

# MOODY'S

## INVESTORS SERVICE

### Credit Opinion: InFinBank

Global Credit Research - 25 Feb 2016

Tashkent, Uzbekistan

#### Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	B3/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Counterparty Risk Assessment	B2(cr)/NP(cr)

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#### Key Indicators

##### InFinBank (Consolidated Financials)[1]

	[2]12-14	[2]12-13	[2]12-12	[2]12-11	[2]12-10	Avg.
Total Assets (UZS million)	537,763.4	491,976.0	246,051.0	191,320.6	110,858.9	[3]48.4
Total Assets (USD million)	222.0	223.4	124.0	106.6	67.6	[3]34.6
Tangible Common Equity (UZS million)	65,074.2	51,947.3	24,987.3	16,161.3	13,889.0	[3]47.1
Tangible Common Equity (USD million)	26.9	23.6	12.6	9.0	8.5	[3]33.5
Problem Loans / Gross Loans (%)	0.8	6.8	10.4	6.8	7.8	[4]6.5
Tangible Common Equity / Risk Weighted Assets (%)	-	17.3	14.0	13.2	21.8	[5]16.6
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.2	25.5	36.6	27.1	20.0	[4]22.5
Net Interest Margin (%)	3.4	3.5	2.4	3.4	3.1	[4]3.2
PPI / Average RWA (%)	-	6.2	4.9	6.9	11.9	[5]7.5
Net Income / Tangible Assets (%)	1.5	2.3	2.6	3.3	5.8	[4]3.1
Cost / Income Ratio (%)	77.1	64.6	68.5	63.7	52.8	[4]65.3
Market Funds / Tangible Banking Assets (%)	26.6	17.9	17.0	17.1	10.7	[4]17.9
Liquid Banking Assets / Tangible Banking Assets (%)	32.8	35.2	43.7	52.3	55.5	[4]43.9
Gross loans / Due to customers (%)	83.2	62.6	52.1	48.8	49.1	[4]59.2

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 global local currency (GLC) deposit rating of B3 to InFinbank, which is equivalent to its baseline credit

assessment ( BCA) of b3. Infinbank's rating 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 the bank's rating is its involvement in related-party lending. The rating is underpinned by its sound profitability metrics and stable liquidity profile.

Furthermore, Moody's has assigned a Counterparty Risk Assessment (CR Assessment) of B2(cr) / Not Prime(cr) to Infinbank.

### **Rating Drivers**

- Rapid growth of the bank's loan book raises concerns about loan seasoning, single-name credit concentrations are high
- Involvement in related-party lending
- Moderate 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**

In accordance with the latest available IFRS report, the bank's problem loans (defined as individually impaired loans) did not exceed 1 % of gross loans at year-end 2014. At the same date its loan loss reserve-to-total gross loans ratio stood at 0.98%. However, we note that Infinbank posts 3-years average loan growth rate of 55%, which will likely lead to deterioration of asset quality metrics as the growth decelerates and/or the rapidly augmented loan book starts to mature.

Single-name concentration in Infinbank's loan portfolio is also high. According to the latest available IFRS report, the aggregate credit exposure to the top 10 borrowers amounted to 41% of total gross loans or 166% 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 (62% 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 22 August 2015: 25.00%). We note the significant increase in the bank's related-party lending (according to the latest available IFRS report: 193% of statutory Tier 1 capital at year-end 2014 up from 187% reported a year before), 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.

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

We expect Infinbank's capital position to remain moderate over the next 12-18 months as it has been in recent past. As of 31 January 2016, the bank's statutory Tier 1 and total capital ratios stood at 13.6% and 13.7%, 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. 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.

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

We expect Infinbank's profitability to remain adequate over the next 12-18 months, supported by healthy core income generation capacity. In 2015, Infinbank reported net profit of UZS12.5 billion, which translates into ROAA of around 2% and ROAE of 15%, according to Local GAAP. We however 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

We expect Infinbank to maintain adequate liquidity profile over the next 12-18 months as it has been in recent past. However, the bank's funding profile remains challenged by short term and concentrated deposits.

Infinbank's funding base is mainly composed of customer accounts (68% of total non-equity funding as of 1 January 2016, 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 2014, top 10 depositors accounted for 18% 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. As of 1 January 2016 (according to statutory financials), "on demand" accounts represented 60% of total customer funding. Overall, only 38% of Infinbank's liabilities had contractual duration of more than one month at year-end 2015 (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 40% of total assets as of 1 January 2016) to mitigate the potential risks of outflow of customer funds.

## Foreign Currency Deposit Rating

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

### CR Assessment

Moody's assigns a Counterparty Risk Assessment (CR Assessment) of B2(cr) / NP(cr) to Infinbank.

CR Assessment is opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default 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 (e.g., swaps) letters of credit, guarantees and liquidity facilities.

In most cases, the starting point for the CR Assessment -- which is an assessment of the ability to avoid defaulting on its operating obligations -- is one notch above the bank's adjusted baseline credit assessment (BCA), which represents the rating agency's view of the probability of a bank failing on its obligations without considering government support. Moody's then adds the same uplift due to the likelihood of government support as applied to deposit ratings. However, in the case of the higher-rated government-owned Uzbek banks the CR Assessments do not benefit from the additional one notch of government support that the rating agency imputes in their deposit ratings.

### NOTE ON DATA

Unless noted otherwise, all figures shown in this report are sourced from the bank's latest annual and interim financial reports and additional information from the bank. In addition, where indicated through the document we

use reference to Moody's Banking Financial Metrics which are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 15 June 2015.

#### 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

<b>Macro Factors</b>	
<b>Weighted Macro Profile</b>	<b>Very Weak +</b>

<b>Financial Profile</b>						
<b>Factor</b>	<b>Historic Ratio</b>	<b>Macro Adjusted Score</b>	<b>Credit Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>
<b>Solvency</b>						
<b>Asset Risk</b>						
<i>Problem Loans / Gross Loans</i>	6.0%	caa1	← →	caa1	Loan growth	Single name concentration
<b>Capital</b>						
<i>TCE / RWA</i>	17.3%	ba3	↓↓	b2	Expected trend	
<b>Profitability</b>						
<i>Net Income / Tangible Assets</i>	1.5%	b2	↑↑	ba3	Expected trend	
<b>Combined Solvency Score</b>		b2		b2		
<b>Liquidity</b>						
<b>Funding Structure</b>						
<i>Market Funds / Tangible Banking Assets</i>	26.6%	caa1	↑↑	b2		
<b>Liquid Resources</b>						
<i>Liquid Banking Assets / Tangible Banking Assets</i>	32.8%	b2	↑	b2		
<b>Combined Liquidity Score</b>		b3		b2		

<b>Financial Profile</b>
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<b>b2</b>
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<b>Qualitative Adjustments</b>
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<b>Adjustment</b>
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Business Diversification
Opacity and Complexity
Corporate Behavior

0
0
-1

<b>Total Qualitative Adjustments</b>
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<b>-1</b>
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Sovereign or Affiliate constraint
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<b>-</b>
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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

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