«Қазақстан Халық Банкі» АҚ
Қазақстан Республикасы, A26M3K5,
Алматы қ., Әл-Фараби даңғ., 40-үй
Тел.: +7 /727/ 259 07 77
Факс: +7 /727/ 259 02 71
halykbank@halykbank.kz, www.halykbank.kz

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

АО «Народный Банк Казахстана»
Республика Казахстан, A26M3K5,
г. Алматы, пр. Аль-Фараби, д. 40
Тел.: +7 /727/ 259 07 77
Факс: +7 /727/ 259 02 71
halykbank@halykbank.kz, www.halykbank.kz

04.12.2019 № 21-18013

№ ______________ ______________

АО «Казахстанская Фондовая Биржа»

Настоящим АО «Народный Банк Казахстана» («Банк» – LSE: HSBK; KASE: HSBK; AIX: HSBK) в соответствии с требованиями Листинговых правил АО «Казахстанская фондовая биржа» информирует о том, что 4 декабря 2019 года рейтинговое агентство Fitch Ratings повысило долгосрочный рейтинг дефолта эмитента («РДЭ») Банка с уровня «BB» до «BB+». Прогноз по рейтингам – «Позитивный». Рейтинговое агентство также повысило рейтинг по старшим необеспеченным долговым обязательствам Банка с уровня «BB» до «BB+» (ISIN: XS0867478124, XS0867573890, XS0583796973, US46627JAB08, KZ2C00003077, KZ2C00002855, KZ2C00003069).

В приложении к настоящему письму направляем отчет рейтингового агентства Fitch Ratings от 4 декабря 2019 года.

Глава стратегического офиса В. Скрыль

Исп.: Бекенов С.Е.
Тел. +7 (727) 332-26-45

№ 0031261

Сериялық нөмірі жоқ бланк жарамсыз
Бланк без серийного номера не действителен

FitchRatings

Fitch Upgrades Halyk, Revises Outlook on Forte to Positive, Affirms 3 Other Kazakh FIs

Fitch Ratings - Moscow - 03 December 2019:

Fitch Ratings has upgraded the Long-Term Issuer Default Ratings (IDRs) of JSC Halyk Bank (Halyk) and its subsidiary, Halyk Finance (HF) to 'BB+' from 'BB'. The Outlooks are Positive. Fitch has also revised the Outlook on ForteBank (Forte) to Positive from Stable and affirmed its IDR at 'B'. Fitch has also affirmed the IDRs of Subsidiary Bank Sberbank of Russia (SBK) at 'BBB-' and ATF Bank JSC (ATF) at 'B-', both with Stable Outlooks.

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

RATING ACTIONS

ENTITY/DEBT	RATING	RECOVERY	PRIOR
ATF Bank JSC	LT IDR B- Affirmed		B-
	ST IDR B Affirmed		B
	LC LT IDR B- Affirmed		B-
	Natl LT BB-(kaz) Affirmed		BB-(kaz)
	Viability ccc Affirmed		ccc
	Support 5 Affirmed		5
	Support Floor B- Affirmed		B-
senior unsecured	LT B- Affirmed	RR4	B-
subordinated	LT CC Affirmed	RR6	CC
subordinated	LT C Affirmed	RR6	C
senior unsecured	Natl LT BB-(kaz) Affirmed		BB-(kaz)
subordinated	Natl LT		CCC(kaz)

	CCC(kaz) Affirmed		
JSC Halyk Bank	LT IDR BB+ Upgrade		BB
	ST IDR B Affirmed		B
	LC LT IDR BB+ Upgrade		BB
	LC ST IDR B Affirmed		B
	Natl LT AA(kaz) New Rating		
	Viability bb+ Upgrade		bb
	Support 4 Affirmed		4
	Support Floor B Affirmed		B
senior unsecured	LT BB+ Upgrade		BB
ForteBank JSC	LT IDR B Affirmed		B
	ST IDR B Affirmed		B
	LC LT IDR B Affirmed		B
	Natl LT BB+(kaz) Affirmed		BB+(kaz)
	Viability b Affirmed		b
	Support 5 Affirmed		5
	Support Floor B- Affirmed		B-
senior unsecured	LT B Affirmed	RR4	B
senior unsecured	Natl LT BB+(kaz) Affirmed		BB+(kaz)
JSC Halyk Finance	LT IDR		BB

	BB+ ⊕ Upgrade		
	ST IDR B Affirmed		B
	LC LT IDR BB+ ⊕ Upgrade		BB ⊕
	LC ST IDR B Affirmed		B
	Support 3 Affirmed		3
Subsidiary Bank Sberbank of Russia, JSC	LT IDR BBB- ⊙ Affirmed		BBB- ⊙
	ST IDR F3 Affirmed		F3
	LC LT IDR BBB- ⊙ Affirmed		BBB- ⊙
	Natl LT AA+(kaz) ⊙ Affirmed		AA+(kaz) ⊙
	Viability bb- Upgrade		b+
	Support 2 Affirmed		2
senior unsecured	LT BBB- Affirmed		BBB-
senior unsecured	Natl LT AA+(kaz) Affirmed		AA+(kaz)

Key Rating Drivers

IDRS, NATIONAL LONG-TERM RATINGS, SUPPORT RATINGS, SUPPORT RATING FLOORS

SBK's 'BBB-' Long-Term Foreign- and Local-Currency IDRs and '2' Support Rating (SR) are driven by the potential support the bank may receive from its 100% shareholder, Sberbank of Russia (SBR; BBB/Stable), in case of need. We assess SBR's propensity to support SBK as high, reflecting the CIS region's strategic importance to SBR, the high level of integration between the parent and its subsidiary, common branding, and possible reputational risks for the parent in case of a subsidiary default. However, we rate SBK one notch below its parent due to the cross-border nature of the parent-subsidiary relationship, the fact that we do not view SBK as a core subsidiary and SBK's considerable management independence.

The IDRs of Halyk and Forte are driven by their intrinsic financial strength, as reflected in their VRs.

The IDRs of ATF and the Support Rating Floors (SRFs) of ATF, Forte and Halyk are driven by our view that there is a limited probability that these banks would receive support from Kazakhstan (BBB/Stable), in case of need, given their at least moderate systemic importance. The significant gap between Kazakhstan's sovereign ratings and the banks' SRFs reflects a patchy record of state support, which has recently involved:

- The bail-out of Kazkommertsbank (KKB) and transfer of its problem assets (over 50% of total assets) prior to its acquisition by Halyk in 2H17, thus avoiding the default of the bank.

- Moderate capital support in the form of cheap subordinated debt (partly booked as equity due to fair value gains) provided by the National Bank of Kazakhstan (NBK) to four medium-sized banks (with market shares of 4%-9%), including ATF, in 4Q17. The amount of provided capital ranged from 5% to 13% of banks' risk-weighted assets.

- A restricted default of the second-largest bank in the country, Tsesnabank in 1Q19. The support package for Tsesnabank combined a significant asset transfer (over 55% of gross loans) with the bail-in of state-owned senior unsecured creditors.

We believe that state support may come to Kazakh privately-owned medium-sized banks in the form of subordinated debt from the NBK, or asset transfers to the state-controlled Problem Asset Fund, as indicated by the past track record of bank resolutions in Kazakhstan. At the same time, support may be combined with a bail-in of state-owned senior unsecured creditors (as in case of Tsesnabank), which the authorities seemingly view as another form of state support, but we would consider to be a 'Restricted Default' under our criteria as these are reference obligations for our IDRs.

The 'B-' SRFs of ATF and Forte reflect our view that there is still a possibility of them receiving state support without senior unsecured creditors' participation in loss-sharing. This view is based on: (i) the potentially smaller asset quality problems in relation to capital at these banks (particularly at Forte), compared with Tsesnabank; and (ii) material buffers of junior debt at ATF (10% of regulatory risk-weighted assets at end-3Q19), which could be used to absorb losses, in case of need, combined with state support measures. Banks' junior debt issues are not reference obligations for their IDRs.

Halyk's 'B' SRF is one notch higher than that of ATF and Forte, reflecting Halyk's higher systemic importance, as expressed by its significant market shares.

Halyk Finance (HF) is a wholly-owned core subsidiary of Halyk, and its IDRs are equalised with the ratings of its parent to reflect this. The Positive Outlook on HF mirrors that on the parent. Fitch believes Halyk would have a high propensity to support HF given ownership, integration, common branding, and significant negative reputational implications for Halyk in case of a subsidiary default. HF is small relative to its parent (representing less than 1% of Halyk's total assets at end-3Q19) and its balance sheet is healthy, which limits the cost of any potential support, in our view.

National Ratings reflect issuers' creditworthiness relative to other credits in Kazakhstan.

VRS (ALL BANKS)

Kazakhstan's cyclical, developing and concentrated economy is the primary drag on the banks' VRs, as their asset quality is exposed to significant operating environment risks stemming from occasional asset price bubbles and generally long-term corporate lending, often with grace periods on principal repayments. The origination of new impaired loans has been limited in the last two to three years, although banks have significant exposures to deep-seated legacy problem assets, which could still generate additional impairment losses. Asset quality is typically a rating weakness for Kazakh banks.

The differences in banks' VRs typically capture the amount of their net problem assets relative to capital, and the magnitude of related asset quality risks. We also consider the banks' performance and their internal capacity to absorb the residual losses from their problem assets through pre-impairment profitability.

Halyk's 'bb+' VR is the highest in Kazakhstan. It continues to reflect its dominant market shares and resulting superior pricing power, its conservative risk appetite and management, and favourable asset structure, resulting in stronger asset quality relative to local peers. In Fitch's view, Halyk's solid capital and liquidity buffers and its impressive through-the-cycle performance should help the bank successfully mitigate even quite extreme swings in the operating environment.

The upgrades of the VRs of Halyk and SBK (the latter to 'bb-' from 'b+') were driven by a reduction of net problem assets relative to capital. The upgrade of SBK also captures an improvement in its performance. The two-notch lower VR of Forte (b) compared with SBK reflects its weaker asset quality as reflected by higher impaired loan ratios, and also its higher amount of net impaired loans relative to capital.

The Positive Outlook on Halyk's and Forte's ratings reflects our expectations that the ratio of problem assets relative to capital should reduce further in the next 12-18 months, due to moderate additional provisioning, further capital built-up and some recoveries. If ratios of problem assets to capital fall, we may upgrade Halyk's and Forte's ratings by one notch if other credit metrics remain stable.

The affirmation of ATF's VR at 'ccc' reflects a still high amount of problem assets relative to Fitch core capital (FCC). In Fitch's view, these assets may require additional provisioning, and there is a real possibility that resolving these risks would require external capital support and/or the bail-in of junior creditors, as pre-impairment profitability and core capital buffer would be insufficient to absorb losses.

VR (HALYK)

At end-3Q19, Halyk's impaired loans (defined as Stage 3 loans and POCI loans under IFRS 9) were 18% of gross loans, a 300bp reduction compared with end-3Q18. Stage 2 loans added another 3%. Impaired loans net of total loan loss allowance (LLA) equated to 24% of FCC, and non-core assets (mostly investment property and other real estate) added a further 16%. We believe that the ratio of legacy problem assets relative to Halyk's FCC will improve, probably to 20%-25% of FCC, over the next 12-18 months, primarily due to moderate additional provisioning and further capital build-up, but also due to potential collateral sales and some loan recoveries.

Fitch believes that asset quality risks stemming from a weak operating environment are more limited at Halyk compared with local peers, due to Halyk's favorable asset structure. At end-3Q19, bonds and cash/interbank placements of mostly investment-grade credit quality comprised a high 54% of Halyk's assets. Another 16% of assets related to generally moderate-risk local-currency retail lending, which is unlikely to generate significant impairment losses on the negative side of the credit cycle. The corporate loan book, which we expect to remain the primary source of asset quality risks over the medium term, comprised a moderate 30% of assets. However, credit risks stemming from the corporate loan book are only moderate relative to Halyk's strong pre-impairment profit and significant capital buffer, in Fitch's view.

Halyk's profitability benefits from a wide net interest margin (6% in 9M19) and good cost control. After its merger with KKB, Halyk's pre-impairment profitability received an additional boost, with annualised recurring pre-impairment profit equal to over 9% of gross loans in 2018 and 9M19. In Fitch's view, this provides the bank with a strong capacity to withstand operating environment shocks. Halyk's annualised ROAE was a high 29% in 9M19. The bank's profitability has been very stable and we expect this to be sustainable with an ROAE of about 25% in the next few years.

Halyk's FCC ratio reached a high 21% at end-3Q19. Capitalisation is supported by robust performance and only moderate loan growth (we expect single digit loan growth in 2020). Halyk's liquidity buffer is solid as expressed by a 65% ratio of gross loans/deposits. At end-3Q19, its liquid assets covered a high 60% of total liabilities. Halyk is predominantly deposit-funded and contractual repayments of wholesale funding in 4Q19 and 2020 are limited.

VR (SBK)

At end-2Q19, SBK's impaired loans (defined as Stage 3 loans under IFRS 9) and stage 2 loans comprised 13.3% and 2.6% of gross loans, respectively. This is a moderate improvement compared with 11.0% and 9.9%, respectively, at end-2Q18. SBK's impaired loans are well covered with total LLA (87% at end-2Q19), which is above the sector average. Given that hard collateral is available for most corporate loans, we believe that residual impairment from SBK's legacy portfolio should be limited.

SBK's largest corporate loans are of reasonable credit quality, in Fitch's view, although concentrations are a bit high, and some of the largest loans are long-term project finance exposures with higher intrinsic credit risks. SBK's rapid recent expansion in retail lending (annualised 42% growth in 1H19; twice as high as the sector average) may also result in elevated loan impairment as the portfolio seasons.

Positively, SBK's healthy pre-impairment profit (annualised 8% of gross loans in 1H19) provides the bank with strong capacity to absorb new impairment losses. SBK's performance has benefited from a gradual sector-wide reduction of funding costs, and an increased share of higher-yield retail loans in the business mix (32% at end-2Q19). Lower loan impairment charges in 2Q19 allowed SBK to post a high 39% annualised ROAE, although historically SBK's performance has been highly cyclical, and we expect this to persist.

SBK's FCC ratio improved to a moderate 12.6% at end-2Q19, although given only moderate net Stage 3 loans (13% of FCC at end-2Q19), and net Stage 2 loans (20%), we view capital adequacy as reasonable. SBK's bottom line performance exceeded its loan growth in the past few years, supporting the capital position. In addition, SBK may benefit from ongoing support from its parent (e.g. in 2017 SBK sold a large problematic exposure, equal to 4% of gross loans, to SBR to ease capital pressure).

SBK was 85% deposit-funded at end-2Q19, and its funding stability benefits from its foreign ownership, which also supports lower funding costs (4.2% in 6M19). Typically for the sector, SBK's liquidity position is strong, as reflected by its 93% ratio of gross loans to deposits. At end-3Q19, SBK's liquidity buffer (including cash, short-term interbank placements and bonds) was equal to a high 39% of total non-equity funding or 45% of customer funding. Access to funding from its parent, in case of need, is a further strength.

VR (FORTE)

Forte's impaired loans decreased to 22.5% at end-3Q19 from 25.0% at end-2018 due to gradual recoveries of legacy problem exposures and good quality of newly issued loans. Coverage of impaired loans by LLAs was 38%, and at end-3Q19 Forte's impaired and Stage 2 loans net of LLAs and non-core assets equaled a high 1.0x of FCC, albeit down from 1.4x at end-2Q18. We believe that the ratio of problem loans relative to capital will reduce over the next 12-18 months due to additional capital build-up and further provisioning.

Over half of impaired loans are granular retail mortgages and home equity loans that have been gradually worked out in recent years due to Forte's participation in government-sponsored refinancing programmes. In Fitch's view, there is room for additional improvement of the bank's loan quality and reduction of impaired loan ratios. Similarly to Halyk, Forte's overall asset quality also benefits from a lower-risk asset structure. Forte's liquid assets (about 50% of total assets at end-3Q19) are either cash/interbank placements or bonds of strong credit quality.

Fitch's view of the bank's improved capital position is based on the FCC ratio increasing to 15% at end-3Q19 from 13% at end-2018, coupled with the reduction in asset quality problems relative to capital. It is also bolstered by healthy internal capital generation as Forte has demonstrated stable and reasonable profitability in the past few years (ROAA and ROAE at 2.3% and 20% in 9M19, respectively), which we view as sustainable.

The funding and liquidity profile is a relative rating strength. The bank is mostly funded by customer deposits (72% of total liabilities at end-3Q19) and benefitted from large inflows from corporate customers in 9M19 (growth of 33%). Forte also has a material share (13% of liabilities) of cheap long-term funding from state-owned entities, as is typical for the banking sector. The announced early repayment of expensive USD123 million Eurobonds in December 2019 should reduce cost of funding.

The large liquidity cushion (cash, investment-grade securities and short-term placements) covered a sizeable 67% of customer deposits at end-3Q19, and this ratio will remain high after the Eurobond repayment.

VR (ATF)

ATF's Stage 3 loans comprised a significant 32% of gross loans at end-3Q19, and were only 58% covered with total LLA. According to the bank's management, several large Stage 3 exposures equal to 6% of gross loans were repaid in October-November 2019, while another 1% is expected to be redeemed by end-2019. Adjusted for these repayments, we estimate the Stage 3 ratio at 27% of gross loans, 75% covered with LLA. Stage 2 exposures made up another 11% of loans at end-3Q19.

Adjusted for these repayments, Stage 3 loans, net of total LLA, and Stage 2 loans comprised 0.6x and 1.2x FCC, respectively. In addition, the on-balance sheet exposure to investment property, repossessed collateral and other non-core items (mostly real estate and land) equaled a further 0.6x FCC.

The bank's ability to absorb losses through the income statement improved. Pre-impairment profit, net of interest income on loans not received in cash, increased to 3% of gross loans in 9M19 from 2% in 2018, but it is still modest relative to asset quality risks.

ATF's FCC ratio was a moderate 9% at end-3Q19 due to limited asset growth and some profit retention. ATF's junior debt buffer, including perpetual and subordinated debt, was a significant 10% of risk-weighted assets at end-3Q19. However, the contractual terms of these debt instruments do not envisage loss absorption triggers, and we believe that they may absorb losses only after the bank becomes non-viable.

ATF is mostly funded by rather concentrated customer accounts (73% of total liabilities at end-2Q19). Liquid assets, net of wholesale funding repayments in 2H19-2020, covered a moderate 26% of total customer accounts.

DEBT RATINGS

Senior unsecured debt ratings are aligned with banks' Long-Term IDRs and National Long-Term Ratings, reflecting average recovery prospects in case of default.

ATF's dated subordinated debt issues are notched down twice from its VR to reflect potential loss severity. The Recovery Rating on this debt issue is 'RR6', reflecting poor recovery prospects in case of default due to thin layers of junior debt relative to sizeable asset quality problems.

ATF's perpetual debt ratings are rated three notches below the VR, reflecting their deeper subordination, compared with subordinated debt.

SBK's debt ratings relate to bonds issued prior to 1 August 2014.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS, DEBT RATINGS, SUPPORT RATINGs, SUPPORT RATING FLOORS

The support-driven IDRs of SBK and HF are sensitive to changes in the ability and propensity of their parents to provide support.

The support-driven IDRs of ATF, and SRFs of Halyk and Forte, are sensitive to changes in our assessment of sovereign support for Kazakhstan's banking sector. An extended record of timely and sufficient capital support to privately-owned banks may result in moderate upside potential for the SRFs of these banks, and hence for ATF's IDRs.

Conversely, evidence of weaker support and/or significant delays in addressing asset quality and capital problems in the sector, resulting in medium-sized private banks' insolvency or failure, could result in downgrades of SRFs, and of ATF's IDRs. If a resolution of ATF involves the bail in of senior creditors, its IDRs could be downgraded to 'RD'.

Halyk's and Forte's IDRs are sensitive to changes in their VRs.

National Ratings are sensitive to a change in creditworthiness relative to other Kazakh issuers.

VRS

The VRs of the four banks are primarily sensitive to changes in asset quality and capital adequacy.

Fitch may upgrade the VRs of Halyk, SBK, Forte and ATF if the amount of net impaired loans, Stage 2 loans and other problem assets relative to FCC materially reduces, either due to recoveries, or due to deeper provisioning. This is more likely to be the case for Halyk and Forte, as reflected by the Positive Outlooks on their ratings. Conversely, renewed asset quality pressure leading to a material increase in problem assets, may result in negative rating action on these banks.

If asset quality risks at ATF are resolved by means of significant state-support, then its VR may be downgraded to 'f' to reflect a material capital shortfall, and simultaneously upgraded to a rating reflecting the bank's credit profile post-support.

Public Ratings with Credit Linkage to other ratings

HF's and SBK's Long-Term IDRs are driven by support from their parent banks, Halyk (BB+/Positive) and Sberbank of Russia (BBB/Stable), respectively.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Dmitri Vasiliev
Director
+7 495 956 5576
Fitch Ratings CIS Ltd
Business Centre Light House, 6th Floor 26 Valovaya St.
Moscow 115054

Secondary Rating Analyst
Artem Beketov
Associate Director
+7 495 956 9932

Secondary Rating Analyst
Pavel Kaptel

Senior Analyst
+7 495 956 9981

Committee Chairperson
Artur Szeski
Senior Director
+48 22 338 6292

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Anna Bykova
Moscow
+7 495 956 9903
anna.bykova@fitchratings.com

Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)
Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)
Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

COPYRIGHT

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.