# CORRECT: FITCH UPGRADES ASIACREDIT BANK TO 'B'; AFFIRMS ALFA BANK KAZAKHSTAN AT 'B+'

Fitch Ratings-Moscow-17 April 2014: This commentary replaces the version published on 16 April 2014 and corrects the source of funding in paragraph 14.

Fitch Ratings-Moscow-16 April 2014: Fitch Ratings has upgraded AsiaCredit Bank JSC's (ACB) Long-term Issuer Default Ratings (IDRs) to 'B' from 'B-' with a Stable Outlook and affirmed JSC SB Alfa Bank Kazakhstan's (ABK) Long-term IDRs at 'B+' with a Stable Outlook. A full list of rating actions is available at the end of this commentary.

KEY RATING DRIVERS - ACB

The upgrade of ACB reflects considerable equity contributions by the bank's major shareholder in 2013 preserving ACB's solid capitalisation, as well as an expectation of further capital injections in line with the bank's rapid growth strategy. The upgrade also reflects management's ability to find new borrowers, while maintaining reasonable asset quality. At the same time ACB's ratings also factor in its currently small franchise, high concentrations on both sides of the balance sheet with significant reliance on deposits of state-owned entities, and only moderate profitability.

ACB's shareholder contributed KZT8bn of new equity during 2013, which allowed the bank to sustain a sound 23% Fitch Core Capital (FCC) ratio at end-2013 (29% at end-2012) despite a rapid 91% loan growth. Due to ACB's moderate internal capital generation (return on average equity of only 8% in 2013) further equity contributions will be required to achieve a planned annual loan growth of 30%-80% in the medium term. According to management, the shareholder is ready to provide KZT17bn of equity in 2014-2017, of which KZT8bn are expected in 2014.

ACB's reported assets quality is reasonable with non-performing loans (NPLs, over 90 days overdue) at 4.1% of gross loans at end-2013 and a further 1.3% of restructured exposures. The latter number may be somewhat understated, as among the top 25 loans (comprised 51% of the loan book at end-2013) there is one exposure equal to 2.7% of loans, which in Fitch's view could be restructured. The bank has also reported a consistently elevated share of one-day overdue loans (18.7% at end-2M14) in its regulatory accounts, which is explained by management as being due to technical delays, but in Fitch's view this shows that asset quality is potentially vulnerable. ACB is also over reliant on collateral reflected in a low coverage of NPLs by reserves of only 37%. Positively, ACB's current capital buffer could allow it to fully reserve up to 18.8% of its loans and still comply with regulatory capital requirements.

ACB mainly relies on corporate customer funding (57% of end-2013 liabilities), but has gradually been diversifying its liability structure through attracting retail deposits (15%) and issuance of local bonds (21%). At least 49% of total customer funding (35% of total liabilities) was sourced from state bodies, which, although representing considerable concentration risk, tends to be stable.

ACB maintains reasonable liquidity cushion sufficient to cover about 20% of customer accounts at end-2M14. Wholesale debt repayments are limited in the medium term (KZT4.4bn in 2014, KZT2.5bn in 2015). The biggest risk to liquidity is the sudden outflows of largest depositors, which is not Fitch's central scenario.

The Support Rating '5' reflects Fitch's view that support from the bank's private shareholder, although possible, cannot be relied upon. Support Rating Floor of 'No Floor' is based on ACB's low systemic importance.

ACB's senior unsecured local debt ratings are aligned with the bank's Long-term Local Currency IDR and National Long-term rating.

RATING SENSITIVITIES - ACB

Upside potential for ACB's ratings is currently limited. However, further growth of the franchise supported by capital injections, while maintaining reasonable asset quality and performance would be positive for the credit profile. Lack of or delays in provision of fresh capital that would result in material weakening of ACB's loss-absorption capacity, significant deterioration of asset quality and/ or sharp funding outflows putting pressure on liquidity would result in a downgrade.

KEY RATING DRIVERS - ABK

ABK's Long-term IDRs and National Rating are based on the bank's individual strength, which in turn is reflected in its Viability Rating (VR) of 'b+'. The VR reflects the bank's small franchise, continuing rapid growth and high single-name concentrations on both sides of the balance sheet. At the same time, the VR positively considers its strong reported asset quality and solid capital adequacy, reasonable liquidity and sound operating performance helped by low average funding costs.

Asset quality is strong. NPLs and restructured loans were, respectively, modest at 1.2 and 2% of gross loans at end-2013 and were adequately covered by reserves of 3.6%. Although rapid 42% loan growth in 2013 means loans are unseasoned, a detailed review of the top 20 borrowers (52% of gross loans) confirmed that most exposures are of reasonable quality. However, some of the bigger exposures (12% of gross loans) are less sound either financially or in terms of collateral quality, while retail loans (7%) are also potentially vulnerable.

Credit risks are mitigated by robust pre-impairment profitability, which equals about 5% of average loans, and solid capitalisation with FCC and regulatory total capital ratio of 18.5% and 21%, respectively, at end-2013. Regulatory capital would allow ABK to increase its loan impairment reserves to 12% of gross loans from 4%, before reaching minimum regulatory capital ratios.

Capitalisation is likely to remain comfortable in 2014; however, if growth outpaces earnings generation (return on equity of 20% in FY13) the bank is likely to receive its pre-approved USD40m equity injection from Alfa Group.

Liquidity is adequate. ABK relies on short-term funding from local corporates (69% of total funding at end-2013), approximately half of which was accounted by 20 depositors. Withdrawal risk is mitigated by a KZT46bn liquidity buffer consisting of cash and unencumbered securities, which equalled 28% of customer funding. Scheduled debt repayments are a moderate KZT7bn in 2014. As a further mitigant ABK has an unutilised KZT9bn limit (6% of liabilities) from its 100% shareholder OJSC Alfa Bank (ABR; BBB-/Negative/bbb-).

The Support Rating of '4' reflects Fitch's view of the limited probability of support that might be forthcoming from ABR, if needed. In Fitch's view, support may be forthcoming in light of the common branding of ABK and other group entities, potential reputational risk of any default at ABK and the small cost of any support that may be required.

At the same time, Fitch views ABR's propensity to provide support as limited because (i) it holds shares in ABK on behalf of ABH Holdings S.A.(ABHH) to which it has ceded control and voting rights through a call option under which ABHH may acquire the shares in ABK until end-June 2014 (this agreement likely to be extended); (ii) limited operational integration between ABK and ABR; and (iii) ABR's tight regulatory capital preventing it from providing capital to the subsidiary.

Support from other Alfa Group entities, in Fitch's view, also cannot always be relied on due to ABK's small size and as a result that support could be withheld under certain circumstances, especially in a systemic financial crisis in Kazakhstan. Fitch notes ABHH's failure to provide full support to its Ukraine-based subsidiary PJSC Alfa-Bank (ABU; CCC) in 2008. The agency, however believes there is a lower probability of Alfa Group not supporting ABK, relative to ABU. This is reflected in ABK's higher Support Rating '4' than ABU's '5'.

ABK's senior unsecured local debt ratings are aligned with the bank's Long-term Local Currency IDR and National Long-term rating.

RATING SENSITIVITIES - ABK

An upgrade of Long-term IDRs, VR, National Rating and debt ratings would result from a strengthening of the franchise and an extended track record of good performance and asset quality. The ratings could be downgraded following a material deterioration in capitalisation or asset quality.

The Support Rating could be downgraded if ABK does not receive timely support when needed. Potential for an upgrade of the Support Rating is limited.

The rating actions are as follows:

ACB
Long-term foreign currency IDR: upgraded to 'B' from 'B-'; Outlook Stable
Short-term foreign currency IDR: affirmed at 'B'
Long-term local currency IDR: upgraded to 'B' from 'B-'; Outlook Stable
National long-term rating: assigned at 'BB(kaz)'; Outlook Stable
Viability Rating: upgraded to 'b' from 'b-'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured debt: assigned at 'B', Recovery Rating 'RR4'
National senior unsecured debt rating: assigned at 'BB(kaz)'

ABK
Long-term foreign-currency Issuer Default Rating (IDR) affirmed at 'B+'; Outlook Stable
Short-term foreign-currency IDR affirmed at 'B'
Long-term local-currency IDR affirmed at 'B+'; Outlook Stable
National long-term rating affirmed at 'BBB(kaz)'; Outlook Stable
Viability Rating affirmed at 'b+'
Support Rating affirmed at '4'
Senior unsecured debt: affirmed at 'B+', Recovery Rating 'RR4'
National senior unsecured debt rating: affirmed at 'BBB(kaz)'

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 31 January 2014, and 'National Scale Ratings Criteria ', dated 30 October 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
National Scale Ratings Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082