MOODY'S
INVESTORS SERVICE

Credit Opinion: InFinBank

Global Credit Research - 20 Mar 2015

Tashkent, Uzbekistan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B3/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3

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Key Indicators

InFinBank (Consolidated Financials)[1]

	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (UZS million)	**491,976.0**	**246,051.0**	**191,320.6**	**110,858.9**	**83,598.1**	[3]**55.8**
Total Assets (USD million)	**223.4**	**124.0**	**106.6**	**67.6**	**55.3**	[3]**41.8**
Tangible Common Equity (UZS million)	**48,447.6**	**24,987.3**	**16,161.3**	**13,889.0**	**6,980.9**	[3]**62.3**
Tangible Common Equity (USD million)	**22.0**	**12.6**	**9.0**	**8.5**	**4.6**	[3]**47.7**
Problem Loans / Gross Loans (%)	**6.8**	**10.4**	**6.8**	**7.8**	**0.6**	[4]**6.5**
Tangible Common Equity / Risk Weighted Assets (%)	**16.2**	**14.0**	**13.2**	**21.8**	**--**	[5]**16.3**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**27.3**	**36.6**	**27.1**	**20.0**	**2.1**	[4]**22.6**
Net Interest Margin (%)	**3.4**	**2.3**	**3.3**	**3.1**	**4.7**	[4]**3.3**
PPI / Average RWA (%)	**6.1**	**4.9**	**6.9**	**11.9**	**--**	[5]**7.5**
Net Income / Tangible Assets (%)	**2.3**	**2.6**	**3.3**	**5.8**	**3.5**	[4]**3.5**
Cost / Income Ratio (%)	**65.0**	**68.5**	**63.7**	**52.8**	**50.2**	[4]**60.1**
Market Funds / Tangible Banking Assets (%)	**17.9**	**17.0**	**17.1**	**10.7**	**6.6**	[4]**13.9**
Liquid Banking Assets / Tangible Banking Assets (%)	**35.2**	**43.7**	**52.3**	**55.5**	**66.5**	[4]**50.6**
Gross Loans / Total Deposits (%)	**51.2**	**45.2**	**40.7**	**44.3**	**34.3**	[4]**43.1**

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 standalone Baseline Credit Assessment (BCA) of b3 to Infinbank, which is constrained by the bank's limited market share in the Republic of Uzbekistan, its high credit concentrations, as well as very rapid lending growth resulting in the unseasoned nature of the bank's loan book. Another factor weighing on Infinbank's BCA is its involvement in related-party lending. The bank's BCA is underpinned by its sound profitability metrics and stable liquidity profile.

Infinbank's long-term global local currency (GLC) deposit rating is B3. This is based on the bank's long-term standalone credit assessment of b3 and does not incorporate any probability of external support.

INFINBANK's RATING IS CONSTRAINED BY UZBEKISTAN's MACRO PROFILE OF VERY WEAK+

Major challenges to Uzbek banks' operating conditions are posed by the country's very low institutional strength and high susceptibility to event risk stemming from Uzbekistan's domestic political situation. At the same time, the country's small but relatively resilient and diversified economy helps to support local banks' operations. Credit conditions do not trigger excessive risks: despite relatively rapid credit growth, the economy remains under-banked. Bank funding benefits from a relatively stable and growing supply of domestic deposits, particularly corporate deposits. The short-term nature of these deposits is partially offset by long-term facilities that the government and international financial institutions provide to banks for long-term investment projects.

The structure of the banking industry in Uzbekistan creates certain risks. Five large state-controlled institutions dominate the sector, which raises entry barriers for other participants and distorts competition. These state-controlled banks are heavily exposed to state-controlled companies, with a substantial portion of loans disbursed in response to government policy initiatives rather than pure business considerations. Given the aggregate market share of state-controlled banks, these deficient credit underwriting practices have a negative effect on the sector as a whole. The government also regularly intervenes in the strategies and day-to-day activities of both state-owned and other local banks.

Rating Drivers

- Rapid growth of the bank's loan book raises concerns about loan seasoning, single-name credit concentrations are high while loan loss reserves are insufficient

- Involvement in related-party lending

- Capital adequacy benefits from new injections, but quality of capital is under pressure from the material level of investments in fixed assets

- Sound recurring profitability supported by a sizeable fee-and-commission component

- Sufficient liquidity cushion addresses the potential risks of sudden chunky withdrawals by the bank's depositors

Rating Outlook

All of the bank's ratings carry a stable outlook.

What Could Change the Rating - Up

Infinbank's rating has limited upside potential at its current level given the bank's rapid lending growth and the unseasoned nature of its loan book. Any upward pressure on the rating might develop if the bank were to reduce its related-party exposure, as well as credit concentrations, and lengthen the maturity of its funding base, while simultaneously maintaining stable and sound financial fundamentals.

What Could Change the Rating - Down

Negative pressure could be exerted on Infinbank's standalone rating as a result of (1) any failure by the bank's shareholders to support the institution's rapid growth by additional capital injections; and (2) any notable increase in asset or liability concentrations. Further increase in the volume of related-party business represents another factor that could have an adverse impact on Infinbank's rating.

DETAILED RATING CONSIDERATIONS

RAPID GROWTH OF THE BANK'S LOAN BOOK RAISES CONCERNS ABOUT LOAN SEASONING, SINGLE-NAME CREDIT CONCENTRATIONS ARE HIGH WHILE LOAN LOSS RESERVES ARE INSUFFICIENT

In accordance with Infinbank's statutory accounting statements at year-end 2014, the bank has no overdue loans at this reporting date. At the same date its loan loss reserve-to-total gross loans ratio stood at 0.02%, according to statutory financials. However, we note that Infinbank posts 3-years average loan growth rate of over 75%, which will likely lead to deterioration of asset quality metrics as the growth decelerates and/or the rapidly augmented loan book starts to mature.

The IFRS data provide more conservative picture of the bank's asset quality. According to the latest available IFRS report at year-end 2013, there were no past due non-impaired loans at that reporting date, but impaired loans amounted to 6.8% of total gross loans (having decreased by 35%). We note the low level of loan loss reserve (LLR) accumulated by Infinbank under IFRS: at year-end 2013, these covered only 16% of impaired loans, which, in our opinion, fails to address the pace of growth of the loan book and the bank's high credit risk concentrations.

Single-name concentration in Infinbank's loan portfolio is also high. According to statutory accounting statements, the aggregate credit exposure to the top 20 borrowers amounted to 55% of total gross loans or 197% of the bank's statutory Tier 1 capital at year-end 2014. Industry concentration does not appear significant, with the largest exposure to the manufacturing sector (according to statutory accounting statements as at year-end 2014 - 64% of total gross loans) being fairly well diversified internally.

INVOLVEMENT IN RELATED-PARTY LENDING

Infinbank's ownership structure includes a number of legal entities and individual shareholders; one of these individuals (Mr F.D. Mamadjanov) owns a blocking stake in the bank (according to the bank, at 29 November 2014: 35.39%). We note the significant increase in the banks related-party lending (according to statutory accounting statements: 82% of statutory Tier 1 capital at year-end 2014 up from 41% reported at year-end 2013), which poses asset quality risks and questions the bank's corporate governance practices. We apply a downward adjustment to Infinbank's BCA on the "Corporate Behavior" factor to reflect the high level of related-party lending.

CAPITAL ADEQUACY BENEFITS FROM NEW INJECTIONS, BUT QUALITY OF CAPITAL IS UNDER PRESSURE FROM THE MATERIAL LEVEL OF INVESTMENTS IN FIXED ASSETS

At year-end 2014, the bank's statutory Tier 1 and total capital ratios stood at 15.0% and 12.2%, respectively, underpinned by strong internal capital generation and capital injections from the shareholders who also reinvested their dividends back to the bank. We view positively the commitment of Infinbank's shareholders to retain capital in the bank, and we expect that regular capital contributions will be required going forward in order to bolster the bank's business expansion (during 2014, the bank's gross loan book, as reported under local GAAP, increased by 56%). On a critical note, the quality of Infinbank's capital remains under pressure from the material level of related-party lending and high investments in fixed assets (82% and 96%, respectively, of the bank's statutory Tier 1 capital at year-end 2014, as reported under local GAAP).

SOUND RECURRING PROFITABILITY SUPPORTED BY SIZEABLE FEE-AND-COMMISSION COMPONENT

According to statutory accounting statements, Infinbank reported net profit of UZS9.5 billion ($3.9 million) for 2014, which translates into ROAA of 2.0% and ROAE of 16.6%. The bank's profitability is supported by healthy core income generation capacity - net interest income and net fees and commissions accounted for 25% and 58% of total operating earnings in 2014. This proportion is mainly a reflection of Infinbank's accounting policies whereby, being actively involved in documentary and trade finance business, and in particular - issuance of covered letters of credit, the bank accounts the cost of respective customer deposits as interest expense whereas all income on documentary business is accounted under fees-and-commission caption. We expect Infinbank to continue demonstrating strong profitability going forward, although we caution that the bank's operations are largely concentrated on only a handful of key clients, rendering its performance vulnerable to any potential negative developments that may affect these clients' businesses or relationships with the bank.

SUFFICIENT LIQUIDITY CUSHION ADDRESSES THE POTENTIAL RISKS OF SUDDEN CHUNKY WITHDRAWALS BY THE BANK'S DEPOSITORS

Infinbank's funding base is mainly composed of customer accounts (69% of total non-equity funding at year-end 2014, according to statutory financial report). We note some concentration in the bank's customer base: according to the latest available IFRS report at year-end 2013, top 9 depositors accounted for 34% of the total, and according to the bank's data the top three names amounted for at least 10% of its total deposit funding as at the same reporting date. At year-end 2014 (according to statutory financials), "on demand" accounts represented 53% of total customer funding. Overall, only 41% of Infinbank's liabilities had contractual duration of more than one month at year-end 2014 (although the volume of stable customer balances is actually higher); therefore, the bank has to maintain an adequate liquidity cushion (cash and interbank placements amounted to 36% of total assets at year-end 2014) to mitigate the potential risks of outflow of customer funds.

NOTE ON DATA

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

Notching Considerations

Infinbank's Global Local Currency (GLC) Deposit Ratings of B3/Not Prime are based solely on its b3 BCA.

Foreign Currency Deposit Rating

Infinbank's foreign currency deposit ratings are B3/Not Prime, in line with the bank's GLC deposit ratings.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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

InFinBank

Macro Factors	
Weighted Macro Profile	**Very Weak +**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	8.0%	caa2	↑	caa1	Loan growth	Single name concentration
Capital						
TCE / RWA	16.2%	ba3	↓↓	b2	Expected trend	
Profitability						
Net Income / Tangible Assets	2.3%	ba3	↓	ba3	Expected trend	
Combined Solvency Score		b2		b2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.9%	b3	↑↑	b2		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	35.2%	b2	←→	b2		
Combined Liquidity Score		b3		b2		

Financial Profile				**b2**

Qualitative Adjustments	Adjustment
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	-1
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate constraint	-

Scorecard Calculated BCA range	**b2 - caa1**

Assigned BCA	**b3**

Affiliate Support notching	**0**

Adjusted BCA	**b3**

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	0	0	b3	0	B3	B3

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.

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