

**Rating Action: Moody's downgrades Kazinvestbank to B3/Caa1; stable outlook (Kazakhstan)**

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**Global Credit Research - 28 Jul 2011**

London, 28 July 2011 -- Moody's Investors Service has today downgraded the following ratings of Kazinvestbank (KIB), following deterioration in the bank's credit risk profile over the past 12 to 18 months:

- Long-term local and foreign-currency deposit ratings downgraded to B3 from B2
- Long-term local-currency subordinated debt rating downgraded to Caa1 from B3

The standalone E+ bank financial strength rating (BFSR) was affirmed; however, it now maps to B3 on the long-term rating scale, rather than B2. The outlook on all the ratings is stable. Moody's re-assessment of the bank's credit standing within the E+ BFSR category is largely based on KIB's audited financial statements for 2010 prepared under IFRS, as well as KIB's statutory unaudited reports for H1 2011.

**RATINGS RATIONALE**

The downgrade of KIB's ratings reflects the deterioration in the bank's credit risk profile over the past 12 to 18 months, as well as the ongoing negative pressure on its financial fundamentals. Moody's has therefore remapped the E+ BFSR to B3 on the long-term scale to better capture the bank's credit standing.

The factors prompting KIB's ratings downgrade are, among other things (i) significantly weakened asset quality, as the level of the bank's overdue loans more than doubled in 2010, at 31.8% of the gross loans at year-end 2010; (ii) poor financial performance, as KIB reported a net loss of USD18.4 million in 2010 under its audited IFRS financial statements, leading to an annualized ROAA of -4.02%; and (iii) subdued demand for bank loans is likely to further squeeze the bank's margins and constrain its financial performance and franchise value, at least in the near-term.

Moody's also notes that KIB's ratings and their outlook benefit from acceptable liquidity and shareholders support provided to the bank. According to KIB, its shareholders, including EBRD and CVCI, are planning to increase the bank's capital by US\$30 million in H2 2011. About US\$3 million of this amount has already been injected, while the remaining funds are expected to be provided in August-September and December. This capital increase, if materialised, will bring up the equity-to-assets ratio to around 16-17%, allowing the bank to cover further loan portfolio impairment costs.

**PRINCIPAL METHODOLOGIES**

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

Headquartered in Almaty, Kazakhstan, KIB reported total audited IFRS consolidated assets and net loss of US\$419.4 million and US\$18.3 million, respectively, at year-end 2010.

**REGULATORY DISCLOSURES**

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