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ACRA affirms **A(RU)** to **Tinkoff Bank,** outlook **Stable**, **A(RU)** to ruble bonds and **BB+(RU)** to subordinated Eurobonds

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, 2018 it ranked 18th in terms of equity and 31st 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 11.6% at year-end 2017. 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 has remained low, which curbs its business profile.

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 sub-factor 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. As of year-end 2017, the Bank's Tier-1 CAR stood at 21.0%, while the N1.2 regulatory CAR equaled 14.8%. Tinkoff's capital adequacy is traditionally backed by sound profitability indicators: for the period 2013–2017 its averaged capital generation ratio (ACGR, calculated with due account for dividends and other payments to shareholders) was as high as 293 bps.

Tinkoff's profitability rests on its historically high net interest margin (NIM) which equaled 23.4% in 2017 vs 24.3% in 2016. 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, 2018, the share of non-performing loans overdue for more than 90 days (NPL90+) within the aggregate loan portfolio stood at 8.8% (versus 10.3% in 2016). At the same time, taking into account written-off and sold problem loans, the portion of the Bank's bad debt in the average loan portfolio has shrunk to 14.9% in 2017 against 20.9% in 2016. ACRA notes that historically the Bank's NPL level (taking into account write-offs and sale) is comparable or better than that of banks focused on unsecured consumer lending. ACRA also notes that the rapid growth in the loan portfolio (by 31% in 2017 and by no less than 25% expected in 2018) may result in an increase in the volume and proportion of bad loans as the portfolio matures, especially in case of an economic downturn or deterioration in the credit quality of borrowers on the backdrop of growing amount of loans issued to individuals.

In assessing the risk profile, ACRA also takes into account market risk caused by a significant portfolio of securities (approximately 27% of assets as of January 01, 2018) with maturities of about 3 to 4 years, about a third of which falls on debt instruments denominated in foreign currency. Market risk is mitigated by a good credit quality of the main part of the securities portfolio.

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. ACRA also takes into account that the concentration of funding on retail clients is high.

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Cost of credit risk around 7%;
- Tier-1 capital adequacy above 12% (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:

- Sustainable growth of loan portfolio and stably low amount of overdue loans, taking into account the cyclicality of the consumer lending market.

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

Certified non-convertible exchange-traded interest-bearing unregistered bond issued by Tinkoff Bank, 001P-01R series (ISIN RU000A0JXQ85), maturity date: April 22, 2022, issue volume: RUB 5 bln — A(RU).

Rationale. The issue represents senior unsecured debt of Tinkoff Bank. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as equal to other existing and future unsecured and unsubordinated debt obligations of the Bank in terms of priority. According to the ACRA methodology, the credit rating of the issue is equivalent to that of Tinkoff Bank, i.e. A(RU).

Tinkoff Bank Subordinated Perpetual Eurobonds (ISIN XS1631338495), issue volume: USD 300 mln — BB+(RU). Tinkoff Bank acts as a guarantor for any liabilities of TCS Finance D.A.C. in the issue.

Rationale. TCS Finance D.A.C., an Irish designated activity company, issued the USD 300 million perpetual bonds and transferred all issue proceeds to Tinkoff Bank in the form of a subordinated loan. The issue implies a significant subordination to priority unsecured creditors and the right of Tinkoff Bank to cancel, at its discretion, coupon payments with the creditors having no right to claim unpaid interest. The issue terms and conditions provide for a full write-off of the loan in the event the Common Equity Tier 1 Ratio N1.1 goes down below 5.125% or if the Deposit Insurance Agency (DIA) institutes a bankruptcy prevention procedure. In accordance with the relevant ACRA methodology, the final credit rating for the issue of this type is set five notches below the Tinkoff Bank's standalone creditworthiness assessment (a).

Regulatory disclosure

The credit ratings were assigned to Tinkoff Bank, bond (ISIN RU000A0JXQ85) issued by Tinkoff Bank and subordinated perpetual Eurobonds (ISIN XS1631338495) issued by Tinkoff Bank under the national scale for the Russian Federation 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. The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation was also used in the credit rating process.

The credit ratings of Tinkoff Bank, bond (ISIN RU000A0JXQ85) issued by Tinkoff Bank and subordinated perpetual Eurobonds (ISIN XS1631338495) issued by Tinkoff Bank were first published by ACRA on May 19, 2017, May 25, 2017, and June 23, 2017, respectively. The credit rating of Tinkoff Bank and its outlook as well as the credit ratings of the above bonds are expected to be revised within one year following the rating action date (May 17, 2018).

The credit ratings were assigned 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 ratings are solicited, and Tinkoff Bank participated in their 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 process.