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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 liquidity and funding 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. Starting in 2007, it operated under the name Tinkoff Credit Systems, and in 2015 was renamed Tinkoff Bank. Currently, the Bank is among the 20 largest Russian banks in terms of equity. 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 through its 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 in the credit card market. In addition, the Bank continues to develop its transaction business, which contributes to the diversification of its operating balance. Tinkoff's business profile takes into account the unique character of its business model in terms of the Russian banking market, as 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.

ACRA assesses Tinkoff's corporate governance as high in terms of the Russian banking sector. This can be attributed to the specifics of the Bank's business model that makes it possible 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 the concentration of shareholder risk on one key owner, who actively participates in the Bank's management.

Capital adequacy is assessed as high. At the end of 2018, the Bank's Tier-1 CAR stood at 9.6%, while the N1.2 regulatory CAR equaled 13.2%. This allows the Bank to withstand an increase in credit risk of more than 500 bps. Tinkoff's capital adequacy is traditionally backed by sound profitability indicators: for 2014–2018, its averaged capital generation ratio (ACGR, calculated taking into account dividends and other payments to shareholders) exceeds 200 bps.

Tinkoff's profitability rests on its historically high net interest margin (NIM), which has amounted to around 22% for the last three years. The Bank's strong NIM is driven by its capacity (thanks to its business model) to maintain relatively low interest expenses along with traditionally high interest income for unsecured consumer lending.

The Bank's satisfactory risk profile assessment rests upon its adequate risk management quality and satisfactory loan portfolio quality. According to reporting, the debt, classified as stage 3 in accordance with IFRS 9, amounted to 11.2% of the loan portfolio at the end of 2018, of which 9.5% were loans overdue by more than 90 days. However, problem loans (including write-offs and sales) accounted for 18.6% of the portfolio. ACRA notes that historically the Bank's NPL level (taking into account write-offs and sales) 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 1.5x in 2018 and expected to be no less than 40% in 2019) may increase the share of bad loans as the portfolio matures. This would be so especially in the case of an economic downturn or deterioration in the credit quality of borrowers as the amount of loans issued to individuals grows and new regulatory requirements are introduced.

The Bank's adequate liquidity and funding position is determined by Tinkoff's stable short-term liquidity surplus and its independence from regulatory funding. The Bank's short-term liquidity position reflects its surplus even in the event of fund outflow from current and deposit accounts under the stress scenario. This is ensured by Tinkoff's substantial unencumbered portfolio comprised of high-quality and liquid bonds. There are also no liquidity imbalances on the long-term horizon. ACRA takes into account that the concentration of funding on retail clients is high.

Key assumptions

- Maintaining the current business model within the 12 to 18-month horizon;
- Cost of credit risk around 7–8%;
- Tier-1 capital adequacy above 8.5% 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 the loan portfolio and a consistently 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 could cause 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).

Certified non-convertible exchange-traded interest-bearing unregistered bond issued by Tinkoff Bank, 001P-02R series (ISIN RU000A1008B1), maturity date: March 21, 2029, issue volume: RUB 10 bln — A(RU).

Rationale. The issues represent senior unsecured debt of Tinkoff Bank. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as equal to other existing and future unsecured and unsubordinated debt obligations of the Bank in terms of priority. According to ACRA's methodology, the credit ratings of the issues are 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 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 of Tinkoff Bank, bonds (ISIN RU000A0JXQ85, ISIN RU000A1008B1) issued by Tinkoff Bank and subordinated perpetual Eurobonds (ISIN XS1631338495) issued by Tinkoff Bank were assigned 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, bonds (ISIN RU000A0JXQ85, ISIN RU000A1008B1) 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, April 3, 2019, 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 publication date of this press release.

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 (the main part of its assets pertains to Tinkoff Bank) and statements of Tinkoff Bank composed in compliance with the Bank of Russia Ordinance № 4927-U dated October 8, 2018. 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.

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.

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