

25 JAN 2024

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

Fitch Ratings - Dubai - 25 Jan 2024: Fitch Ratings has affirmed AB Kazakhstan - Ziraat International Bank JSC's (KZI) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'B-'. The agency has also upgraded the bank's National Long-Term Rating to 'BB-(kaz)' from 'B+(kaz)'. The Outlooks are Stable. A full list of rating actions is below.

The upgrade of the National Long-Term Rating reflects our reassessment of the bank's creditworthiness relative to local peers'.

Key Rating Drivers

KZI's 'B-' Long-Term IDRs reflect potential support from the bank's parent, Türkiye Cumhuriyeti Ziraat Bankası Anonim Şirketi (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 sees a high propensity for Ziraat to support KZI, given its virtually full ownership of the latter, common branding, the high level of integration between the two banks, and the low cost of potential support due to the subsidiary's small size, and recent record of considerable equity support. However, Ziraat's ability to provide support to KZI is constrained by the parent's '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, under IFRS 9, moderately improved in 2023, although it is likely to remain vulnerable in the medium term due

to high loan concentrations.

Recovered Profitability: KZI reported a 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 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.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

KZI's ratings are linked to Ziraat's IDRs.

ESG Considerations

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>.

Fitch Ratings Analysts

Maksim Maliutin

Associate Director

Primary Rating Analyst

+971 4 424 1228

Fitch Ratings Ltd Dubai Branch Maze Tower, 18th Floor Sheikh Zayed Road, P.O. Box 215584, Dubai

Artem Beketov

Director

Secondary Rating Analyst

+971 4 424 1233

Eric Dupont

Senior Director

Committee Chairperson

+33 1 44 29 91 31

Media Contacts

Peter Fitzpatrick





London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
AB Kazakhstan - Ziraat International Bank JSC	LT IDR	B- ●	Affirmed	B- ●
	ST IDR	B	Affirmed	B

ENTITY/DEBT	RATING	RECOVERY	PRIOR
LC LT IDR	B- 	Affirmed	B- 
Natl LT	BB-(kaz) 	Upgrade	B+(kaz) 
Shareholder Support	b-	Affirmed	b-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

AB Kazakhstan - Ziraat International Bank JSC UK Issued, EU Endorsed

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