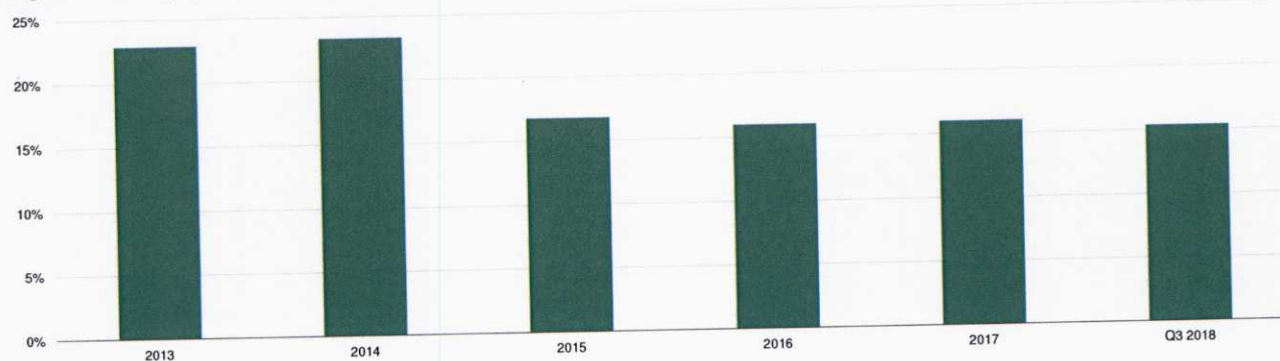
Capitalisation regularly supported by the government

We assign a Capital Adequacy and Leverage score at Baa1, in line with the historical score.

We expect DBK's capitalisation to remain adequate in the next 12-18 months despite a decline since 2014, following asset growth, low internal capital generation, the KZT 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 third quarter of 2018 from 23% as of year-end 2014, according to the IFRS report (see Exhibit 3).

Exhibit 3

Capitalisation has declined but remains reasonable 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 used for the capitalisation of its leasing subsidiary, [DBK Leasing](#) (Ba2 stable). Another capital injection of KZT10 billion was received in December 2018 and around KZT20 billion is expected in 2019, part of it (KZT 15 billion) will be used to finance its 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 a 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 a downward revision in our assessment of government support.

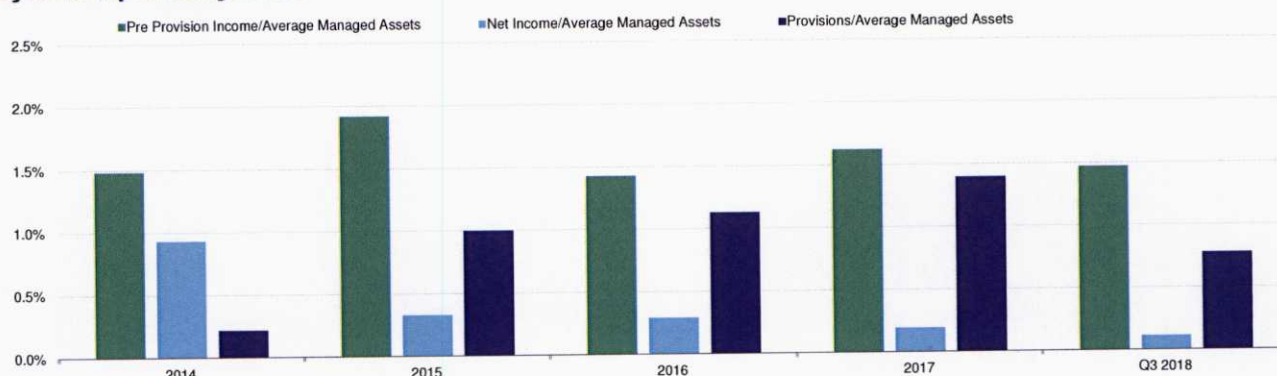
Marginal profitability

Our assigned score of B3 for Profitability is adjusted down by one notch to reflect the expected trend (potential pressure from asset quality deterioration).

Similar to 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 exerts pressure on asset quality and the bottom line. We expect the bank's financial performance to remain strained by the inherently low net interest margin (Net Interest Income as a percent of average earning assets of around 2%) and a provisioning burden.

Exhibit 4

Dynamics of profitability metrics



2018 result was impaired by a one-off loss from the termination of tax benefits because of 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

We assign an Asset Risk score at Ca in line with the historic score and despite recent improvements to reflect the long-term investment nature of the loan book with high exposure to foreign-currency lending.

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 risky credit decisions stemming from its policy role, 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 co-financing.

DBK's level of problem loans under our 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 Q3 2018. The bank's problem loan ratio fluctuates, given its high concentration in the loan portfolio. We believe the 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 in profitability in the future. However, at the current stage of the credit cycle, the reserves look adequate, as reflected in the bank's loan-loss reserves/problem loans of 78% as of the end of Q3 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 (KTZ67 billion as of the end of Q3 2018) that represents some assets received in exchange for problem loans, which are currently under realisation. 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 26% as of the end of Q3 2018.

Adequate liquidity

We assign Baa3 score to the Cash Flow and Liquidity factor, two notches below the unadjusted score. We adjust the Debt Maturities Coverage score to Baa3 from Baa2 to reflect higher repayments in longer term. In addition, we adjust Secured Debt/Gross Tangible Assets to A1 from Aaa to reflect our assessment of the fungible nature of DBK's assets and their ability to generate cashflows in times of need through, e.g. securitisations.

DBK's liquidity buffer, at 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. Liquidity management is reasonable. The bank pro-actively accumulates liquidity cushion and / or refinances obligations. Its status as a government related institution ensures good access to market funding.

At the same time DBK is sensitive to long-term refinancing risk because of larger repayments of foreign debt in the medium to long term, which could strain business volumes if the bank is unable to refinance the debt. Foreign-currency-denominated liabilities dominate the funding base (around 60% of total liabilities), exposing the bank to higher funding costs and refinancing risk.

Market borrowings funded over 75% of the bank's total assets as of the end of Q3 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. 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.

Operating environment

We assign a Ba2 weighted Operating Environment score to DBK, based on the industry and macro-level risks of its operations under various government programmes. The score is determined by DBK's activities in Kazakhstan, which is the predominant market and to which we assign a Ba2 Operating Environment score (see scorecard below).

Macro-level indicator

DBK's exposures primarily relate to Kazakhstan. The Ba2 Kazakhstan Macro-Level Indicator score reflects its moderate degree of economic strength and susceptibility to event risk as well as Low+ institutional strength.

Industry risk

We assign a Ba Industry Risk score to DBK. DBK is shielded from competition by high barriers to entry because of its access to cheap government funding and capital under government industrial development programmes, which are used to finance its operations.

Industries of key activity follow the domestic economic cycle, given the exposure is mostly long term and DBK cannot fully adjust to changing realities. As a result, the cash flow declines in economic downturns.

The company offers niche products, which are unique to the market and have a long history. Long-term lending to finance investment cycles in a cyclical economy, often to finance startups, exposes the company to higher risk.

Qualitative adjustments

Business diversification qualitative adjustment

We apply a one-notch downward qualitative adjustment for business diversification to reflect the very high concentration of DBK's franchise, where the top 20 loans make up 70% of the loan book.

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 to the Baa3 issuer ratings from the bank's standalone assessment 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 capitalisation, 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 channelled through Baiterek.

Source of facts and figures in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Company-specific figures originate from company's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

Rating methodology and scorecard factors

The rating methodology used in these ratings was [Finance Companies](#), published in December 2018.

Exhibit 5

Development Bank of Kazakhstan

Financial Profile	Historical		Assigned			
	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	0.19%	B2	B3	Expected trend	
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	15.36%	Baa1	Baa1	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	20%	13.91%	Ca	Ca		
Net Charge-Offs / Average Gross Loans (%)	0%					
Weighted Average Asset Risk Score			Ca	Ca		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	167.10%	Baa2	Baa3	Expected trend	
FFO / Total Debt (%)	15%	1.82%	Caa2	Caa2		
Secured Debt / Gross Tangible Assets (%)	20%	0.00%	Aaa	A1	Expected trend	
Weighted Average Cash Flow and Liquidity Score			Baa1	Baa3		
Financial Profile Score	1		Ba1	Ba2		
Operating Environment						
Home Country	Factor Weights	Qualitative Scale	Score			
Macro Level Indicator	55%		Ba2			
Economic Strength	25%	Moderate				
Institutional Strength	50%	Low +				
Susceptibility to Event Risk	25%	Moderate				
Industry Risk	45%		Ba			
Home Country Operating Environment Score			Ba2			
	Factor Weights		Score	Comment		
Operating Environment Score	0		Ba2			
ADJUSTED FINANCIAL PROFILE			Score			
Adjusted Financial Profile Score			Ba2			
Financial Profile Weight	100%					
Operating Environment Weight	0%					
Business Profile and Financial Policy			Adjustment	Comment		
Business Diversification, Concentration and Franchise Positioning			-1	Top 20 borrowers make up over 70% of the loan book		
Opacity and Complexity			0			
Corporate Behavior / Risk Management			0			
Liquidity Management			0			
Total Business Profile and Financial Policy Adjustments			Ba3			
Sovereign or parent constraint			Baa3			
Standalone Assessment Range			ba2 - b1			
Assigned Standalone Assessment			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
PARENT: BAITEREK NATIONAL MANAGEMENT HOLDING, JSC	
Outlook	Stable
Issuer Rating	Baa3
ST Issuer Rating	P-3
DBK LEASING	
Outlook	Stable
Corporate Family Rating	Ba2
Issuer Rating	Ba2
ST Issuer Rating	NP

Source: Moody's Investors Service

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