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INVESTORS SERVICE

CREDIT OPINION
13 July 2018

Update

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RATINGS

Autotorgbank

Domicile	Russia
Long Term Debt	Not Assigned
Type	Not Assigned
Outlook	Not Assigned
Long Term Deposit	B2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Autotorgbank

Annual update based on full-year 2017 results

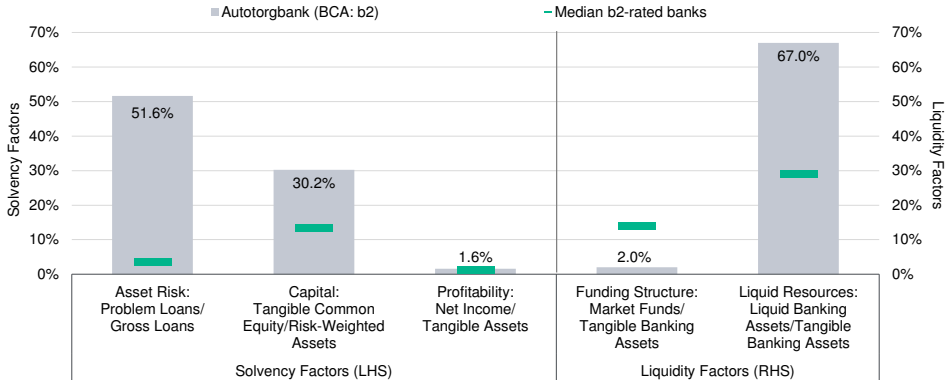
Summary

The B2/Not Prime long- and short-term local-currency deposit ratings assigned to Autotorgbank (ATB Bank) are based on the bank's Baseline Credit Assessment (BCA) of b2, and do not incorporate any element of external support.

ATB Bank's BCA of b2 is constrained by (1) the bank's limited third-party franchise and very high interlink with its shareholder Major Group, a leading Russian passenger car dealership; and (2) our expectations that the lower interest rate environment, in the longer term, could exert negative pressure on the bank's net interest income, which is a major revenue source.

At the same time, the ratings are supported by ATB Bank's (1) very low leverage and high capital adequacy metrics; (2) good profitability, owing to very low funding costs and limited operating expenses; and (3) good liquidity position with a substantial liquidity buffer.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong capital buffer limits solvency risks

» Solid margins and profitability, which are underpinned by its reliance on equity and relatively sticky low-cost funding

» Healthy liquidity buffers

Credit challenges

» Limited third-party franchise and very high business dependence on the group of related companies, mainly Major Group

» Reduced business volumes put pressure on profitability

» High credit and funding concentration

Outlook

The outlook on the long-term deposit ratings is stable

Factors that could lead to an upgrade

» The reduced contingent risks associated with its shareholder, Major Group

» Material reduction of legacy problem loans as a result of their recovery or write off

» Its improved business diversification and maintenance of financial indicators at adequate levels

Factors that could lead to a downgrade

» A weaker financial performance as a result of an inability to secure low-cost funding base

» Substantial impairments in its highly concentrated loan book

Key indicators

Exhibit 3

Autotorgbank (Unconsolidated Financials) [1]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (RUB billion)	7.7	7.4	9.5	16	11	-7.5[4]
Total Assets (USD billion)	0.1	0.1	0.1	0.3	0.3	-19.6[4]
Tangible Common Equity (RUB billion)	2.2	2.0	1.8	1.7	1.5	9.7[4]
Tangible Common Equity (USD billion)	0.0	0.0	0.0	0.0	0.0	-4.6[4]
Problem Loans / Gross Loans (%)	51.6	49.7	9.4	20.8	9.1	28.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	30.2	27.9	17.4	11.1	15.7	20.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	55.4	56.7	14.1	54.7	26.8	41.5[5]
Net Interest Margin (%)	5.7	6.8	7.4	7.4	6.6	6.8[5]
PPI / Average RWA (%)	3.7	3.9	6.6	7.1	4.7	5.2[6]
Net Income / Tangible Assets (%)	1.6	3.8	1.1	2.1	1.0	1.9[5]
Cost / Income Ratio (%)	47.9	40.5	22.2	31.3	42.8	37.0[5]
Market Funds / Tangible Banking Assets (%)	2.0	0.8	0.7	0.3	0.4	0.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	67.0	63.8	60.6	58.6	44.8	59.0[5]

Gross Loans / Due to Customers (%)	122.2	121.2	94.8	59.4	78.5	95.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel I periods presented

Source: Moody's Financial Metrics

Detailed credit considerations

Profile

ATB Bank is a relatively small Russian bank ranked 223 among Russian banks by total assets as of the first quarter of 2018, according to Interfax-100 rankings. The bank benefits from its links to the leading Russian auto vehicle trading group of companies, Major Group. In addition, there is a wide array of companies among the bank's customers whose relations with the bank depend fully or partially on operations related to Major Group and related parties.

High business reliance on Major Group, the bank's controlling shareholder

Major Group is the leading Russian company in its targeted segment, but we have limited knowledge of its financial profile because the group is not a public company. Although ATB Bank does not currently have any direct exposure to its shareholder or related parties, the financial difficulties of the key shareholder could lead to immediate business challenges for the bank. Major Group and related parties provide more than half of the bank's non-equity funding.

ATB Bank's owners currently appear determined to develop the bank without any significant reliance on related-party lending. In addition, the fragmented ownership of Major Group and the bank could prevent the bank from financing shareholders' projects outside Major Group (85% of ATB Bank is ultimately controlled by one beneficial owner through Major Group, with the remainder controlled by other two individuals – holding 10% and 5% – who are also related to Major Group). Our qualitative adjustments to the scorecard reflect the bank's limited business diversification and corporate governance risks.

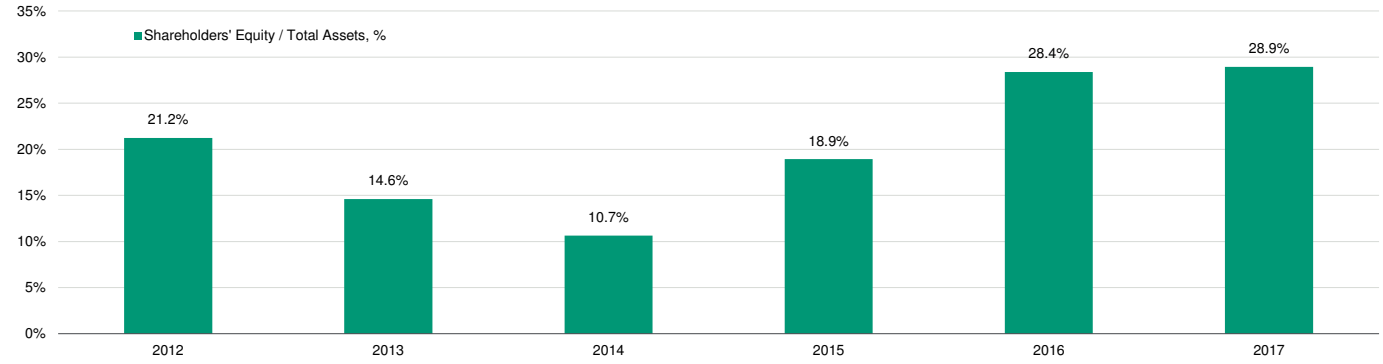
High capital adequacy substantially limit solvency risks

We expect ATB's solvency profile to remain satisfactory over the next 12-18 months, underpinned by its strong capital buffers which will remain sufficient to absorb unexpected losses and lending growth.

The bank's statutory Total and Common Equity Tier 1 capital adequacy ratios (N1.0 and N1.1, respectively) stood at very high 39.82% and 16.19%, respectively, as of 1 April 2018, lower than the 42.81% and 17.13% posted as of year-end 2017.

Exhibit 4

Shareholders' equity as a percentage of total assets as of year-end 2012-17



Source: Moody's Financial Metrics

High concentrations in the loan book

ATB's asset risk will remain contained over the next 12-18 months, given the bank's conservative lending and provisioning policies. The bank's loan book is small in absolute terms and highly concentrated with the 10 largest loans accounted for around 68.1% of the bank's gross loan book, or about 1.4x of the bank's shareholders' equity as of year-end 2017.

ATB's problem loans (defined as all individually impaired corporate loans and retail loans overdue by more than 90 days) stood at 51.6% of gross loans as of year-end 2017 (2016: 49.7%). Despite the high level of problem loans, we adjust upwards to b3 our asset risk score, which reflects the bank's high share of legacy problem loans (following the rapid shrinkage of the loan book) that are sufficiently (93%) covered by loan-loss reserves.

Close integration into Major Group underpins its profitability

ATB's profitability will remain good over the next 12-18 months, (despite the notable deterioration in 2017) supported by its healthy net interest margin of above 5%. The bank's close connections with the leading Russian seller of new cars, Major Group, supports its business in terms of its access to low-cost funding, its broad retail clientele and its shareholders' counterparts.

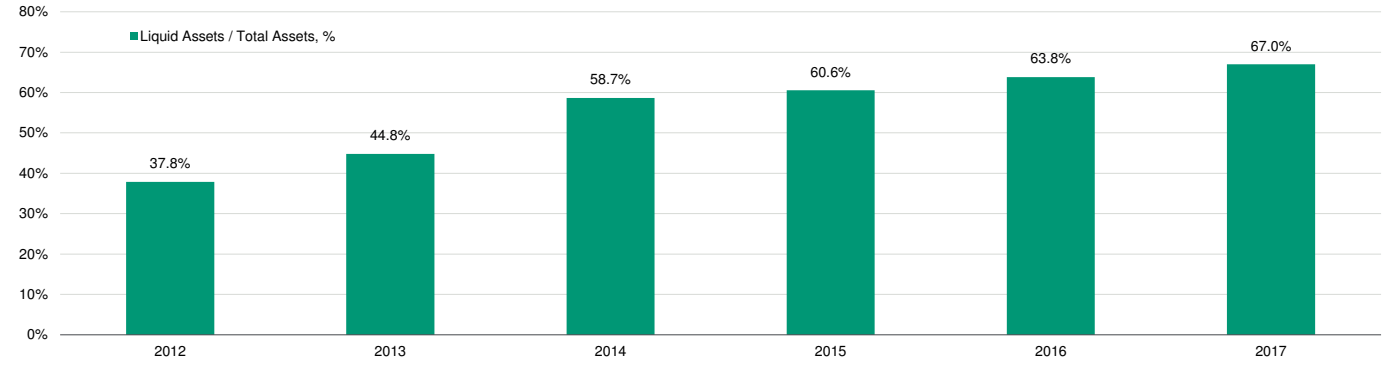
Being a treasury unit for the group's operations, ATB Bank benefits from access to Major Group's cash flow and retail clients. As a result, the bank's profitability benefits from a solid net interest margin and commission income that, together with low-cost operations, transforms into strong pre-provision earnings.

For 2017, ATB reported net profit of RUB 124.3 million which translates to RoAA of 1.65% (RUB 281.6 million and 3.34% respectively in 2016). Decrease in net profit was due to significant reduction in lending activity during 2017. Profitability score of ba2 reflects expected profitability trend.

Large buffer of liquid assets fully offsets high funding concentrations

Exhibit 5

Liquid assets as a percentage of total assets as of year-end 2012-17



Source: Moody's Financial Metrics

The bank's status as a captive bank leads to adjustments in our assigned Funding Structure score, owing to significant funding concentration on the liability side with top 10 largest deposits accounting for 39% of total deposits or 26% of total liabilities, mainly from Major Group and partner companies. However, the relatively low-cost subordinated loans, together with a significant capital buffer, results in low funding costs and confer a competitive advantage in ATB Bank's lending operations.

Owing to its good liquidity buffer, the bank's liquidity profile is strong and covers liquidity risks stemming from high deposit concentration. The bank's average liquid assets-to-total assets ratio was recently at around 67.0% under IFRS (2016: 63.8%). Therefore, the bank's highly liquid assets cover almost all on-demand accounts. At the same time, a significant portion of demand deposits remain stable. Our combined liquidity score is ba3, reflecting concentrated deposit base and high buffer of liquid assets.

Notching considerations

Local and foreign-currency deposit ratings

ATB Bank's B2/Not Prime local-currency deposit ratings are supported by the bank's b2 BCA and do not incorporate any element of government or affiliate support. The B2/Not Prime foreign-currency deposit ratings factor in the foreign-currency transfer risk inherent in such instruments and are based on our assessment of local economic and political factors.

CR Assessment

We have assigned a Counterparty Risk Assessment (CR Assessment) of B2(cr)/Not Prime(cr) to Autotorgbank.

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned one notch above the Adjusted BCA of b2 and, therefore, above the bank's senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimise losses and avoid the disruption of critical functions.

Counterparty Risk Rating (CRR)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

ATB's global CRRs are positioned at B1, one notch above the bank's Adjusted BCA. This reflects the rating agency's view that CRR liabilities are not likely to default at the same time as the bank fails and will more likely to be preserved in order to minimize banking system contagion, minimize losses and avoid disruption of critical functions.

Rating methodology and scorecard factors

Exhibit 6

Autotorgbank

Macro Factors		
Weighted Macro Profile	**Weak +**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	51.6%	caa3	← →	b3	Long-run loss performance	Collateral and provisioning coverage
Capital						
TCE / RWA	30.2%	baa1	← →	baa1		
Profitability						
Net Income / Tangible Assets	1.6%	ba1	↓	ba2	Expected trend	
Combined Solvency Score		ba3		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	2.0%	baa1	← →	b2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	67.0%	baa2	← →	ba1	Expected trend	
Combined Liquidity Score		baa1		ba3		
Financial Profile				ba2		
Business Diversification				-1		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				-2		
Sovereign or Affiliate constraint:				Ba1		
Scorecard Calculated BCA range				ba3-b2		
Assigned BCA				b2		
Affiliate Support notching				0		
Adjusted BCA				b2		

Instrument class	**Loss Given Failure notching**	**Additional Notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	b1	0	B1	B1
Counterparty Risk Assessment	1	0	b1 (cr)	0	B1 (cr)	--
Deposits	0	0	b2	0	B2	B2

Source: Moody's Financial Metrics

Ratings

Exhibit 7

Category	Moody's Rating
AUTOTORGBANK	
Outlook	Stable
Counterparty Risk Rating	B1/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)

Source: Moody's Investors Service

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