MOODY'S
INVESTORS SERVICE

Credit Opinion: Bank CenterCredit

Global Credit Research - 25 Sep 2014

Almaty, Kazakhstan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B2/NP
Bank Financial Strength	E+
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Jr Subordinate	Caa2 (hyb)

Contacts

Analyst	Phone
Maria Malyukova/Moscow	7.495.228.6060
Alexander Proklov/Moscow	
Yves Lemay/London	44.20.7772.5454
Julia Dulneva/London	

Key Indicators

Bank CenterCredit (Consolidated Financials)[1]

	[2]6-14	[2]12-13	[2]12-12	[2]12-11	[2]12-10	Avg.
Total Assets (KZT billion)	1,138.1	1,093.5	1,087.8	1,081.9	1,224.6	[3]-1.8
Total Assets (USD billion)	6.2	7.1	7.2	7.3	8.3	[3]-7.1
Tangible Common Equity (KZT billion)	91.0	86.8	86.7	87.0	84.6	[3]1.8
Tangible Common Equity (USD billion)	0.5	0.6	0.6	0.6	0.6	[3]-3.6
Net Interest Margin (%)	3.6	3.0	1.7	2.2	1.2	[4]2.3
PPI / Average RWA (%)	4.6	3.4	1.6	2.7	1.1	[5]2.7
Net Income / Average RWA (%)	0.3	0.1	0.1	0.4	-3.5	[5]-0.5
(Market Funds - Liquid Assets) / Total Assets (%)	-4.0	-6.4	-4.1	-1.2	-11.3	[4]-5.4
Core Deposits / Average Gross Loans (%)	82.8	85.3	86.5	85.2	102.3	[4]88.4
Tier 1 Ratio (%)	9.1	9.7	9.5	9.6	9.6	[5]9.5
Tangible Common Equity / RWA (%)	9.4	9.6	9.5	9.7	9.7	[5]9.6
Cost / Income Ratio (%)	36.9	48.1	65.4	54.3	71.3	[4]55.2
Problem Loans / Gross Loans (%)	0.0	27.6	25.0	25.9	22.6	[4]20.2
Problem Loans / (Equity + Loan Loss Reserves) (%)	0.0	94.0	101.8	106.7	93.4	[4]79.2

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 a long-term global local currency (GLC) deposit rating of B2 to Bank CenterCredit (BCC). The rating reflects our assessment of a low probability that systemic support would be extended to the bank's depositors if a systemic crisis occurred, thus providing a one-notch uplift for BCC's deposit rating from its b3 baseline credit assessment (BCA). The ownership by Kookmin Bank (deposits A1 stable; BFSR C-/BCA baa1 stable), which currently holds a 41.93% stake in BCC, has no impact on BCC's ratings.

We assign a B3 global foreign-currency debt rating to the bank's senior unsecured obligations; the rating is solely based on the bank's b3 BCA, and we assign a Caa2 (hyb) global foreign-currency debt rating to 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 B3 and Caa2 (hyb) debt ratings do not incorporate any assessment of systemic support.

We assign a standalone bank financial strength rating (BFSR) of E+ to BCC, which is equivalent to a BCA of b3. The rating takes into account challenges that BCC faces as a major player in terms of asset quality, funding, and capital amid the currently challenging and highly competitive environment in the Kazakhstan banking sector. However, the rating captures (1) the bank's established positions on the local market, especially in the SME and retail segments; (2) its currently stabilising recurrent profitability; and (3) process of problem loans work out.

At 1 July 2014, BCC reported total assets of KZT1.1 trillion ($6 billion), shareholders' equity of KZT88.8 billion and net income of KZT1.2 billion.

Rating Drivers

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

- Low capital buffer renders the bank vulnerable in the longer term

- Established market position in the SME and retail segments

- Profitability is pressured by loan loss provisions, but earnings are stabilising

- Volatile deposit base prone to panic-driven customer behaviour

Rating Outlook

All of BCC's ratings carry a stable outlook.

What Could Change the Rating - Up

Positive pressure could develop on BCC's ratings as a result of improved asset quality and capital adequacy metrics, coupled with a stable liquidity profile. Potential control of the bank by Kookmin Bank may also benefit BCC's ratings.

What Could Change the Rating - Down

Any deterioration in BCC's asset quality and profitability, leading to a further weakening of the bank's capital adequacy, could result in a downgrade of the bank's ratings.

DETAILED RATING CONSIDERATIONS

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to Moody's documents: "Financial Statement Adjustments in the Analysis of Financial Institutions", published on 19 December 2013.

HIGH LEVEL OF PROBLEM LOANS NEGATIVELY AFFECTS THE BANK'S FINANCIAL FUNDAMENTALS

The bank's non-performing loans (NPLs - overdue more than 90 days) accounted for 13.17% of gross loans as of 1 August 2014, down from 16.3% at year-end 2013), according to the regulatory data. Total problem loans, which include NPLs more than 90 days overdue, plus restructured loans, amounted to around 24.3% as of 1H-2014, down from 27.6% as of year-end 2013 according to bank's management data. The decrease in problem loans within 1H-2014 was attributable to the loans write off totalling KZT70 billion following changes introduced to the Kazakh tax code. At the same time, the total volume of overdue loans (more than one day overdue) recorded a sustained increase in absolute and percentage terms to the current 23.2% as of 1 August 2014 vs 21.4% as of year-end 2013. The increase in new NPLs mainly follows the recent Kazakh tenge devaluation given that 20% of

BCC's loan book is in foreign currency and accelerated deterioration in retail loan book. We believe the bank's asset quality will be further pressured by rising household indebtedness and the challenging domestic operating environment. Therefore, the current loan loss reserves-to-gross loans ratio at 15.8% is not very high.

LOW CAPITAL BUFFER RENDERS THE BANK VULNERABLE IN THE LONGER TERM

BCC's core capital adequacy is modest with the shareholder equity-to-assets ratio at 8% as of 1H-2014, virtually unchanged since 2012, according to the bank's IFRS statement. BCC's total capital adequacy ratio (CAR) under Basel amounted to 15.36% at 1H-2014 (15.96% at year-end 2013), benefiting from subordinated and junior subordinated debt. We consider the bank's loss absorption buffer to be modest in the context of the low level of capital, mediocre earnings generation and the need for higher loan loss reserves.

ESTABLISHED MARKET POSITION IN THE SME AND RETAIL SEGMENTS

According to the National Bank of Kazakhstan (NBK), BCC ranks sixth among Kazakh banks by total assets as of 1 August 2014 (down from fourth as of year-end 2013). The reduction in market position within the first seven months of 2014 is mainly caused by intense competition from Kazakh banks, as well as a slowdown of BCC's growth following recent volatility in customer accounts and problem loans work out.

BCC currently holds 6.5% market share in total banking assets as of 1 August 2014 (6.9% as of year-end 2013). It has an established customer franchise in the SME and retail segments, operating through countrywide branch networks, consisting of 20 branches and 121 outlets. Although BCC has a presence in Russia, Kyrgyzstan and Ukraine, its franchise is almost fully concentrated in Kazakhstan.

The bank's market position is supported by its expertise in the targeted segments: SME and retail banking. In addition, we believe that the presence of Kookmin Bank in BCC's capital should, in the longer term, help BCC to underpin its franchise in these segments, where it already has solid positions. We note that given its SME and retail focus, BCC generates stable and healthy net fee and commission income.

PROFITABILITY IS PRESSURED BY LOAN LOSS PROVISIONS, BUT EARNINGS ARE STABILISING

The bank reported a marginally positive net income of KZT1.2 billion as of 1H-2014 under IFRS (reviewed by the auditors), resulting in a return on average assets (RoAA) of 0.2% (0.03% as of year-end 2013). Its bottom-line earnings were constrained by loan loss provisions, that accounted for 3.5% of gross loan book as of 1H-2014 (2.9% at year-end 2013). At the same time, the bank reported stabilising core recurrent revenues, including improvement in net interest income and stable fees and commissions. The cost-to-income ratio amounted to sound 41% as at 1H-2014. Nevertheless, we believe that BCC needs to further enhance its revenues to cover rising loan loss charges and strengthen capital.

VOLATILE CUSTOMER DEPOSIT BASE PRONE TO PANIC-DRIVEN CUSTOMER BEHAVIOUR

BCC's customer deposits, accounting for 77% of liabilities, tend to be volatile and prone to panic-driven behaviour, as evidenced in February 2014 when the bank experienced around KZT100 billion deposit outflow (12% of customer deposits) within a two-week period. Maintenance of an acceptable liquidity cushion (nearly a quarter of total assets as of year-end 2013) plus a KZT80 billion loan provided by the NBK helped BCC to withstand the liquidity stress. The situation has stabilised and, as at end-1H-2014 customer deposits almost recovered to levels reported prior to the deposit outflow. However, we note to risks of future deposits volatility, which renders bank's liquidity profile vulnerable.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local currency (GLC) deposit rating of B2 to BCC. In accordance with Moody's joint default analysis methodology, 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 B2 reflects not only the bank's b3 BCA 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 b3BCA.

We do not incorporate parental support from Kookmin Bank because of the parent has limited control over the bank, and given the limited strategic fit of the two financial institutions.

Foreign Currency Deposit Rating

We assign a B2 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 B3 global foreign-currency debt rating to the bank's senior unsecured obligations that is solely based on the bank's b3 BCA, and assign a Caa2 (hyb) 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 B3 and Caa2 (hyb) debt ratings do not incorporate any assessment of systemic support.

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%)						D+	
Factor: Profitability						D+	Neutral
PPI % Average RWA (Basel I)		2.55%					
Net Income % Average RWA (Basel I)					0.17%		
Factor: Liquidity						C	Neutral
(Market Funds - Liquid Assets) % Total Assets		-3.91%					
Liquidity Management				x			

Factor: Capital Adequacy						B+	Neutral
Tier 1 Ratio (%) (Basel I)		9.62%					
Tangible Common Equity % RWA (Basel I)	9.59%						
Factor: Efficiency						C	Neutral
Cost / Income Ratio			55.96%				
Factor: Asset Quality						E	Neutral
Problem Loans % Gross Loans					26.18%		
Problem Loans % (Equity + LLR)					100.83%		
Lowest Combined Financial Factor Score (9%)						E	
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.

MOODY'S
INVESTORS SERVICE

CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

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 or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER