MOODY'S
INVESTORS SERVICE

Credit Opinion: InFinBank

Global Credit Research - 27 May 2013

Tashkent, Uzbekistan

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B3/NP
Bank Financial Strength	E+
Baseline Credit Assessment	(b3)
Adjusted Baseline Credit Assessment	(b3)

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Key Indicators

InFinBank (Consolidated Financials)[1]

	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (UZS million)	**246,051.0**	**191,320.6**	**110,858.9**	**83,598.1**	**21,821.5**	[3]**83.2**
Total Assets (USD million)	**124.0**	**106.6**	**67.6**	**55.3**	**15.7**	[3]**67.7**
Tangible Common Equity (UZS million)	**24,987.3**	**16,161.3**	**13,889.0**	**6,980.9**	**5,607.9**	[3]**45.3**
Tangible Common Equity (USD million)	**12.6**	**9.0**	**8.5**	**4.6**	**4.0**	[3]**33.0**
Net Interest Margin (%)	**2.4**	**3.4**	**3.1**	**4.8**	**4.0**	[4]**3.5**
(Market Funds - Liquid Assets) / Total Assets (%)	**-31.2**	**-35.2**	**-44.7**	**-59.8**	**-45.0**	[4]**-43.2**
Core Deposits / Average Gross Loans (%)	**220.0**	**265.0**	**241.1**	**383.6**	**126.8**	[4]**247.3**
Tier 1 Ratio (%)	**14.2**	**13.6**	**22.8**	**--**	**--**	[5]**16.9**
Cost / Income Ratio (%)	**68.5**	**63.7**	**52.8**	**50.2**	**63.5**	[4]**59.7**
Problem Loans / Gross Loans (%)	**6.9**	**6.8**	**7.8**	**0.6**	**--**	[4]**5.5**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**23.9**	**27.0**	**19.9**	**2.1**	**--**	[4]**18.2**

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 standalone Bank Financial Strength Rating (BFSR) of E+ to Infinbank, which maps to a standalone credit assessment of b3. The standalone rating is constrained by the bank's (i) high single-name credit concentration, (ii) its involvement in related-party business, (iii) the unseasoned nature of Infinbank's rapidly augmented loan portfolio and insufficient level of loan loss reserves, and (iv) significant investments in fixed assets.

At the same time, factors underpinning Infinbank's standalone rating include (i) its strong profitability and the recurring nature of its income sources, (ii) the bank's conservative liquidity position which addresses the structural weaknesses of its funding mix.

Infinbank's Global Local Currency (GLC) deposit ratings of B3/Not Prime do not incorporate any element of systemic support given the bank's limited franchise value and its low importance for the Uzbek banking system as a whole.

Rating Drivers

- Involvement in related-party lending and high single-name concentration of the bank's loan portfolio

- Strong 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

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

- Rapid growth of the loan book raises concerns about loan seasoning, and the loan loss reserves appear to be insufficient

Rating Outlook

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

What Could Change the Rating - Up

Infinbank's standalone BFSR has limited upside potential at its current level. However, in the longer term, the BFSR might map to a higher standalone credit assessment, as opposed to b3 currently, if the bank were to strengthen its franchise value and increase its core business volumes while also reducing credit concentrations and lengthening the maturity of its funding base. In order to achieve higher ratings, all the conditions mentioned above would need to be accompanied by stable and sound financial fundamentals.

What Could Change the Rating - Down

Negative pressure could be exerted on Infinbank's standalone ratings as a result of (i) any failure by the bank's shareholders to support the institution's rapid growth by additional capital injections, and (ii) any notable increase in concentration on either the asset or the liability side of the balance sheet (or both). A substantial increase in the volume of related-party business or non-core investments (such as equities or fixed assets) represents another factor that could have an adverse impact on Infinbank's ratings.

DETAILED RATING CONSIDERATIONS

Domiciled in Tashkent, Uzbekistan, Infinbank reported total IFRS assets of UZS246 billion (US$124 million) at YE2012, an almost 30% increase from the YE2011 level, the bank's total equity grew 1.5 times in 2012 to UZS25 billion due to capitalisation of profits and fresh capital injection from its shareholders.

INVOLVEMENT IN RELATED-PARTY LENDING AND HIGH SINGLE-NAME CONCENTRATION OF THE BANK'S LOAN PORTFOLIO

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 (YE2012: 32.5%). We note the bank's material - albeit declining - involvement in related-party lending (YE2012: 13.2% of Tier 1 capital, YE2011: 24.5%), this level is comparable with that reported by the bank's peers in the Commonwealth of Independent States.

Single-name concentration in Infinbank's loan portfolio is high, with the aggregate credit exposure to the top 20 borrowers amounting to 76% of total gross loans or 278% of the bank's Tier 1 capital at YE2012. Industry concentration does not appear significant, with the largest exposures to the trade and manufacturing sectors (26% and 21% of total gross loans, respectively, at YE2012) being fairly well diversified internally.

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

In 2012, Infinbank reported 3% increase in its net IFRS income which amounted to UZS6.5billion (US$3.3 million).

The bank's profitability is supported its healthy core income generation capacity - net interest income and net fees and commissions accounted for 19% and 73% of net revenue in 2012.

The 2012 IFRS report shows that Infinbank's return on average assets (ROAA) declined to 3.0% in 2012 from 4.0% in 2011 owing to a decrease in net interest margin to 2.4% from 3.4%, respectively, which, in turn, was driven by an increase in funding costs. This dynamics 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. According to the bank's management, this accounting policies will likely be revised starting 2013IFRS to better match income and expense on documentary business. On a positive note, Infinbank's pre-provision income increased 15% in 2012 thanks to the contribution of fees and commissions, a recurring and risk-free source of revenues. 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 (81% of total non-equity funding at YE2012). We note the relatively granular nature of this funding source, with no single depositor dominating and top 20 deposits together accounting for 29% of total customer funding. At the same time, short-term and "on demand" accounts represent the bulk of customer funding (at YE2012, 66% of deposits had contractual maturity of up to 1 month) . Borrowings from other banks (about 12% of total liabilities at YE2012) facilitate just a slight lengthening of the liabilities structure. Overall, approximately 43% of Infinbank's liabilities have contractual duration of more than one month at YE2012 (although the volume of stable customer balances is actually higher); therefore, the bank has to maintain a substantial liquidity cushion (48% of total assets at YE2012) to mitigate the potential risks of outflow of customer funds.

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

In 2012, Infinbank's share capital increased 81% following capitalization of retained earnings and fresh capital injections. As a result, Infinbank's Tier 1 ratio improved to 14.2% at YE2012 from 13.6% at YE2011. Infinbank's shareholders completed another capital injection in 1Q 2013 having increased the bank's share capital to UZS30 billion from UZS23.5 billion at YE2012, and more capital is likely to come later in 2013. We view positively the commitment of Infinbank's shareholders to inject capital to the bank, and we expect that regular capital contributions will be required going forward in order to bolster the bank's business expansion. 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 (13% and 108%, respectively, of the bank's Tier 1 capital at YE2012).

RAPID GROWTH OF THE LOAN BOOK RAISES CONCERNS ABOUT LOAN SEASONING, AND THE LOAN LOSS RESERVES APPEAR TO BE INSUFFICIENT

As of YE2012, there were no past due non-impaired loans, as per the bank's IFRS, while its reported impaired loans increased by 35% during the year and amounted to 6.9% of total gross loans (YE2011: 6.8%). At the same time, we note the 3-year average growth rate of gross loans remained at the high level of 53%. We also caution about the low level of loan loss reserve (LLR) accumulated by Infinbank. At YE2012, the LLR covered only 22% of impaired loans (YE2011: 25%), which, in our opinion, fails to address the pace of growth of the loan book and its potential deterioration in the future, as the portfolio starts to mature. Nor does the LLR capture Infinbank's high credit risk concentrations, with its asset quality metrics being vulnerable to the performance of just a handful of large borrowers.

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 documents entitled "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2012.

Global Local Currency Deposit Rating (Joint Default Analysis)

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

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 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

InFinBank

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+**	**Neutral**
Economic Stability					**x**		
Integrity and Corruption					**x**		
Legal System				**x**			
Financial Factors (30%)						**B-**	
Factor: Profitability						**A**	**Neutral**
PPI % Average RWA (Basel I)	--	--	--	--	--		
Net Income % Average RWA (Basel I)	--	--	--	--	--		
Factor: Liquidity						**C+**	**Neutral**
(Market Funds - Liquid Assets) % Total Assets	-46.60%						
Liquidity Management				x			
Factor: Capital Adequacy						**A**	**Neutral**

Tier 1 Ratio (%) (Basel I)	18.19%						
Tangible Common Equity % RWA (Basel I)	18.18%						
Factor: Efficiency						C	Neutral
Cost / Income Ratio			55.68%				
Factor: Asset Quality						C	Neutral
Problem Loans % Gross Loans				5.08%			
Problem Loans % (Equity + LLR)		16.34%					
Lowest Combined Financial Factor Score (9%)						C	
Economic Insolvency Override						Neutral	
Aggregate BFSR Score						D	
Aggregate BCA Score						ba2	
Assigned BFSR						E+	
Assigned BCA						b1	

[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.

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