

## Research Update:

# Kazakhstan-Based Bank Kassa Nova 'B/B' Ratings Affirmed; Outlook Stable

September 6, 2019

## Overview

- In May 2019, JSC ForteBank completed the acquisition of Bank Kassa Nova JSC (Kassa Nova).
- We do not expect any major changes in Kassa Nova's strategy or risk profile under the new owner.
- The bank's financial results for the first half 2019 are in line with our expectations.
- We are therefore affirming our 'B/B' long- and short-term issuer credit ratings on Kassa Nova.
- The stable outlook on Kassa Nova reflects our expectation that the bank's business and financial profiles will remain stable, and that ownership by the larger ForteBank offers some downside protection against unexpected mildly negative developments at Kassa Nova over the next 12 months, particularly with regard to asset quality or capitalization.

## Rating Action

On Sept. 6, 2019, S&P Global Ratings affirmed its 'B/B' long- and short-term issuer credit ratings on Bank Kassa Nova JSC (Kassa Nova), a subsidiary of JSC ForteBank. The outlook is stable.

At the same time, we affirmed our Kazakhstan national scale rating on Kassa Nova at 'kzBB+'.

## Rationale

The affirmation reflects our expectation that Kassa Nova will retain its banking licence and continue its operations as a stand-alone bank following its acquisition by ForteBank in May 2019. We expect Kassa Nova, which has assets of about \$350 million, to benefit financially and operationally from its ownership by ForteBank, the third-largest domestic bank in the consolidating Kazakh banking sector. We expect to see some optimization of Kassa Nova's administrative expenses, a reduction in funding costs, and a stronger reputation. We also see some potential for ForteBank to provide liquidity and capital support to Kassa Nova if needed.

We expect that Kassa Nova's capitalization, as measured by our risk-adjusted capital (RAC) ratio, will remain stronger than the average of its domestic peers' ratios at about 10.5%-11.0% over the

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next 24 months. Our RAC forecast is based on the following main assumptions: loan growth of 1% in 2019 and 4%-6% in 2020-2021; a cost of risk of about 1.7%; a return on average assets of about 1.2%-1.4%; and no dividend payments.

Kassa Nova's risk position is weakened by a historically aggressive nonperforming loan provisioning rate and an over-reliance on real estate collateral. Gross Stage 3 loans and purchased and originated credit impaired loans were 16.5% of total loans as of year-end 2018--better than our estimate of an average of 20%-25% for the Kazakh banking system. However, only 19% of these loans were covered by provisions. The bank's funding profile has proven resilient to deposit outflows, which was a major issue for other small Kazakh banks over the past three years, due to the good reputation of its wealthy owner. We view the bank's liquidity position as adequate.

We view Kassa Nova as a moderately strategic subsidiary of ForteBank, reflecting its status as a newly acquired subsidiary and its relatively small size compared to ForteBank (accounting for 9% of ForteBank's capital). We do not give any uplift to our ratings on Kassa Nova in view of the small differential between the ratings on ForteBank and Kassa Nova.

## **Outlook**

The stable outlook on Kassa Nova reflects our expectation that the bank's business and financial profiles will remain stable, and that ownership by the larger ForteBank offers some downside protection against any unexpected mildly negative developments at Kassa Nova over the next 12 months, particularly with regard to asset quality or capitalization.

## **Upside scenario**

A positive rating action on Kassa Nova in the coming 12 months is unlikely because we do not envision material improvements to the bank's stand-alone credit profile (SACP). We are unlikely to raise our ratings on Kassa Nova to the level of those on ForteBank because of Kassa Nova's status as a newly acquired subsidiary and its small size in relation to ForteBank.

## **Downside scenario**

A negative rating action could follow if Kassa Nova's capitalization and asset quality weakened significantly below our base-case assumptions over the next 12 months. This would lead to the projected RAC ratio falling below 10% and a significant increase in Stage 3 loans approaching 25% of total loans, or a significant decrease in Stage 3 loans coverage by provisions. If Kassa Nova's SACP weakens by one notch to 'b-', we do not expect the rating to change due to a potential notch of uplift for group support from ForteBank, as long as our rating on ForteBank remains 'B+' or higher.

## **Ratings Score Snapshot**

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Issuer credit rating	B/Stable/B
SACP	b
Anchor	b+
Business position	Weak (-2)
Capital and earnings	Strong (+2)
Risk position	Moderate (-1)
Funding and liquidity	Average and adequate (0)
<b>Support</b>	0
GRE support	0
Group support	0
Sovereign support	0
ALAC support	0
Additional factors	0

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

#### Bank Kassa Nova JSC (Subsidiary Bank of JSC Forte Bank)

Issuer Credit Rating	B/Stable/B
Kazakhstan National Scale	kzBB+/-/-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

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