

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's downgrades Tengri Bank's deposit ratings to Caa3 and places them on review

17 Apr 2020

Direction of review: uncertain

London, 17 April 2020 -- Moody's Investors Service, ("Moody's") has today downgraded Tengri Bank's long-term local and foreign currency deposit ratings to Caa3 from B2; its Baseline Credit Assessment (BCA) to ca from b3; its Adjusted BCA to ca from b2; its long-term counterparty risk assessment (CRA) to Caa2(cr) from B1(cr) and its long-term counterparty risk ratings (CRRs) to Caa2 from B1. Moody's has also downgraded the bank's national scale long-term deposit rating to Caa3.kz from Ba2.kz and its national scale long-term CRR to Caa2.kz from Baa3.kz. Concurrently, the rating agency has placed all of the above ratings on review with direction uncertain. The bank's short-term deposit ratings and CRRs of Not Prime(NP) as well as short-term CRA of Not Prime(cr) were affirmed by this action.

The downgrade and review of Tengri Bank's ratings are primarily driven by the bank's weakened liquidity position, which led it to impose restrictions on customers' payments. Other factors include the deterioration of its asset quality and governance risk, due to an ongoing corporate conflict.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

On 14 April, Tengri Bank introduced restrictions on its retail customers' payments with the use of cards issued by the bank, which may now not exceed KZT50,000 (just over USD100) per day. Moody's regards these restrictions as an event of default, which led the agency to downgrade the bank's BCA to ca.

Tengri Bank's liquidity cushion (formed by cash and cash equivalents, accounts "due from banks" and unpledged securities) has declined substantially over 2019 and the first quarter of 2020, and it currently stands at low 4% of the bank's total assets, compared to approximately 18% reported at 1 January 2019. This trend reflects the bank's shrinking customer funding, as its retail deposits declined by 20% over the same period. As of 1 March 2020, the bank was not in compliance with the regulatory Liquidity Coverage Ratio (LCR) requirement, which amounted to just 28.5%, well below the regulatory minimum of 80%. Tengri Bank has submitted to the regulator its plan for augmenting its liquidity cushion in the next few months, however, this plan is subject to execution risks.

In addition, Tengri Bank's asset quality has weakened substantially: according to management's preliminary data under IFRS, the share of Stage 3 loans increased to 26.5% as of 1 January 2020 from 9.6% a year ago. According to the bank's regulatory filings, its total overdue loans increased to 20.9% as of 1 March 2020 from 12.1% as of 1 January 2020 and 2.7% as of 1 January 2019. Moody's further expects that social considerations pose further significant downside risks to the bank's asset quality in the next 12 months. The spread of the coronavirus and stringent measures taken by the government of Kazakhstan (Baa3 positive) to stem the coronavirus outbreak will hit the debt servicing capacity of small and medium-sized enterprises (SMEs), which account for 80% of Tengri Bank's loan portfolio.

Governance considerations, specifically, a conflict between the bank's two Board members, were a key driver of this rating action. The rating action follows a series of legal disputes involving Mr. Timur Kuanyshev and Mr. Yerzhan Shaikenov over the bank's corporate actions in the past 12 months and frequent changes in the composition of the bank's Board of Directors and Management Board over the same period. Given the fact that Tengri Bank's largest shareholder, Punjab National Bank (PNB; Ba1 positive, b1), currently has no representative in its Board of Directors, the conflict between the bank's Board members creates uncertainty regarding Tengri Bank's ability to promptly react to challenges, as well as to pursue its strategy.

AFFILIATE SUPPORT

Moody's removes one notch of affiliate support uplift from Tengri Bank's adjusted BCA, positioning it at ca, in line with the BCA. This reflects the rating agency's assessment of a low probability of support from the bank's

Indian shareholder, PNB, given the lack of a timely response from the shareholder to the bank's liquidity problems, which demonstrates low willingness to provide extraordinary support to Tengri Bank at a time of stress. Although PNB provided KZT1.9billion to Tengri Bank in March, this was not sufficient to stabilize the bank's liquidity position, and no further support is due to arrive at least for the next month. The relatively small size of Tengri Bank (just 0.3% of PNB's assets, based on the latest reported IFRS figures) implies its low strategic importance to PNB.

EXPECTED LOSS ANALYSIS

The bank's long-term deposits at Caa3 and long-term counterparty risk ratings at Caa2 reflect the expected loss, with the risk for creditors mitigated by the structure of the bank's balance sheet, with a significant volume of equity (18% of total assets) and parental funding (10% of total assets), as well as by the potential that the bank might receive support from the National Bank of Kazakhstan. While Tengri Bank's market share is small (0.4% by assets and 0.3% by retail deposits as of 1 March 2020), preventing its failure would help support depositor confidence in the banking system during the current turbulent period.

THE FOCUS OF THE REVIEW FOR TENGRI BANK

The review with direction uncertain on Tengri Bank's ratings will focus both on the immediate measures to be taken to remedy the liquidity shortfall and normalise its repayment obligations, as well as more permanent measures to restore liquidity and solvency at the bank. In particular, Moody's will monitor the steps to be taken by the National Bank of Kazakhstan and PNB, as well as the developments regarding the corporate conflict (according to the bank's press release, an EGM is scheduled for May 15th, to discuss the Board composition and a shareholders' agreement).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Tengri Bank's ratings would require a substantial strengthening of the bank's liquidity position over the next three months. Other positive rating drivers could include substantial support from PNB, stabilization of the Board of Directors and Management Board structure and a shareholders' agreement bringing the corporate conflict to an end.

Tengri Bank's ratings could be downgraded, if the National Bank of Kazakhstan takes disciplinary action against the bank for non-compliance with its requirements.

LIST OF AFFECTED RATINGS

..Issuer: Tengri Bank

Downgraded and Placed on Review Direction Uncertain:

.... Baseline Credit Assessment, Downgraded to ca from b3

.... Adjusted Baseline Credit Assessment, Downgraded to ca from b2

.... Long-term Bank Deposits, Downgraded to Caa3 from B2, Outlook Changed To Rating On Review Direction Uncertain from Stable

.... Long-term Counterparty Risk Ratings, Downgraded to Caa2 from B1

.... Long-term Counterparty Risk Assessment, Downgraded to Caa2(cr) from B1(cr)

.National Scale Long-term Bank Deposits, Downgraded to Caa3.kz from Ba2.kz

.National Scale Long-term Counterparty Risk Rating, Downgraded to Caa2.kz from Baa3.kz

Affirmations:

.... Short-term Counterparty Risk Assessment, Affirmed NP(cr)

.... Short-term Counterparty Risk Rating, Affirmed NP

.... Short-term Bank Deposits, Affirmed NP

Outlook Actions:

...Outlook, Changed To Rating Under Review From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating outcome announced and described above.

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