

## **Rating-Agentur Expert RA GmbH assigned 'B+' credit rating to JSC CB Rusnarbank according to the international scale. The rating outlook is developing.**

Rating-Agentur Expert RA GmbH assigned 'B+' (Moderately low level of creditworthiness) credit rating according to the international scale to JSC CB Rusnarbank. The rating outlook is developing which means that in the mid-term perspective there is an equal probability of downgrade, upgrade or maintenance of the rating score.

### **BANKING SYSTEM RISK ASSESSMENT:**

The bank's operations are concentrated as follows: 100% in Russia. The banking system risk (BSR) of Russia is moderate. Therefore, the overall systemic risk of JSC CB Rusnarbank was assessed as moderate.

### **MAJOR FACTORS THAT INFLUENCED THE RATING:**

#### **Positive factors:**

- Capital adequacy was maintained at very high and increasing levels throughout 2016 and, as of January 2017, the main capital adequacy indicators stood at N1.0=79,4%, N1.2=71,4%, N1.1=71,4%<sup>1</sup>. Additionally, in case of full impairment of 53,4% of the loan portfolio as of January 2017, the level of capital adequacy ratios would remain above the minimum statutory levels;
- Short- and long-term maturities of assets and liabilities are well matched, which is supported by the very favorable liquidity ratios: N2=169,2%, N3=221,3% and N4=2,7%<sup>2</sup> as of January 2017. Additionally, the bank has a solid share of highly liquid assets (LAM) to raised funds of 105,7% as of the same date;
- Substantial additional liquidity sources. Available loans collateralized by securities (excluding bills) and fundraising opportunities through REPO with securities amounted to 31% of raised funds as of January 2017;
- Excellent coverage of the loan portfolio excluding issued interbank loans by collateral including and excluding collateral formed by securities and guarantees and sureties - 545,6% and 185,5% as of January 2017 respectively;
- Outstanding quality and liquidity of the securities portfolio with the share of securities (in security portfolio) included in the Lombard List of the CBR at 97% as of January 2017;
- High reliability of funds placed on correspondent accounts and issued interbank loans;
- Despite shrinking by around 12p.p. and 1,4p.p. y-o-y in January 2017 respectively, ROE and ROA remain at acceptable levels of 10,5% and 3,4% as of end-2016 respectively. Additionally, coverage of operating costs by net income from interest, fees and commissions is favorable at around 1,4x in 4Q 2016;
- Minor signs of specialization and captivity with the share of related parties assets in total assets and the share of related parties income in total interest and fee income constituting 4,74% and 4,68% in 2015 according to IFRS respectively. At the same time, the share of loans to related parties in total portfolio under RAS was only 0,02% as of January 2017.

<sup>1</sup> N1.0 – capital adequacy ratio; N1.2 - Tier 1 capital ratio; N1.1 - Common Equity Tier 1 (CET 1) ratio.

<sup>2</sup> N2 – instant liquidity normative ratio; N3 – current liquidity normative ratio; N4 – long-term liquidity normative ratio.

#### Restricting factors:

- Average macro profile as the bank operates in a market characterized by a moderate level of risk;
- Narrow geographical distribution of the business (the bank has two separate branches in two regions);
- Risky provision policy evidenced by low and decreasing difference between the calculated and the lowest possible loan loss reserve (LLR) ratio at 0,9% in January 2017;
- Despite the recent significant improvement in large credit risks<sup>3</sup> (LCR) to assets amounting to 25,2% in January 2017, concentration of credit risks on the largest customers remains high, as the share of the maximum credit risk from a single borrower to assets net of reserves was 7,3% in January 2017;
- High share of overdue loans in the portfolio of legal entities and individual entrepreneurs as well as in the portfolio of individuals at 9,3% and 16,3% in January 2017 respectively;
- Narrow credit and operational risk-analysis practices, as well as lack of certificates of management quality.

#### Negative factors:

- Weak competitive position in all sectors of the retail banking market reflected by the low amount of borrowers (88 legal entities and 94 individuals as of January 2017), the low amount of assets (RUB 0,3 bn attributed to legal entities and RUB 0,04bn to individuals as of January 2017), narrow variety of sales channels, as well as limited branding and brand awareness;
- Low diversification by clients and insufficient stability of the funding base. The share of the 10 largest groups of creditors and the largest creditor in the gross liabilities were as high as 58,5% and 20,6% respectively by January 2017. Additionally, despite recent stabilization in the funding base growth dynamics at 0,2% over the past 12 months as of January 2017, it remains rather volatile with a maximum monthly outflow from individuals and legal entities & individual entrepreneurs for the last 6 months at -9,2% and -42,6% in the same period respectively;
- The bank does not have an adequate strategy containing a list of key market segments, analysis of competitive and macro environment as well as indication of the bank's strength and weaknesses relative to the key competitors;
- Rather complicated ownership and control structure with multiple intermediate companies, including offshore companies, between the bank and the individual exercising ultimate control over the bank. Additionally, the lack of independent directors on the board has a negative impact on the bank's corporate governance.

#### Internal stress factors:

- There is a significant uncertainty about the future direction of the bank's business model and its sustainability. The bank is currently going through a transition phase due to the recent controlling shareholder change, which is reflected in the current switch of the bank's business towards specializing in dealing CCP cleared REPOs. In the opinion of the Agency, the bank may face additional market positioning and regulation requirements challenges within the next year.

---

<sup>3</sup> Large credit risk (LCR) is the sum of all loans, guarantees and sureties towards one client exceeding 5% of own funds (capital) of a bank.

#### SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- The bank acquires and successfully adopts a sustainable business strategy.

The following developments could lead to a downgrade:

- Further deterioration of the bank's loan portfolio quality, which might negatively affect the profitability figures.

#### JUSTIFICATION OF THE RATING:

“The Agency assigned a rating of ‘B+’ with a developing outlook to JSC Commercial Bank Rusnarbank. The rating is restrained by the limited competitive position of the bank, low diversification and insufficient stability of the funding base, as well as absence of an adequate business development strategy. At the same time, the rating is supported by a very good capital adequacy and liquidity position, outstanding quality of interbank loan and security asset portfolio and acceptable collateral coverage of the loan (excluding interbank portfolio) portfolio.

Being a small-scale Russian bank headquartered in Moscow and represented in Belgorod Region, Rusnarbank exhibits a narrow geographical distribution, as well as very limited competitive position in the market where it operates, a limited variety of sales channels and low brand awareness. Additionally, the bank has been historically specialized in servicing a limited amount of related entities and individuals, most of which were related to the former controlling shareholder. Consequently, the bank's profitability to a large extent depends on the state of the market, as well as on the credit risk realizations of its key clientele. After the change of the controlling shareholder in November 2016, the bank has been making attempts to diversify and redistribute the funding base, however the share of the largest groups of creditors and the largest creditor in the gross liabilities remained rather high, which exposed the bank to a significant solvency risk. On the positive side, the Agency ascertains a presence of long-lasting relationship with the top non-related creditors, as well as an increasing amount of funds raised from the related entities.

The extent of the credit risk of the bank is largely influenced by its current asset allocation strategy. The Agency observed a sharp increase in interbank loans at the expense of non-interbank loans and promissory notes, as evidenced by a 56 p.p. y-o-y increase in the interbank loans to total loans ratio by January 2017. As of this date, more than 80% of the bank's assets are allocated in interbank loans and investments in mostly liquid securities, which has a positive effect on the bank's capital adequacy and liquidity position and reduces counterparty risk. However, the current asset allocation practices contributed to a profit decline, evidenced by decreasing ROE and ROA, which, alongside the ongoing non-interbank credit portfolio quality deterioration, indicate a rather questionable sustainability of the current business strategy and set additional challenges towards risk mitigation.

The developing outlook reflects the Agency's opinion that the currently assigned credit rating has an equal chance of a downgrade, upgrade, maintenance or any other rating actions within the term of the credit rating validity (1 year). The future development strategy of the bank is rather unclear, as the bank goes through a transition process connected to the recent controlling shareholder change. Uncertain market positioning, narrow credit and operational risk practices, as well as the new regulation requirements extend the bank's credit risk challenges within the next year and determine the credit rating outlook. We expect to have a clearer definition of the bank's business strategy, which will allow the agency to have a different perspective on the credit rating and/or outlook after the first credit monitoring.”

COMPANY PROFILE:

JSC CB Rusnarbank has a general license N° 3403 issued on 11.04.2002. The bank had 88 SME borrowers and 94 individual borrowers as of 01.02.2017. The loan growth rate over the past 12 months was 58,3%. The bank is also a member of the Deposit Insurance System (DIS) since 11.06.2008.

Responsible expert: Ilya Makunin, Rating Analyst of Rating-Agentur Expert RA GmbH

Reviewer: Hector Alvarez, Rating Associate of Rating-Agentur Expert RA GmbH

Related research:

- ◆ Russian Bank Industry Research – 28.11.2016

[http://raexpert.eu/files/Industry\\_report\\_update\\_banks\\_28.11.2016.pdf](http://raexpert.eu/files/Industry_report_update_banks_28.11.2016.pdf)

For further information contact:

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

### **Minute's summary:**

The rating committee for JSC CB Rusnarbank was held on 17 May 2017. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Banks methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment: Methodology for Assigning Credit Ratings to Banks – Short Public Version (from December 2016) can be found under the following link: [http://www.raexpert.eu/files/methodology/Methodology\\_Short\\_Credit\\_Ratings\\_BanksV3.pdf](http://www.raexpert.eu/files/methodology/Methodology_Short_Credit_Ratings_BanksV3.pdf). Descriptions and definitions of all rating categories can be found under the following link: <http://www.raexpert.eu/banks/> under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

**This rating is solicited. The rated entity participated in the rating assignment process.**

**No other third party participated in the preparation of the rating.**

Main sources of information:

- Questionnaire from JSC Commercial Bank Rusnarbank based on the form provided by the Agency;
- Financial statements from JSC Commercial Bank Rusnarbank, following RAS form for the past 24 months: 101, (102, 806, 807, 808, 345)\*, 110, 115, 116, 117, 118, 123, 125, 128, 129, 135, 155, 157, 202, 302, 303, 501, 603, 634, 711;
- Audited annual reports of JSC Commercial Bank Rusnarbank, according to IFRS (including the auditor's report and notes to the accounts) for 2013-2015;
- Audited annual report of JSC Commercial Bank Rusnarbank, according to RAS (including the auditor's report) for 2016;
- Statute of JSC Commercial Bank Rusnarbank;
- Documents regulating risk management of JSC Commercial Bank Rusnarbank;
- Documents regulating corporate governance of JSC Commercial Bank Rusnarbank;
- Answer for additional request based on the form provided by the Agency;
- Information received during the interview with the management of the bank;
- Information from media and other public sources.

### **Limits of the Credit Rating**

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the bank with information considered as the most reliable and up to date in accordance to the overall position of the bank and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

### **Conflict of interest**

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating assessment.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

### **Risk warning**

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

### **Office responsible for preparing the rating**

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.