

CREDIT OPINION

2 December 2019

Update

✓ Rate this Research

RATINGS

InFinBank

Domicile	Tashkent, Uzbekistan
Long Term CRR	B1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	B2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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InFinBank

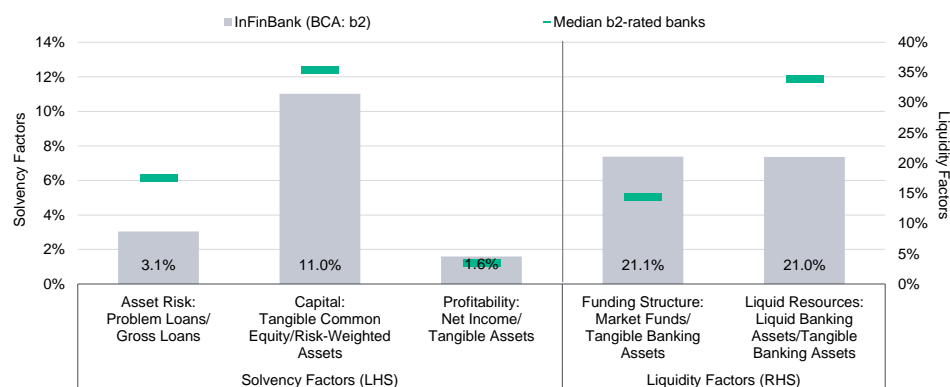
Update to credit analysis

Summary

We assign B2 long-term local- and foreign-currency deposit ratings to [InFinBank](#). These ratings are in line with the bank's b2 Baseline Credit Assessment (BCA), which reflects its high credit risk appetite and increased reliance on non-deposit funding. At the same time, the BCA remains supported by good profitability and regular support from the shareholders. We also assign a Counterparty Risk (CR) Assessment of B1(cr)/Not Prime(cr) to the bank.

Exhibit 1

Rating Scorecard - Key financial ratios



Ratios are as of 31 December 2018.

Source: Moody's Financial Metrics

Credit strengths

- » Good profitability, supported by healthy net interest margin (NIM) and solid fee and commission income
- » A diversified loan portfolio, with a focus on export-oriented corporate borrowers

Credit challenges

- » High credit risk appetite
- » Rapid lending growth, which strains the bank's capital adequacy and asset quality
- » Relatively high reliance on interbank funds
- » Exposure to related-party loans

Outlook

The stable outlook on all of InFinBank's long-term ratings reflects our expectations that the bank will be able to strengthen its capital adequacy metrics and maintain sound profitability and a stable liquidity position. However, the outlook could be changed to negative if adverse trends in solvency metrics persist in the next 12-18 months.

Factors that could lead to an upgrade

- » A material strengthening of the bank's risk profile, sustained good loss-absorption capacity and a track record of good asset-quality indicators, along with diversification in its business franchise, could lead to an upgrade of InFinBank's ratings in the longer term.

Factors that could lead to a downgrade

InFinBank's ratings could be downgraded if:

- » the bank's credit risk appetite remains high, leading to a further deterioration in its asset quality
- » it fails to strengthen its loss-absorption capacity
- » the bank's exposure to related-party transactions remains high relative to its equity

Key indicators

Exhibit 2

InFinBank (Consolidated Financials) [1]

	12-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg. ³
Total Assets (UZS Million)	3,062,930.9	1,677,340.9	1,094,663.0	858,576.4	596,615.0	50.5 ⁴
Total Assets (USD Million)	367.3	206.6	340.2	305.5	246.3	10.5 ⁴
Tangible Common Equity (UZS Million)	341,408.8	307,159.3	147,556.7	94,462.8	65,074.2	51.3 ⁴
Tangible Common Equity (USD Million)	40.9	37.8	45.9	33.6	26.9	11.1 ⁴
Problem Loans / Gross Loans (%)	3.0	3.7	0.2	0.5	0.7	1.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	11.0	24.5	17.0	14.2	15.4	16.4 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.2	8.2	0.8	2.1	3.2	6.7 ⁵
Net Interest Margin (%)	4.3	3.4	4.8	4.1	3.2	4.0 ⁵
PPI / Average RWA (%)	2.0	1.8	2.6	2.5	3.0	2.4 ⁶
Net Income / Tangible Assets (%)	1.6	1.3	1.6	1.4	1.4	1.4 ⁵
Cost / Income Ratio (%)	76.0	81.1	76.9	78.7	77.1	78.0 ⁵
Market Funds / Tangible Banking Assets (%)	21.1	18.0	17.4	22.8	24.0	20.6 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	21.0	41.1	34.9	33.9	29.6	32.1 ⁵
Gross Loans / Due to Customers (%)	110.4	70.3	78.7	79.9	85.9	85.0 ⁵

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel I; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel I periods presented.

Source: Moody's Investors Service; Company Filings

Profile

Founded in 2007, Joint Stock Commercial Bank "Invest Finance Bank" (InFinBank) is a small, but rapidly growing private bank in Uzbekistan, with its main focus on corporate clients and a rapidly developing retail business franchise. The major shareholder of the bank is Mr. Mamajonov, a businessman, who also controls a number of manufacturing and agricultural companies in Uzbekistan.

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 www.moody's.com for the most updated credit rating action information and rating history.

Detailed credit considerations

Asset quality will remain challenged by rapid lending growth

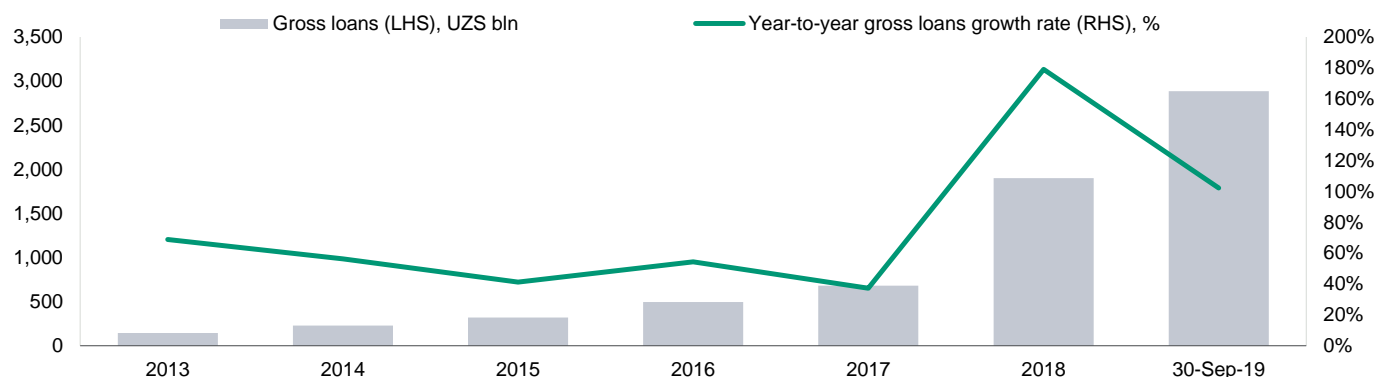
In 2018 InFinBank was selected as an agent bank to participate in a government-sponsored project for the development of the textile-cotton sector. The government approved the list of 13 enterprises (cotton-textile producers), designated a few local banks (including InFinBank) and provided funding to the selected banks to finance those projects. This triggered an aggressive loan expansion at InFinBank - as a result its loan portfolio more than doubled in 2018 mostly owing to the exposure to manufacturing industry exposure with a focus on export-oriented corporate borrowers.

Concurrently, retail lending growth was very high as well - at the end of 2018 its share in total loans increased to 27% from 15% a year before largely owing to secured car lending. We note that the retail sector is underdeveloped in Uzbekistan and started growing from a low base in early 2018.

In 2019, the loan book growth slowed down but remained high, with an over 50% increase for the first ten months compared with about 40% for Uzbek banking sector average. The rapid lending growth could result in asset-quality deterioration over the next 12-18 months, if rapidly augmented and still-unseasoned loan vintages start maturing against the backdrop of a less favorable operating environment.

Exhibit 3

Gross loans have been growing rapidly in the last two years



Source: InFinBank's local GAAP financial reports

As of year-end 2018 the bank reported problem loan ratio at 3.1% (the latest available data). Based on most recent local GAAP data as of 1 November 2019 the share of non-standard loans, a good proxy for problem lending, accounted for 3.6% of gross loans. We do not expect InFinBank's problem loan ratio to exceed 5% in the next 12-18 months amid material expansion of its loan portfolio. InFinBank's exposure to related-party loans remains high at 16% of gross loans or 101% of tangible common equity (TCE) at year-end 2018.

We have assigned b3 Asset Risk score to reflect the risks related to rapid lending growth.

Good recurring profitability, supported by a sizable fee and commission component

Over the first ten months of 2019, InFinBank reported (under local GAAP) net profit of UZS60.5 billion (compared with UZS48.4 billion for full-year 2018), which translates into an annualized return on average assets of 1.8% (2018: 1.7% local GAAP and 1.4% IFRS). The bank's profitability will remain supported by a healthy net interest margin (NIM) of 4%-5% and robust fee and commission income, which contributes about 50% to its net revenue. Profitability will remain constrained by its weak efficiency, with its cost-to-income ratio exceeding 75%.

We expect InFinBank's profitability to remain good over the next 12-18 months, supported by its core income generation capacity. The Profitability score of b2 reflects the bank's healthy profitability metrics and expected trends.

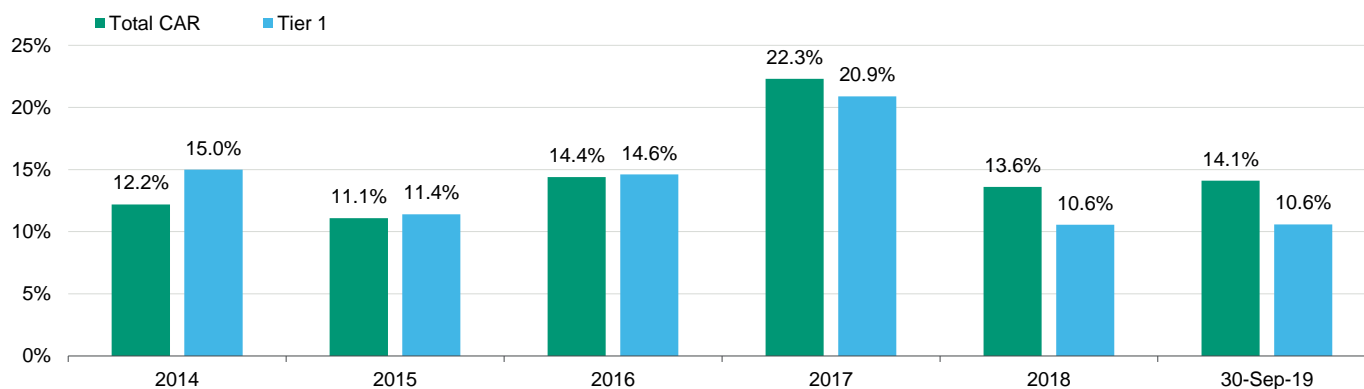
InFinBank's capital buffers strained by rapid lending growth

InFinBank reported a regulatory core Tier 1 capital adequacy ratio at 10.6% as of 1 November 2019, flat compared with the end of 2018, while the bank's total capital adequacy ratio improved to 14.1% from 13.6% as of the same period of time. The bank's capital adequacy in terms of tangible common equity (TCE) declined to 11% as of end-2018 (the latest available data) from 24.5% reported a year before.

In March 2019, the shareholders injected UZ\$80 billion into the bank's capital, which bolstered further rapid asset growth. Since 2016, the bank has received two large capital injections from its shareholders of the total amount of UZ\$200 billion.

Although shareholders' support help leverage the bank's rapid asset growth, the bank's capital adequacy will continue to be eroded by high lending growth and demand further recapitalizations. Our capital score of b2 reflects both expected trends and proven access to capital from the existing shareholders.

Exhibit 4

Regulatory capital ratios

Source: InFinBank's local GAAP financial reports

A sufficient albeit declining liquidity buffer addresses the potential risks of sudden chunky withdrawals by the bank's depositors

Amid rapidly expanding loan portfolio the bank's liquidity buffer has been contracting through 2019. The share of liquid assets in the form of cash and cash equivalents as well as due from banks decreased to 17% of total assets as of 1 November 2019 down from 22% as of end 2018.

InFinBank's funding base will remain largely short term, which is common for Uzbek banks, with only 33% of its liabilities having a contractual duration of more than one year (although the volume of stable customer balances is actually higher). Therefore, the bank has to maintain good liquidity buffer (17% of total assets or 96% of on-demand deposits as of 1 November 2019) to mitigate the risk of the customer deposits outflow.

We expect InFinBank to maintain adequate liquidity and stable funding over the next 12-18 months as it has done in the recent past. However, the bank's reliance on interbank funding is increasing. Interbank loans and borrowings from IFIs grew from 15% of total liabilities to 20% over the first ten months of 2019, hurting its market funds ratio.

The Combined Liquidity score of b3 reflects InFinBank's relatively high reliance on short-term deposits and market funding.

Environmental, social and governance considerations

In line with our general view for the banking sector, InFinBank has a low exposure to environmental risks and moderate exposure to social risks (see our [Environmental risks heat map](#) and [Social risk heat map](#) for further information).

Governance is highly relevant for InFinBank, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. For Uzbek banks, we have identified key-person and related-party risks as the key governance risks. These risks are manifested in, but not limited to, heavy related-party loan concentrations and banks' heavy dependence on single individuals for business, which often gives rise to weak corporate governance and lax underwriting standards. Fraud and weak risk management have recently caused multiple bank closures and restructurings across CIS region.

Governance risks are largely internal rather than externally driven, and for InFinBank, we do not have any particular governance concern, neither do we apply any corporate behavior adjustment to the bank. InFinBank has not shown any material governance shortfall in recent

years, and its risk management framework is commensurate with its risk appetite. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

InFinBank's CR Assessment is positioned at B1(cr)/NP(cr)

In most cases, the starting point for the CR Assessment - which is an assessment of the bank's ability to avoid defaulting on its operating obligations - is one notch above the bank's Adjusted BCA, which represents our view of the probability of a bank failing on its obligations without considering government support. We then add the same uplift for the likelihood of government support as applied to deposit ratings. However, in the case of higher-rated government-owned Uzbek banks, the CR Assessments do not benefit from the additional one notch of government support that we incorporate into their deposit ratings.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

InFinBank's CRRs are positioned at B1/NP

InFinBank's global CRRs are positioned at B1/NP, one notch above the bank's deposit rating of B2, reflecting our view that CRR liabilities are not likely to default at the same time as the bank fails and will more likely to be preserved to minimize banking system contagion and losses, and avoid disruption of critical functions.

Methodology and scorecard

Note on data

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the document titled [Financial Statement Adjustments in the Analysis of Financial Institutions](#) published on 9 August 2018.

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 methodology and scorecard factors

Exhibit 5

InFinBank

Macro Factors

Weighted Macro Profile	Very Weak +	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.0%	b3	↓	b3	Loan growth		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)	11.0%	b3	↔	b2	Expected trend	Access to capital	
Profitability							
Net Income / Tangible Assets	1.5%	b2	↑	b2	Expected trend		
Combined Solvency Score		b3		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	21.1%	b3	↑	b3	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	21.0%	b3	↓	caa1	Expected trend		
Combined Liquidity Score		b3		b3			
Financial Profile				b2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				B1			
BCA Scorecard-indicated Outcome - Range				b1 - b3			
Assigned BCA				b2			
Affiliate Support notching				0			
Adjusted BCA				b2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	b1	0	B1	B1	
Counterparty Risk Assessment	1	0	b1 (cr)	0	B1(cr)		
Deposits	0	0	b2	0	B2	B2	

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

<u>Category</u>	<u>Moody's Rating</u>
INFINBANK	
Outlook	Stable
Counterparty Risk Rating	B1/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)

Source: Moody's Investors Service

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