«ҚАЗАҚСТАН ХАЛЫҚ БАНКІНІҢ
«HALYK FINANCE»
ЕНШІЛЕС ҰЙЫМЫ»
АКЦИОНЕРЛІК ҚОҒАМЫ

SUBSIDIARY OF HALYK BANK KAZAKHSTAN
HALYK FINANCE
ДОЧЕРНЯЯ ОРГАНИЗАЦИЯ НАРОДНОГО БАНКА КАЗАХСТАНА

АКЦИОНЕРНОЕ ОБЩЕСТВО
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АО «Казахстанская фондовая биржа»

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Международное рейтинговое агентство Fitch Ratings подтвердило ранее присвоенные АО «Halyk Finance» долгосрочные рейтинги дефолта эмитента («РДЭ») в иностранной и национальной валюте на уровне «BB», и пересмотрело прогноз со «Стабильный» на «Позитивный». Агентство Fitch Ratings также подтвердило краткосрочные РДЭ АО «Halyk Finance» в иностранной и национальной валюте на уровне «B» и рейтинг поддержки на уровне «3».

Пресс-релиз агентства Fitch Ratings от 02 августа 2018 года прилагается.

С уважением,

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FitchRatings

Fitch Revises Halyk's Outlook to Positive; Withdraws KKB's Ratings on Merger Completion

Fitch Ratings-Moscow/London-02 August 2018: Fitch Ratings has revised the Outlook on Halyk Bank of Kazakhstan's Long-Term Issuer Default Ratings (IDRs) to Positive from Stable and affirmed the IDRs at 'BB'. Fitch has also upgraded Kazkommertsbank's (KKB) Long-Term IDRs to 'BB' from 'BB-', removed them from Rating Watch Positive (RWP) and simultaneously withdrawn KKB's ratings.

A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

KKB

The rating actions follow the completion of the effective merger of KKB into Halyk via the transfer of all of KKB's property, rights and obligations to Halyk. Fitch upgraded KKB's Long-Term IDRs to 'BB' with a Positive Outlook to align them with Halyk and capture its view of risks to KKB's creditors at the moment of the transfer of the bank's liabilities to Halyk. KKB's ratings have been simultaneously withdrawn, as it is to be liquidated, and accordingly Fitch will no longer provide ratings or analytical coverage for KKB.

The upgrade of KKB's VR to 'b+' prior to withdrawal reflects Fitch's assessment of the bank's standalone profile prior to the merger. The upgrade was driven by a moderation of pressure on the bank's capital driven by its improved performance and stabilised asset quality as a result of better provisioning of impaired loans. The VR also captured KKB's strong liquidity position and high capital ratios.

HALYK

Halyk's IDRs are driven by its intrinsic strength, as expressed by its VR. The ratings continue to capture its dominant market shares and significant pricing power as by far the largest deposit-taker in the country, its reasonable risk appetite and management, exceptionally strong performance and solid capital and liquidity buffers. On the negative side, the ratings reflect a still high amount of legacy problem loans and a cyclical and structurally weak local operating environment. Halyk has consolidated KKB since its acquisition in July 2017, and so the merger will not meaningfully impact the former's consolidated accounts.

The revision of the Outlook on Halyk's IDRs to Positive reflects Fitch's expectation that the ratio of unreserved impaired loans to Fitch Core Capital (FCC) will gradually reduce as a result of further capital build-up driven by strong profit retention, only moderate loan growth, some foreclosures and recoveries resulting from collateral sales and moderate additional provisioning.

At end-1Q18, Halyk's impaired loans (defined as stage 3 loans under IFRS 9) were a high 21% of gross loans and 45% covered with loan impairment reserves (LIRs). However, this is due to the fact that Halyk consolidates KKB's problem loans on a net basis in accordance with IFRS 3. Fitch estimates that if these had been booked on a gross basis, Halyk's impaired loans would have been equal to 35% of gross loans. However, coverage by LIRs would have been a more solid 74%, and Fitch believes any additional impairment losses should be limited, given the availability of hard collateral for most impaired loans. At end-1Q18, impaired loans net of LIRs equaled a moderate 44% of FCC. Stage 2 loans under IFRS 9 and non-core assets (mostly foreclosed properties) equaled a further 19% and 17% of FCC, respectively.

We believe that these metrics reasonably capture Halyk's problem assets, and other asset quality risks are moderate. This view is based on (i) the reasonable quality of Halyk's largest corporate borrowers, most of which are either leading local corporates or their subcontractors or affiliates; (ii) only moderate low single-digit origination of impaired loans (adjusted for write-offs) in the past few years; and (iii) a high proportion of low-risk assets (mostly investment-grade rated bonds and cash/bank placements), equal to over 50% of Halyk's total assets at end-1Q18.

Halyk's loss absorption capacity is substantial. Annualised recurring pre-impairment profit in 1Q18 was equal to 7% of gross loans or 50% of the unreserved impaired loans. Earnings are supported by wide margins and strong operating efficiency. Pressure on Halyk's performance from the consolidation of KKB was only moderate, because of KKB's smaller size and its improved balance street structure prior to acquisition. Halyk's bottom line is likely to stay primarily sensitive to loan impairment charges, although based on 1Q18 performance, Fitch believes that the bank is on track to post a strong ROAE of above 25% in 2018.

Halyk is reasonably capitalised, as expressed by its FCC ratio of 17.3% at end-1Q18. We estimate that Halyk's capital buffer is sufficient for the bank to increase LIR coverage of impaired and restructured loans to 100% and still maintain a 9% FCC ratio. Capital ratios are likely to stay high over the medium term due to healthy profit retention and only moderate loan growth (probably high single-digit in both retail and corporate lending).

Funding and liquidity is a rating strength. At end-1Q18, Halyk was 77% customer-funded. Despite significant funding concentrations (Halyk's 10 largest customers accounted for 25% of end-1Q18 total liabilities), Halyk's funding stability benefits from its solid domestic franchise. Following the contractual repayment of KKB's USD300 million Eurobond issue is May 2018, wholesale funding repayments for the remainder of 2018 are very limited. Halyk's large liquidity buffer covered a substantial 57% of total liabilities at end-1Q18.

JSC HALYK FINANCE

JSC Halyk Finance's (HF's) 'BB' Long-Term IDRs are equalised with the ratings of its parent as Fitch considers HF a core subsidiary of Halyk. The revision of the Outlook on HF to Positive mirrors the rating action on the parent. Fitch believes that Halyk would have a high propensity to support HF given full ownership, significant integration between the parent and subsidiary, common branding, and significant negative reputational implications for Halyk in case of a subsidiary default. HF's moderate size (below 0.5% of Halyk's total assets at end-1Q18) and its healthy balance sheet limit the cost of any potential support.

SUPPORT RATINGS (SR) AND SUPPORT RATING FLOOR (SRF)

The affirmation of Halyk's SR at '4' and SRF at 'B' reflects Fitch's view of a moderate probability of state support. This considers positively Halyk's exceptionally high systemic importance, as expressed by its dominant market shares (35% of sector deposits) and strong government relations. However, the SRF remains constrained by Kazakhstan's mixed track record of support for systemically important banks.

SENIOR UNSECURED DEBT RATINGS

The senior unsecured debt ratings are aligned with Halyk's Long-Term IDRs, reflecting Fitch's view of average recovery expectations in case of default. KKB's senior unsecured debt ratings have been upgraded to the level of Halyk and the obligations to service these debt issues have been transferred to Halyk. The long- and short-term debt ratings of KKB's programme are withdrawn, as no new issues under the programme are planned.

RATING SENSITIVITIES

Fitch may upgrade Halyk by one notch to 'BB+' if the amount of net problem assets relative to capital significantly decreases. An extended track record of strong performance and maintenance of a large liquidity buffer would also support an upgrade. Conversely, if Halyk is unable to gradually absorb the remaining unreserved impaired loans, or renewed asset quality deterioration emerges and erodes Halyk's profitability, then the ratings may stabilise at their current levels.

HF's ratings are likely to move in tandem with the parent. Evidence of a weaker support stance, for example if Halyk decides to sell HF, although this is not expected by Fitch, may result in HF's downgrade.

The rating actions are as follows:

Halyk Bank of Kazakhstan
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'BB'; Outlook revised to Positive from Stable
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B'
Viability Rating: affirmed at 'bb'
Support Rating: affirmed at '4'
Support Rating Floor: affirmed at 'B'
Senior unsecured debt: affirmed at 'BB'

Kazkommertsbank
Long-Term Foreign- and Local-Currency IDRs: upgraded to 'BB' from 'BB-'; removed from RWP; Outlook Positive; withdrawn
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B' and withdrawn
Viability Rating: upgraded to 'b+' from 'b' and withdrawn
Support Rating: affirmed at '3' and withdrawn
Support Rating Floor: affirmed at 'B' and withdrawn

Senior unsecured debt of Kazkommertsbank:
Debt Issues' Long-Term Ratings: upgraded to 'BB' from 'BB-'; removed from RWP
Programme Long-Term Rating: upgraded to 'BB' from 'BB-'; removed from RWP; withdrawn
Programme Short-Term Rating: affirmed at 'B' and withdrawn

JSC Halyk Finance
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'BB', Outlook revised to Positive from Stable
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B'
Support Rating: affirmed at '3'

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Applicable Criteria

Bank Rating Criteria (pub. 22 Jun 2018)
(https://www.fitchratings.com/site/re/10034713)
Non-Bank Financial Institutions Rating Criteria (pub. 22 Jun 2018)
(https://www.fitchratings.com/site/re/10034715)

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