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Credit Opinion: InFinBank

Global Credit Research - 23 Jul 2014

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]12-13	[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
Net Interest Margin (%)	3.5	2.4	3.4	3.1	4.8	[4]3.4
PPI / Average RWA (%)	6.1	4.9	6.9	11.9	-	[5]7.5
Net Income / Average RWA (%)	4.8	4.3	6.7	10.2	-	[5]6.5
(Market Funds - Liquid Assets) / Total Assets (%)	-17.0	-26.7	-35.2	-44.7	-59.8	[4]-36.7
Core Deposits / Average Gross Loans (%)	220.0	220.0	265.0	241.1	383.6	[4]265.9
Tier 1 Ratio (%)	17.3	14.2	13.6	22.8	-	[5]17.0
Tangible Common Equity / RWA (%)	16.2	14.0	13.2	21.8	-	[5]16.3
Cost / Income Ratio (%)	65.0	68.5	63.7	52.8	50.2	[4]60.1
Problem Loans / Gross Loans (%)	6.8	10.4	6.8	7.8	0.6	[4]6.5
Problem Loans / (Equity + Loan Loss Reserves) (%)	27.1	36.2	27.0	19.9	2.1	[4]22.5

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. InFinbank's ratings are 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. At the same time, the rating agency notes that Infinbank's shareholders have - to the moment - demonstrated their commitment as they make regular capital injections to support the bank's growth. The bank's ratings are underpinned by its sound profitability metrics and stable liquidity profile.

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 given the bank's rapid lending growth and the unseasoned nature of its loan book. In the longer term rating horizon, the BFSR might map to a higher standalone BCA, as opposed to b3 currently, if the bank were to reduce its 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 ratings 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 ratings.

DETAILED RATING CONSIDERATIONS

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 (according to the bank, at 11 July 2014: 39.11%). We note the significant increase in the bank's related-party lending (according to statutory accounting statements: 79% of statutory Tier 1 capital at 1 July 2014 up from 41% reported at year-end 2013), although this level is still 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. According to statutory accounting statements, the aggregate credit exposure to the top 20 borrowers amounted to 61% of total gross loans or 210% of the bank's statutory Tier 1 capital at 1 July 2014. Industry concentration does not appear significant, with the largest exposure to the manufacturing sector (according to statutory accounting statements as at 1 July 2014 - 70% of total gross loans) being fairly well diversified internally.

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

Infinbank reported audited IFRS net profit of UZS11.4 billion (\$5.2million) for 2013, up from UZS6.5billion for 2012, which translated into ROAA of 3.08% and ROAE of 30.7% (2012: 2.96% and 31.2%, respectively). The bank's profitability is supported by healthy core income generation capacity - net interest income and net fees and

commissions accounted for 25% and 45% of pre-provision operating income in 2013. 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 (64% of total non-equity funding at 1 July 2014, according to statutory financial report). We note the high level of concentration in the bank's customer base: according to the 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 1 July 2014 (according to statutory financials), short-term and "on demand" accounts represented 56% of total customer funding. Overall, only 36% of Infinbank's liabilities have contractual duration of more than one month at 1 July 2014 (although the volume of stable customer balances is actually higher); therefore, the bank has to maintain a substantial liquidity cushion (approximately 40% of total assets at 1 July 2014) 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

At year-end 2013, the bank's statutory Tier 1 capital ratio improved to 17% from 14% reported at year-end 2012, mainly driven by a new capital injection of UZS21.9 billion. Additional capital increase has been achieved in 2014 through retained earnings, as well as reinvestment of dividends for Q3 2013-Q1 2014 in the amount of UZS4.8 billion. 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 H1 2014, the bank's gross loan book as reported under local GAAP increased by 23%). 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 (79% and 81%, respectively, of the bank's statutory Tier 1 capital at 1 July 2014, as reported under local GAAP).

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

In accordance with Infinbank's statutory accounting statements at 1 July 2014, the bank has no overdue loans at this reporting date, and the level of doubtful loans is immaterial (less than 0.01% of the gross loan and leasing book) with these loans fully provisioned (loan loss reserve-to-total gross loans ratio stood at 0.1% as at 1 July 2014, 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.

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.

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%)						C+	
Factor: Profitability						A	Neutral
PPI % Average RWA (Basel I)	7.93%						
Net Income % Average RWA (Basel I)	7.08%						
Factor: Liquidity						C+	Neutral
(Market Funds - Liquid Assets) % Total Assets	-37.05%						
Liquidity Management				x			
Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio (%) (Basel I)	16.85%						
Tangible Common Equity % RWA (Basel I)	16.35%						
Factor: Efficiency						C	Neutral

Cost / Income Ratio			61.68%				
Factor: Asset Quality						D+	Neutral
Problem Loans % Gross Loans				7.18%			
Problem Loans % (Equity + LLR)			23.60%				
Lowest Combined Financial Factor Score (9%)						D+	
<i>Economic Insolvency Override</i>						Neutral	
Aggregate BFSR Score						D-	
Aggregate BCA Score						ba3	
Assigned BFSR						E+	
Assigned BCA						b3	

[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.

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.moodys.com for the most updated credit rating action information and rating history.



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