

**Rating Action: Moody's changes outlook on BystroBank JSC's B2 deposit ratings to positive**

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27 Aug 2018

London, 27 August 2018 -- Moody's Investors Service ("Moody's") has today changed to positive from stable the outlook on the B2 long-term local- and foreign currency bank deposit ratings of BystroBank JSC (BB or BystroBank) and affirmed these ratings.

Concurrently, the rating agency affirmed BB's Baseline Credit Assessment (BCA) and adjusted BCA of b2, long-term and short-term local and foreign currency Counterparty Risk Ratings of B1/Not Prime, Not Prime short-term local- and foreign currency deposit ratings, and long-term and short-term Counterparty Risk Assessments (CR Assessments) of B1(cr) / Not-Prime(cr).

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

The change of BB's rating outlook to positive from stable reflects positive trends in the bank's asset quality and profitability along with good capital buffer and stable funding and liquidity profile.

BB's problem loan ratio declined to 12.3% as of end-2017 from 17.3% reported two years before and the coverage of problem loans by loan-loss reserves remained healthy at 79% given predominantly secured nature of the loan portfolio. According to management data as of 30 June 2018 problem loan ratio further declined to 10.2% while the problem loan coverage improved to 100% largely owing to the application of the new IFRS 9 standard. Moody's expects the bank's asset-quality metrics will gradually improve over the next 12 to 18 months.

In Q1 2018 the bank posted RUB157 million net income, which translates into an annualized return on average assets of 1.7% (full year 2017: 1.5%). The bank's net financial result in 2016-17 was bolstered by recovery of net interest margin (NIM) along with stabilization of credit costs, measured as loan-loss provisions as a percentage of average gross loans, which fell to 5.9% in 2017 and 5.2% in 2016 from 7.0% in 2015.

Moody's expects BB's profitability will improve further thanks to (i) more efficient usage of the bank's balance sheet via partial sale of originated loans, and (ii) replacement of low-margin corporate loans with higher margin retail lending.

In 2017 BB paid out RUB519 million in form of dividends, an equivalent of 103% of net income for 2017. Moody's expects that BB will continue to pay large cash dividends in the next 12-18 months. As of 31 March 2018, BB reported tangible common equity (TCE) at 12.2% of risk-weighted assets (RWA), down from 13.5% at the end of 2017 largely due to negative impact from IFRS 9 implementation. Moody's expects modest RWA growth in the next 12-18 months which -- together with material dividend payments -- will result in some decline in the bank's TCE ratio. However, the overall loss-absorption cushion remains solid thanks to the higher provisioning level and robust pre-provision revenues.

**WHAT COULD MOVE THE RATINGS UP / DOWN**

Moody's might upgrade BB's deposit rating if it observes further improvements in the bank's asset quality and profitability metrics, coupled with good capital buffer.

The bank's ratings might be downgraded, or the rating outlook might be revised to stable from positive, in case of the bank's failure to sustain the long-term improving trends in its solvency metrics, in contrast with Moody's current expectations.

**LIST OF AFFECTED RATINGS**

Issuer: BystroBank JSC

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed B1  
...Short-term Counterparty Risk Ratings, affirmed NP  
...Long-term Bank Deposits, affirmed B2, outlook changed to Positive from Stable  
...Short-term Bank Deposits, affirmed NP  
...Long-term Counterparty Risk Assessment, affirmed B1(cr)  
...Short-term Counterparty Risk Assessment, affirmed NP(cr)  
...Adjusted Baseline Credit Assessment, affirmed b2  
...Baseline Credit Assessment, affirmed b2  
..Outlook Action:  
...Outlook changed to Positive from Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Headquartered in Izhevsk (Russia), BystroBank reported total assets of RUB36.8billion unaudited IFRS as of 31 March 2018.

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