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Research Update:

Nurbank Outlook Revised To Negative On Weakening Capital; 'B/B' Affirmed; National Scale Rating Lowered To 'kzBB'

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Overview

- In our view, Kazakhstan-based Nurbank's profit generation is insufficient to compensate for growth of risk-weighted assets in 2015-2016, in the absence of shareholder capital injections.
- We expect our risk-adjusted capital (RAC) ratio for the bank to decline to about 5.8%-6.4% in 2015 and 2016 from 6.9% at year-end 2014; therefore, we regard Nurbank's capital and earnings as moderate rather than adequate.
- We are revising our outlook on Nurbank to negative from stable, affirming our 'B/B' global scale ratings, and lowering our national scale rating to 'kzBB' from 'kzBB+'.
- The negative outlook indicates that we might lower the ratings if weakening capitalization and negative trends in Kazakhstan's economy and banking sector erode Nurbank's creditworthiness.

Rating Action

On Feb. 2, 2016, Standard & Poor's Ratings Services revised its outlook on Kazakhstan-based Nurbank JSC to negative from stable. The 'B/B' long- and short-term counterparty credit ratings were affirmed.

We also lowered our long-term Kazakhstan national scale rating on Nurbank to 'kzBB' from 'kzBB+'.

Rationale

The outlook revision stems from our expectation that Nurbank's deteriorating capitalization, combined with negative trends in Kazakhstan's economy and banking sector, will put further pressure on the bank's creditworthiness over the next 12 months.

We now regard the bank's capitalization as moderate rather than adequate, due to low expected earnings capacity. In our view, Nurbank will be unable to build up capital in 2016 without equity injections, taking into account growth of risk-weighted assets. Nevertheless, both moderate and adequate capital and earnings are neutral rating factors for a bank with a 'bb-' anchor, which starts our rating analysis of banks in Kazakhstan.

Our RAC ratio for Nurbank was 6.9% at year-end 2014, and we estimate it will decrease to approximately 5.8%-6.4% in 2015-2016 in the absence of shareholder capital injections. The bank's capitalization is being eroded by depreciation of the Kazakhstani tenge, because the share of foreign-currency denominated assets is increasing due to the exchange rate, whereas capital is denominated in tenge. Positively, net of the devaluation effect, we assess the bank's growth strategy to be reasonable under the difficult economic conditions.

Our forecast for Nurbank in 2016 reflects the following base-case assumptions:

- Loan growth of about 7%, net of devaluation effects.
- No known shareholder capital injections.
- Low earnings contribution to the capital base, with the return on assets (ROA) at about 0.2%.
- Cost of risk at about 2%, although this could be higher. Nurbank has sufficient provisions to cover overdue loans, but we note that restructured loans form about half of the loan book and total provisions cover only 27% of total loans.

We consider that Nurbank's profitability has historically been poor and we expect it will be low in 2016. In the first 11 months of 2015, Nurbank achieved a low ROA of 0.35% and a return on equity of 2.6%, according to our estimates. We expect a lower net interest margin in 2016 than in 2015, due to the continuing lack of tenge liquidity, which is pushing up funding costs. In our view, Nurbank's preprovisioning earnings will be insufficient in the event of a sudden rise in credit costs; for example, if the economic environment deteriorates further or underwriting standards weaken in the retail segment.

The bank's exposure to the construction and real estate sectors was reportedly 26% of total loans as of Sept. 1, 2015, which is in line with the industry average. This represents a decline from 39% as of June 1, 2012, following the sale of problem loans in this segment to third-party collectors and transfers to a special-purpose vehicle. However, the share is still high and weighs on the RAC ratio.

Outlook

The negative outlook indicates that we might lower the ratings over the next 12 months if weakening capitalization and negative trends in Kazakhstan's economy and banking sector erode Nurbank's creditworthiness. It also reflects our expectation that Nurbank may face difficulties in developing new business and generating sufficient stable revenues to maintain capital over that period.

We could lower the ratings if we saw significantly higher industry risks for banks in Kazakhstan or if Nurbank's nonperforming loans started increasing, especially if the increase exceeded that of peers and stemmed from loans granted after 2011. Likewise, a further reduction of Nurbank's loss-absorption capacity, due, for example, to higher provisioning expenses than we currently assume; or material one-time charges that reduce our projected RAC ratio to

below 5%, would lead to a downgrade.

We could revise the outlook to stable if the bank is able to improve its capitalization to adequate levels, according to our methodology. This is after taking into account forecast growth of the bank's risk-weighted assets, including devaluation and organic growth, and its internal capital generation over the next two years, subject to our view of negative trends in the Kazakh banking industry at that time.

Ratings Score Snapshot

	To	From
Counterparty Credit Rating	B/Negative/B	B/Stable/B
SACP	b	b
Anchor	bb-	bb-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Moderate (0)	Adequate (0)
Risk Position	Moderate (-1)	Moderate (-1)
Funding And Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

Related Criteria

- Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Nurbank JSC		
Counterparty Credit Rating	B/Negative/B	B/Stable/B
Senior Unsecured	B	B
Subordinated	CCC+	CCC+

Downgraded

	To	From
Nurbank JSC		
Kazakhstan National Scale Rating	kzBB/--/--	kzBB+/--/--
Senior Unsecured	kzBB	kzBB+
Subordinated	kzB+	kzBB-

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