

CREDIT OPINION

5 June 2019

Update

 Rate this Research

Contacts

Petr Paklin +7.495.228.6051
 AVP-Analyst
 petr.paklin@moodys.com

Lev Dorf +7.495.228.6056
 AVP-Analyst
 lev.dorf@moodys.com

Yaroslav Sovgyra +7.495.228.6076
 Associate Managing Director
 yaroslav.sovgyra@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Omega Funds Investment Ltd

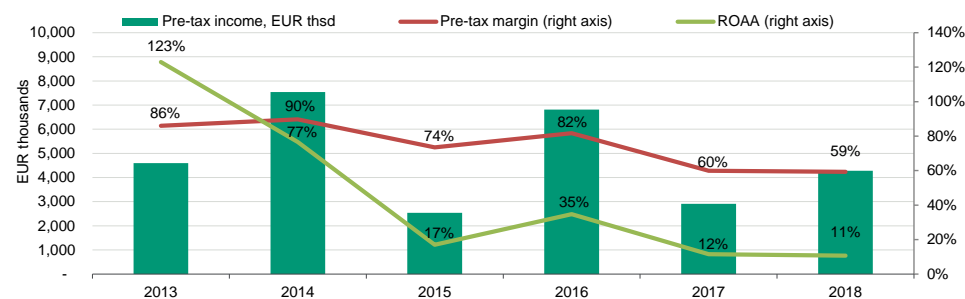
Update following ratings affirmation

Summary

On 4 June 2019, we affirmed the local and foreign-currency B2 long-term and Not-Prime short-term issuer ratings of [Omega Funds Investment Ltd \(Omega\)](#). The outlook on the long-term ratings remained stable. The affirmation of Omega's ratings reflected our assessment of the company's ample capital cushion, strong liquidity profile and high profitability. The affirmation also took into account constraints associated with the company's (1) small and undiversified franchise, with high concentration of business and revenue stream on few large customers, and (2) key-man risk related to its shareholder.

Exhibit 1

Omega's profitability is strong, but its earnings are highly volatile



Source: Omega's audited IFRS reports

Credit strengths

- » Good capital buffer supported by sound profitability
- » Robust liquidity position

Credit challenges

- » Small and undiversified franchise, resulting in concentrated business and revenue streams
- » Volatile earnings
- » Growing exposure to market risk

Outlook

The B2 rating carries a stable outlook, reflecting our expectation that the company will maintain its current credit fundamentals over the next 12-18 months.

Factors that could lead to an upgrade

- » Remarkable expansion in the company's franchise
- » Significant reduction in its single-name customer concentrations

Factors that could lead to a downgrade

- » A significant increase in the company's leverage
- » A weakening of its liquidity profile
- » Loss of key customers, resulting in a significant scaling down of the company's activities and risk to the continuity of its business

Profile

Omega is a small brokerage firm, with assets of EUR50 million as of end-2018 (end-2017: EUR21 million). Despite being domiciled in Limassol, Cyprus, Omega holds strong links with Russia via its shareholder, key customers and counterparties. Omega's principal activity is providing brokerage services to a handful of corporate clients.

As of year-end 2018, Omega held financial instruments and cash on behalf of its clients with net market value of EUR689 million (end-2017: EUR668 million). The company recognizes these amounts off-balance sheet, based on IFRS and following their auditors opinion. Omega is acting as a trustee in substance with respect to these assets and is not legally allowed to perform any operations with them at its own discretion.

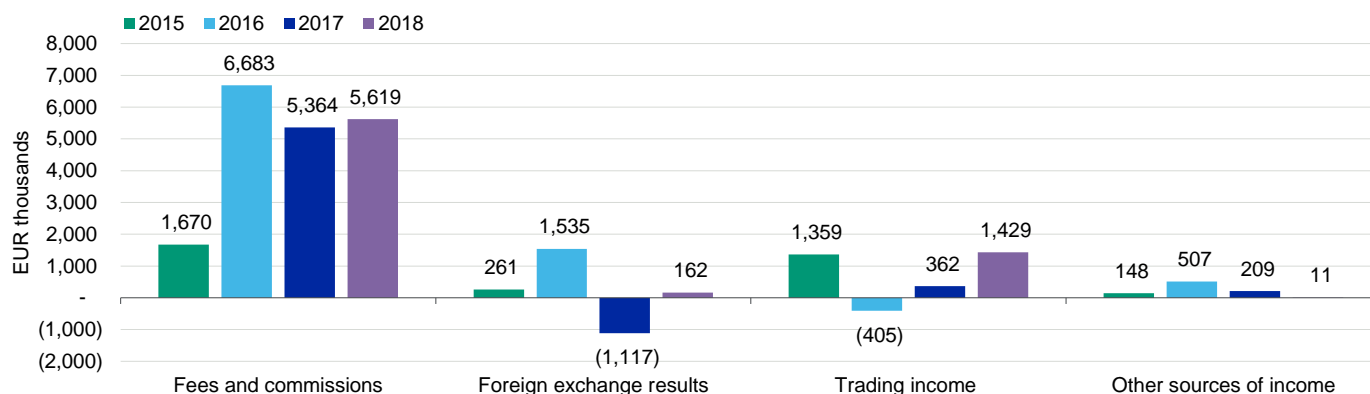
Detailed credit considerations

Scale and profitability: a small and highly concentrated franchise, which generates strong but highly volatile earnings

Omega is a relatively small brokerage firm, with pre-tax income of EUR4.3 million in 2018 (up from EUR2.9 million in 2017). Brokerage services to corporate clients mainly include operations with securities, and to a lesser extent, foreign-exchange transactions, primarily involving the Russian rouble, the US dollar and euro.

Exhibit 2

Omega's revenue is dominated by fee and commission income



Source: Omega's IFRS reports

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Omega's 2018 financial results were stronger than that a year earlier, underpinned by increased revenue from repo transactions, as well as reported foreign-exchange profit related to positive revaluation of monetary asset and liabilities to euro. Concurrently, the company's operating expenses increased over 50% from a year earlier, mainly driven by expansion of its headcount. Additional outlays were partially related to IT, compliance and consulting services associated with the new EU regulations for securities companies coming into force in 2018. Omega's pre-tax margin has historically been strong, varying between 60%-90%. In 2018, this margin declined to 59%, but remained higher than the company's global peers. We assign Pre-Tax margin score of Aaa given expected trends.

Based on management accounts for the first quarter of 2019, we expect the company's revenue stream and bottom-line profitability to remain volatile through 2019, given remaining high concentrations on few large clients' operations, and increase in proprietary trading operations. Although Omega is steadily diversifying its revenue sources, the brokerage fees from concentrated customer base still dominate the company's operational income.

We adjust Omega's Pre-tax Margin Volatility score upwards to Ba1 from Ca because we give partial credit to our estimate of this metric based on quarterly management accounts, while the initial score penalises the company based on annual reporting.

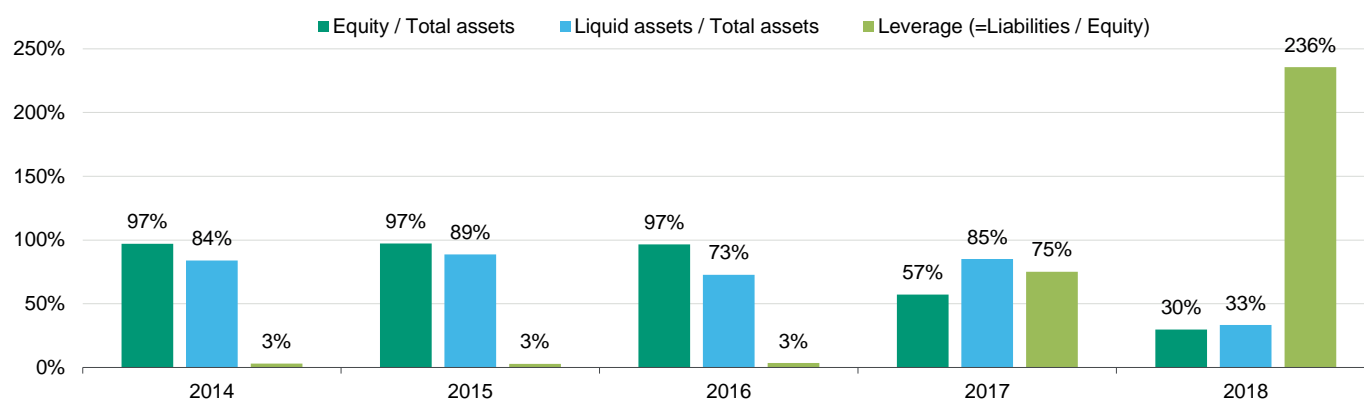
Leverage and coverage: still good capital buffer, despite grown leverage; robust liquidity

Until end of 2016, Omega had operated at close to zero leverage and had its risky assets more than fully covered by an ample capital buffer. The company had no market debt issuance, but reported an increase in its liabilities in 2018 referred to repo transactions. Concurrently, Omega's equity-to-assets ratio declined to 30% at year-end 2018 from 57% a year before. Through 2018 Omega's leverage defined as liabilities/equity did not exceed 3 times on quarterly basis, which we consider as comfortable level. Most of repo transactions are short-term arbitrage trades with similar terms, in particular, underlying asset and tenor. Thus we see limited market risk, while the counterparty risk is mitigated via daily margining. We apply downward adjustments to two of three leverage and coverage ratio scores based on scenario analysis to better reflect the strength of Omega's financial profile.

Omega's credit profile could be exposed to downside risks in the event if management decides to further increase its leverage, which can result in higher exposure to market and credit risks as well as erosion of the company's liquidity profile. At the moment, Omega continues to benefit from robust liquidity buffer. Its liquid assets to total assets accounted for 33% at the end of 2018. Omega's securities portfolio is dominated by the Russian corporate and bank eurobonds of good credit quality and liquidity.

Exhibit 3

Omega has robust liquidity and good capital buffer



Source: Omega's annual reports

Business profile and financial policy

We adjust Omega's Ba3 Adjusted Financial Profile score downwards by two notches to incorporate qualitative assessments pertaining to business diversification (-1 notch) and key-man risk (-1 notch).

In 2018, as well as in each of the preceding four financial years, more than 80% of Omega's fee and commission income was attributable to the company's three largest customers. This represents a very high single-name concentration in the company's revenue stream. Moreover,

Omega's boutique franchise highly depends on connections of its sole shareholder, rendering the company potentially vulnerable to any change in ownership or management.

Operating environment

We assign a B2 score to Omega's Operating Environment, based predominantly (with a 70% weight) on the competitive dynamics and industry fundamentals of Russian brokerage companies.

Omega is domiciled in Cyprus. Therefore, we take into account the fact that the company benefits from being subject to EU standards of regulation and supervision, as executed by the Cyprus Securities and Exchange Commission. However, we believe the Russian operating environment is more relevant for Omega than that of Cyprus, given the company's strong links with Russia via its (1) sole shareholder Pavel Vashchenko; (2) customers, many of which have Russian beneficiaries; (3) trade of Russian securities and currency; and (4) other counterparties (for example, brokers and banks), many of which are domiciled in Russia.

The operating environment limits Omega's financial profile and results in a Ba3 Adjusted Financial Profile score, compared with a Baa2 score prior to the consideration of the operating environment.

Macro-Level Indicator

Russia's Ba2 Macro-Level Indicator score reflects the country's moderate (+) economic strength and low (+) institutional strength with high (-) susceptibility to event risk. That said, neither of the indicators has any weighting in the scorecard because these scores are higher than the Competitive Dynamics and Industry Fundamentals score.

Competitive dynamics and industry fundamentals

We assign a B score to the Competitive Dynamics and Industry Fundamentals of both Russian and Cyprus-based securities industry service providers. Entry barriers are low in both countries, resulting in (1) a large number of small market participants, operating in niche market segments; and (2) relatively low industry concentration. In recent years, the exit of large foreign banks from the Russian market has benefited domestic companies, although at the same time, state-owned banks and their subsidiaries have increased their presence significantly, maintaining the strong competitive pressure on smaller firms.

In addition, Russian brokers, as well as Cyprus-based brokers servicing Russian clients, remain subject to the heightened risk of adverse secular changes, given, in particular, the vulnerability of Russia's capital markets to the uncertainty around international sanctions.

Support and structural considerations

Omega is not a systemic entity either in Cyprus or in Russia, and therefore, we estimate a low probability of government support, resulting in no additional uplift to the company's rating.

Methodology and scorecard

About Moody's Security Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-calculated standalone assessment range for Omega is B1-B3. The company's assigned B2 standalone assessment is in the middle of the range, indicating that there is no strong upward or downward pressure on Omega's rating, consistent with its stable outlook.

Methodologies

The principal methodology used in these ratings was Securities Industry Service Providers, published in June 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Rating methodology and scorecard factors

Exhibit 4

Omega Funds Investment Ltd

Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Scale						
Pre-Tax Earnings (USD Million)	20%	-	-	Caa3	Revenue trend	
Profitability						
Pre-Tax Margin	10%	-	-	Aaa	Cost trend	
Pre-Tax Margin Volatility	10%		Caa3	Ba1	Other	
Leverage and Coverage						
Debt/EBITDA	20%	-	-	Ba1	Stress resilience/susceptibility	
(Retained Cash Flow-CapEx)/Debt	20%	-	-	Aaa		
EBITDA/Interest Expense	20%	-	-	Baa1	Stress resilience/susceptibility	
Financial Profile Score	30%		A2	Baa2		
Operating Environment						
Russia						
	Factor Weights	Qualitative Scale	Score			
Macro Level Indicator	0%		Ba2			
Economic Strength	25%	Moderate +				
Institutional Strength	50%	Low +				
Susceptibility to Event Risk	25%	High -				
Competitive Dynamics and Industry Fundamentals	100%		B			
Home Country Operating Environment Score			B2			
	Factor Weights		Score	Comment		
Operating Environment Score	70%		B2			
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				Ba3		
Financial Profile Weight	30%					
Operating Environment Weight	70%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification				-1	very high concentration on few large customers	
Opacity and Complexity				0		
Liquidity Management				0		
Corporate Behavior				-1	key-man risk	
Total Business Profile and Financial Policy				-2		
Adjustments					Comment	
Sovereign or parent constraint				Ba2		
Standalone Assessment Range				B1 - B3		
Assigned Standalone Assessment				B2		

Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
OMEGA FUNDS INVESTMENT LTD	
Outlook	Stable
Issuer Rating	B2
ST Issuer Rating	NP

Source: Moody's Investors Service

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454