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Announcement: Moody's maintains stable outlook on the Uzbek banking system amid benign operating environment

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London, 01 August 2016 -- Moody's Investors Service is maintaining its stable outlook on the Uzbek banking system, reflecting its expectation that operating conditions for Uzbekistan's banks will stay accommodative. The outlook expresses Moody's expectation of how bank creditworthiness will evolve in Uzbekistan over the next 12-18 months.

Moody's report, entitled "Banking System Outlook - Uzbekistan: Benign Operating Environment Provides Platform for Stable Bank Performance," is available on www.moodys.com. Moody's subscribers can access this report via the link provided at the end of this press release.

"Uzbekistan's banks continue to benefit from a growing economy with well-diversified export revenues," says Olga Ulyanova, a Vice President - Senior Analyst at Moody's. "As a result, banks in Uzbekistan are somewhat shielded from the volatility characteristic of some other countries in CIS."

The International Monetary Fund (IMF) forecasts real GDP growth of 5% for Uzbekistan in 2016, with growth supported by increasing gas exports to China, strong domestic demand from continued public infrastructure spending, and wage increases.

As a result of this benign operating environment, Moody's expects problem loans to remain stable over the outlook period at 4%-5% of total loans. In addition, the rating agency does not expect sector-wide credit losses to exceed 1.5% of banks' average gross loans over the next 12-18 months, in annualised terms.

Uzbek banks' problem loan ratio declined to 3.5% at year-end 2015 from 3.9% a year earlier, owing largely to nearly 25% loan growth over this period. Moody's notes that, in the long term, this rapid loan growth could cause asset quality deterioration if rapidly augmented and still 'unseasoned' loan vintages start maturing against the backdrop of a less favourable operating environment.

Nevertheless, Uzbek banks' capital buffers and earnings are sufficient to absorb incremental credit losses over the outlook period.

"Banks in Uzbekistan have a high proportion of loss-absorbing capital, as evidenced by a system-wide tangible common equity ratio of 14.7% as of end 2015," explains Ms. Ulyanova. "The reported system-wide Tier 1 leverage ratio also was high at 9.7% as of end 2015."

In addition, funding and liquidity metrics for the country's banks will stay stable, underpinned by domestic customer deposits and long-term government funding. Rated Uzbek banks' corporate and retail deposits comprise only about 56% of their non-equity funding -- two other major sources are stable and long-term financing from the Uzbek government (20%) and funding from international financial institutions (15%).

Profits for Uzbek banks, too, will likely continue to be healthy over the outlook period, according to Moody's, as continued strong borrowing demand boosts net interest income, and fee and commission income also remains solid. The rating agency forecasts system-wide return on average assets and return on average equity to remain around 1.5% and 15%, respectively.

Finally, while the Uzbek government retains significant capacity to support systemically important institutions, Moody's notes that such help has historically not always been timely and has been biased towards providing liquidity assistance.

Subscribers can access the report at: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1032983

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