

Fitch Affirms Bank of China Kazakhstan at 'BBB+' ; Outlook Stable

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Fitch Ratings - Dubai - 25 Jan 2024: Fitch Ratings has affirmed Kazakhstan-based JSC AB Bank of China Kazakhstan's (BOCK) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB+'. The Outlook is Stable. A full list of rating actions is below.

KEY RATING DRIVERS

BOCK's Long-Term IDRs are driven by potential support from Bank of China Limited (BOC; A/Stable/bbb), its parent bank, as reflected in BOCK's 'bbb+' Shareholder Support Rating (SSR). In turn, BOC's IDRs are driven by a very high likelihood of support from the government of China (A+/Stable). We believe that the state support available to BOC would likely be extended to BOCK.

Shareholder Support Factors: Fitch's assessment of support from BOC is based on its full ownership and high levels of management and operational integration between the parent and the subsidiary. It also captures significant reputational risks for BOC in the event of a BOCK default, as well as the likely low cost of support given the subsidiary's limited size relative to the parent's.

Country Ceiling Constraint: BOCK's SSR and Foreign-Currency IDR (two notches below BOC's) are constrained by Kazakhstan's Country Ceiling of 'BBB+', which captures transfer and convertibility risks and the risk that the subsidiary may not be able to benefit from parent support to service its own foreign-currency obligations.

Viability Rating Not Assigned: Fitch has not assigned BOCK a Viability Rating as the bank is a deeply integrated BOC subsidiary with a limited standalone commercial franchise. BOCK is heavily reliant on the parent for business origination and risk management. BOC's management controls all strategic decision-making at the subsidiary level.

Liquid Assets, Healthy Loan Quality: BOCK's assets mainly comprise highly liquid assets that include cash, short-term placements at the National Bank of the Republic of Kazakhstan (63% of total assets at end-3Q23) and holdings of Kazakh sovereign bonds (15%). While the loan book has

increased by about two-thirds from end-2022 on an annual basis, it still made up a limited 10% of assets at end-3Q23. These were short- to medium-term exposures to local corporates, including those with Chinese participation. The bank has had no impaired loans over the past two years.

Sound Profitability, High Capitalisation: BOCK's below-market funding costs and very low loan impairment charges through the cycle have underpinned its healthy profitability. Annualised return on average equity rose to 26% in 9M23 (2022: 24%). Full profit retention and a low-risk asset structure led to regulatory Tier 1 capital at 122% of risk-weighted assets at end-1H23, one of the highest among Kazakh banks.

Concentrated, Stable Customer Funding: Low-cost customer accounts comprised a high 92% of BOCK's total liabilities at end-3Q23. These are predominantly current accounts of Chinese companies or local entities with links to China. Customer concentration is high although the largest customers' balances have been stable over recent years. BOCK's liquidity fully covered customer accounts at end-3Q23.

RATING SENSITIVITIES

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

A downgrade of BOCK's SSR and IDRs would follow a downward revision of Kazakhstan's Country Ceiling. The ratings could also be downgraded in the event of: (i) a multi-notch downgrade of BOC's IDRs; (ii) the sale of the bank to a lower-rated owner; or (iii) Fitch's view of a weakening propensity on the part of BOC to support its subsidiary. Fitch views none of these scenarios as likely.

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

BOCK's IDRs and SSR could be upgraded if Kazakhstan's Country Ceiling is revised upwards.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

BOCK's Short-Term IDRs of 'F2' are the lower of two possible options mapping to 'BBB+' Long-Term IDRs under Fitch's criteria due to the latter being constrained by the Country Ceiling.

The National Long-Term Rating of 'AAA(kaz)' reflects Fitch's view that the bank ranks among the strongest credits in Kazakhstan.

BOCK's ex-government support (xgs) ratings exclude assumptions of extraordinary government support that may be provided to its parent bank, BOC. Its Long-Term IDRs (xgs) are one notch below those of BOC due to BOCK's smaller role in the group compared with larger foreign subsidiaries'. The 'F3' Short-Term IDRs (xgs) are mapped to the Long-Term IDRs (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

BOCK's Long-Term IDRs (xgs) are linked to BOC's Long-Term IDRs (xgs) and are sensitive to changes to Fitch's assessment of shareholder support from BOC. The 'F3' Short-Term IDRs (xgs) are sensitive to changes to the Long-Term IDRs (xgs).

The National Rating is sensitive to unfavourable changes to the Long-Term Local-Currency IDR and Fitch's view of the bank's creditworthiness relative to that of other issuers in Kazakhstan.

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

BOCK's IDRs are linked to BOC's ratings.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

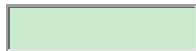
RATING ACTIONS

ENTITY / DEBT

RATING

PRIOR





JSC AB Bank of China Kazakhstan

LT IDR

BBB+

Affirmed

BBB+

ST IDR

F2

Affirmed

F2

LC LT IDR

BBB+

Affirmed

BBB+

LC ST IDR

F2

Affirmed

F2

Natl LT

AAA(kaz)

Affirmed

AAA(kaz)

LT IDR (xgs)

BBB-(xgs)

Affirmed

BBB-(xgs)

Shareholder Support

bbb+

Affirmed

bbb+

ST IDR (xgs)

F3(xgs)

Affirmed

F3(xgs)

LC LT IDR (xgs)

BBB-(xgs)

Affirmed

BBB-(xgs)

LC ST IDR (xgs)

F3(xgs)

Affirmed

F3(xgs)
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[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 23 Dec 2020\)](#)
- [Bank Rating Criteria \(pub. 02 Sep 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

- [Dodd-Frank Rating Information Disclosure Form](#)
- [Solicitation Status](#)
- [Endorsement Policy](#)

ENDORSEMENT STATUS

JSC AB Bank of China KazakhstanUK Issued, EU Endorsed

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