MOODY'S
INVESTORS SERVICE

Credit Opinion: JSC Nurbank

Global Credit Research - 06 Aug 2010

Almaty, Kazakhstan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B3/NP
Bank Financial Strength	E+
Senior Unsecured -Dom Curr	B3
NurFinance B.V.	
Outlook	Stable
Bkd Senior Unsecured	B3

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Key Indicators

JSC Nurbank

	[1]2009	2008	2007	2006	2005	Avg.
Total Assets (US$ million)	2000.80	2473.37	1651.66	1595.95	906.86	[2]23.81
Shareholders' Equity (US$ million)	286.58	342.34	302.82	173.30	103.30	[2]28.74
Return on Average Assets	0.11	-0.56	1.52	0.87	1.91	0.77
Recurring Earnings Power [3]	2.63	2.31	3.58	2.35	1.27	2.43
Net Interest Margin	4.46	4.32	5.62	3.88	4.23	4.50
Cost/Income Ratio (%) [4]	56.27	60.02	46.48	57.04	76.87	59.34
Problem Loans % Gross Loans	23.07	23.91	21.32	24.88	--	23.29
Equity % Assets	14.32	13.84	18.33	10.86	11.39	13.75

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets. [4] Non-Interest Expense % Operating Income.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns an E+ Bank Financial Strength Rating (BFSR) to Nurbank, which translates into a Baseline Credit Assessment (BCA) of B3. The BFSR is constrained by the pressure on the bank's capital adequacy and liquidity, with still high concentrations on both sides of the balance sheet and under-provisioned bad assets. Moreover, the bank's corporate governance practices are still developing and we are concerned that the level of related-party transactions can be underestimated in the bank's reporting. At the same time, the rating is underpinned by the bank's relatively developed franchise in Kazakhstan, with a good branch network. All the bank's ratings carry a stable outlook.

Moody's assigns a long-term global local currency (GLC) deposit rating of B3 to Nurbank. Although support from the bank's shareholders cannot be ruled out, its frequency and timeliness are rather uncertain. The probability of systemic support in the event of a stress situation is judged to be none. Consequently, the bank's GLC deposit rating is at the same level as its B3 BCA.

Credit Strengths

- Relatively wide territorial coverage in Kazakhstan

- Well-recognised brand name in Kazakhstan

Credit Challenges

- Weak asset quality, with high concentration on large borrowers

- Funding is concentrated on large depositors, which complicates the bank's liquidity management and renders it vulnerable to relationships with only a handful of customers

- Moderate capital adequacy aggravated by insufficient level of loan loss reserves

- Weak cash-generation capacity, which undermines the bank's ability to replenish its capital independently

- Weak corporate governance practices

Rating Outlook

All bank's ratings carry a stable outlook.

What Could Change the Rating - Up

A notable strengthening of the bank's asset quality and liquidity, and sustainable reduction in concentrations as well as further development of corporate governance practices could potentially exert upward pressure on the BFSR; however, an upgrade is unlikely in the medium term.

What Could Change the Rating - Down

A significant decline in liquidity or a substantial deterioration of asset quality as well as increase in credit risk concentrations would represent key negative rating drivers.

Recent Results and Company Events

In May 2010, Sofya Sarsenova became the majority shareholder of Nurbank via buying 70.5% of its shares from former shareholders - mainly from Mrs. Dariga Nazarbaeva (the daughter of Kazakhstani President Mr. Nursultan Nazarbayev) and her son Mr. Nurali Aliyev. According to the bank, Mrs. Nazarbaeva and Mr. Aliyev no longer own shares in the bank.

Consequently, in June 2010 Ms. Sarsenova made a mandatory public offer to the bank's remaining shareholders to buy out their shares at the price equal to 1.17 of the bank's book value as of YE2009. According to Kazakhstani regulations, Ms. Sarsenova is obliged to pay for the shares, which will be offered, by the mid-August 2010.

Nurbank's consolidated total assets under IFRS remained stable in 2009 in local currency terms, but decreased by 19% in US dollar terms, reflecting the significant depreciation of the Kazakhstani tenge at the beginning of 2009. The liabilities structure also remained stable. As at 31 December 2009, Nurbank reported total consolidated IFRS assets of KZT297 billion (US$2 billion) and consolidated net income of KZT314 million (US$2.1 million).

DETAILED RATING CONSIDERATIONS

Our detailed considerations for Nurbank's currently assigned ratings are as follows.

Bank Financial Strength Rating

Moody's assigns an E+ BFSR to Nurbank, which translates into a BCA of B3. All the bank's ratings carry a stable outlook. As a point of reference, the assigned rating is at the same level as the E+ outcome of Moody's adjusted bank financial strength scorecard.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

Nurbank is a medium-sized bank, based in Almaty, the financial centre of Kazakhstan. As of end-June 2010, the bank ranked eighth in the country in terms of total assets with a market share of about 2.6%.

The bank's territorial coverage in Kazakhstan is relatively wide, currently operating 17 branches and 53 outlets. The bank's major franchise is wholesale banking, with corporate loans forming around 70% of the total loan book. The other part of the loan book is almost equally attributable to retail and SME lending. In retail there are two main business lines: personal loans and mortgages.

We expect the bank's franchise to remain stable in the medium term, but due to the absence of a clear development strategy, the franchise can lag behind its peers when the macroeconomic situation in Kazakhstan improves.

The bank's score for franchise value is E+ along with a neutral trend.

Factor 2: Risk Positioning

Trend: Neutral

Since May 2010, Nurbank has been controlled by Sofya Sarsenova, who owns around 70.5% of its shares. The families of Ms. Sarsenova and her brother - Mr. Rashid Sarsenov - control some businesses in the Kazakhstani oil & gas sector. Mr. Sarsenov, particularly, is the former owner of JSC "MangistauMunaiGas" (previously one of the largest independent Kazakhstani oil companies).

The ultimate holders of other shares have not been publicly disclosed, rendering the ownership structure opaque.

The reported level of related-party exposure is insignificant. However, taking into account the opaque ownership structures of the local business and weak corporate governance practices, we do not rule out the possibility that the actual level of related-party transactions could be much higher.

The high concentrations in the bank's loan book and deposits remain Moody's significant concerns, with exposure to 20 largest borrowers

exceeding the Tier 1 capital by more than three times and the 20 largest depositors representing more than half of total liabilities as at Q1 2010.

The bank's exposure to refinancing risk is moderate given the share of wholesale funding of around 17% of the total liabilities as at Q1 2010 and the relatively favourable repayment schedule, with only one large repayment (a Eurobonds issue) occurring in 2011.

The bank's relatively high concentration (compared with Kazakh peers) on the construction and real estate (C&RE) sector (201% of Tier 1 capital as at Q1 2010) is likely to complicate the recovery of its assets and operating income as strong growth in Kazakhstani C&RE is not expected in the medium term.

Following the significant devaluation of the local currency at the beginning of 2009, Nurbank's exposure to foreign-currency-denominated loans - borrowers of which mainly do not generate cash flow in foreign currency - also exerted negative pressure on the bank's asset quality and on the projected pace of its recovery.

Nurbank scores E for risk positioning along with a neutral trend.

Factor 3: Regulatory Environment

Refer to Moody's Banking System Outlook on Kazakhstan, published in July 2010, for information on this factor.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Kazakhstan banks. Moody's assigns an E+ score for the overall operating environment in Kazakhstan. For a discussion of the operating environment, refer to Moody's Banking System Outlook on Kazakhstan, published in July 2010.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Weakening

Despite a healthy net interest margin of 4.5%, Nurbank recorded a weak net profit in 2009 and a net loss in 2008. This was mainly due to a dramatic increase in the allowance for loan impairment and to the growing level of problem loans. In our opinion, a further increase in loan loss provision expenses is the key factor that will weigh on the bank's earnings performance in the medium term. The reported increase in interest income was not aligned with growth in interest received in cash, as around a third of the bank's loans did not pay interest in 2009.

The bank's weak cash-generating capacity will exert a further negative impact on operating income, driven by the constrained lending activity.

Nonetheless, to reflect our expectations of increase in loan loss provisions, we have adjusted Nurbank's score for profitability to E+ from C along with a weakening trend.

Factor 6: Liquidity

Trend: Weakening

In 2008 the bank repaid a significant part of its wholesale debt, decreasing its dependence on this source of funding. The moderate dependence on wholesale funding (17% of the total liabilities) and the relatively favourable repayment schedule supports the bank's liquidity. We view the bank's present liquidity as adequate, with liquid assets accounting for around 18% of total assets as of Q1 2010. At the same time, turnover of the bank's loan book is currently very low, which, together with high depositor concentration, renders the bank's liquidity highly vulnerable.

In the medium term, the bank's liquidity will continue to be pressured by the increasing level of overdue and restructured loans, the majority of which do not make interest payments.

In light of the above, the bank scores D along with a weakening trend for liquidity.

Factor 7: Capital Adequacy

Trend: Weakening

The bank's capital adequacy (with Tier 1 capital adequacy ratio at 15.6% and total capital adequacy ratio of 18.3% as of Q1 2010) and loan loss reserves (7.4% of total loans) do not provide the bank with sufficient cushion against deteriorating asset quality. Moreover, the concentrated corporate loan book renders the bank's capital sensitive to possible transition of large problem loans into the default category.

We believe, that in the medium term, it will be difficult for Nurbank to replenish its capital without external support. In this respect, the new shareholders' plan to increase the bank's capital by end of 2010 could shore up its credit strength.

In light of the above, the score of A for capital adequacy has been adjusted downwards along with a weakening trend.

Factor 8: Efficiency

Trend: Weakening

In 2009 the bank's efficiency improved, mainly due to an increase in interest income while administrative expenses did not reduce in absolute terms. However, Nurbank's cost-to-income ratio remains weak, amounting to 56% as at YE2009 and we do not expect efficiency to improve in the medium term. Any possible further cost cutting - through the gradual substitution of part of the bank's offices by ATMs and internet servicing of clients and other measures - is likely to be offset by the tightening of operating income.

Therefore, we have downwardly adjusted the bank's efficiency score from B to D with a weakening trend.

Factor 9: Asset Quality

Trend: Weakening

According to the bank, the share of non-performing loans (90+ days overdue) in the total portfolio stood at 9.1% as of Q1 2010, while the other 27% of its loan book was restructured. We estimate that most of the bank's restructured portfolio comprises loans which are not duly performing to date. Although the restructured loans may partially recover, this process might take at least several years. While we expect the bank's asset quality to continue to deteriorate, the pace of deterioration is decreasing.

In view of the high level of problem loans, the bank's loan loss reserves appear inadequate.

Taking into account the high concentration in the loan book and our expectations of further asset quality deterioration and its long-term recovery, a C score for asset quality, generated by our scorecard, has been adjusted downward with a weakening trend assigned to reflect our assessment of the level of risk in the bank's loan book.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term GLC deposit rating of B3 to Nurbank. Although support from the bank's shareholders cannot be ruled out, its frequency and timeliness are rather uncertain. The probability of systemic support in the event of a stress situation is judged to be none. Consequently, the bank's GLC deposit rating is at the same level as its B3 BCA.

Foreign Currency Deposit Rating

Moody's assigns a B3 long-term foreign currency deposit rating to Nurbank. The rating is at the same level as the bank's GLC deposit rating and is not constrained by the foreign currency deposit ceiling for Kazakhstan.

Foreign Currency Debt Rating

Nurbank's senior unsecured debt in foreign currency is rated B3 by Moody's.

Local Currency Debt Rating

Nurbank's local currency senior unsecured debt is rated B3 on the global scale.

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

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

JSC Nurbank

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]					**x**		
- Ownership and Organizational Complexity					**x**		
- Key Man Risk					x		
- Insider and Related-Party Risks					x		
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+**	**Weakening**
Economic Stability					**x**		
Integrity and Corruption					**x**		
Legal System				**x**			
Financial Factors (30%)						**C-**	
Factor: Profitability						**C**	**Weakening**
PPP % Avg RWA - Basel I		3.30%					
Net Income % Avg RWA - Basel I				0.70%			
Factor: Liquidity						**D-**	**Weakening**
(Mkt funds-Liquid Assets) % Total Assets					23.50%		
Liquidity Management				x			
Factor: Capital Adequacy						**A**	**Weakening**
Tier 1 ratio (%) - Basel I	14.86%						
Tangible Common Equity / RWA - Basel I	13.81%						
Factor: Efficiency						**B**	**Weakening**
Cost/income ratio		53.84%					
Factor: Asset Quality						**C**	**Weakening**
Problem Loans % Gross Loans			4.00%				
Problem Loans % (Equity + LLR)			20.00%				
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