

## **Fitch Rates Kazakhstan's JSC Baspana Mortgage Organisation 'BBB'; Outlook Stable**

Fitch Ratings - Moscow - 17 December 2018: Fitch Ratings has assigned Kazakhstan's JSC Baspana Mortgage Organisation (Baspana) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of 'BBB' and a National Long-Term Rating of 'AAA(kaz)'. The Outlooks are Stable.

### **KEY RATING DRIVERS**

Under its Government-Related Entities (GRE) Criteria, Fitch applies a top-down approach and views the government's ability and willingness to provide support to Baspana as high. Based on the assessment of strength of linkage and incentive to support Fitch has equalised Baspana's IDRs with those of the Republic of Kazakhstan (BBB/Stable/F2), irrespective of Baspana's standalone credit assessment.

Baspana was established in June 2018 by the National Bank of the Republic of Kazakhstan (NBRK) under the president's decree. Baspana is tasked with running a mortgage lending programme '7-20-25', which is a new instrument of the state policy aimed at improving housing affordability in Kazakhstan. The company's role is to raise funding from the market and refinance banks' mortgage portfolio issued under this programme, hence providing liquidity to banks and ensuring the availability of affordable mortgage loans to Kazakh people.

### **Status, Ownership and Control Assessed as Very Strong**

The assessment is supported by Baspana's 100% ownership by NBRK and the latter's strong control over the entity's operations. Despite the company's ordinary commercial law status, Baspana is the only government agent in the Kazakh housing sector that is directly owned by NBRK. Fitch assumes it is highly likely that Baspana's liabilities would be ultimately transferred to NBRK or other government-designate entity in case of the company's liquidation.

NBRK fully controls and oversees Baspana's operations, including approval of the mortgage lending programme and a five-year budget, appointment of Baspana's management board and an external auditor. Additionally, implementation of the '7-20-25' programme is subject to direct presidential control.

### **Support Track Record and Expectations Assessed as Very Strong**

The assessment is supported by Fitch's view that the government's ability and willingness to support the company is very strong. This is derived from a supportive political framework for the implementation of the programme '7-20-25' and the high status of Baspana's shareholder. NBRK has injected a substantial amount of equity into Baspana upon its establishment (KZT204 billion or about USD550 million) and is committed to supporting the company. Therefore we assess NBRK's capacity and intent to extend timely and extensive support to Baspana in case of need as high.

The launch of the new '7-20-25' programme was accompanied by regulatory changes to stimulate investment by local banks in mortgage portfolios. Additionally, NBRK has set a zero risk-weighting for Baspana bonds, supporting the bonds' liquidity and stimulating local debt market development. As of 7 December Baspana has issued two bonds for a total amount of KZT40 billion. As debut issuances are almost entirely held by the state's unified pension fund and Kazakhstan deposit insurance fund, Fitch views it as indirect support to Baspana to ensure sufficient funding for the implementation of the state programme.

### **Socio-Political Implications of Default Assessed as Strong**

The assessment is supported by Fitch's view that Baspana's default would temporarily endanger the implementation of the government programme and could lead to significant socio-political repercussions for the sovereign. The programme has favourable lending terms over those currently

offered by the market, in particular, a lower interest rate of 7%, a 20% down-payment and a 25-year lending period.

Housing affordability is at the top of the Kazakh government's agenda. The state targets to achieve 30 sq m of housing ownership per capita by 2030 from the current 22 sq m. The government aims to make Baspana the largest agent of mortgage refinancing in Kazakhstan and targets to issue KZT1,000 billion new mortgage loans over a five-year period (by December 2018: KZT34 billion), which should lead to an almost twofold increase of the mortgage portfolio.

The Kazakh housing financing market is dominated by state institutions. They are House Construction Savings Bank of Kazakhstan (HCSB, BBB-/Stable), the leader in the republic's housing lending, and Kazakhstan Mortgage Company (KMC, BBB-/Stable), the state development institution of mortgage and social rental housing markets. In our view, HCSB and KMC do not represent direct competitors to Baspana as they are focused on other market segments and are ultimately owned by the government, not NBRK. Therefore, Fitch does not treat them as substitutes for Baspana under Kazakh government practices and views that any transfer of Baspana's mandates could be complicated in the short-term, leading to potential disruption of implementation of the government's housing programme.

#### Financial Implications of Default Assessed as Very Strong

The assessment is derived from Fitch's view of Baspana as a proxy-funding vehicle and financial agent of the government. Baspana is entitled to make regular bond placements in the domestic capital market to attract long-term funding to the Kazakh mortgage market. Baspana's borrowing programme assumes issuance of KZT1,000 billion bonds, which corresponds to about 10% of Kazakhstan central government debt at end-2017.

It is Fitch's view that Baspana's default could significantly impair investors' confidence in the credibility of NBRK and in other GREs that tap the financial market, and particularly since the list of domestic investors is not long. Therefore, Fitch sees a default by Baspana as negatively impacting investors' view of the credit quality of other GREs and, hence, the cost of their funding.

#### RATING SENSITIVITIES

A rating change would be triggered by changes to the sovereign's ratings. A dilution of linkage with the sovereign or weakened incentives to support could result in the ratings being notched down from the sovereign ratings.

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## **APPLICABLE CRITERIA**

[International Local and Regional Governments Rating Criteria - Outside the United States \(pub. 18 Apr 2016\)](#)

[Government-Related Entities Rating Criteria \(pub. 25 Oct 2018\)](#)

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