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Key rating assessment
factors

ACRA assigns B-(RU) to «BaikallInvestBank» JSC, with the “Rating under revision: developing” status

The credit rating of [«BaikallInvestBank» JSC](#) (hereinafter – BaikallInvestBank, or the Bank) is based on its weak business profile coupled with adequate liquidity position, neutral risk profile assessment, and satisfactory funding structure. The “Rating under revision: developing” status is driven by the expected acquisition of JSC “BANK REALIST” ([Bank “Realist” \(B\(RU\), outlook Stable\)](#)).

BaikallInvestBank is a minor credit institution operating primarily in the Irkutsk Region and Moscow. The Bank’s lines of business include corporate loans, consumer lending (loans to purchase construction machinery), bank guarantees, transactions in gold bullions, and foreign exchange transactions. As at October 1, 2018, BaikallInvestBank ranked 171st by capital and 189th by assets in the Russian banking system. The Bank’s key shareholders are Oleg Karchev, Vladislav Mangutov and Alexey Abramov, who also co-own Bank “Realist” and MERLION group of companies. The Bank is expected to close the acquisition of Bank “Realist” within the next three months.

The business profile assessment reflects the weak franchise of BaikallInvestBank in the banking market and ACRA’s negative opinion about the business reputation of a beneficiary who controlled JSC “ROST BANK” and a number of affiliated banks with respect to which the Bank of Russia initiated the financial rehabilitation procedure in November 2014. The Bank holds a minor share in the Russian banking market but, at the regional level, it has adequate market positions and a sustainable base of borrowers that includes gold mining companies. ACRA notes the fairly high diversification of the Bank’s operating income (the Herfindahl-Hirschman Index stood at 0.23x for the first six months of 2018) but indicates a possible decline that may be caused by changes in the bank guarantee market eligibility criteria expected to come into effect on January 01, 2020, which may, in the Agency’s opinion, lead to a reduction the Bank’s commission income.

Adequate loss absorption cushion. As of October 1, 2018, the Bank’s capital adequacy ratios were fairly high (with N1.1 at 10.4%, N1.2 at 10.4%, N1.0 at 11.01%). The current loss absorption cushion is capable of withstanding a credit risk increase of more than 500 bps without breaching statutory ratios. The Bank’s own capital generation capacity is assessed as weak (the averaged capital generation ratio, ACGR, was around 10-20 bps in 2014-2018).

Neutral risk profile assessment. The loan portfolio of BaikallInvestBank exhibits a moderate share of non-performing and uncollectible loans (7.1% as at June 30, 2018, with NPL+90 at 3.3%) and an acceptable concentration on top ten groups of borrowers (33%). Risk management quality is assessed as satisfactory as compared to a sample of peers. The quality of the largest principals under issued guarantees is assessed as adequate.

Adequate liquidity. As at end of October 2018, the short-term liquidity shortage indicator (STLSI) was positive in both base case and stress scenarios of ACRA. Long-term liquidity is assessed as adequate: the long-term liquidity shortage indicator (LTLSI) stood at around 75%.

Satisfactory funding profile stems from acceptable diversification by sources (as at June 30, 2018, individuals and individual entrepreneurs accounted for 59% of the Bank’s liabilities) coupled with increased concentration on the largest creditors (as of June 30, 2018, the share of the largest creditor in the total liabilities was 10.8%, and that of top 10 creditors was 45.1%).

Key assumptions

- Maintaining the current business model;
- N1.1 is above 9%, N1.2 is above 9% in the next 12-18 months;
- Cost of risk is within 3%-3.5%;
- Net interest margin (NIM) is not lower than 5%;
- Maintaining the current funding profile.

Potential outlook or rating change factors**A positive rating action may be prompted by:**

- A decrease of non-performing and uncollectible loans;
- Higher competitive position in key segments;
- Lower concentration of funding sources.

A negative rating action may be prompted by:

- Declining capital adequacy ratios;
- Deteriorating loan portfolio quality;
- Deteriorating liquidity position.

Removal of the “Rating under revision” status may be prompted by:

- Provision of data material to update the standalone creditworthiness assessment and the final credit rating of the Bank, following its reorganization.

Rating components

Standalone creditworthiness assessment (SCA): b-.

Adjustments: none.

Support: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating was 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](#).

The credit rating assigned to «BaikallInvestBank» JSC was first published by ACRA on November 30, 2017. The credit rating and its outlook are expected to be revised within 90 days following the rating action date (November 28, 2018).

The assigned credit rating is based on the data provided by «BaikallInvestBank» JSC, information from publicly available sources, as well as ACRA’s own databases. The rating analysis was performed using IFRS consolidated statements of «BaikallInvestBank» JSC and statements of «BaikallInvestBank» JSC composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and «BaikallInvestBank» JSC participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by «BaikallInvestBank» JSC in its financial statements have been discovered.

ACRA provided no additional services to «BaikallInvestBank» JSC. No conflicts of interest were discovered in the course of credit rating assignment.

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