



# Eurasian Bank

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№ 04-004/50118 от « 04 » декабрь 20 15 г.

## АО «Казахстанская фондовая биржа»

АО «Евразийский Банк» (далее «Банк») уведомляет Вас о том, что 04/12/2015г. Банком получено уведомление о пересмотре рейтингом агентством Standard&Poor's рейтингов Банка и его ценных бумаг.

Наименование	Текущий рейтинг банка
Долгосрочный рейтинг банка в иностранной валюте	B
Прогноз рейтинга	Стабильный
Краткосрочный рейтинг банка в иностранной валюте	B
Долгосрочный рейтинг банка в национальной валюте	B
Краткосрочный рейтинг банка в национальной валюте	B
Долгосрочный рейтинг банка по национальной шкале	kzBB
Необеспеченный долг	B
Субординированный долг	CCC + и kzB+

Председатель Правления



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# RatingsDirect®

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## Research Update:

# Kazakhstan-Based JSC Eurasian Bank Downgraded To 'B' From 'B+' On Deteriorating Asset Quality; Outlook Stable

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## Research Update:

# Kazakhstan-Based JSC Eurasian Bank Downgraded To 'B' From 'B+' On Deteriorating Asset Quality; Outlook Stable

## Overview

- Contrary to our expectations, Eurasian Bank's loan portfolio quality has deteriorated over 2015, which was accompanied by a material decrease of the coverage of nonperforming loans by loan loss provisions.
- In addition, we consider that the bank's capital ratios will remain constrained in the next two years due to elevated credit costs and decreased margins despite the Kazakh tenge 6 billion capital injection received in November 2015 and the expected capital gain from the acquisition of Bank Pozitiv by the end of the year.
- We are therefore lowering our long-term credit rating on Eurasian Bank to 'B' from 'B+' and affirming the short-term rating at 'B'.
- The stable outlook reflects our view that Eurasian Bank will be able to withstand the expected pressure on its financial performance given the depressed economic environment and constrained systemwide funding in the Kazakh banking sector in the next 12-18 months.

## Rating Action

On Dec. 4, 2015, Standard & Poor's Ratings Services lowered the long-term counterparty credit rating on Kazakhstan-based JSC Eurasian Bank to 'B' from 'B+'. The outlook is stable. We affirmed the short-term counterparty credit rating at 'B'.

At the same time, we lowered the national scale rating on the bank to 'kzBB' from 'kzBBB-'.

We also lowered our global scale ratings on Eurasian Bank's nondefferable subordinated debt to 'CCC+' from 'B-' and our national scale ratings on this debt to 'kzB+' from 'kzBB'.

## Rationale

The downgrade stems from our reassessment of Eurasian Bank's risk position to moderate from adequate. Despite significant tightening of its credit approval rates since mid-2014 and enhancement of collection procedures, the bank's loan portfolio quality, in both corporate and retail segments, has markedly deteriorated over 2015. The level of nonperforming loans (NPLs; loans overdue more than 90 days) increased to 11.1% of total loans on Nov. 1, 2015 (under

local standards), from 7.5% on Jan. 1, 2015. In addition, NPL coverage by loan loss provisions decreased to a very low 52% from 73% on the same dates. This compares unfavorably with the sector average of 114% as of Nov. 1, 2015. As a result, we think that Eurasian Bank will likely counter this by raising its provisioning expenses going forward, which will hinder its financial performance.

Under our base-case scenario, we expect that Eurasian Bank's risk-adjusted capital (RAC) ratio before adjustment for concentration and diversification will be between 5.0% and 5.2% in the next 12-18 months. In November 2015 the bank received a Kazakhstani tenge (KZT) 6 billion (about USD19.5 million) capital injection, and it plans to consolidate Bank Pozitiv by the end of this year, which will result in a capital gain of around KZT2.6 billion, under our estimates. Yet, we think that the elevated credit costs that we estimate at about 3.5%-4.0% of total loans annually in 2016-2017, compared with 2.5% on Oct. 1, 2015 (annualized metrics), and pressured net interest margin staying around 6.0%-6.2% (down from 6.6% in 2014 and 7.8% in 2013) will constrain the bank's profitability and capital ratios going forward.

We continue to see the bank's business position as moderate, reflecting the risks of its rapid expansion over the last few years, tight capital policy, and still moderate market share. That said, we note that Eurasian Bank enjoys the benefits of the established franchise, solid reputation in Kazakhstan, and experienced management team.

We regard the bank's funding as average, reflecting its stable funding ratio comfortably staying at 117% as of Oct. 1, 2015, and funding base diversification that compares well with local peers. We assess the bank's liquidity as adequate, with a cushion of approximately 16% of total assets on Oct. 1, 2015.

## Outlook

The stable outlook on Eurasian Bank reflects our expectation that the bank's experienced management team will be able to mitigate the pressure on the bank's financial results given the depressed economic environment and constrained systemwide funding in the Kazakh banking sector in the next 12-18 months. While we anticipate credit losses in 2016, we see the capital injection from shareholders as a buffer that will support the bank's financial profile going forward. In addition, although we expect Eurasian Bank's NPLs to stay high at close to 10% of overall loans, we consider that the advanced collection processes will result in better recovery of its problem loans compared with our expectations for most other Kazakh banks. We assume in our base case that the bank's capitalization as projected by our RAC ratio before adjustment for concentration and diversification will stay at 5.0%-5.2% in the next two years.

We would take a negative rating action if Eurasian Bank's forecast RAC ratio fell below 5%. This may result from the new loan loss provisions markedly



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exceeding our expectation of 3.5%-4.0% of total loans per year over the next two years. In our view, one of the key reasons for elevated credit costs going forward is the bank's very low coverage of NPLs by provisions of only 52% on Nov. 1, 2015.

A positive rating action is unlikely in the next 12-18 months given the increasing economic and industry risks in the Kazakh banking sector.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	B/Stable/B	B+/Negative/B
National Scale	kzBB	kzBBB-
SACP	b	b+
Anchor	bb-	bb-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Moderate (-1)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

## Related Criteria And Research

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

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- Commercial Paper I: Banks, March 23, 2004

## Ratings List

### Downgraded

	To	From
JSC Eurasian Bank		
Counterparty Credit Rating	B/Stable	B+/Negative
Kazakhstan National Scale	kzBB/--/--	kzBBB/--/--
Senior Unsecured	B	B+
Subordinated	CCC+	B-
Subordinated	kzB+	kzBB

### Ratings Affirmed

JSC Eurasian Bank	
Counterparty Credit Rating	--/--/B

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Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.



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