FitchRatings

Banks
Universal Commercial Banks
Kazakhstan

AB Kazakhstan - Ziraat International Bank JSC

Update

Key Rating Drivers

AB Kazakhstan – Ziraat International Bank JSC's (KZI) 'B+' Long-Term (LT) Issuer Default Ratings (IDRs) reflect potential support from the bank's parent, Turkiye Cumhuriyeti Ziraat Bankasi Anonim Sirketi (Ziraat; B+/Positive/b+), as reflected in the bank's Shareholder Support Rating of 'b+'. The Outlooks on KZI's LT IDRs are Stable.

High Support Propensity: Fitch Ratings believes Ziraat has a 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 record of considerable capital support. However, Ziraat's ability to provide support to KZI is constrained by its 'B+' LT Foreign-Currency (FC) 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 the 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 at end-1H24. 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 the bank 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.

Improved Loan Quality: The bank's impaired loans (Stage 3 loans under IFRS9) dropped to 2.1% of gross loans at end-2023 (end-2022: 14.2%), driven by 35% loan growth and improved creditworthiness of SMEs. The total reserve coverage of impaired loans also exceeded 200% at end-2023 (end-2022: 64%), while Stage 2 loans declined to 8.6% of gross loans (end-2022: 10.4%). We expect the bank's loan quality to remain adequate in 2H24-2025, although it is still vulnerable, due to high loan concentrations.

Strong Profitability: KZI reported KZT6.8 billion net income for 6M24, translating into a high return on average equity of 17.7% (2023: 22.6%). The bank's strong bottom-line results were supported by a wide net interest margin, good operating efficiency (6M24 cost/income ratio: 23%) and limited loan impairment charges. We expect the bank's performance to remain robust in 2H24-2025.

High Loss-Absorption Buffer: KZI's Fitch Core Capital ratio increased marginally to 37% at end-1H24 (end-2023: 36%), supported by strong profitability and absent dividend payments. The bank's regulatory capitalisation was also strong, with a common equity Tier 1 capital ratio of 37% at end-1H24. In Fitch's view, KZI's capital buffer allows for considerable loan growth in 2H24-2025.

Concentrated Customer Funding; Healthy Liquidity: KZI is deposit-funded (end-1H24: 96% of total liabilities), with an outsized contribution from corporate clients (82% of total). The deposit outflows (12% in 6M24) caused a moderate increase in the loans/deposits ratio to a still-acceptable 89% at end-1H24 (end-2023: 73%). The bank's deposit base is highly concentrated by names, due to scale limitations. We estimate KZI's liquidity buffer (mostly, cash and cash equivalents) covered a significant 60% of customer deposits at end-1H24.

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	BBB(kaz)
Sovereign Risk (Kazakhstan)	
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 (March 2024)
National Scale Rating Criteria (December 2020)

Related Research

Fitch Upgrades 24 Turkish Banks on Sovereign Upgrade (September 2024)
Fitch Upgrades Turkiye to 'BB-'; Outlook Stable (September 2024)
EM Banks Tracker – End-2023 (June 2024)
CIS+ Banks: Positive Side of The Credit Cycle; Structural Risks Still There (June 2024)
CIS+ Bank Eurobond Issuance to Increase Significantly in 2024–2025 (April 2024)

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Rating Sensitivities

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

A negative rating action on Ziraat's LT FC IDR would result in a corresponding rating action on KZI's ratings. In addition, KZI's ratings could be downgraded if Ziraat's propensity to support its subsidiary weakens considerably.

KZI's National Rating is sensitive to a downgrade of its LT Local-Currency (LC) IDR and to a negative reassessment by Fitch of the bank's creditworthiness relative to local peers'.

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

The bank's ratings could be upgraded on a multi-notch upgrade of the parent bank's LT FC IDR.

KZI's National Rating is sensitive to an upgrade of its LT LC IDR and to a positive reassessment by Fitch of the bank's creditworthiness relative to local peers'.

Significant Changes from Last Review

Turkiye's Sovereign Rating Upgrade

On 6 September 2024, Fitch upgraded Turkiye's LT FC IDR to 'BB-' from 'B+' with a Stable Outlook (see Fitch Upgrades Turkiye to 'BB-'; Outlook Stable). The rating action reflects the improved external buffers, with the net foreign asset position of the central bank having risen to a positive USD6 billion at end-August 2024 (end-March 2024: negative USD75 billion), and reduced contingent foreign-exchange liabilities, underpinned by stronger depreciation expectations and positive lira deposit rates. Also, the central bank's tightened monetary policy has provided confidence that its maintenance, combined with projected fiscal consolidation and prudent minimum wage adjustments, will support a significant decline in inflation, and help maintain improved external liquidity buffers, low current account deficits and reduced dollarisation. The declining government debt also supports the upgrade of Turkiye's sovereign rating.

KZI's Ratings Upgrade

On 17 September 2024, Fitch upgraded Ziraat's LT FC IDR to 'B+' from 'B' with a Positive Outlook (see Fitch Upgrades 24 Turkish Banks on Sovereign Upgrade). As we equalise the ratings of Ziraat and its Kazakhstan-based subsidiary, which operates similarly to a branch, we have also upgraded KZI's LT IDRs and its National Rating to 'B+/BBB(kaz)' from 'B/BB+(kaz)' and changed the Outlooks to Stable from Positive. The Outlooks' stabilisation reflects that KZI's ratings could be upgraded further if Ziraat's LT FC IDR is upgraded by at least two notches.

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	1st half (USDm) Unaudited	1st half (KZTm) Unaudited	12 months (KZTm) Audited – unqualified	12 months (KZTm) Audited – unqualified	12 months (KZTm) Audited – unqualified
Summary income statement					
Net interest and dividend income	20	9,609	16,614	9,160	6,177
Net fees and commissions	1	558	1,251	973	823
Other operating income	2	1,144	2,804	3,325	1,141
Total operating income	24	11,312	20,669	13,457	8,140
Operating costs	5	2,589	4,939	2,763	2,261
Pre-impairment operating profit	19	8,723	15,731	10,694	5,879
Loan and other impairment charges	1	289	-1,282	21,362	2,311
Operating profit	18	8,434	17,013	-10,668	3,568
Tax	3	1,615	1,953	-16	828
Net income	14	6,819	15,060	-10,653	2,739
Other comprehensive income	—	—	-149	256	—
Fitch comprehensive income	14	6,819	14,911	-10,397	2,739
Summary balance sheet					
Assets					
Gross loans	254	119,845	112,078	83,032	83,157
– Of which impaired	—	—	2,372	11,746	21,722
Loan loss allowances	—	—	5,687	7,531	7,358
Net loans	254	119,845	106,392	75,502	75,799
Interbank	—	—	100,519	59,671	8,216
Other securities and earning assets	3	1,583	1,587	554	15,581
Total earning assets	258	121,428	208,497	135,727	99,596
Cash and due from banks	174	81,883	5,850	15,146	15,580
Other assets	36	17,198	17,761	17,491	17,460
Total assets	468	220,509	232,108	168,364	132,635
Liabilities					
Customer deposits	286	134,828	153,321	103,267	90,733
Other long-term funding	8	3,883	3,884	5,108	5,102
Total funding and derivatives	294	138,711	157,207	108,375	95,835
Other liabilities	2	1,175	1,098	1,097	1,012
Total equity	171	80,623	73,804	58,892	35,789
Total liabilities and equity	468	220,509	232,108	168,364	132,635
Exchange rate		USD1 = KZT471.46	USD1 = KZT454.56	USD1 = KZT462.65	USD1 = KZT431.67

Source: Fitch Ratings, Fitch Solutions, KZI

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	7.8	8.3	-6.7	2.8
Net interest income/average earning assets	13.2	14.4	9.6	7.8
Non-interest expense/gross revenue	22.9	23.9	20.5	27.8
Net income/average equity	17.7	22.6	-23.8	8.0
Asset quality				
Impaired loans ratio	—	2.1	14.2	26.1
Growth in gross loans	6.9	35.0	-0.2	46.6
Loan loss allowances/impaired loans	—	239.7	64.1	33.9
Loan impairment charges/average gross loans	0.5	-2.1	26.5	3.1
Capitalisation				
Fitch Core Capital ratio	36.7	35.7	35.6	28.2
Tangible common equity/tangible assets	36.4	31.6	34.1	26.8
Net impaired loans/Fitch Core Capital	—	-4.5	7.5	40.5
Funding and liquidity				
Gross loans/customer deposits	88.9	73.1	80.4	91.7
Customer deposits/total non-equity funding	97.2	97.5	95.3	94.7

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+/ Positive
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-1H24: 0.4% of the group's consolidated assets), and there is a record of considerable capital support in the past (2022: 21% of risk-weighted assets).

Environmental, Social and Governance Considerations

FitchRatings

AB Kazakhstan - Ziraat International Bank JSC

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

AB Kazakhstan - Ziraat International Bank JSC has 5 ESG potential rating drivers

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.