

CREDIT OPINION

13 December 2017

Update

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RATINGS

InFinBank

Domicile	Tashkent, Uzbekistan
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 following the Rating Action

Summary Rating Rationale

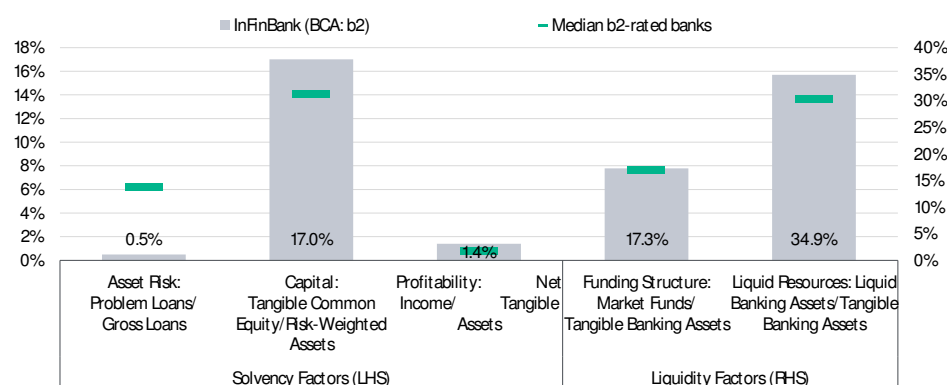
On 6 December 2017 -- Moody's Investors Service upgraded the long-term local and foreign-currency deposit ratings of Uzbekistan's InFinBank to B2 from B3, baseline credit assessment (BCA) and adjusted BCA to b2 from b3. Concurrently, Moody's upgraded the bank's long-term Counterparty Risk Assessment (CR Assessment) to B1(cr) from B2(cr) and affirmed the short-term local- and foreign-currency deposit ratings of Not-Prime and its short-term CR Assessment of Not-Prime(cr).

Outlook on all long term Bank Deposit ratings remains stable.

The upgrade of InFinBank's BCA and deposit ratings was driven by the recent material strengthening of its capital position, which along with its good asset quality and sound profitability metrics significantly improved its overall solvency profile. At the same time InFinBank's rating remain constrained by the bank's (i) rapid lending growth in recent years and (ii) increased reliance on non-deposit funding.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

- » InFinBank's credit profile benefits from recent capital increase
- » Low level of problem loans
- » Good profitability supported by healthy net interest margin and solid fees and commission income

Credit Challenges

- » High appetite for credit risk
- » Increased reliance on a short term market funding

Rating Outlook

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

Factors that Could Lead to an Upgrade

» A longer track record of improving its risk profile, sustained good loss absorption capacity along with strengthening and diversification of its business franchise could lead to an upgrade of InFinBank's long-term ratings.

Factors that Could Lead to a Downgrade

» At the same time, negative pressure could be exerted on the bank's ratings in case of significant deterioration of its asset quality and/or liquidity from current levels or if InFinBank's exposure to related party transactions materially increases.

Key indicators

Exhibit 2

InFinBank (Consolidated Financials) [1]

	12-16 ²	12-15 ²	12-14 ²	12-13 ²	12-12 ²	CAGR/Avg. ³
Total Assets (UZS million)	1,094,663	858,576	596,615	491,976	246,051	45.2 ⁴
Total Assets (USD million)	340	306	246	223	124	28.7 ⁴
Tangible Common Equity (UZS million)	147,557	94,463	65,074	51,947	24,987	55.9 ⁴
Tangible Common Equity (USD million)	46	34	27	24	13	38.1 ⁴
Problem Loans / Gross Loans (%)	0.2	0.5	0.7	6.8	10.4	3.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	17.0	14.2	15.4	17.3	14.0	15.6 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.8	2.1	3.2	25.5	36.6	13.7 ⁵
Net Interest Margin (%)	4.8	4.1	3.2	3.5	2.4	3.6 ⁵
PPI / Average RWA (%)	2.6	2.5	3.0	6.2	4.9	3.8 ⁶
Net Income / Tangible Assets (%)	1.6	1.4	1.4	2.3	2.6	1.9 ⁵
Cost / Income Ratio (%)	77.1	78.7	77.1	64.6	68.5	73.2 ⁵
Market Funds / Tangible Banking Assets (%)	17.3	22.8	24.0	17.9	17.0	19.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	34.9	33.9	29.6	35.2	43.7	35.5 ⁵
Gross Loans / Due to Customers (%)	78.6	79.9	85.9	62.6	52.1	71.8 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 Financial Metrics

Detailed Rating Considerations

INFINBANK BENEFITS FROM RECENT CAPITAL INCREASE

Capital is the key credit strength for InFinBank and we expect its capital position to remain solid over the next 12-18 month. Since the end 2016, the bank has received two large capital injections for the total amount of around UZS 200 billion, which boosted the bank's statutory capital to UZS 300 billion at the end September 2017 from UZS 86 billion at YE 2015. As a result, Moody's estimated that its key capital metric -- the TCE ratio -- increased to around 23% at end-October 2017 from around 14% at end-2015.

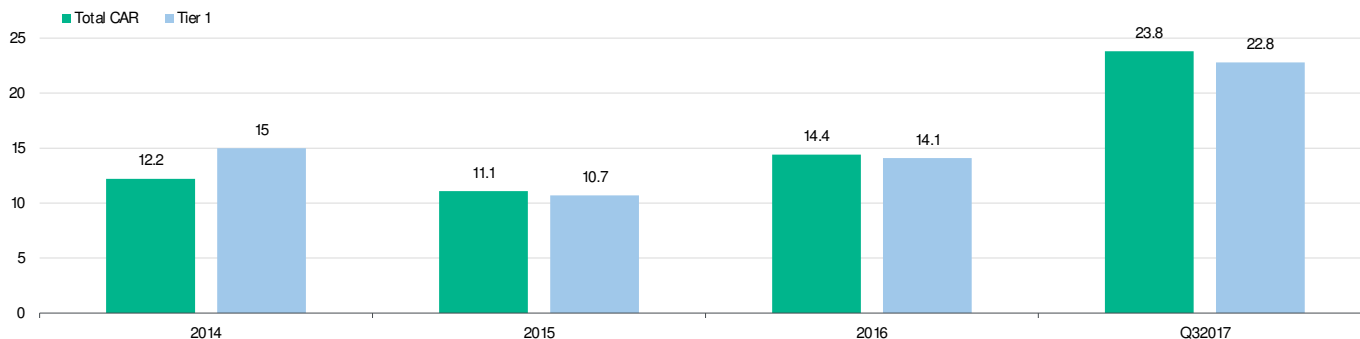
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

InFinBank also reported a regulatory capital adequacy ratio of 22.5% at end-October 2017, well above the required minimum of 12.5% and its cushion against potential credit losses has strengthened accordingly.

Capital increase will also improve the quality of InFinbank's capital which has been pressured by high investments in fixed assets and still considerable albeit reduced exposure to the related-party loans.

Capital score of b1 reflects recent capital injection and our expectation that the capital levels will remain stable and also takes into account relatively high level of immobilized capital.

Exhibit 3

Regulatory Capital Ratios

Source: InFinbank financial reports under local GAAP

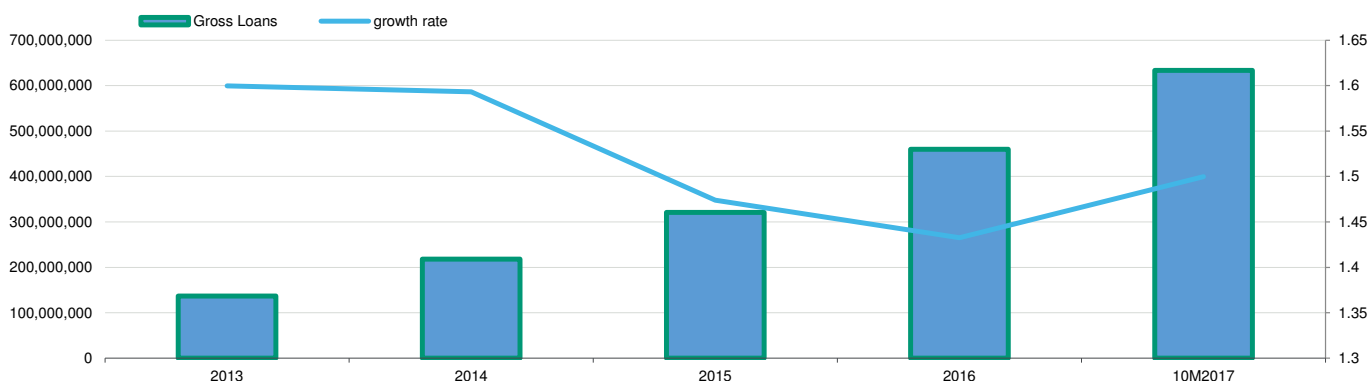
CURRENTLY GOOD ASSET QUALITY WILL REMAIN CHALLENGED BY RAPID LENDING GROWTH AND SINGLE-NAME CREDIT CONCENTRATIONS.

We estimate that the level of InFinBank's problem loans will remain below 1% of gross loans over the next 12-18 months, because the bank is not directly exposed to the risk related to recent local currency devaluation given its low exposure to FX denominated loans (around 4% of gross loans in Q3 2017). In addition, the bank's asset quality will benefit from a good diversification of its loan book with focus on export-oriented corporate clients.

However, over the past three years, the bank's average loan growth was around 50% and we believe that, in the longer term the rapid lending may result in asset quality deterioration, if rapidly augmented and still 'unseasoned' loan vintages start maturing against the backdrop of a less favourable operating environment.

We have adjusted downwardly asset risk score to b2 to reflect risk related to lending growth.

Exhibit 4

Gross Loans (UZS)

Source: Local GAAP Financial Reports

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

We expect InFinbank's profitability to remain good over the next 12-18 months, supported by its healthy core income generation capacity. For the first ten months in 2017, InFinBank reported (under local GAAP) net profit of UZS 22.3 billion compared to UZS 17.6 billion for the whole 2016, which translates into annualized ROAA of 2% (2016: 1.76% IFRS). Profitability has been and will remain supported by a healthy net interest margin of around 4-5%, and robust income from fees and commission.

Profitability score of b2 reflects InFinbank's adequate profitability metrics and expected trends.

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

We expect InFinbank to maintain adequate liquidity and stable funding profiles over the next 12-18 months as they have been in recent past. However, since 2016 the bank has increased its reliance on interbank funding which accounts for around 17% of its total liabilities at the end October 2017 which negatively affects its market funds ratio. In addition, InFinBank's funding base will remain largely short term, which is common for Uzbek banks, with only 50% of its liabilities having contractual duration of more than one month (although the volume of stable customer balances is actually higher); therefore, the bank has to maintain an adequate liquidity cushion (cash and placements with Central Bank amounted to 23% of total assets) to mitigate the potential risks of outflow of customer funds.

The combined liquidity score of b3 reflects InFinbank's relatively high reliance on the short term and non-deposit funding.

Notching Considerations

CR Assessment

Moody's assigns a Counterparty Risk Assessment (CR Assessment) of B1(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.

Rating methodology and scorecard factors

Exhibit 5

InFinBank

Macro Factors

Weighted Macro Profile **Very Weak +** **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.5%	ba1	↓ ↓	b1	Loan growth	
Capital						
TCE / RWA	17.0%	ba3	↑	b1	Stress capital resilience	
Profitability						
Net Income / Tangible Assets	1.4%	b2	↓	b2	Expected trend	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.3%	b3	← →	b3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	34.9%	b2	← →	b2	Expected trend	
Combined Liquidity Score		b3		b3		
Financial Profile						
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				--		
Scorecard Calculated BCA 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 Assessment	1	0	b1 (cr)	--	B1 (cr)	--
Deposits	0	0	b2	--	B2	B2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category Moody's Rating

INFINBANK

Outlook	Stable
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

About Moody's Bank Scorecard

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