MOODY'S INVESTORS SERVICE

Credit Opinion: Uzbek-Turkish Bank

Global Credit Research - 28 Nov 2013

Uzbekistan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B2/NP
Bank Financial Strength	E+
Baseline Credit Assessment	(b3)
Adjusted Baseline Credit Assessment	(b2)

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Key Indicators

Uzbek-Turkish Bank (Consolidated Financials)[1]

	[2]12-12	[2]12-11	[2]12-10	[2]12-09	Avg.
Total Assets (UZS million)	128,053.4	202,806.1	137,437.5	94,227.2	[3]10.8
Total Assets (USD million)	64.5	113.0	83.8	62.3	[3]1.2
Tangible Common Equity (UZS million)	44,407.0	37,377.9	18,621.2	12,863.5	[3]51.1
Tangible Common Equity (USD million)	22.4	20.8	11.4	8.5	[3]38.0
Net Interest Margin (%)	2.3	1.5	1.3	1.6	[4]1.7
PPI / Average RWA (%)	4.3	3.1	2.7	--	[5]3.4
Net Income / Average RWA (%)	3.8	2.4	1.8	--	[5]2.7
(Market Funds - Liquid Assets) / Total Assets (%)	-94.9	-95.3	-81.4	-89.2	[4]-90.2
Core Deposits / Average Gross Loans (%)	2,066.6	4,361.9	1,948.2	1,265.8	[4]2,410.6
Tier 1 Ratio (%)	34.7	15.7	19.4	--	[5]23.3
Tangible Common Equity / RWA (%)	34.7	15.7	19.3	--	[5]23.2
Cost / Income Ratio (%)	35.6	39.4	49.2	40.0	[4]41.1
Problem Loans / Gross Loans (%)	--	1.2	0.4	2.6	[4]1.4
Problem Loans / (Equity + Loan Loss Reserves) (%)	--	0.1	0.1	1.2	[4]0.5

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel I & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

We assign B2/Not Prime global local currency (GLC) deposit ratings to Closed Joint Stock Company "Uzbekistan-Turkish Bank" (UT-Bank). In accordance with Moody's joint default analysis methodology, the ratings incorporate our assessment of a low probability of support from the bank's foreign (Turkish) shareholder, TC Ziraat Bankasi (long-terms local currency deposits Baa2/ long-term foreign currency deposits Baa3 / short-term deposit ratings Prime-2 stable; BFSR D+/ BCA ba1 stable), which owns a 49.8% stake in UT-Bank. Another member of the TC Ziraat Bankasi group, Germany-based Ziraat Bank International AG, owns a 0.2% stake in UT-Bank.

At the same time, we do not incorporate any probability of support to UT-Bank from its local shareholder, Agrobank (one of the largest government-controlled banks in Uzbekistan, with a 50% stake in UT-Bank), because of the local shareholder's very limited financial flexibility to render support to its subsidiary, as indicated by Agrobank's low rating level (deposits Caa1/Not Prime stable; BFSR E/BCA ca stable).

We assign a standalone Bank Financial Strength Rating (BFSR) of E+ to UT-Bank, which is equivalent to a baseline credit assessment (BCA) of b3. The rating is constrained by the bank's low market shares in the context of Uzbekistan, and the low diversification of its business operations (in terms of assets and liabilities). At the same time, we note positively that UT-Bank's standalone ratings are underpinned by the bank's low risk appetite, its sustainable profits generation and sound capital adequacy levels.

Rating Drivers

- Risk profile benefits from some operational and strategic support, as well as close oversight, effected by UT-Bank's Turkish shareholder which has more advanced risk management capabilities

- UT-Bank is a locally funded institution servicing local clientele, but franchise value is constrained by its limited market shares

- UT-Bank's liquidity profile could be impaired both by significant concentration in sources of funding and by its short-term duration

- Good asset quality complemented by an adequate provision buffer

- Earnings metrics remain comfortable and stem from recurring income sources

- Strong capital adequacy metrics as a result of low risk appetite and commitment of the shareholders

Rating Outlook

All of the bank's ratings carry a stable outlook.

What Could Change the Rating - Up

UT-Bank's standalone E+ BFSR has limited upside potential at its current level. However, in the longer term, the BFSR could be realigned to a higher BCA (as opposed to the current BCA of b3) if the bank expands its market franchise and diversifies its product mix and customer funding base, while simultaneously maintaining sustainable and good financial fundamentals, including asset quality, profitability and capital levels.

We could incorporate higher uplift to UT-Bank's deposit ratings as a result of an assumption of higher parental support to the bank from its financially stronger Turkish parent TC Ziraat Bankasi (a government-owned financial institution), if the latter increased its holding in UT-Bank to a controlling stake while clearly demonstrating a strategic fit of this Uzbek subsidiary to the group's operations. However, we understand that the acquisition of a controlling stake in UT-Bank by TC Ziraat Bankasi is not expected in the next 12 to 18 months.

What Could Change the Rating - Down

Negative pressure could be exerted on UT-Bank's ratings (1) if asset quality, profitability and/or capital levels significantly weaken as a result of any mismanagement of the bank's growth; or (2) if the bank is unable to maintain an adequate liquidity profile because of sizeable depositor outflows.

UT-Bank's supported ratings could be downgraded if we lower our assessment of the probability of parental support to UT-Bank from TC Ziraat Bankasi.

DETAILED RATING CONSIDERATIONS

As of year-end 2012, UT-Bank's total (audited) IFRS assets declined by 37% to UZS128 billion ($65 million), due to the loss - during the course of 2012 - of a major customer, which represented about 63% of total customer accounts as of year-end 2011. At the same time, the bank's capital increased 19% to UZS44 billion ($22 million), as result of (1) earnings retention; and (2) a new capital injection in the amount of UZS1.9 billion. In 2012, UT-Bank reported net IFRS profits of UZS7 billion ($3.5 million), compared to UZS4billion in 2011.

As at 31 October 2013, the bank reported - in accordance with (unaudited) statutory accounting statements - total assets of UZS133.5 billion ($61 million), shareholders' equity of UZS56.6 billion ($26 million), and net profit of UZS3.8 billion ($1.8 million) for the first 10 months of 2013.

RISK PROFILE BENEFITS FROM SOME OPERATIONAL AND STRATEGIC SUPPORT, AS WELL AS CLOSE OVERSIGHT EFFECTED BY UT-BANK'S TURKISH SHAREHOLDER WHICH HAS MORE ADVANCED RISK MANAGEMENT CAPABILITIES

UT-Bank was founded in 1993 as the first bank in Uzbekistan to be established with foreign investments. The bank is 49.8% owned by TC Ziraat Bankasi (which, in turn, is 100% owned by the Turkish government). Uzbekistan-based Agrobank (controlled by the Uzbek government) owns 50% of UT-Bank on a parity basis, with equal representation of TC Ziraat Bankasi and Agrobank on UT-Bank's six-member Supervisory Board. We believe that this oversight structure is beneficial for UT-Bank, especially as regards representatives of the much larger and advanced Turkish shareholder. TC Ziraat Bankasi reported total consolidated (audited local GAAP) assets of $91 billion as of year-end 2012 and operates an expanded network of branches, representative offices and subsidiaries outside of its domicile country.

UT-BANK IS A LOCALLY FUNDED INSTITUTION SERVICING LOCAL CLIENTELE, BUT FRANCHISE VALUE IS CONSTRAINED BY ITS LIMITED MARKET SHARES

UT-Bank is domiciled in Tashkent, the capital of Uzbekistan, and it does not currently have any branches but runs just one mini-bank in the same city. There is a perception among local market participants that UT-Bank focuses on serving Uzbek-Turkish operations, but management of both TC Ziraat Bankasi and Agrobank have confirmed to us that they see UT-Bank's future as being a bank for local (Uzbek) clientele. The bank's assets are funded by local customer accounts, and it receives no parental funding (from TC Ziraat Bankasi or Agrobank) other than regular capital injections.

UT-Bank predominantly maintains interest-free customer settlement accounts and re-channels them into either low-risk interbank loans (mainly to large state-owned Uzbek banks) or risk-free placements with the Central Bank of Uzbekistan (CBU). Thus the bank's main earnings are generated from (1) interest income on interbank placements (circa 50% of the total according to local GAAP accounts for ten months of 2013); and (2) commissions for settlement operations (circa 30%).

A material portion of customer accounts is formed of the clients' local currency funds reserved - by UT-Bank on behalf of these clients - with the CBU for conversion into foreign currency in order for the clients to serve their import/export operations: the respective customer balances are blocked at the CBU until the conversion is processed (in Uzbekistan, the volume of these conversion operations are limited by the authorities and may take up to several months to be processed). The volume of UT-Bank's commercial lending and leasing operations (excluding loans to Agrobank, the shareholder) is small and does not exceed 10% of the bank's total assets as at 31 October 2013 (according to local GAAP).

UT-Bank's overall market shares are now very limited, even in the context of Uzbekistan: as of 1H 2013, its total assets and shareholder equity each accounted for less than 1% of domestic market shares. The bank's efforts to further grow its business are not constrained by capital, and the shareholders are targeting an increase in market shares; however, we believe that UT-Bank will be challenged to compete with those more prominent players running expanded branch networks, although UT-Bank plans to open a number of branches.

UT-BANK'S LIQUIDITY PROFILE COULD BE IMPAIRED BOTH BY SIGNIFICANT CONCENTRATION IN SOURCES OF FUNDING AND BY ITS SHORT-TERM DURATION

As result of its business model, UT-Bank maintains an adequate liquidity cushion. The bank's cash and interbank balances exceeded 80% of total assets in the period 2009-13. However, its funding base has very short-term tenors. Customer deposits and other short-term liabilities payable "on demand" amounted to 79% of non-equity liabilities as at 31 October 2013 (according to local GAAP), albeit down from almost 100% of non-equity liabilities at year-end 2011. This lengthening of funding maturities somewhat supports UT-Bank's liquidity profile, but we still note the risk that significant single-name concentration on the liabilities side might challenge the bank's sustainability. In 2012, UT-Bank faced customer fund outflows amounting to UZS105 billion or 63% of its customer base, as one of its major clients - "Tashkent Pipe Plant" - changed its banking service provider. We also note that at year-end 2012, three depositors accounted for 58% of the bank's non-equity liabilities.

GOOD ASSET QUALITY COMPLEMENTED BY AN ADEQUATE PROVISION BUFFER

UT-Bank's commercial lending activities are not sizeable, whereas its interbank lending is disbursed mainly to the largest Uzbek banks that are backed by the government (and this portfolio is fairly well diversified among several banking entities); therefore, UT-Bank has, to date, avoided any material asset quality problems.

We note that the bank's gross loan book (excluding loans to Agrobank) grew 56% in 2012 and almost 300% in the first ten months of 2013, albeit from a very low base. In accordance with statutory accounting statements, UT-Bank reported low level of total overdue loans at 0.5% of the gross loan book and leasing book (excluding loans to Agrobank) andbad loans at 0.4% of the gross loan book and leasing book (excluding loans to Agrobank). The bank's loan loss reserve-to-total gross loans ratio stood at 0.8% as at 31 October 2013. At the same time, we note that in the year-end 2012 IFRS report the bank disclosed the level of foreclosed assets at 6.4% of gross loans. Against that background, year-end 2012 IFRS loan loss reserve-to-total gross loans ratio of 9.8% appears sufficiently conservative.

EARNINGS METRICS REMAIN COMFORTABLE AND STEM FROM RECURRING INCOME SOURCES

In 2012, UT-Bank reported a 50% increase in pre-provision income (UZS7.9 billion), while its bottom-line result was augmented by 75% to UZS7 billion from UZS4 billion in 2011. In accordance with statutory accounting statements, the bank's net income for the ten months of 2013 exceeded its net income for the whole of 2012: UZS3.81 billion vs. UZS3.69 billion.

The bank's profitability is supported by recurring income sources. The net interest income and commission income (the latter derived mainly from customer settlements and foreign exchange operations) together exceeded 80% of the bank's total revenues in 2013, whilst the remaining portion of total revenue was of an accounting nature and derived from positive exchange rate differences.

UT-Bank improved its net interest margins to approximately 4% (annualised) as at 31 October 2013 from 2% in 2012 (Moody's estimates based on the statutory accounting statements) aided by its ability to earn interest income from lending on the money market. These earnings have been achieved by the bank despite the need to maintain an ample liquidity cushion and despite its low portion of commercial lending. Furthermore, as a result of the concentration of all operations in the head office in Tashkent, UT-Bank demonstrates one of the best cost-efficiency metrics in the Uzbek banking sector, with a cost-to-income ratio below 45% in the first ten months of 2013. In our opinion, the bank will be able to preserve reasonable profitability metrics going forward.

STRONG CAPITAL ADEQUACY METRICS AS A RESULT OF LOW RISK APPETITE AND COMMITMENT OF THE SHAREHOLDERS

UT-Bank's capital adequacy level is high and provides an adequate buffer against potential unexpected losses in the future and for further asset growth. At year-end 2012, the Tier 1 capital ratio improved to 34.7% from 15.7% at year-end 2011, mainly driven by significant shrinkage in the bank's assets but also boosted by a new capital injection of UZS1.9 billion. In 2013, the bank' statutory capital adequacy ratios remain higher than peers, albeit on a declining trend: as at 31 October 2013, the total statutory CAR dropped to the still high 51% from 72% reported at year-end 2012. UT-Bank's capital adequacy is further underpinned by low risk appetite and strong profitability.

NOTE ON DATA

Unless noted otherwise, data in this report is sourced from company reports and our Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2012.

Global Local Currency Deposit Rating (Joint Default Analysis)

In accordance with Moody's Joint Default Analysis methodology, UT-Bank's B2/Not Prime GLC deposit ratings incorporate our assessment of a low probability of support from one of its shareholders - TC Ziraat Bankasi, which ultimately controls a 50% stake in UT-Bank. This support assumption results in one notch of support uplift from UT-Bank's BCA of b3.

Foreign Currency Deposit Rating

UT-Bank's foreign currency deposit ratings are B2/Not Prime, in line with the bank's GLC deposit ratings.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

Moody's Interfax Rating Agency's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".ru" for Russia. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Uzbek-Turkish Bank

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**E**	
Factor: Franchise Value						**E**	**Neutral**
Market share and sustainability					**x**		
Geographical diversification					**x**		
Earnings stability					**x**		
Earnings Diversification [2]							
Factor: Risk Positioning						**E**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management					**x**		
- Risk Management					x		
- Controls				x			
Financial Reporting Transparency			**x**				
- Global Comparability	x						
- Frequency and Timeliness					x		
- Quality of Financial Information				x			
Credit Risk Concentration		**x**					
- Borrower Concentration		x					
- Industry Concentration	x						
Liquidity Management					**x**		
Market Risk Appetite		**x**					
Factor: Operating Environment						**E+**	**Neutral**
Economic Stability					**x**		
Integrity and Corruption					**x**		
Legal System				**x**			
Financial Factors (30%)						**B-**	
Factor: Profitability						**B+**	**Neutral**
PPI % Average RWA (Basel I)		2.90%					
Net Income % Average RWA (Basel I)	2.12%						
Factor: Liquidity						**C-**	**Neutral**
(Market Funds - Liquid Assets) % Total Assets	-88.62%						
Liquidity Management					x		
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel I)	17.55%						
Tangible Common Equity % RWA (Basel I)	17.53%						
Factor: Efficiency						**A**	**Neutral**
Cost / Income Ratio	42.88%						
Factor: Asset Quality						**B+**	**Neutral**
Problem Loans % Gross Loans		1.39%					

Problem Loans % (Equity + LLR)	0.47%						
Lowest Combined Financial Factor Score (9%)						**C-**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**D**	
Aggregate BCA Score						**ba2**	
Assigned BFSR						**E+**	
Assigned BCA						**b3**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.