

March 1, 2019

Lead analysts:

Valeriy Piven, Associate Director
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Alexander Rudykh, Senior Analyst
+7 (495) 139-0480
alexander.rudykh@acra-ratings.ru

Key rating assessment
factors

ACRA affirms credit rating of Expobank LLC at BBB+(RU), changes outlook to Positive

ACRA has affirmed the credit rating of [Expobank LLC](#) (hereinafter, Expobank, or the Bank) at BBB+(RU) based on its sustainable business profile, high capital adequacy, satisfactory risk profile, and adequate liquidity and funding position.

The change in outlook to Positive reflects ACRA's expectation of a possible increase in the risk profile assessment due to an improvement in loan portfolio quality.

Expobank is a medium-sized Russian bank, which ranked 76th in assets and 69th in capital at the end of 2018. The majority stake is controlled by the Russian entrepreneur Igor Kim (directly owns 75.5%) who also owns banking assets in the Czech Republic, Latvia, Serbia. German Tsoy is another key shareholder (19.3%), as well as a number of other individuals including members of the Bank's management team.

ACRA notes the Bank's switch to active lending to individuals, whereas previously the Bank focused on working with corporate borrowers, M&A transactions, and the acquisition of third-party portfolios. Expobank is now focusing on expanding its auto loan portfolio and issuing guarantees. ACRA limits the Bank's strategy assessment given the rapid growth of the Bank's assets associated with a significant change in their structure, as well as maintaining the appetite for the acquisition of large stakes in other credit institutions. However, ACRA also notes the extensive experience of the Bank's management, which generally allows it to control the risks of qualitative changes in operating activities.

Expobank boasts a rather diversified business; its Herfindahl–Hirschman operating income diversification index was around 0.26 in 2018. Its transparent ownership structure exhibits a low degree of affiliation with the non-banking business of its key shareholders.

High capital adequacy indicators confirm the Bank's strong common capital position according to both regulatory standards (N1.2 at 11.3% as of January 1, 2019) and Basel standards (the Bank estimated its Tier-1 capital under IFRS at 16.3% at the beginning of 2019). ACRA assesses Expobank's ability to generate capital as high. ACRA's stress test shows that the Bank's substantial unexpected loss absorption cushion allows it to withstand a 300-500 bp increase in the cost of credit risk.

Satisfactory risk profile. According to ACRA's assessments, the share of problem or potentially problem debt amounted to 6.2% of the portfolio (including NPL90+ at 1.3%). ACRA notes the significant change in the structure of the loan portfolio as a result of the rapid growth in auto loan issuance (more than 50% in 2018). This helped reduce loan portfolio concentration on the ten largest groups of borrowers from 51.7% in 2017 to 35.1% in 2018.

ACRA assesses the quality of Expobank's risk management as adequate considering the development strategy it implements. The rest of Expobank's assets are represented by a large portfolio of high-quality securities, as well as short-term interbank loans, including repo agreements with low credit risk.

The adequate funding and liquidity profile assessment is based on the combination of Expobank's strong position in short-term and long-term liquidity and its relatively high funding quality.

ACRA notes the large amount of liquid and highly-liquid assets that allowed the Bank to show a substantial short-term liquidity surplus in both base case and stress scenarios. ACRA also notes the strong long-term liquidity shortage indicator (LTLSI) that exceeded 85% at the end of 2018.

In 2018, there were changes in the structure of the Bank's funding, which resulted in a decrease in the concentration on the largest source of funding (individuals' funds) to 51.6% in the liabilities structure (62% at the end of 2017).

Key assumptions

- Maintaining the current business model within the 12 to 18-month horizon;
- Cost of risk no higher than 3%-4%;
- Net interest margin around 5%;
- Tier-1 capital adequacy (N1.2) no lower than 9.0% within the 12 to 18-month horizon.

Potential outlook or rating change factors

The Positive outlook assumes that the rating will most likely be changed within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A more conservative approach to the development strategy;
- Increase in the quality of the loan portfolio if the Bank's capital and liquidity positions do not deteriorate, as well as maintaining/increasing operating income diversification.

A negative rating action may be prompted by:

- Decrease in business diversification;
- Aggressive policy on asset growth implemented both through M&A transactions and through lending expansion, leading to a weakened loan portfolio and steady decrease in capital adequacy;
- Substantial deterioration in risk management quality, leading to an increase in the volume of problem loans and negatively affecting capital;
- Substantial deterioration in the Bank's liquidity position.

Rating components

Standalone creditworthiness assessment (SCA): bbb+.

Adjustments: none.

Support: no systemic importance.

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](#).

The credit rating of Expobank LLC was published by ACRA for the first time on March 3, 2017. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned and affirmed credit rating is based on the data provided by Expobank LLC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of Expobank LLC and statements of Expobank LLC composed in compliance with the Bank of Russia Ordinance № 4927-U dated October 8, 2018. The credit rating is solicited, and Expobank LLC participated in its assignment.

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

ACRA provided additional services to Expobank LLC. No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2019

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

www.acra-ratings.com

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 Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.