

March 3, 2017

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Key rating assessment factors

ACRA assigns BBB+(RU) to Expobank LLC, outlook Stable

The credit rating of [Expobank LLC](#) (hereinafter – Expobank, or the Bank) is based on its adequate business profile, high capital adequacy, weak risk profile, and strong liquidity and funding positions. The Bank is characterized by moderate creditworthiness compared to other Russian credit institutions.

Expobank is a medium-sized Russian bank in terms of assets and capital, ranking 79th and 65th respectively on the national scale as of end-2016. It is controlled by Igor Kim (66.6% as of January 1, 2017), who also owns Expobank CZ (Czech Republic), AS Expobank (Latvia) and Expo Credit (Kazakhstan). Other key shareholders are German Tsoy (17.6%), JSC “Autobahn Road Construction” (8.8%), and a number of other individuals including management members.

Business profile is generally on par with those of sustainable medium-sized Russian banks and reflects its relatively small franchise, which is focused on a limited number of corporate borrowers located mainly in the Moscow region and accounting for about 90% of assets and operating income of the Bank. Expobank specializes in servicing corporate customers, buying and selling retail loan packages, and M&A deals. ACRA notes that significant credit risks inherent in the Russian banking sector as a whole may entail implicit risks for M&A transactions and third-party portfolio acquisitions, with those risks capable of becoming explicit despite the M&A expertise of the Bank’s management.

Expobank boasts a rather diversified business (its Herfindahl–Hirschman operating income diversification index historically hovers around 0.2) and a transparent ownership structure boasting a low degree of affiliation with non-banking business of its key shareholders.

Expobank’s capital features a high loss absorption capacity by both the regulatory norms and the Basel standards (IFRS Tier-1 amounted to 14.1% at end September 2016, according to the Bank), which is confirmed by stress tests conducted by ACRA. High core capital adequacy is based on a considerable power of the Bank to generate capital through income (its averaged capital generation ratio, ACGR, for 2012–3Q16 ran into 485 bps) and its conservative asset growth strategy.

Weak risk profile of Expobank stems from a material level of problem loans on its balance sheet – according to the Bank’s management accounts, past due or restructured loans made up 9.7% of its loan portfolio as of January 1, 2016. Moreover, ACRA believes that the real level of potentially problem loans may be noticeably higher, as the Bank is closely focused on lending to high-risk sectors, in particular construction and real estate. This risk is partially mitigated by satisfactory risk management, a modest size of the loan portfolio (slightly above 22% of assets as of January 01, 2017), and provisions covering some 83% of the said impaired loans. As of October 1, 2016, around half of the Bank’s loan portfolio was made up by loans to borrowers from high-risk industries, while in general concentration on such borrowers accounted for about 64% of its Tier-1 capital, which increases susceptibility of the Bank’s financial profile to negative trends in the operating environment Russian banks operate in.

The rest of Expobank’s assets are represented by a sizeable and high-quality securities portfolio and short-term interbank loans, including repo receivables, whose credit risk is assessed as low.

Strong liquidity position rests on a large amount of liquid and highly liquid assets that allowed the Bank to show a substantial short-term liquidity surplus under both the base-case and the stress scenarios drawn up by ACRA. The liquidity position largely hinges upon the fixed income securities portfolio, which is dominated by federal OFZs and Eurobonds, as well as by bonds of high-quality quasi-federal and corporate borrowers.

Current funding structure is also assessed as strong, which is reflected by the long-term liquidity shortage indicator (LTLSI) equaling 127.8% at end September 2016. The structure of Bank's liabilities is characterized by its independence from funding offered by the regulator and the absence of concentration on the largest funding sources. The liabilities are dominated by funds of individuals (55.9% as of end September 2016) and funds of entities (31.7%).

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Cost of credit risk within 3–4%;
- Net interest margin around 5%;
- Tier-1 capital adequacy (N1.2) not lower than 8.0% 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:

- A material decline in bad debt;
- Sustaining of the current core capital adequacy level;
- Long-term adherence to a business strategy focused on a weighted approach to M&A deals and short-term loan portfolio acquisitions.

A negative rating action may be prompted by:

- An aggressive M&A policy with regard to other financial institutions that may result in deteriorating loan portfolio quality and persistently declining core capital adequacy;
- Pressure the Bank's operating activities may be exposed to if its sister banks face financial instability.

Rating components

Standalone creditworthiness assessment (SCA): bbb+.

Adjustments: none.

Support: systemic importance is absent.

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](#).

Disclosure of deviations from the approved methodologies. The risk profile of Expobank LLC has been adjusted by one notch against the calculated estimate, due to a minor share the loan portfolio has in the Bank's assets (slightly above 22% as of January 1, 2017) and relatively high quality of other assets.

A credit rating has been assigned to Expobank LLC for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (March 1, 2017).

The assigned 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 No. 2332-U dated November 12, 2009. 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 no additional services to Expobank LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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