QAZKOM

008104

№ 143 263197

Дата 19.07.2017

+7 727 2 58 54 44
+7 727 2 58 52 29
(785) 251 304 TIMUR KZ

"Қазкоммерцбанк" АҚ
050060, Қазақстан Республикасы,
Алматы қ., Гагарин д-лы, 135 ж

АО «Казкоммерцбанк»
050060, Республика Казахстан,
г. Алматы, пр. Гагарина, 135ж

Председателю Правления
АО «Казахстанская Фондовая Биржа»
г-же Алдамберген А.У.

Касательно: изменения рейтингов АО «Казкоммерцбанк»

Уважаемая Алина Утемискызы,

Настоящим уведомляем Вас, о повышении рейтинговым агентством S&P Global Ratings долгосрочного рейтинга АО «Казкоммерцбанк» с уровня «В-» «watch развивающийся» до «В+» с прогнозом «негативный», вместе с этим были повышены рейтинги старших облигаций выпущенные Банком с уровня «В-» до «В+», и также бессрочные субординированные облигации с уровня «ССС-» до «ССС+», согласно сообщению S&P от 18 июля 2017 года.

В связи с этим, просим Вас внести соответствующие изменения и дополнения в информационную справку о Банке на сайте АО «Казахстанская Фондовая Биржа» в части кредитного рейтинга Банка и ценных бумаг, выпущенных Банком, согласно следующей информации по состоянию на 18 июля 2017 года:

Ценная бумага	Торговый код	ISIN	Объем и валюта выпуска	Кредитный рейтинг
Старшие облигации	KKGBe23	US48668AAA79	300 млн.долл. США	B+
Старшие облигации	BTASe16	XS0867478124/ XS0867573890	750 млн.долл. США	B+
Бессрочные субординированные облигации	KKGBe24	XS0234398245	100 млн.долл. США	CCC+

Председатель Правления
АО «Казкоммерцбанк» Ульф Вокурка

АКЦИОНЕРЛІК ҚОҒАМЫ ҚАЗАҚСТАН РЕСПУБЛИКАСЫ КАЗКОММЕРЦБАНК РЕСПУБЛИКА КАЗАХСТАН АКЦИОНЕРНОЕ ОБЩЕСТВО

Исп. Каласова Динара
Департамент финансовых институтов
Тел: 57913

S&P Global
Ratings

RatingsDirect®

Research Update:

Kazakhstan-Based Halyk Bank Affirmed At 'BB/B' And Kazkommertsbank Upgraded To 'B+/B' On Acquisition By Halyk Bank

Primary Credit Analysts:
Annette Ess, CFA, Frankfurt (49) 69-33-999-157; annette.ess@spglobal.com
Ekaterina Marushkevich, CFA, Moscow (7) 495-783-41-35; ekaterina.marushkevich@spglobal.com

Secondary Contact:
Anastasia Turdyeva, Moscow (7) 495-783-40-91; anastasia.turdyeva@spglobal.com

Table Of Contents

Research Update:

Kazakhstan-Based Halyk Bank Affirmed At 'BB/B' And Kazkommertsbank Upgraded To 'B+/B' On Acquisition By Halyk Bank

Overview

- On July 5, 2017, Halyk Savings Bank of Kazakhstan (Halyk Bank) acquired a 96.8% stake in Kazkommertsbank JSC (KKB).
- In our view, Halyk Bank's capitalization and risk position weakened as a result of this acquisition, while KKB's capitalization has strengthened following a capital injection by Halyk Bank on July 12, 2017.
- Given Halyk Bank's systemic importance, we believe it will receive government support to withstand immediate negative impacts of the acquisition and to implement the merger.
- We are affirming our 'BB/B' ratings on Halyk Bank and upgrading KKB to 'B+/B' from 'B-/B', reflecting KKB's strengthened capitalization and strategic importance to the Halyk Group, and our expectations of potential support from Halyk Bank in case of need.
- The negative outlooks on Halyk Bank and KKB reflect the potential integration risks and costs, and possible need to create additional provisions at KKB that might weaken the capitalization of both KKB and Halyk Bank.

Rating Action

On July 18, 2017, S&P Global Ratings affirmed its 'BB/B' long- and short-term counterparty credit ratings on Halyk Savings Bank of Kazakhstan (Halyk Bank). The outlook is negative. We also affirmed our 'kzA' Kazakhstan national scale rating on the bank.

At the same time, we raised our long-term counterparty credit rating on Kazkommertsbank JSC (KKB) to 'B+' from 'B-'. The outlook is negative. We affirmed 'B' short-term counterparty credit rating on KKB. We also raised our Kazakhstan national scale rating on the bank to 'kzBBB-' from 'kzB+'.

We removed all the ratings on Halyk Bank and KKB from CreditWatch, where they were placed on June 14, 2017 (see "Kazakhstan-Based Halyk Bank And Kazkommertsbank Ratings Now On CreditWatch On Very High Likelihood Of Acquisition," published on RatingsDirect).

Rationale

The rating actions follow the completion of Halyk Bank's acquisition of 96.8% of KKB's common shares on July 5, 2017. Halyk Bank now has control over KKB.

Kazkommertsbank

Our upgrade of KKB reflects our view that the acquisition has strengthened its capitalization and that the bank now has a strategically important status within Halyk Group. We believe Halyk Bank would provide support to KKB in case of need.

We believe that KKB's capital and earnings profile has strengthened, despite the creation of significant additional provisions in June-July 2017, based on a number of measures that include the following: a Kazakhstani tenge (KZT) 185 billion ($0.6 billion) capital injection by Halyk Bank on July 12, 2017; the significant reduction of its risk-weighted assets following repayment by JSC BTA Bank of its KZT2.4 trillion loan to KKB due to the government funds received by BTA from the Problem Loans Fund (PLF); and recording a capital gain of KZT170 billion due to revision of the terms of the PLF deposit (including extension of its maturity and lowering the interest).
As a result of the abovementioned measures, we have revised our assessment of KKB's capital and earnings to weak from very weak. We expect our risk-adjusted capital (RAC) ratio to be about 3.5%-4.0% following the acquisition and to possibly increase to slightly above 4% by year-end 2018. We expect KKB to still have limited capital buffers in the next two years, due to weak internal earnings generation and no further capital injections currently planned by Halyk Bank despite our expectation of a likely contracting balance sheet. Consequently, KKB's ability to absorb future loan losses remains restricted, especially in view of its high single-name concentrations and high concentrations in real estate construction and development.
Our base-case RAC projections for KKB for 2017-2018 are based on the following assumptions:

- Gross loans of about KZT1.7 trillion post-acquisition, contracting to about KZT1.6 trillion by year-end 2018.
- Cost of risk of about 16%-17% in 2017, normalizing to about 2.0%-2.5% in 2018.
- Net interest margin of about 3.0%-3.5%.
- Profit of about KZT10 billion-KZT15 billion in the second half 2017 and about KZT30 billion-KZT40 billion in 2018.

We continue to assess KKB's business position as moderate. This assessment balances its market position as the second-largest bank in Kazakhstan by loans and retail deposits, with market shares of about 11% and 16% and 223 branches, with its less certain new strategy under Halyk Bank's ownership and the untested track record of its new management team (in place since July 2017) in turning around the bank. The management team appointed by Halyk Bank inherited the bank with the long track record of unsuccessfully struggling with a large amount of legacy problem loans. These were generated through excessive involvement in financing speculative investments in construction and real estate prior to the 2008 crisis by KKB itself and BTA, a failed bank that KKB acquired in 2014. Despite several changes of management in the past 10 years and a change of ownership in 2014, KKB has not managed to meaningfully recover its problem loans. Turning the bank around will be a serious test for the newly appointed management team and Halyk Bank.

We consider KKB's risk position weak, compared with other banks in countries with the same economic risk as Kazakhstan, reflecting the bank's high exposure to construction and real estate on its loan books at about one-third of total loans, high single-name concentrations, and a very high share of nonperforming loans (NPLs; loans over 90 days overdue) at above 40% of the total remaining loan book, according to our estimates. The NPLs were covered by specific provisions by about 82%. We believe that Halyk Bank will unlikely need to create significant additional provisions in the next 12 months because the bank considers that KKB was adequately provisioned at acquisition.

At the same time, we positively view the following changes to the bank's risk position, which happened as part of the acquisition:

- BTA repaid its KZT630 billion and $5.6 billion credit line. KKB wrote off the remaining BTA exposure of KZT64.8 billion. BTA exposure accounted for about 58% of KKB's gross loans prior to the acquisition. Repayment substantially decreased KKB's risk-weighted assets, which had a positive impact on the capital requirements at KKB.
- KKB acknowledged the low asset quality of its loan book and created large additional provisions increasing the provisioning levels to about 55% of total loans.

We estimate that KKB's exposure to the construction and real estate sectors post-acquisition represented about one-third of total loans. Many of the projects financed by KKB were generated before the 2008 financial crisis, were subsequently restructured, are still not performing, and have bullet repayments of principal at the end and very long maturity, which to a large extent distort the assessment of a true quality of exposures. In our view, land and property prices were significantly depressed following the crisis of 2008 and have not yet recovered to their pre-2007 levels, when adjusted for inflation and currency depreciation, making recovery prospects of respective loans questionable. Individual loan concentrations at KKB are higher than those of peers domestically and in comparable banking sectors of the Commonwealth of Independent States, which is also reflected in our weak risk position assessment. Top-20 exposures accounted for 31% of total net loans and about 1.3x of the bank's capital (post-acquisition).

We continue to assess KKB's funding as average and liquidity as adequate. This reflects its diversified funding profile comprising of retail and corporate depositors, Eurobonds, subordinated debt, and significant share of government-related funding that we expect the bank should be able to retain. We estimate its loan-to-deposit ratio post-acquisition at about 32%.

We believe that becoming a subsidiary of Halyk Bank will strengthen KKB's retail depositors' confidence. KKB's retail deposits amounted to KZT1.25 trillion (16% of total deposits in the system) and corporate depositors accounted for about KZT1.3 trillion at June 1, 2017.

As part of the acquisition, KKB repaid KZT625 billion in stabilization loan to the National Bank of Kazakhstan, KZT202 billion repurchase agreements, and KZT41 billion to Samruk Kazyna. We anticipate that the majority of the remaining government funding will likely stay at the bank.

We assess KKB's liquidity as adequate. We estimate KKB's liquid assets at about KZT2.2 trillion, of which KZT1.0 trillion are Kazakh treasury bonds that the bank got following the repayment of BTA exposure. We expect the share of liquid assets to reduce gradually through liabilities repayments but to remain above 40% in the next 12 months.

We are not aware of any foreign debt restructuring plans as part of the deal. In February and June 2017, KKB repaid its senior unsecured bonds and subordinated callable notes with the principal value of €750 million and $250 million, respectively. The remaining total KZT446 billion senior debt repayments are comprised of KZT101 billion bonds repayable in parts in May 2018 and then in November 2019-December 2022, and KZT124 billion subordinated debt to be repaid in 2019-2025.

We view Halyk Bank together with newly acquired KKB as having high systemic importance in Kazakhstan, and we consider the government to be supportive of the domestic banking sector. Our assessment of the systemic importance of the combined entity reflects its size as the largest banking group by assets and by retail deposits, and the important role the combined bank plays in financing the economy and servicing a significant number of corporate and retail clients. We therefore think that the government will likely provide support to Halyk Bank and KKB in case of need to maintain stability of the banking sector. For KKB, we believe that such support would be provided through Halyk Bank.

We view KKB as a strategically important subsidiary of Halyk Bank, taking into account its significant size and franchise, especially in retail business, as well as cross-default provisions in Halyk Bank's Eurobonds documentation with regards to its material subsidiaries. We therefore expect Halyk Bank to provide support to its newly acquired subsidiary in the case of need. We believe that KKB will more likely receive support from the group rather than directly from the government, and not from both. Thus, we incorporate three notches above KBB's stand-alone credit profile (SACP) into its ratings to reflect the potential group support.

Halyk Bank

The affirmation of our ratings on Halyk Bank following the acquisition of KKB reflects our expectation that the pressure on its SACP immediately after the acquisition will be largely offset by the government support provided as a part of the acquisition agreement between the government and all parties involved. Additionally, we expect that the government will likely provide additional support to the combined group in case of need in order to maintain stability of the banking sector, given its high systemic importance in the banking system of Kazakhstan.

We revised our assessment of Halyk Bank's SACP to 'bb-' from 'bb', reflecting pressure on its capitalization from the acquisition of undercapitalized KKB, deterioration of its risk profile due to acquisition of KKB, a bank with significantly weaker credit quality, as well as further integration risks.

We still see Halyk Bank's business position as strong, supported by solid market shares of the combined group that we currently estimate at around 38% by total assets, loans, and retail deposits, and a wide network of more than 700 branches (combined, Halyk and KKB) throughout the country. However, we believe that the integration of KKB may be a challenge for Halyk Bank, taking KKB's much weaker credit standing into account and the still-weak economic conditions in Kazakhstan. Halyk Bank's management has yet to demonstrate that it is able to establish sound internal control and risk-management systems in KKB, and turn it into a sustainable profit generating business. We could revise our assessment of Halyk Bank's business position downwards if we considered that the group's currently strong profitability and business stability deteriorates materially due to the acquisition.

We revised our assessment of Halyk Bank's capital and earnings assessment to moderate from adequate to reflect the pressure on consolidated group's capital adequacy from the acquisition of undercapitalized KKB. We therefore now forecast that the group's RAC ratio will be in the range of 5.5%-6.5% during the next 12-18 months, down from 9.3% that Halyk Bank had at the end of 2016. We expect the group's credit costs to be around 2.3%-2.5% in the next 12-18 months, assuming that additional provisions created as part of the deal are sufficient to address KKB's asset quality. We anticipate no lending growth for the group in 2017, since we assume that the two banks will be busy with the integration process. We think that the group might restart some lending, with loan growth of about 3%-5% per year in 2018-2019, which is in line with the projected sector average. Although we expect the group to show positive financial results in 2017, its return on equity will likely decline from the 22% it posted in 2016, however, staying above 10%.

We also believe that Halyk Bank's risk profile weakened following the acquisition, reflecting the risks related to KKB's high exposure to the problem real estate and construction sector, high single-name exposures, and substantially worse asset quality. We estimate consolidated group's NPLs at about 23%-25% of total loans. To some extent, this is mitigated by the overall provisions coverage levels of 118%-127% (post-acquisition). We understand that Halyk Bank will aim to bring down consolidated NPLs. We expect the share of NPLs to decrease to around 15% of total loans in the next two years through writing down and restructuring problem loans at KKB.

We believe that Halyk Bank's consolidated funding profile remains strong. The group's joint market share in retail deposits was around 38% as of June 1,

2017. We estimate that around 80% of the group's consolidated funding comes from customer deposits, including around KZT700 billion (around 9% of total funding) provided by state organizations under state development programs. We expect both retail deposits and government-related funding to remain stable due to the strong brand recognition, solid market positions of the banks, and established connections with cash-rich government-related entities (GREs).

We expect Halyk Bank's liquidity to remain adequate, since the group has ample liquidity buffers combining liquid assets of Halyk Bank and currently excess liquidity at KKB following the repayment of BTA loan. We estimate that consolidated liquid assets amounted to one-half of consolidated total assets following the acquisition. We assume that the group will utilize this liquidity gradually to repay the most expensive liabilities and moderately increasing lending starting from next year.

We view Halyk Bank (together with newly acquired KKB) as having high systemic importance in Kazakhstan, and therefore include one notch of uplift in the ratings above its SACP.

Outlook

Kazkommertsbank

The negative outlook on KKB reflects the negative outlook on its parent, Halyk Bank, and our view that Halyk Bank's ability to provide support to KKB may reduce if Halyk Bank's own creditworthiness deteriorates significantly. It also reflects pressure on KKB's capitalization from possible creation of significant additional provisions in the next 12 months.

We could take a negative rating action in the next 12 months if we observed material deterioration in KKB's asset quality, creation of significant additional provisions, or fast asset growth not in line with its capitalization levels. This could significantly weaken its capital buffers, resulting in the projected RAC ratio declining to below 3%.

Weaker-than-expected ties with Halyk Bank and potential support could also cause us to review KKB's group status and reduce the notches of group support that we current factor in our ratings on KKB.

We could revise the outlook to stable in the next 12 months if we revise the outlook on Halyk Bank to stable, assuming that at the same time KKB's credit profile does not deteriorate and Halyk Bank's support does not diminish. We would view positively significant improvements in KKB's asset quality closer to peers' levels through recovery, write off, or sale of its legacy problem loans, and improvements in its profitability through improved interest received, net interest margin, and costs optimization.

A substantial strong track record of financial and management support from Halyk Bank and the successful integration of KKB coupled with performance in line with our expectations might lead us to revise upward our assessment of KKB's group status, which could positively impact our ratings on the bank, all else remaining equal.

Halyk Bank

The negative outlook on Halyk Bank reflects the risks related to integration of KKB, which we envisage to be particularly challenging in the next 12 months in view of KKB's significantly weaker credit profile and the tight operating conditions for banks in Kazakhstan.

We would lower our ratings on Halyk Bank in the next 12 months if we considered that the combined banking group is unable to work out KKB's legacy problem assets reasonably quickly, resulting in significant pressure on Halyk Bank's profitability and stability of its earnings. We would also take a negative rating action if Halyk Bank were to create loan-loss provisions significantly above the level that we currently anticipate or incurred other unexpected losses that would lead to our RAC ratio falling below 5% on a consolidated basis.

We could revise the outlook on Halyk Bank to stable in the next 12 months if the combined bank demonstrated the ability to turn around KKB and maintain sound operating performance, resulting in a RAC ratio sustainably above 7%. We would also need to see sustainable improvement of the asset quality of KKB and of Halyk Bank on a consolidated level, with NPLs gradually decreasing to levels comparable with peer banks, that is to below 15% of total loans on a consolidated basis.

Ratings Score Snapshot

Kazkommertsbank

	To	From
Issuer credit rating	B+/Negative/B	B-/Watch Dev/B
SACP	ccc+	ccc
Anchor	bb-	bb-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Weak (-1)	Very weak (-2)
Risk Position	Weak (-2)	Weak (-2)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+3	+2
GRE Support	0	0
ALAC Support	0	0
Group Support	+3	0
Sovereign Support	0	+2
Additional Factors	0	0

Halyk Bank

	To	From
Issuer Credit Rating	BB/Negative/B	BB/Watch Neg/B
SACP	bb-	bb
Anchor	bb-	bb-
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Moderate (0)	Adequate (0)
Risk Position	Moderate (-1)	Adequate (0)
Funding and Liquidity	Above average and Adequate (0)	Above average and Adequate (0)
Support	+1	0
GRE Support	0	0
ALAC Support	0	0
Group Support	0	0
Sovereign Support	+1	0
Additional Factors	0	0

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Halyk Savings Bank of Kazakhstan		
Counterparty Credit Rating	BB/Negative/B	BB/Watch Neg/B
Kazakhstan National Scale	kzA/--	kzA/Watch Neg/--
Senior Unsecured	BB	BB/Watch Neg

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Kazkommertsbank JSC		
Counterparty Credit Rating	B+/Negative/B	B-/Watch Dev/B

Upgraded; CreditWatch Action

	To	From
Kazkommertsbank JSC		
Kazakhstan National Scale	kzBBB-/--	kzB+/Watch Dev/--
Senior Unsecured	B+	B-/Watch Dev
Junior Subordinated	CCC+	CCC-/Watch Dev

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.