MOODY'S
INVESTORS SERVICE

Credit Opinion: Bank CenterCredit

Global Credit Research - 19 Jul 2012

Almaty, Kazakhstan

Ratings

Category	Moody's Rating
Outlook	Negative(m)
Bank Deposits	B1/NP
Bank Financial Strength	E+
Baseline Credit Assessment	(b2)
Adjusted Baseline Credit Assessment	(b2)
Bkd Senior Unsecured	B2
Jr Subordinate	Caa1 (hyb)

Contacts

Analyst	Phone
Semyon Isakov/Moscow	7.495.228.6060
Armen L. Dallakyan/London	44.20.7772.5454
Yves Lemay/London	
Anna Avdeeva/Moscow	7.495.228.6060

Key Indicators

Bank CenterCredit (Consolidated Financials)[1]

	[2]12-11	[2]12-10	[2]12-09	[2]12-08	[2]12-07	Avg.
Total Assets (KZT billion)	1,081.9	1,224.6	1,160.6	940.5	882.1	[3]5.2
Total Assets (USD billion)	7.3	8.3	7.8	7.8	7.3	[3]-0.1
Tangible Common Equity (KZT billion)	87.0	84.6	98.6	94.5	72.8	[3]4.6
Tangible Common Equity (USD billion)	0.6	0.6	0.7	0.8	0.6	[3]-0.7
Net Interest Margin (%)	2.2	1.2	3.5	4.7	5.9	[4]3.5
PPI / Avg RWA (%)	3.0	1.3	7.3	4.9	7.4	[5]4.8
Net Income / Avg RWA (%)	0.4	-4.1	0.5	0.9	3.4	[5]0.2
(Market Funds - Liquid Assets) / Total Assets (%)	-1.2	-11.3	-6.7	14.4	33.4	[4]5.7
Core Deposits / Average Gross Loans (%)	85.2	102.3	94.0	66.4	58.3	[4]81.2
Tier 1 Ratio (%)	10.2	11.2	13.7	12.6	11.9	[5]11.9
Tangible Common Equity / RWA (%)	10.2	11.2	13.8	12.7	12.1	[5]12.0
Cost / Income Ratio (%)	54.3	71.3	26.4	42.4	34.7	[4]45.8
Problem Loans / Gross Loans (%)	15.1	12.9	11.0	7.5	2.7	[4]9.8
Problem Loans / (Equity + Loan Loss Reserves) (%)	62.3	53.3	47.5	33.9	16.8	[4]42.8

Source: Moody's

[1] All 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 a standalone bank financial strength rating (BFSR) of E+ to Bank CenterCredit (BCC), which maps to b2 on the long-term scale. The rating takes account of significant challenges - in terms of asset quality, profitability and capital - that BCC faces as a large player amid the distressed and highly competitive environment in the Kazakhstan ?banking sector. However, the rating captures the bank's strong positions on the local market where it benefits from double-digit market shares in deposit-taking and lending, a healthy and stable stream of fee and commission income, and a cushion of liquid assets that mitigates liquidity concerns.

We assign a long-term global local currency (GLC) deposit rating of B1 to BCC. The rating reflects our assessment of a low probability that systemic support would be extended to the bank if a systemic crisis occurred, providing a one-notch uplift for BCC's GLC deposit rating from its B2 long-term scale. The ownership by Kookmin Bank (A1/C-, stable outlook) which currently holds a 42% stake in BCC has no impact on BCC's ratings. All of BCC's long-term deposit ratings carry a negative outlook, while the BFSR carries a stable outlook.

We assign a B2 global foreign currency debt rating for the bank's senior unsecured obligations that is solely based on the bank's long-term scale of B2, and assign a Caa1 global foreign currency debt rating for its junior subordinated obligations. The ratings take into account the relative seniority ranking of the obligations in the event of liquidation. Unlike deposit ratings, the B2 and Caa1 debt ratings do not incorporate any assessment of systemic support.

Rating Drivers

- High level of problem loans negatively affects the bank's financial fundamentals

- Low capital adequacy

- Weak and highly competitive operating environment constrains growth of the bank's loan book and, accordingly, impedes faster replenishment of non-performing assets

- Entrenched franchise in the retail and mid-sized corporate segments

- Robust fee and commission income and sound cost control

- Healthy cushion of liquid assets and remoteness of wholesale funding repayments

Rating Outlook

The negative outlook on BCC's debt and deposit ratings reflects ongoing pressure on the bank's standalone financial profile that could, in the short to medium term, warrant a downwards adjustment by one notch of the long-term rating (mapped from BCC's E+ BFSR) if the bank's capital position continued to deteriorate.

What Could Change the Rating - Up

An upgrade of the bank's BFSR and long-term ratings is unlikely in the medium term.

What Could Change the Rating - Down

Any further deterioration of the bank's assets, leading to a weakening of the bank's capital profile that negatively affects sustainability of the bank's operations, could result in a downgrade of the bank's deposit and debt ratings.

Recent Results and Company Events ?

At end-March 2012, BCC reported total IFRS (unaudited) consolidated assets of KZT1.094 trillion (US$7.4 billion) and shareholders' equity of KZT87.8 billion (US$594 million). Over the same period, net income was KZT578 million (US$4 million).

The bank's profitability is negatively affected by the excessive level of credit losses stemming from the bank's loan book and, although recently recovering, still narrow net interest margin.

DETAILED RATING CONSIDERATIONS

Detailed considerations for BCC's currently assigned ratings are as follows:

Bank Financial Strength Rating

Asset Quality

Over the past three years, significant asset impairment has resulted in contraction of capital and loss-making operations. Thus, weak asset quality has been the key issue for the bank and the key negative rating driver. We have observed a constant decline of the bank's asset quality since late 2007 when the operating environment started to deteriorate, resulting in rapid growth in the level of problem loans in 2009 and 2010.

In 2011, based on the regulatory data, we witnessed some stabilisation in the level of BCC's non-performing loans (NPLs: 90+ days overdue) and problem loans (i.e. those classified as `category four' and below in accordance with regulatory standards). As at YE2011, NPLs stood at KZT70 billion and problem loans at KZT133 billion, which accounted for 8.6% and 16.6% of the bank's gross loan book, respectively. We expect the recovery value of problem loans to be limited, therefore, the 14.2% level of IFRS loan loss reserves created as at YE2011 appears to be sufficient to cover losses stemming from the part of the loan book we define as problematic based on the local GAAP data.

At the same time, as at YE2011 additional KZT95 billion of loans or 11.8% of the loan portfolio was classified as `category three" in accordance with regulatory standards and have probability to migrate into problematic category, especially, were the operating environment to deteriorate. Said the above and taking into consideration recently stabilised level of problem loans, we expect annual provision charges in 2012 to be lower than in 2011 but still to remain in a range of 2-3% of the gross loan book, thus materially eroding the bank's interest margin. According to BCC, the ongoing recovery of problem loans should enable it to restore KZT35 billion of provisions in 2012 but it is yet to be seen whether the bank will be successful in working out its problem loans.

Capital Adequacy

Moody's considers BCC's capitalization to be weak. The bank's equity-to-assets ratio stood at the level of 8.02% as at end-March 2011. We consider this level to be low in the context of: (i) volatile operating environment in Kazakhstan, (ii) single-name concentrations in the loan book, (iii) ongoing growth of provisions due to the weak loan book quality, and (iv) weak earning generation capacity.

Although the reported Basel ratios as at YE2011 were reasonable (BCC reported a Basel Tier 1 ratio of 10.2% and total capital adequacy ratio of 16.9%), we notice, in our view, the negative pressure on capital linked with the risk of the loan book deterioration and ongoing excessive provisioning charges, as discussed in the previous section. Said the above, Moody's considers BCC capital cushion to be limited.

Franchise Value

Bank CenterCredit is ranked as the fourth-largest bank in Kazakhstan by total assets (US$7.4 billion), with about 8.3% market share and strong positions in the retail and SME segments. In particular, BCC's 13.6% market share in retail deposits as at end-December 2011 makes it the third-largest retail deposit taker in the country.

The bank's entrenched positions in the SME and retail segments are based on its wide office network, as BCC operates through 20 branches and 178 outlets across the country, giving it one of the broadest countrywide profiles in Kazakhstan. Although BCC has a presence in Russia, Kyrgyzstan and Ukraine, its franchise is almost fully concentrated in Kazakhstan - a country with a relatively low economic diversification, a volatile operating environment and high reliance on energy production.

The bank's market position is supported by its expertise in targeted segments. In addition, the entry of Kookmin Bank (with extensive experience in the SME and retail segment) into BCC's capital should, in the longer term, help BCC to underpin its franchise in these segments, in which it already has solid positions. We particularly note that due to its SME and retail focus, BCC generates strong and stable net fee and commission income.

Profitability

The high level of problem loans mentioned above is the key driver of weak profitability as it materially undermines the level of interest-earning assets, thereby, negatively affecting net interest margin (2011: 2.12%; 2010:1.14%) and bottom-line results (return on average risk-weighted assets was 0.38% in 2011). At the same time, due to its strong footprint in the SME and retail segments, BCC generates healthy fee and commission income which, in 2011, covered the bank's operating expenses by 65% and supported recurring revenue.

In 2011 BCC grew its loan book by 9.3% that combined with the growing share of interest-earning assets moderately enhanced its net interest margin. At the same time, further growth of the performing loan book is constrained by the limited capital cushion and tight competitive landscape. In the absence of any deterioration in the operating environment we expect BCC's pre-provision profitability to remain modest in the short-to-medium term while the ongoing excessive credit costs will likely to continue eroding pre-provision income exerting downward pressure on the bottom-line results, therefore limiting capital and asset growth.

Liquidity

The bank's reliance on wholesale funding was recently on the downward trend as generally benign liquidity landscape and the regulator's policy to promote lending made local deposit funding more attractive compared to foreign borrowings, thus minimising refinancing risks that are currently limited given: (i) the cushion of liquid assets accounting over 20% of total assets as at end-March 2011; (ii) remoteness of wholesale funding repayments; and (iii) loans to deposits ratio of 103% as at end-March 2012. Although the volume of liquid assets was declining in 2011, this was intentionally targeted by management as the level of liquidity in 2010 was excessive and negatively weighted on the bank's net interest margin.

Given the favourable wholesale funding repayment calendar for the next two years, the current level of liquid assets is considered adequate if compared with potential volatility of the bank's customer deposit base.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local currency (GLC) deposit rating of B1 to BCC. We assess as low the probability that systemic support would be extended to the bank should a systemic crisis occur, given the bank's market share in deposit-taking and lending. Therefore, the GLC deposit rating of B1 reflects not only the bank's B2 long-term scale but also the rating of its underlying support provider, i.e. the Baa2 rating of the government of Kazakhstan. Consequently, there is a one-notch uplift for BCC's GLC deposit rating from its b2 long-term scale.

Foreign Currency Deposit Rating

We assign a B1 foreign currency deposit rating to BCC. The rating is not constrained by Kazakhstan's foreign currency deposit ceiling.

Foreign Currency Debt Rating

We assign a B2 global foreign currency debt rating for the bank's senior unsecured obligations that is solely based on the bank's long-term scale of b2, and assign a Caa1 global foreign currency debt rating for its junior subordinated obligations,. The ratings take into account the relative seniority ranking of the obligations in the event of liquidation. The B2 and Caa1 debt ratings do not incorporate any assessment of systemic support given the past track record of no government support provided to creditors who are therefore forced to absorb losses (as was the case following restructuring of BTA Bank, Alliance Bank and Temirbank).

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 systemic support indicator, 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 support provider.

National scale rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

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

Bank CenterCredit

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (70%)						D-	

Factor: Franchise Value						C-	**Neutral**
Market Share and Sustainability		x					
Geographical Diversification					x		
Earnings Stability			x				
Earnings Diversification [2]							
Factor: Risk Positioning						E+	**Neutral**
Corporate Governance [2]				x			
- Ownership and Organizational Complexity							
- Key Man Risk				x			
- 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%)						C	
Factor: Profitability						C	**Neutral**
PPI / Average RWA - Basel I	4.50%						
Net Income / Average RWA - Basel I					-0.89%		
Factor: Liquidity						C	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets		-1.23%					
Liquidity Management				x			
Factor: Capital Adequacy						A	**Weakening**
Tier 1 Ratio - Basel I	12.49%						
Tangible Common Equity / RWA - Basel I	12.59%						
Factor: Efficiency						B	**Neutral**
Cost / Income Ratio		46.69%					
Factor: Asset Quality						D	**Neutral**
Problem Loans / Gross Loans				10.45%			
Problem Loans / (Equity + LLR)				44.91%			
Lowest Combined Score (9%)						D	
Economic Insolvency Override						Neutral	
Aggregate Score						D	
Assigned BFSR						E+	

[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

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.