

# RatingsDirect®

---

Research Update:

## Kazakhstan-Based Halyk Bank And Kazkommertsbank Ratings Now On CreditWatch On Very High Likelihood Of Acquisition

**Primary Credit Analysts:**

Annette Ess, CFA, Frankfurt (49) 69-33-999-157; [annette.ess@spglobal.com](mailto:annette.ess@spglobal.com)

Ekaterina Marushkevich, CFA, Moscow (7) 495-783-41-35; [ekaterina.marushkevich@spglobal.com](mailto:ekaterina.marushkevich@spglobal.com)

### Table Of Contents

---

Overview

Rating Action

Rationale

CreditWatch

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

## Research Update:

# Kazakhstan-Based Halyk Bank And Kazkommertsbank Ratings Now On CreditWatch On Very High Likelihood Of Acquisition

## Overview

- On June 2, 2017, Halyk Savings Bank of Kazakhstan (Halyk Bank), Kazkommertsbank JSC (KKB), KKB's largest shareholder Kenges Rakishev, and various government bodies signed a framework agreement setting terms for the acquisition of KKB by Halyk Bank, which in our view has a very high probability of going through.
- The agreement envisages that KKB's largest borrower BTA Bank will repay its obligations to KKB after receiving KZT2.4 trillion of support from the Problem Loans Fund, and that Halyk Bank will acquire shares in KKB from Mr. Rakishev and Samruk-Kazyna.
- We are placing our 'BB' long-term rating on Halyk Bank on CreditWatch negative because we expect the bank's creditworthiness might be under pressure following its acquisition of the much lower-rated KKB.
- At the same time, we are revising the implications of the CreditWatch on our 'B-/B' ratings on KKB to developing from negative to reflect a potential improvement of KKB's creditworthiness if the acquisition is completed.
- We consider that Halyk Bank is stronger than KKB and that KKB is backed by government support, but there is uncertainty regarding how KKB would restore its capital to the regulatory minimum if the acquisition does not take place.
- We intend to resolve the CreditWatch on both banks upon completion of the acquisition, which we expect will occur during the next three months.

## Rating Action

On June 14, 2017, S&P Global Ratings placed its 'BB' long-term counterparty credit rating and 'kzA' Kazakhstan national scale rating on Halyk Savings Bank of Kazakhstan (Halyk Bank) on CreditWatch with negative implications. We affirmed the 'B' short-term counterparty credit rating on the bank.

At the same time, we have revised the CreditWatch implications for our 'B-/B' long- and short-term counterparty credit ratings and 'kzB+' Kazakhstan national scale ratings on Kazkommertsbank JSC (KKB) to developing from negative. We placed the ratings on CreditWatch negative on May 11, 2017.

## **Rationale**

The rating actions follow the signing on June 2, 2017, of a framework agreement by Kazakhstan's government, the National Bank of Kazakhstan (NBK), Samruk-Kazyna, JSC Problem Loans Fund (PLF), Halyk Bank, BTA Bank J.S.C., KKB, and Kenges Rakishev, KKB's largest shareholder setting terms for the acquisition of KKB by Halyk Bank. We now factor in the possibility of the deal into our ratings on Halyk Bank and KKB, assuming that the acquisition is very likely to go ahead.

We placed our long-term rating on Halyk Bank on CreditWatch negative because we think that the acquisition of KKB, which has a significant legacy problem-assets portfolio, might weaken Halyk Bank's creditworthiness. KKB is the second largest bank in Kazakhstan following its acquisition of BTA Bank in 2014. We view Halyk Bank to be more risk-averse than peer Kazakh banks, as demonstrated by its track record of solid capitalization and earnings generation. In contrast, KKB has a history of financing speculative real estate deals before the 2008 financial crisis, frequent changes of management teams over the past few years, low capitalization, and weak profitability. We believe that it might take considerable time and managerial effort to establish solid internal control and risk management systems throughout the combined organization. We expect that following the acquisition, Halyk Bank's consolidated nonperforming loans (NPLs; loans more than 90 days overdue) might increase to more than 20% of total loans from the 9.8% Halyk Bank reported at year-end 2016.

In addition, we consider that the deal might put pressure on Halyk Bank's capitalization. We understand the government plans to provide KKB's largest borrower, BTA Bank, sufficient funds to repay its Kazakhstani tenge (KZT) 2.4 trillion (\$7.5 billion) loan, which accounted for about 58% of KKB's total loans at year-end 2016. However, according to our estimates, KKB will likely have low capitalization after that loan is repaid. This is because, as we understand, KKB will be required to create additional provisions on the remaining loan book following the recent asset quality review undertaken by the central bank (NBK) and Halyk Bank; the exact amount of the additional provisions has not yet been established, but we expect they will be substantial. We therefore consider that Halyk Bank may be required to inject additional capital into KKB following the acquisition. In our view, however, Halyk Bank's high capital buffers, supported by sound earnings generation over the past two years, will ease some of the pressure on its consolidated capital ratios from the acquisition.

Positively, we also expect that Halyk Bank's consolidated funding profile will remain strong. Halyk Bank and KKB enjoy strong retail deposit franchises in Kazakhstan, with a joint market share of 38% as of May 1, 2017. We expect Halyk Bank's liquidity will remain adequate, supported by extensive government funds.

We revised the implications of our CreditWatch on KKB to developing to reflect

*Research Update: Kazakhstan-Based Halyk Bank And Kazkommertsbank Ratings Now On CreditWatch On Very High Likelihood Of Acquisition*

the upside to KKB's creditworthiness if it is acquired by the much stronger Halyk Bank. In particular, we expect KKB's creditworthiness could benefit from the following measures that are intended to be part of the acquisition deal:

- BTA Bank's repayment of its KZT2.4 trillion obligation to KKB, backed by government support through PLF; and
- Halyk Bank's likely provision of additional capital to KKB.

After the acquisition, we anticipate that KKB will become a subsidiary of Halyk Bank, and our long-term rating on KKB could therefore potentially benefit from uplift for group support. However, at this stage it is not possible to determine KKB's potential group status or the likelihood of support from Halyk Bank.

At the same time, there is uncertainty about the source and timing of solvency support to KKB if the acquisition by Halyk Bank does not go through. We do not see KKB's current financial position as sustainable in the long term. In our view, KKB will likely need a capital injection to address the lack of provisions for its loan portfolio (excluding the BTA Bank exposure), which was why we placed the ratings on CreditWatch negative in May (see "Kazakhstan-Based Kazkommertsbank Ratings Placed On CreditWatch Negative On Expected Capital Shortfall," published May 11, 2017, on RatingsDirect). This was even though the Kazakh authorities have committed to providing substantial support to KKB in the form of buying out the BTA exposure. Furthermore, KKB's provisioning needs and the size of the additional capital needed are currently uncertain.

We understand that KKB repaid its \$250 million (KZT85 billion) subordinated callable notes due on June 13, 2017.

## **CreditWatch**

### **Halyk Bank**

We aim to resolve the CreditWatch on completion of KKB's acquisition by Halyk Bank, which we expect will happen within the next three months.

We will lower our ratings if, following the acquisition, we consider that Halyk Bank's creditworthiness has substantially weakened. This could result from the need to create substantial additional loan loss provisions at KKB or from deterioration of Halyk Bank's risk position after incorporating KKB, with the combined entity having substantially worse loan asset quality than the banking sector average.

We could affirm our ratings if, after the acquisition, we believed the pressure on Halyk Bank's stand-alone credit profile is offset by extraordinary government support, reflecting the combined entity's high systemic importance.

If the acquisition did not materialize, we would likely affirm our ratings on Halyk Bank and assign a negative outlook, owing to heightened risk from relatively high levels of overdue and restructured loans.

### **Kazkommertsbank**

We would likely upgrade KKB if the acquisition by Halyk Bank restored KKB's capital to the regulatory minimum, and we consider that Halyk Bank will integrate KKB into its business, remain committed to KKB as its subsidiary, and support KKB if needed.

In contrast, we could lower the ratings if, within the next three months, KKB's recapitalization does not take place. Absence of or delays in providing additional capital would imply an increased possibility of KKB defaulting on some or all of its debt, in our view. We could also lower the ratings if, contrary to our current view, we see increased prospects of a selective default, for example through restructuring of KKB's foreign debt as part of a solvency support package.

## **Ratings Score Snapshot**

### **Halyk Savings Bank of Kazakhstan**

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

### **JSC Kazkommertsbank**

	To	From
Issuer credit rating	B-/Watch Dev/B	B-/Watch Neg/B
SACP	ccc	ccc
Anchor	bb-	bb-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Very weak (-2)	Very weak (-2)
Risk Position*	Weak (-2)	Weak (-2)

*Research Update: Kazakhstan-Based Halyk Bank And Kazkommertsbank Ratings Now On CreditWatch On Very High Likelihood Of Acquisition*

Funding and Liquidity*	Average and Adequate (0)	Average and Adequate (0)
Support	+2	+2
GRE Support	0	0
Group Support	0	0
Sovereign Support	+2	+2
Additional Factors	0	0

\*These assessments include our view of impending extraordinary short-term support from the Kazakh authorities.

## 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

## Related Research

- Kazakhstan-Based Kazkommertsbank Ratings Placed On CreditWatch Negative On Expected Capital Shortfall, May 11, 2017
- Halyk Bank Ratings Unchanged On Progression Of Potential Acquisition Of Kazkommertsbank, May 11, 2017



## Ratings List

### Ratings Affirmed; CreditWatch Action

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

### CreditWatch Action

	To	From
Kazkommertsbank JSC		
Counterparty Credit Rating	B-/Watch Dev/B	B-/Watch Neg/B
Kazakhstan National Scale Rating	kzB+/Watch Dev/--	kzB+/Watch Neg/--
Senior Unsecured	B-/Watch Dev	B-/Watch Neg
Junior Subordinated	CCC-/Watch Dev	CCC-/Watch Neg

### 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](http://www.standardandpoors.com) for further information. 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 the S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

№ 140547325  
Дата 19.06.2017

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

АҚ "Қазкоммерцбанк"  
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: рейтинга АО «Казкоммерцбанк»*

Уважаемая Алина Утемискызы,

Настоящим уведомляем Вас, что 14 июня 2017 года рейтинговое агентство S&P Global, поместило кредитный рейтинг эмитента "В-" Казкоммерцбанка (ККБ) в список CreditWatch "развивающийся".

Управляющий Директор  
АО «Казкоммерцбанк»  
Амиров Р.У.

