MOODY'S INVESTORS SERVICE

Credit Opinion: Uzbek-Turkish Bank

Global Credit Research - 14 Nov 2014

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]12-13	[2]12-12	[2]12-11	[2]12-10	[2]12-09	Avg.
Total Assets (UZS million)	135,540.7	128,053.4	202,806.1	137,437.5	94,227.2	[3]9.5
Total Assets (USD million)	61.5	64.5	113.0	83.8	62.3	[3]-0.3
Tangible Common Equity (UZS million)	56,427.4	44,407.0	37,377.9	18,621.2	12,863.5	[3]44.7
Tangible Common Equity (USD million)	25.6	22.4	20.8	11.4	8.5	[3]31.7
Net Interest Margin (%)	4.5	2.3	1.5	1.3	1.6	[4]2.2
PPI / Average RWA (%)	7.7	4.3	3.1	2.7	--	[5]4.4
Net Income / Average RWA (%)	6.6	3.8	2.4	1.8	--	[5]3.7
(Market Funds - Liquid Assets) / Total Assets (%)	-85.2	-94.9	-95.3	-81.4	-89.2	[4]-89.2
Core Deposits / Average Gross Loans (%)	761.8	2,066.6	4,361.9	1,948.2	1,265.8	[4]2,080.9
Tier 1 Ratio (%)	41.7	34.7	15.7	19.4	--	[5]27.9
Tangible Common Equity / RWA (%)	41.6	34.7	15.7	19.3	--	[5]27.8
Cost / Income Ratio (%)	33.5	35.6	39.4	49.2	40.0	[4]39.6
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 Joint Stock Company "UZBEKISTAN-TURKISH BANK" (UTBANK). 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 (local and foreign currency deposits Baa3/Prime-3; BFSR D+/ BCA ba1; all ratings carry negative outlook), 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/Not Prime stable; BFSR E/BCA ca stable).

We assign a standalone Bank Financial Strength Rating (BFSR) of E+ to UTBANK, 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 UTBANK'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 UTBANK's Turkish shareholder which has more advanced risk management capabilities

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

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

- Good asset quality to date

- Profitability 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

UTBANK'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 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 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.

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

In 2013, UTBANK's total (audited) IFRS assets remained almost flat at UZS135.5 billion ($61.5 million) at year-end 2013 compared to UZS128.1 billion a year earlier. Over the same period, the bank's total equity increased 27% to UZS56.5 billion ($25.7 million) as a result of (1) earnings retention; and (2) a new capital injection by the bank's shareholders. UTBANK reported net IFRS profits of UZS8.8 billion ($4.0 million) for 2013, an increase from UZS7.0 billion profits posted in 2012.

During the first nine months of 2014, the bank's total assets increased by 7% (under unaudited local GAAP financial statements) to UZS146.3 billion ($61.8 million). For the same period, UTBANK reported net income of UZS3.1 billion (Q3 2013: UZS3.5 billion).

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

UTBANK was founded in 1993 as the first bank in Uzbekistan to be established with foreign investments. The bank is 49.98% 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 UTBANK on a parity basis, with equal representation of TC Ziraat Bankasi and Agrobank on UTBANK's six-member Supervisory Board. We believe that this oversight structure is beneficial for UTBANK, especially as regards representatives of the much larger and advanced Turkish shareholder. TC Ziraat Bankasi reported total consolidated (audited local GAAP) assets of $96.6 billion as of year-end 2013 and it operates an expanded network of branches, representative offices and subsidiaries outside of its domicile country.

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

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 funded by local customer accounts, and it receives no parental funding (from either TC Ziraat Bankasi or Agrobank) other than regular capital injections.

UTBANK 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). The volume of UTBANK's commercial lending and leasing operations is gradually expanding, but still comprises a low proportion of the bank's total assets - just ca.18% as of 1 October 2014 (according to the local GAAP report), up from 11% reported a year earlier.

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 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 2013, its total assets and shareholder equity each accounted for less than 1% of the local sector's total. 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 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.

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

As a result of its business model, UTBANK maintains an adequate liquidity cushion. The bank's cash and interbank balances in aggregate stood at not less than 80% of total assets in 2009-13. However, 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 81% of non-equity funding as of 1 October 2014 (according to the local GAAP report), albeit down from almost 100% of non-equity funding at year-end 2011. This lengthening of funding maturities somewhat supported 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. For instance, in 2012, UTBANK 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. The very high single-name concentration in deposits has protracted into 2014 with the top four depositors accounting for 62% of the bank's total customer accounts (59% of total liabilities) at 1 January 2014, according to the latest available IFRS report.

GOOD ASSET QUALITY TO DATE

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 (and this portfolio is fairly well diversified among several banking entities); therefore, UTBANK has, to date, avoided any material asset quality problems. At the same time, we note that the bank's gross loan book grew 56% in 2012 and tripled in 2013, albeit from a very low base. UTBANK does not report loan impairment under IFRS. As per the bank's year-end 2013 statutory accounting statements, its total overdue loans stood at a low level of less than 0.2% of the gross loan-and-leasing book. In this context, the bank's loan loss reserve-to-total gross loans ratio of 3.9% reported at year-end 2013 under the latest available IFRS report looks comfortable. However, we note that the rapid 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.

PROFITABILITY METRICS REMAIN COMFORTABLE AND STEM FROM RECURRING INCOME SOURCES

In 2013, despite the need to maintain an ample liquidity cushion and despite the low portion 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 6.6% and 4.2% (according to the latest available IFRS report). In 2014, recurring income sources remain the main drivers of the bank's healthy profitability, the dominant components being (1) interest income on interbank placements (42% of total operating income, according to local GAAP report as of 1 October 2014); and (2) commissions mainly relating to settlement transactions (26%).

As a result of the concentration of all operations in the head office in Tashkent, UTBANK also demonstrates one of the best cost-efficiency metrics in the Uzbek banking sector, with a cost-to-income ratio consistently being below 40% over a number of recent years. In our opinion, with this income and expense structure, UTBANK 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

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 latest available IFRS report, at year-end 2013, the Basel I Tier 1 capital ratio improved to 41.7% from the already strong 34.7% ratio reported at year-end 2012. This was boosted by retained earnings and new capital injections. During 2014, strong profitability supports the bank's statutory Tier 1 and total CAR: as of 1 October 2014, the ratios increased to 63.2% and 66.5%, respectively, from 48.09% and 52.22% reported at YE2013. UTBANK's capital adequacy is further underpinned by low risk appetite.

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 document entitled "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 19 December 2013.

Global Local Currency Deposit Rating (Joint Default Analysis)

In accordance with Moody's Joint Default Analysis methodology, UTBANK'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 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.

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						A	Neutral
PPI % Average RWA (Basel I)	5.04%						
Net Income % Average RWA (Basel I)	4.29%						
Factor: Liquidity						C-	Neutral
(Market Funds - Liquid Assets) % Total Assets	-91.82%						
Liquidity Management					x		
Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio (%) (Basel I)	30.70%						
Tangible Common Equity % RWA (Basel I)	30.67%						
Factor: Efficiency						A	Neutral
Cost / Income Ratio	36.18%						
Factor: Asset Quality						B+	Neutral
Problem Loans % Gross Loans		1.20%					
Problem Loans % (Equity + LLR)	0.10%						
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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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