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## Research Update:

# Ratings On Kazakhstan's DAMU Affirmed At 'BB+/B'; Outlook Stable

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## Overview

- We believe that DAMU Entrepreneurship Development Fund (DAMU or the fund) continues to play a very important role for the government of Kazakhstan, which fully owns the fund via Baiterek Holding.
- DAMU contributes to fulfilling Baiterek Holding's mandate as it is core within the group, and we do not expect the fund to be privatized in the medium term.
- We are affirming our 'BB+/B' long- and short-term foreign- and local-currency issuer credit ratings on DAMU.
- The stable outlook on DAMU mirrors our outlook on the sovereign ratings on Kazakhstan.

## Rating Action

On June 25, 2018, S&P Global Ratings affirmed its long- and short-term foreign- and local-currency issuer credit ratings on DAMU Entrepreneurship Development Fund (DAMU) at 'BB+/B'. At the same time, we affirmed the Kazakhstan national scale rating on DAMU at 'kzAA-'. The outlook is stable.

## Rationale

The affirmation primarily reflects our view that--given its mandate to support and develop the small and midsize enterprise (SME) sector in Kazakhstan--DAMU remains a core institution within the Baiterek Holding group (Baiterek group). The affirmation also reflects our view of an extremely high likelihood that the government of Kazakhstan would provide timely extraordinary support to DAMU in a financial stress scenario.

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

We view DAMU as playing a core role within the Baiterek group and therefore we

equalize the rating on DAMU with the Baiterek group's GCP. DAMU accounted for about 10% of the group's consolidated assets as of end-2017. DAMU's general mandate to contribute to the development of Kazakhstan's entrepreneurship and the SME sector closely aligns with the overall Baiterek group strategy. We also consider it is highly unlikely that DAMU would be sold.

We also 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 to 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 expect that DAMU will continue supporting the SME sector and will implement various government programs. We understand, however, that the funding will predominantly come from nongovernment sources, namely from international financial institutions.

Our ratings on DAMU are four notches higher than its stand-alone credit profile (SACP), which we have affirmed at 'b'. The SACP reflects the combination of the 'bb-' anchor for Kazakhstan banks, which is driven by high economic and industry risks for the system, and factors specific to DAMU. In particular, the SACP reflects DAMU's relatively small size compared to midsize Kazakh commercial banks and its focus on providing loans to commercial banks.

We expect DAMU's capitalization to remain strong, although we project that it will fall in the next 18 months, taking into account significant growth that the fund is targeting.

The fund's risk position is comparable to the average of the Kazakh banking system, reflecting its concentrated exposure to the Kazakh banking sector, where we have seen a few defaults over the past 18 months; its growing exposure to SMEs through the provision of guarantees; as well as sound risk management practices.

The fund's liquid assets adequately cover its short-term debt repayments, but the fund is vulnerable to refinancing risk, as concentrated wholesale funding dominates its funding profile. DAMU aims to diversify its lending across a

variety of market sources and to reduce its reliance on government funding.

## Outlook

The stable outlook on DAMU mirrors our outlook on the sovereign ratings on Kazakhstan. Any rating action on the sovereign would likely result in a similar action on the fund.

We could lower our ratings on DAMU if we saw signs of waning government support to the Baiterek group, or, more broadly, to other GREs over the next 12 months.

We could raise the ratings on DAMU if Kazakhstan's monitoring of its GRE debt and the efficiency of its administrative mechanisms to provide extraordinary support to Kazakh GREs were to improve significantly.

## Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- 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: National And Regional Scale Credit Ratings, Sept. 22, 2014
- 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

## Ratings List

Ratings Affirmed

DAMU Entrepreneurship Development Fund JSC

Issuer Credit Rating

BB+/Stable/B

Kazakhstan National Scale

kzAA-/--/--

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