

Research Update:

Nurbank JSC 'B-/B' Ratings Affirmed On Ongoing Recovery Of Asset Quality; Outlook Stable

August 17, 2023

Overview

- Nurbank JSC's problem loans (stage 3 and purchased and originated credit impaired [POCI]) coverage by respective reserves increased to 61% at July 1, 2023, from 54% in 2022 and below 30% before 2020.
- Although the bank's problem loans remain noticeable, the share of stage 3 loans net of respective provisions has declined almost 2.0x since 2021 and 3.4x since 2019 to 12.5% of net loans as of mid-year 2023, and it is now closer to the peer average.
- We affirmed our 'B-/B' long- and short-term ratings on Nurbank and the 'kzBB-' Kazakhstan national scale rating.
- The stable outlook reflects our expectation that, over the next 12 months, Nurbank will gradually improve its asset quality and maintain capital adequacy buffers commensurate with its planned business growth.

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Rating Action

On Aug. 17, 2023, S&P Global Ratings affirmed its 'B-/B' long- and short-term issuer credit ratings and 'kzBB-' long-term Kazakhstan national scale rating on Nurbank JSC. The outlook is stable.

Rationale

Nurbank's problem loans coverage metrics have noticeably improved since 2019, but the level of nonperforming assets (NPA) still exceeds the Kazakhstani system average. The share of

stage 3 and POCI loans was about 26% of the loan portfolio at July 1, 2023, declining from 28% in 2022 and 35% in 2021. Despite the progress made after a 2019 regulatory asset quality review (AQR), the bank's share of problem assets is still higher than those of international and local players--we estimate the Kazakhstan system average at about 9%. However, we note that Nurbank is not undertaking any material write-offs, since it expects to recover a significant share of the restructured problem loans over the next two years. In particular, about 10% of the loan

book, currently classified as stage 3, is already servicing debt obligations in a timely manner and we expect it to eventually be reclassified as performing. This would bring the nonperforming loans (NPL) ratio down to 15%-18% by year-end 2025. We view positively that Nurbank's coverage metrics (stage 3 loans coverage by respective reserves) improved noticeably to 61% at July 1, 2023, from below 30% before 2020, which is now in line with the system average. We expect that the bank will maintain the coverage ratio at about 60%-65% in 2023. On a net basis, the stock of stage 3 and POCI loans has declined 2.0x over the past two years and 3.4x since 2019 to 12.5% of net loans at July 1, 2023, from 20%-25% in 2020-2021 and 42% in 2019. We expect it will continue converging to levels that are close to the system average in 2023-2024.

We anticipate improvements in Nurbank's earnings capacity on NPA reduction and net interest margins amid higher interest rates this year, but both will remain dampened by still-elevated credit costs. Nurbank's higher credit costs of 2.5%-3.0% versus the 1.5%-2.0% expected system average reflect additional provisioning still required for the legacy portfolio under the AQR program. We do not anticipate the bank will substantially expand the loan book over 2023-2024 considering its continuous focus on clean-up measures and targeted growth in the retail and small and midsize enterprise segments, amid quite tight competition in Kazakhstan's banking sector. Considering only moderate growth and improving risk management, we do not expect a material increase in credit costs associated with newly generated loans.

We expect the bank will maintain moderate capital buffers and a risk-adjusted capital (RAC) ratio of 6.6%-6.8% in 2023-2024. The key assumptions underlying our forecast are moderate loan portfolio growth of 7%-10% per year, a net interest margin of 4.5%-5.0%, and improving profitability with a return on equity of 10%-15% versus 13% in 2022 and 4.8% in 2021. In our base-case scenario, we also assume no dividends in 2023-2025.

We view Nurbank's funding and liquidity profiles as in line with the system average and those of small peers in Kazakhstan. The bank has built a sufficient liquidity cushion, with broad liquid assets representing more than 30% of its total assets as of July 1, 2023, which we view as positive in the current macroeconomic environment. This comes after redemption of its about Kazakhstani tenge 15.5 billion bonds in June 2023. While some deposit movements are possible, under our base case we do not expect any massive outflows over the outlook horizon.

Outlook

The stable outlook on Nurbank reflects our expectation that, over the next 12 months, it will gradually improve its asset quality and maintain capital adequacy buffers commensurate with its planned business growth. We expect that the bank will also maintain a stable funding profile and sufficient liquidity buffers.

Downside scenario

We could take a negative rating action in the next 12 months if we see high risks to the viability of Nurbank's business, evidenced, for example, in pronounced pressure on its funding and liquidity metrics, although this is not our current base-case scenario. We would also view the absence of sustainable and profitable growth prospects or the reversal of the improving asset quality trend of the past two years as a trigger for a negative rating action.

Upside scenario

A positive rating action is highly unlikely over the next 12 months. We could consider one over the longer term if Nurbank significantly builds up its capital position, with our RAC ratio sustainably above 10%, and we see no deterioration in its risk profile.

We could also consider a positive rating action if Nurbank materially cleans up its gross NPAs to levels comparable with those of domestic peers (9%), while maintaining its current moderate capital buffers and improving its competitive standing.

Ratings Score Snapshot

Issuer Credit Rating	B-/Stable/B
SACP	b-
Anchor	bb-
Business position	Constrained (-2)
Capital and earnings	Moderate (0)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Kazakhstan, June 23, 2023.
- Ratings Affirmed On Seven Kazakhstani Financial Institutions On Improving Banking System Resilience; Outlooks Stable, March 20, 2023
- Kazakhstan Outlook Revised To Stable From Negative On Manageable External Risks; 'BBB-/A-3' Ratings Affirmed, March 3, 2023

Ratings List

Ratings Affirmed

Nurbank JSC

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, 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 for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at 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; or Stockholm (46) 8-440-5914

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