FitchRatings

Banks
Universal Commercial Banks
Kazakhstan

AB Kazakhstan - Ziraat International Bank JSC

Key Rating Drivers

AB Kazakhstan – Ziraat International Bank JSC's (KZI) 'B-' Long-Term Issuer Default Ratings (IDRs) reflect potential support from the bank's parent, Turkiye Cumhuriyeti Ziraat Bankasi Anonim Sirketi (Ziraat; B-/Stable/b-). The Stable Outlook on KZI mirrors that on the parent bank's Long-Term Foreign-Currency (LTFC) IDR.

High Support Propensity: Fitch Ratings believes Ziraat has high propensity to support KZI, given its virtually full ownership, common branding, the high level of integration between the two banks, the low cost of potential support due to the subsidiary's small size, and the recent record of considerable equity support. However, Ziraat's ability to provide support to KZI is constrained by its 'B-' LTFC IDR.

Ratings Equalised with Parent's: The equalisation of KZI's and Ziraat's ratings reflects the high integration between the subsidiary and the parent as KZI operates similarly to a branch. In accordance with our Bank Rating Criteria, we tend to equalise ratings of a deeply integrated subsidiary if its parent is rated at the lower end of the rating scale.

No Viability Rating Assigned: KZI is a small bank, with total assets of USD0.5 billion as of 1 December 2023. Its client base – on both sides of its balance sheet – mostly comprises Ziraat's group clients and other Turkish businesses operating in Kazakhstan. Fitch has not assigned KZI a Viability Rating (VR), because KZI is heavily reliant on its parent for new business origination and risk management, and as Ziraat's representatives are involved in all major decision-making at the subsidiary level.

Vulnerable Loan Quality: The bank's Stage 3 loans comprised 14% of gross loans at end-2022 (latest available data), following equity support from Ziraat in 2022, which allowed for write-offs and additional provisioning. The regulatory overdue loans ratio decreased to 5.8% at end-3Q23 (end-2022: 6.9%), driven largely by 16% loan growth in 9M23. We estimate the bank's loan performance moderately improved in 2023 under IFRS 9, although it is likely to remain vulnerable in the medium term, due to high loan concentrations.

Recovered Profitability: KZI's reported KZT11.4 billion net income for 9M23, translating into an annualised return on average equity of 24%. This followed a large KZT10.7 billion net loss in 2022, due to substantial loan impairment charges against impaired exposures, which were subsequently written off. The bank's bottom-line results for 9M23 were supported by a wide net interest margin, strong operating efficiency (cost/income ratio: 20%) and limited credit losses. We expect the bank's operating profitability to remain adequate in 2024.

Strong Loss-Absorption Buffer: KZI's Fitch core capital (FCC) ratio decreased to a still-high 33% at end-3Q23 (end-2022: 36%), caused by 30% growth in risk-weighted assets, while dividend payments were absent. The bank's regulatory capitalisation was also strong, with a common equity Tier 1 capital ratio of 37% as of 1 December 2023. In Fitch's view, KZI's capital buffer allows for considerable loan growth in 2024.

Concentrated Customer Funding; Healthy Liquidity: KZI is deposit-funded (end-3Q23: 96% of total liabilities), with the major contribution coming from corporate clients. This underpins a moderate loans/deposits ratio of about 65% at end-3Q23 (end-2022: 80%). The bank's deposit base is highly concentrated by names, due to scale limitations. KZI's liquidity buffer (mostly cash and cash equivalents) covered a significant 76% of customer deposits at end-3Q23.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Local Currency	
Long-Term IDR	B-
Shareholder Support Rating	b-
National Rating	
National Long-Term Rating	BB-(kaz)
Sovereign Risk	
Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms KZI at 'B-'/Stable; Upgrades National Rating to 'BB-(kaz)' (January 2024)

CIS+ Banks Outlook 2024 (November 2023)

Kazakh Banks Datawatch 1H23 (October 2023)

Kazakh Banking Sector: Robust Buffers Mitigate Growing Risks in Retail (October 2023)

Fitch Revises Outlook on 16 Turkish Banks to Stable on Sovereign Change (September 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

KZI's ratings would likely be downgraded if Ziraat's LTFC IDR is downgraded. KZI's IDRs could also be downgraded if the propensity of the parent to support its subsidiary considerably weakens.

The National Rating could be downgraded as a result of a negative reassessment of KZI's creditworthiness relative to local peers'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action on the parent's LTFC IDR could result in positive rating action on the subsidiary.

Significant Changes from Last Review

National Rating Upgrade

The upgrade of KZI's National Long-Term Rating to 'BB-(kaz)' from 'B+(kaz)' reflects our positive reassessment of KZI's credit profile relative to local peers'. In our view, the bank's increased financial strength contributes to delivery on the group's objectives in the broader CIS region, and hence supports the parent's propensity to support KZI.

Financials

Financial Statements

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20
	9 months	9 months	12 months	12 months	12 months
	(USDm)	(KZTm)	(KZTm)	(KZTm)	(KZTm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	25	11,888	9,160	6,177	6,099
Net fees and commissions	2	983	973	823	703
Other operating income	4	2,034	3,325	1,141	864
Total operating income	31	14,905	13,457	8,140	7,666
Operating costs	6	3,009	2,763	2,261	1,795
Pre-impairment operating profit	25	11,895	10,694	5,879	5,871
Loan and other impairment charges	0	218	21,362	2,311	1,905
Operating profit	25	11,677	-10,668	3,568	3,966
Tax	1	241	-16	828	799
Net income	24	11,436	-10,653	2,739	3,167
Other comprehensive income	—	—	256	—	46
Fitch comprehensive income	24	11,436	-10,397	2,739	3,213
Summary balance sheet					
Assets					
Gross loans	185	87,718	83,032	83,157	56,710
– Of which impaired	—	—	11,746	21,722	14,834
Loan loss allowances	—	—	7,531	7,358	5,166
Net loans	185	87,718	75,502	75,799	51,544
Interbank	3	1,203	59,671	8,216	41,036
Other securities and earning assets	3	1,623	554	15,581	554
Total earning assets	191	90,545	135,727	99,596	93,135
Cash and due from banks	241	114,348	15,146	15,580	12,789
Other assets	40	19,146	17,491	17,460	16,317
Total assets	472	224,039	168,364	132,635	122,242
Liabilities					
Customer deposits	311	147,428	103,267	90,733	85,846
Interbank and other short-term funding	10	4,912	5,108	5,102	2,555
Total funding and derivatives	321	152,339	108,375	95,835	88,401
Other liabilities	3	1,371	1,097	1,012	791
Total equity	148	70,328	58,892	35,789	33,050
Total liabilities and equity	472	224,039	168,364	132,635	122,242
Exchange rate		USD1 = KZT474.47	USD1 = KZT462.65	USD1 = KZT431.67	USD1 = KZT420.71

Source: Fitch Ratings, Fitch Solutions, KZI

Key Ratios

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	7.6	-6.7	2.8	4.0
Net interest income/average earning assets	17.3	9.6	7.8	8.2
Non-interest expense/gross revenue	20.2	20.5	27.8	23.4
Net income/average equity	23.6	-23.8	8.0	9.9
Asset quality				
Impaired loans ratio	—	14.2	26.1	26.2
Growth in gross loans	5.6	-0.2	46.6	4.5
Loan loss allowances/impaired loans	—	64.1	33.9	34.8
Loan impairment charges/average gross loans	0.4	26.5	3.1	3.3
Capitalisation				
Fitch Core Capital ratio	32.9	35.6	28.2	33.3
Tangible common equity/tangible assets	30.7	34.1	26.8	26.9
Net impaired loans/Fitch Core Capital	—	7.5	40.5	29.5
Funding and liquidity				
Gross loans/customer deposits	59.5	80.4	91.7	66.1
Customer deposits/total non-equity funding	96.8	95.3	94.7	97.1

Source: Fitch Ratings, Fitch Solutions, KZI

Support Assessment

Shareholder Support	
Parent IDR	B-
Total Adjustments (notches)	0
Shareholder Support Rating	b-
Shareholder ability to support	
Shareholder Rating	B-/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	1 Notch
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

We equalise the ratings of KZI and Ziraat, given the significant integration between the two banks, and the rating scale compression at low rating levels.

In Fitch's view, Ziraat has a high propensity to support KZI. This is due to its virtually full ownership, the high level of integration between the parent and the subsidiary, and high reputational risk for the parent in the event of the subsidiary's default given Ziraat's broader international presence and common branding. In addition, the cost of potential support is low considering the subsidiary's small size relative to the parent's (end-3Q23: 0.3% of the group's consolidated assets), and there is a recent record of considerable equity support (2022: 21% of risk-weighted assets; received in 1Q22 and 3Q22).

Environmental, Social and Governance Considerations

FitchRatings

AB Kazakhstan - Ziraat International Bank JSC

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
AB Kazakhstan - Ziraat International Bank JSC has 5 ESG potential rating drivers	key driver	0	issues	5
AB Kazakhstan - Ziraat International Bank JSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	driver	0	issues	4
Governance is minimally relevant to the rating and is not currently a driver.	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit http://www.fitchratings.com/esg.

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