

RatingsDirect®

Research Update:

Kazakh Kassa Nova Bank Affirmed At 'B/C' And 'kzBB' On Stronger, More Diverse Funding And Liquidity; Outlook Stable

Primary Credit Analyst:

Annette Ess, CFA, Frankfurt (49) 69-33-999-157; annette.ess@standardandpoors.com

Secondary Contact:

Kirill Lukashuk, Moscow (495)783-4061; kirill.lukashuk@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Kazakh Kassa Nova Bank Affirmed At 'B/C' And 'kzBB' On Stronger, More Diverse Funding And Liquidity; Outlook Stable

Overview

- We believe that Kazakhstan-based Kassa Nova Bank's capitalization has weakened because the rapid growth in its loan book has not been supported by capital injections as we had expected.
- On the other hand, we believe that Kassa Nova has strengthened and diversified its funding and liquidity profile.
- Therefore, we are affirming our 'B/C' counterparty credit and 'kzBB' national scale ratings on Kassa Nova.
- The stable outlook reflects our expectation that the bank has more-than-sufficient capital to absorb what we expect to be slower asset growth over the next 12 months, and our expectation of some asset quality deterioration as the loan portfolio matures.

Rating Action

On Dec. 19, 2013, Standard & Poor's Ratings Services affirmed its 'B' long-term and 'C' short-term counterparty credit ratings and 'kzBB' Kazakhstan national scale rating on Kassa Nova Bank JSC. The outlook is stable.

Rationale

The affirmation reflects our view that Kassa Nova's stand-alone credit profile (SACP) and factors for the long-term rating remain largely unchanged. This is because, although capitalization has weakened because the rapid growth in its loan book has not been supported by capital injections as we had expected, the bank has strengthened and diversified its funding and liquidity profile.

We see two opposite dynamics affecting the SACP:

- Weakening of the bank's capital position in 2013 and our forecast for lower risk-adjusted capital (RAC) for the next 18 months; versus
- An improvement in the funding profile in 2013.

We have therefore revised our capital and earnings assessment on Kassa Nova to "strong" from "very strong," and our assessment of its funding and liquidity to "average" from "below average," as defined in our criteria.

Our "strong" assessment of capital and earnings reflects the bank's remaining substantial loss-absorption capacity. Nevertheless, contrary to our previous

expectations, we forecast the bank's RAC ratio to decrease to about 12%-13% in 2013-2014 from 18.1% at year-end 2012 because of higher-than-anticipated loan growth in 2013 and a delay of capital injections. Our forecast is based on our base-case calculations of annual loan growth of about 77% in 2013 and then a sharp slowdown to about 8% in 2014-2015. In our base case, the slowdown is due to the bank's focus on generating income that is not interest based--mainly fees and commissions--and a delay in shareholder capital injections.

The bank's planned capital increases amounting to Kazakhstani tenge 4 billion (\$27 million) in 2013-2014 have been put on hold because of the pending acquisition of Alliance and Temirbank by Kassa Nova's majority owner, Kazakh businessman Bulat Utemuratov. However, if the bank continues growing at annual rates above 30% we expect the shareholders to put in capital so as not to see material capital depletion.

Kassa Nova is a startup bank in operation since late 2009. It reached a profit in its second year of operations in 2011 and its profitability has been on a positive trend ever since, with return on assets of 1.5% in the first nine months of 2013. We expect the positive trend in profitability to continue over the next 24 months and the bank to fully retain earnings.

At the same time, we view positively Kassa Nova's increased funding diversification. As a result, in our view, the bank's funding and liquidity profile currently differs little from other small and midsize Kazakh banks. A stable funding ratio of 115% on Sept. 30, 2013, supports our "average" funding assessment.

The share of customer deposits increased to 89% of total liabilities as of Sept. 30, 2013. Although depositor concentrations are high, with the top 20 depositors accounting for 63% of total deposits on Sept. 30, 2013, this is in line with other small Kazakh banks. The profile of the top 20 depositors is in line with the profile at domestic peers, and includes state companies, pension funds, and insurance companies. We expect depositor concentrations to fall over the next two years to about 50% for the top 20 depositors, thanks to the launch of retail deposits in late 2012 and the installment of sales points that can accept deposits. In line with our expectations, the reliance on subordinated debt provided by the shareholders has decreased significantly to 7% of total liabilities as of Sept. 30, 2013, from about 50% at year-end 2011.

The bank's liquid assets--which according to our definition include cash and reserves at the central bank, balances due from financial institutions within one year, and liquid securities--accounted for about 16% of total assets on Sept. 30, 2013, and covered short-term wholesale funding by 8.3x, reflecting limited short-term wholesale funding.

Our ratings on Kassa Nova Bank reflect its anchor of 'bb-', as well as its "weak" business position, "strong" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms.

Outlook

The stable outlook reflects our expectation that Kassa Nova has sufficient capital to absorb what we expect to be slower asset growth over the next 12 months and our expectation of some asset quality deterioration as the loan portfolio matures.

We could lower the ratings if capitalization weakens further than we anticipate, resulting in our projected RAC ratio decreasing below 10%. This can happen if the bank continues its rapid loan growth much above our expectation of about 10% per year or if the bank had to create significant additional provisions, which would negatively affect the earnings contribution to its capital base. Inability to keep diversifying its franchise, secure sufficient funding, either from corporates or individuals, and decrease high depositor concentrations would lead us to revise our assessment of its funding to "below average." But neither of these is our base-case scenario.

Rating upside is limited over the next two years, in view of the bank's limited operating record of only four years and its small franchise concentrated in consumer lending in Kazakhstan, where we view increasing risks of overheating.

Ratings Score Snapshot

	To	From
Counterparty Credit Rating	B/Stable/C	B/Stable/C
SACP	b	b
Anchor	bb-	bb-
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Strong (+1)	Very Strong (+2)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average (0) and Adequate	Below Average (-1) and Adequate
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed

Kassa Nova Bank JSC

Counterparty Credit Rating	B/Stable/C
Kazakhstan National Scale	kzBB/--/--
Senior Unsecured	B
Senior Unsecured	kzBB

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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 Standard & Poor's public Web site at 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.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.