



АО «Казакстанская фондовая биржа»

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С уважением,
Управляющий директор



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Fitch Downgrades Bank of Astana and AsiaCredit, Places Eximbank on RWN

Fitch Ratings-Moscow-06 April 2017: Fitch Ratings has downgraded the Long-Term Issuer Default Ratings (IDRs) of Bank of Astana JSC (BoA) and AsiaCredit Bank JSC (ACB) to 'B-' from 'B'. Fitch has also placed Eximbank Kazakhstan's (Exim) Long-Term IDRs of 'B-' on Rating Watch Negative (RWN). The Outlooks on BoA and ACB are Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS - IDRS, VRS, NATIONAL RATINGS

ACB

The downgrade of ACB's IDRs to 'B-' from 'B' reflects the persistently high amount of high-risk/impaired loans and the modest capital buffer relative to potential problems. The ratings also capture the bank's limited franchise and high concentrations on both sides of the balance sheet. However, the ratings are supported by the still reasonable liquidity position after some tightening in the last few months.

ACB reported moderate non-performing loans (NPLs) of 9% (reserved by only 33%) and a low 1% restructured loans (unreserved) at end-2016. However, Fitch's review of the 25 largest borrowers revealed that in addition about 22% of gross loans (1x Fitch core capital (FCC) net of reserves and cash collateral at end-2016) were potentially high-risk, mainly due to high accrued interest/grace periods. An additional 9% of gross loans (53% of FCC) were represented by receivables from debt collection companies, which Fitch also views as high-risk. In 2016, 25% of interest income on loans was accrued but not received in cash, suggesting underlying weakness in loan performance. Positively, foreign currency (FC) lending is low (6%).

Reported profitability was modest, with return on equity (ROE) and return on assets (ROA) of 8% and 0.7%, respectively, in 2016. However, adjusting for uncollected accrued interest, the core pre-impairment result was negative (equal to about 3% of average gross loans in 2016).

ACB's reported FCC was a moderate 13.6% at end-2016. The regulatory Tier 1 ratio at end-1M17 was at a similar level and significantly above the 8.5% minimum (including 2% conservation buffer). Fitch, however, views ACB's capitalisation as vulnerable given the aforementioned significant high-risk exposures.

The deposit base stabilised in March 2017 after a sizable 40% outflow of customer funding (mainly due to withdrawals of state companies) in 4Q16-2M17, driven by negative market sentiment. These outflows were covered by a reduction in liquidity reserves and some loan book deleveraging. The bank manages liquidity reasonably conservatively, and at end-1Q17 the liquidity buffer still covered total deposits by 33%.

BoA

The downgrade of BoA's IDRs, which are driven by the bank's Viability Rating, reflects primarily the recent weakening of asset quality and profitability. The ratings also reflect the bank's moderate capital ratios and limited liquidity buffer.

BoA's end-2016 NPLs remained broadly at the level of end-2015, at around 4.5% of gross loans, although their coverage by reserves decreased to 0.7x from 1.2x. However, the bank's restructured loans increased significantly to a high 44% of gross loans at end-2016 from 19% at end-2015.

Of these restructured loans, around 26% of gross loans were reportedly amortising in lighter schedules, while the other 18% had grace periods for both interest and principal payments. The latter category represents impaired loans as these borrowers currently cannot service their debt due to significant financial difficulties. Fitch estimates that, at end-2016, BoA's total problem loans (NPLs plus impaired restructured) were covered by reserves at a low 14%, representing a significant contingent provisioning liability for the bank; net problem loans were equal to 1.1x FCC.

The loan book is highly concentrated, with the 25 largest exposures comprising around 54% of gross loans (3.2x FCC) at end-2016. The higher-risk ones are those issued for project finance and construction purposes (at least 30% of gross loans or 1.8x FCC) and loans to collectors (including receivables booked outside of the loan book equal to 0.6x FCC).

BoA's end-2016 FCC ratio remained broadly at the level of end-2015, at around 11%, while its total regulatory capital ratio decreased to 10.9% at end-2016 from 13.9% at end-2015, mainly due to the repayment of KZT7 billion subordinated debt and 33% growth of risk-weighted assets (RWAs) in 2016. At end-2016, BoA's capitalisation allowed the bank to reserve an additional 6% of gross loans, up to 9% in total (down from 7% and 12%, respectively, at end-2015) before breaching minimum capital requirements. BoA's loss absorption capacity is also undermined by the bank's high loan book concentrations and significant unreserved high-risk loans.

BoA's profitability continued to weaken, with a reported 0.6% return on average assets (ROAA) and 6% return on average equity (ROAE) in 2016 after 1% and 7.6%, respectively, in 2015 (2014: 1.3% and 9.4%). The bank's cash-based pre-

impairment profitability turned negative in 2016, with pre-provision results adjusted for uncollected interest equalling a negative 0.5% of average total assets.

Fitch views the bank's liquidity as moderate due to high and increased concentrations in the bank's deposit base. At end-2016, the 20 largest customers provided around 69% of customer funding (end-2015: 57%) or around 62% of liabilities (41%). The largest depositor alone provided around 30% of customer funding or around 27% of liabilities at the date, but its balance should reportedly remain stable at least in the near term. At end-2M17, BoA's total available liquidity, net of potential debt repayments in the next 12 months, moderately exceeded funds from the largest depositor.

EXIM

The placement of Exim's IDRs on RWN reflects continued pressure on the bank's asset quality and capitalisation and the deterioration in the bank's liquidity position.

NPL and restructured loan ratios remained high and unchanged in 2016, at around 3% and 57%, respectively. However, these grew in absolute terms, as the loan book increased by about 18%, partly due to interest accruals, as most restructured loans have grace periods on interest and principal repayments. About 34% of accrued interest was not received in cash in 2016, and Exim has by far the highest accrued interest-to-gross loans ratio in the system, at 36% at end-2016 compared with the 8% average.

Most restructured loans are related either to energy infrastructure projects developed by the bank's shareholders or to legacy construction projects. Given the multiple delays in completion of these projects, loan recovery prospects are very uncertain. Reserves covered only 28% (end-2015: 34%) of NPLs and restructured loans, while the unreserved part was equal to a high 2.9x of FCC (2.2x) at end-2016. Additionally, at least 10% of Exim's end-2016 gross corporate book (equal to 66% of FCC) comprised exposures that Fitch views as high-risk, but which were not classified as overdue or restructured.

Reported profitability weakened further, with ROAA and ROAE for 2016 of 0.3% and 1.5%, respectively, down from 0.5% and 2.5% in 2015. Fitch calculates that, net of accrued interest, the bank has been making pre-impairment losses for several years.

Reported capital ratios are relatively high (Basel Tier 1 and total were 17.2% and 20.1%, respectively, at end-2016), but should be viewed together with the high-risk and under-provisioned loan book. At end-2016, Exim's capital buffer allowed the bank to create additional reserves equal to only about 11% of the loan book (potentially bringing provisions up to 27% of the portfolio) before breaching minimum regulatory capital adequacy requirements.

Exim's liquidity tightened sharply in mid-2016 as a result of related parties' deposits withdrawals, and the bank required significant funding support from the National Bank of Kazakhstan (NBK) to strengthen its liquidity. At end-1Q17, Exim's liquidity buffer was insufficient to repay the first maturing NBK facility (KZT10.2 billion in November 2017), underlining the necessity to attract new funding or refinance maturing obligations. Management plans to strengthen liquidity through the sale of a bond in 2Q17.

SUPPORT RATING FLOORS AND SUPPORT RATINGS

The banks' Support Ratings of '5' reflect Fitch's view that support from the banks' private shareholders, although possible, cannot be relied upon. The Support Rating Floors of 'No Floor' are based on the banks' low systemic importance.

SENIOR UNSECURED DEBT RATINGS (ACB, EXIM)

The banks' senior unsecured local debt ratings are aligned with their Long-Term Local-Currency IDRs and National Long-Term ratings and reflect Fitch's assessment that recoveries are likely to be average in the event of any default.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

A strengthening of asset quality and core profitability would be credit-positive for BoA and ACB. Conversely, a continued weakening of these banks' performance, increasing pressure on capitalisation, could lead to further downgrades.

Fitch plans to resolve the RWN on Exim's ratings based on (i) realisation of the bank's plans to strengthen liquidity in 2Q17; and (ii) further review of the ability and propensity of sister company Central-Asian Electric-Power Corporation (CAEPCo, B+/Stable) to provide solvency or liquidity support in case of need.

Debt ratings would likely change in line with their respective anchor ratings.

The rating actions are as follows:

ACB:

Long-Term Foreign- and Local-Currency IDRs: downgraded to 'B-' from 'B'; Outlooks Stable

Short-Term Foreign-Currency IDR: affirmed at 'B'

National Long-Term Rating: downgraded to 'BB-(kaz)' from 'BB(kaz)'; Outlook Stable

Viability Rating: downgraded to 'b-' from 'b'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured debt: downgraded to 'B-' from 'B', Recovery Rating 'RR4'
National senior unsecured debt rating: downgraded to 'BB-(kaz)' from 'BB(kaz)'

BoA:

Long-Term Foreign- and Local-Currency IDRs: downgraded to 'B-' from 'B', Outlooks Stable
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B'
National Long Term Rating: downgraded to 'BB-(kaz)' from 'BB(kaz)', Outlook Stable
Viability Rating: downgraded to 'b-' from 'b'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'

Exim:

Long-Term Foreign- and Local-Currency IDRs: 'B-', placed on RWN
Short-Term Foreign-Currency IDR: 'B', placed on RWN
National Long-Term Rating: 'B+(kaz)', placed on RWN
Viability Rating: 'b-', placed on RWN
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured debt ratings: 'B-/B+(kaz)'; Recovery Rating at 'RR4', placed on RWN
Senior unsecured debt ratings: 'B-(EXP)/B+(kaz)(EXP)', placed on RWN

In accordance with Fitch's policies Eximbank Kazakhstan appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1021796&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiWUFLUEpaMUoxTE5BU05MTE9NS0RGR1dSR1VKMkdXV043MIJYSVc4RyIsImV4cCI6MTQ5MjEwOTMyNywidXNlcklkIjoxOTAxMjc0fQ.Q6Pd0VTu5wWYVEohrpH3ZKnd7uoL0I3a-OUzcl28ZuA)

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