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ACRA assigns A(RU) to Tinkoff Bank, outlook Stable

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The credit rating of Tinkoff Bank (hereinafter – Tinkoff or the Bank) at A(RU) is determined by its adequate business profile, strong capital adequacy, satisfactory risk profile, and adequate funding and liquidity position. The Bank is characterized by a moderately high creditworthiness level compared to other credit institutions in the Russian Federation.

Tinkoff Bank (formerly Khimmashbank) was acquired in 2006 by Russian entrepreneur Oleg Tinkov, since 2007 operated under the name Tinkoff Credit Systems, and since then is known as Tinkoff Bank. Currently, the Bank is among the largest Russian banks (as of April 1, 2017 it ranked 30th in terms of own capital and 42nd in terms of assets). The Bank's main business activities are consumer lending to individuals, mainly through credit cards, as well as providing a wide range of financial services based on the Bank's online platform.

Key rating assessment factors

The Bank's business profile at "bbb+" reflects its relatively strong franchise in the area of unsecured consumer lending in the Russian Federation, which translates into its strong position on the credit card market with the share of 10.6% at year-end 2016. Tinkoff's business profile takes into account a unique character of its business model in terms of Russian banking market, since Tinkoff is the only Russian online bank, which does not have its own operating network and which performs all operations via its proprietary online platform in cooperation with a wide range of Russian partner banks. Due to Tinkoff's niche business model, the level of its diversification is rather low, which curbs its business profile: Herfindahl–Hirschman index indicating the Bank's operating income diversification stood at 0.62 at year-end 2016.

Tinkoff's corporate governance is defined by ACRA as high in terms of Russian banking sector. This can be attributed to the specifics of the Bank's business model, which allows to quickly implement the best corporate governance practices and to effectively manage business processes at all levels. At the same time, this subfactor is limited by shareholder risks concentration due to one key owner, who actively participates in the Bank management.

The Bank's capital adequacy is assessed as high, which serves an important supporting factor for its standalone creditworthiness assessment (SCA). As of year-end 2016, the Bank's core capital adequacy (Tier-1, calculated under international capital requirements) stood at 14.8%, while N1.2 (in accordance with regulatory requirements) equaled 8.6%. Tinkoff's capital adequacy is traditionally backed by sound profitability indicators: for the period 2012–2016 its averaged capital generation ratio (ACGR, calculated with due account for dividends and other payments to shareholders) was as high as 315 bps.

Tinkoff's profitability rests on its historically high net interest margin (NIM) which equaled 24.3% in 2016 vs 23.8 in 2015. Strong NIM is driven by the Bank's capacity, inherent in its business model, to maintain relatively low interest expenses along with traditionally high interest income typical of unsecured consumer lending.

The Bank's "satisfactory" risk profile assessment rests upon adequate risk management quality and satisfactory loan portfolio quality. According Tinkoff's IFRS statements, as of January 1, 2017, the share of non-performing loans overdue for more than 90 days (NPL90+) within the aggregate loan portfolio stood at 10.3% (versus 12.3% in 2015 and 14.5% in 2014). At the same time, taking into account written-off and sold problem loans, the portion of the Bank's bad debt against its 2016 average loan portfolio equaled 20.9%. ACRA notes that historically the Bank's NPL level (taking into account write-offs and sale) is comparable or even slightly better than that of banks, which specialize on unsecured consumer lending. The factor that mitigates influence of the NPL level and monoline character of Tinkoff's loan portfolio is the Bank's high non-performing loan provisioning coverage ratio (almost 142% at year-end 2016).

Adequate liquidity and funding position is determined by Tinkoff's stable short-term liquidity surplus and by independence from regulatory funding. The Bank's short-term liquidity position reflects its surplus even in the event of funds outflow from current and deposit accounts under the stress scenario owing to Tinkoff's substantial unencumbered portfolio comprised of high-quality and liquid bonds.

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Cost of credit risk within 9–10%;
- Tier-1 capital adequacy above 14% (IFRS) within the 12 to 18-month horizon.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Significant improvement of Tinkoff's risk profile, in particular, decrease of the total volume of problem loans, taking into account their write-offs and sale.

A negative rating action may be prompted by:

- Significant deterioration of loan portfolio quality with subsequent pressure on the Bank's income and capital;
- Significant alteration of the Bank's business structure, which will be able to entail additional credit and operating risks.

Rating components

Standalone creditworthiness assessment (SCA): a.

Adjustments: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

A credit rating has been assigned to Tinkoff Bank for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (May 17, 2017).

The assigned credit rating is based on the data provided by Tinkoff Bank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of TCS Group Holding PLC (main part of its assets pertains to Tinkoff Bank) and statements of Tinkoff Bank composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and Tinkoff Bank participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by Tinkoff Bank in its financial statements have been discovered.

ACRA provided no additional services to Tinkoff Bank. No conflicts of interest were discovered in the course of credit rating assignment.

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.