MOODY'S
INVESTORS SERVICE

Credit Opinion: Uzbek-Turkish Bank

Global Credit Research - 04 Dec 2015

Uzbekistan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B2/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)

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Key Indicators

Uzbek-Turkish Bank (Consolidated Financials)[1]

	[2]**12-14**	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	**Avg.**
Total Assets (UZS million)	**160,338.3**	**135,540.7**	**128,053.4**	**202,806.1**	**137,437.5**	[3]**3.9**
Total Assets (USD million)	**66.2**	**61.5**	**64.5**	**113.0**	**83.8**	[3]**-5.7**
Tangible Common Equity (UZS million)	**62,654.1**	**56,427.4**	**44,407.0**	**37,377.9**	**18,621.2**	[3]**35.4**
Tangible Common Equity (USD million)	**25.9**	**25.6**	**22.4**	**20.8**	**11.4**	[3]**22.9**
Problem Loans / Gross Loans (%)	**0.5**	**1.0**	**--**	**1.2**	**0.4**	[4]**0.8**
Tangible Common Equity / Risk Weighted Assets (%)	**54.5**	**52.2**	**34.7**	**15.7**	**19.3**	[5]**35.3**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**0.3**	**0.3**	**--**	**0.1**	**0.1**	[4]**0.2**
Net Interest Margin (%)	**6.0**	**4.7**	**2.3**	**1.5**	**1.3**	[4]**3.2**
PPI / Average RWA (%)	**6.7**	**8.6**	**4.3**	**3.1**	**2.7**	[5]**5.1**
Net Income / Tangible Assets (%)	**3.5**	**6.5**	**5.5**	**2.0**	**1.3**	[4]**3.7**
Cost / Income Ratio (%)	**46.4**	**33.5**	**35.6**	**39.4**	**49.2**	[4]**40.8**
Market Funds / Tangible Banking Assets (%)	**12.5**	**2.8**	**0.0**	**0.1**	**10.7**	[4]**5.2**
Liquid Banking Assets / Tangible Banking Assets (%)	**45.1**	**57.6**	**84.4**	**95.4**	**92.1**	[4]**74.9**
Gross loans / Due to customers (%)	**56.2**	**19.7**	**5.9**	**1.9**	**4.2**	[4]**17.6**

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 "UTBANK" Joint Stock Company

(UTBANK).

The ratings incorporate one-notch uplift from UTBANK's baseline credit assessment (BCA) of b3 due to our assessment of a moderate probability of support from the bank's foreign (Turkish) shareholder, TC Ziraat Bankasi (local and foreign currency deposits Baa3 negative; BCA ba1), which owns a 49.98% stake in UTBANK. Another member of the TC Ziraat Bankasi group, Germany-based Ziraat Bank International AG, owns a 0.02% stake in UTBANK.

At the same time, we do not incorporate any probability of support to UTBANK from its local shareholder, Agrobank (one of the largest government-controlled banks in Uzbekistan, with a 50% stake in UTBANK), 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 stable; BCA ca).

UTBANK's BCA of b3 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 UTBANK's standalone rating is underpinned by the bank's low risk appetite, its sustainable profits generation and sound capital adequacy levels.

Moody's has assigned a Counterparty Risk Assessment (CR Assessment) of B1(cr) / Not Prime(cr) to UTBANK.

Rating Drivers

- Low business diversification

- Good asset quality to date, despite the rapid lending growth; risk profile benefits from close oversight effected by UTBANK's Turkish shareholder

- Strong capital adequacy metrics and commitment of the shareholders

- Profitability metrics remain comfortable and stem from recurring income sources

- UTBANK's liquidity profile is characterized by significant concentration in sources of funding and by short-term duration of customer funding

Rating Outlook

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

What Could Change the Rating - Up

UTBANK's standalone BCA could be upgraded if the bank improves its business diversification and expands 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 UTBANK'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 UTBANK 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 UTBANK 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 UTBANK's standalone BCA (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.

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

DETAILED RATING CONSIDERATIONS

UTBANK was founded in 1993 as the first bank in Uzbekistan to be established with foreign investments.

LOW BUSINESS DIVERSIFICATION

UTBANK is domiciled in Tashkent, the capital of Uzbekistan. The bank does not currently have any branches, but runs one mini-bank in Tashkent and is going to gradually expand its distribution network going forward. There is a perception among local market participants that UTBANK focuses on serving Uzbek-Turkish operations, but management of both TC Ziraat Bankasi and Agrobank have confirmed to us that they see UTBANK's future as being a bank for local (Uzbek) clientele. The bank's assets are mainly funded by local customer accounts, however, UTBANK also attracts some longer-term financial facilities from its Turkish shareholder (TC Ziraat Bankasi and the members of its group) and re-channels those into lending to Uzbekistan-based customers. As of December 2015, the aggregate volume of these credit lines provided to UTBANK by Ziraat banking group amounts to USD15 million and this is likely to increase going forward.

In the first ten months of 2015, the bank's total assets, as reported under local GAAP, increased 26% to UZS204 billion ($78 million). UTBANK predominantly maintains corporate customer settlement accounts and term deposits and re-channels them into either low-risk interbank loans (mainly to large state-owned Uzbek banks) or corporate loans. The volume of UTBANK's commercial lending and leasing operations is rapidly expanding, but still comprises a modest proportion of the bank's total assets - 36% as of as of 31 October 2015 vs. 28% as of 1 January 2015, as reported under local GAAP.

A material portion of UTBANK's customer accounts is formed of the clients' local currency funds reserved - by UTBANK on behalf of these clients - with the Central Bank of Uzbekistan (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).

UTBANK's overall market shares are now very limited, even in the context of Uzbekistan: as of year-end 2014, we estimate its share in the sector total assets and total loans to be at 0.3% and 0.1%, respectively. We, therefore, apply a downward adjustment to UTBANK's BCA, as generated by Moody's Bank Scorecard, on the "Business Diversification" factor. UTBANK'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 UTBANK will be challenged to compete with those more prominent players which already run expanded branch networks and enjoy brand names that are widely recognized in the country.

GOOD ASSET QUALITY TO DATE, DESPITE THE RAPID LENDING GROWTH; RISK PROFILE BENEFITS FROM CLOSE OVERSIGHT EFFECTED BY UTBANK'S TURKISH SHAREHOLDER

UTBANK'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; therefore, UTBANK has, to date, avoided any material asset quality problems.

Furthermore, UTBANK's asset quality benefits from the bank's oversight structure whereby its two institutional shareholders - TC Ziraat Bankasi (which is 100% owned by the Turkish government) and Uzbekistan-based Agrobank (controlled by the Uzbek government) hold 49.98% and 50% stakes in UTBANK, respectively, and have equal representation on UTBANK's six-member Supervisory Board. We believe that the participation of much larger and advanced Turkish shareholder TC Ziraat Bankasi is especially beneficial for UTBANK, from the point of view of operational and strategic assistance. (The Turkish shareholder reported total consolidated assets of $101 billion as of 1 October 2015 and it operates an expanded network of branches, representative offices and subsidiaries outside of its domicile country.)

The above being said, we note that UTBANK's gross loan book tripled in both 2014 and 2013 (according to IFRS financial statements) and further increased 67% in the first ten months of 2015 (according to local GAAP financial statements), albeit from a very low base, which poses some asset quality risks as the rapidly augmented portfolio starts to mature. As per the bank's local GAAP report, its loans overdue more than 90 days stood at a low level of 1.1% of the gross loan-and-leasing book as of 31 October 2015. In this context, the bank's loan loss reserve-to-total gross loans ratio of 1.9% reported as of 31 October 2015 looks comfortable. However, we note that the very fast expansion of the bank's lending activities and lack of credit underwriting and collection experience may potentially result in an increase in the level of problem loans going forward, which drives our downward adjustment to the currently strong asset quality score generated by Moody's Bank Scorecard.

STRONG CAPITAL ADEQUACY METRICS AND COMMITMENT OF THE SHAREHOLDERS

UTBANK's capital adequacy level is high and provides an adequate buffer against potential unexpected losses in the future and for further asset growth. According to the bank's latest available IFRS report as of year-end 2014, the Basel I Tier 1 and total capital adequacy ratios were strong at this reporting date at 49.6% and 54.5%, respectively. The bank's more recently reported regulatory capital ratio is also solid at 36.6% as at end-October 2015, albeit this declined from 51.9% reported at year-end 2014 due to an increase in the risk-weighted assets. Going forward, we expect that strong profitability and shareholder injections will continue to support the bank's capital adequacy, despite the gradual utilization of capital through lending expansion. In particular, in October 2015, the bank's shareholders agreed on another UZS11.7 billion increase to be made in the foreseeable future.

PROFITABILITY METRICS REMAIN COMFORTABLE AND STEM FROM RECURRING INCOME SOURCES

In 2014, despite the need to maintain an ample liquidity cushion and despite the still moderate (albeit increasing) proportion of commercial lending, UTBANK continued to report solid bottom-line profits reflected in strong Return on average assets (ROAA) and return on average equity (ROAE) ratios of 3.83% and 9.48% (according to the latest available IFRS report).For the first ten months of 2015, the bank reported UZS6 billion net profits under local GAAP. Recurring income sources remain the main drivers of the bank's healthy profitability, the dominant components being (1) interest income on corporate lending and interbank placements (approximately 60% of total operating income posted under local GAAP for the first ten months of 2015); and (2) commissions mainly relating to settlement transactions (about 30%).

UTBANK's cost-to-income ratio of 43% reported for the first ten months of 2015 continued to be among the best in the Uzbek banking sector, due to the concentration - currently - of all operations in Tashkent region. In our opinion, with this income and expense structure, UTBANK will be able to preserve reasonable profitability metrics going forward.

UTBANK'S LIQUIDITY PROFILE IS CHARACTERISED BY SIGNIFICANT CONCENTRATION IN SOURCES OF FUNDING AND BY SHORT-TERM DURATION OF CUSTOMER FUNDING

Our downward adjustments to UTBANK's funding and liquidity scores are mainly driven by the dominant proportion of short-term funding sources in the bank's funding structure and very high level of single-name concentration in its liabilities.

UTBANK's funding base has very short-term tenors. Customer deposits and other short-term liabilities payable "on demand and up to one month" amounted to about 60% of non-equity funding as of 31 October 2015 (according to local GAAP report), albeit down from 74% of non-equity funding at year-end 2014 (according to IFRS). This lengthening of funding maturities somewhat supports UTBANK's liquidity profile, but we still note the risk that significant single-name concentration on the liabilities side might challenge the sustainability of the bank's business.

As of 1 January 2015, one largest depositor accounted for one third of UTBANK's total customer accounts, according to the bank's management data. In the first nine months of 2015, the customer accounts attracted by the bank from both corporate and retail clients increased 35% year-on-year, UTBANK promotes new deposit products for individuals. This should help it to alleviate concentrations in liabilities in a long-run. UTBANK's liquidity cushion adequately addresses the potential outflows: its liquid assets (cash, cash equivalents and interbank placements) stood at just under 50% of total assets at 31 October 2015, according to local GAAP.

NOTE ON DATA

Unless noted otherwise, all figures shown in this report are sourced from the bank's latest annual and interim financial reports and additional information from the bank. In addition, where indicated through the document we use reference to Moody's Banking Financial Metrics which are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 15 June 2015.

Notching Considerations

Affiliate Support

UTBANK's B2/Not Prime GLC deposit ratings incorporate our assessment of a moderate probability of support from one of its shareholders - TC Ziraat Bankasi, which ultimately controls a 50% stake in UTBANK. This support assumption results in one notch of support uplift from UTBANK's BCA of b3.

Foreign Currency Deposit Rating

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

CR Assessment

Moody's has assigned a Counterparty Risk Assessment (CR Assessment) of B1(cr) / Not Prime(cr) to UTBANK.

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned one notch above the bank's Adjusted BCA of b2 and therefore above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CRA will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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

Macro Factors	
Weighted Macro Profile	**Very Weak +**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.9%	ba3	↓↓	b2	Loan growth	
Capital						
TCE / RWA	54.5%	ba1	←→	ba3	Access to capital	Capital fungibility
Profitability						
Net Income / Tangible Assets	3.5%	ba1	←→	ba2	Earnings quality	
Combined Solvency Score		ba2		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	12.5%	b2	←→	b3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	45.1%	b1	↓↓	b2	Expected trend	Quality of liquid assets
Combined Liquidity Score		b2		b3		
Financial Profile				**b2**		

Qualitative Adjustments	**Adjustment**
Business Diversification	-1
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate constraint	-

Scorecard Calculated BCA range	**b2 - caa1**

Assigned BCA	**b3**

Affiliate Support notching	**1**

Adjusted BCA	**b2**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	0	0	b2	0	B2	B2

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