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Key rating assessment
factors

ACRA assigns BBB(RU) to ZIRAAT BANK (MOSCOW) (JSC), outlook Stable

The credit rating assigned to [ZIRAAT BANK \(MOSCOW\) \(JSC\)](#) (the "Bank") is determined by the strong capital adequacy assessment, satisfactory risk profile, adequate positions in funding and liquidity, and limited business profile. The likelihood of extraordinary support from "T.C. Ziraat Bankasi" (the "Supporting Institution" or "parent entity") is assessed as neutral.

The Bank is a Moscow-based credit institution that provides comprehensive services (loans, bank guarantees, settlements) to Russian companies, including customers of the parent entity that operate in Russia. As of October 01, 2018, the Bank was ranked 169th by capital among Russian credit institutions. The key shareholder of the Bank is "T.C. Ziraat Bankasi" owned by the Turkish government.

Neutral assessment of the likelihood of extraordinary support from the shareholder is mostly determined by the supporting institution's creditworthiness assessment (SICA) similar to the standalone creditworthiness assessment (SCA) of the Bank. The category of jurisdiction of the foreign Supporting Institution (Turkey) generally corresponds to the level of country risk of Russia. However, ACRA notes that the economic situation in Turkey is worsening, driven by further decline in the exchange rate of Turkish lira and negative changes in the payment balance of the country.

At the same time, the tightness of relations between the Bank and the Supporting Institution is assessed as strong, taking into account that:

- The Bank's board of directors consists of the parent entity's representatives;
- Explicit operational integration between the Bank and the Supporting Institution (in terms of corporate governance and risk management);
- The parent entity strives to extend the scope of the Bank's business (100% of net income is injected into the capital);
- Possible reputational risks that may result from the Bank's bankruptcy.

In view of the above, ACRA has not upgraded the Bank's SCA.

Limited business profile assessment (bb+) reflects the Bank's weak franchise in the Russian banking market and low operational income diversification. According to our estimations, the Herfindahl-Hirschman Index was 0.59 as of July 01, 2018, which is explained by the high share of interest income from corporate loans (over 75%) in the operating income.

The Bank's strategy assumes organic growth and continued focus on corporates, including resident companies with Turkish equity.

The corporate governance and strategic planning system is assessed as adequate, taking into account the significant experience and high qualification of the top managers of the Bank, as well as the substantial operational control exercised by the parent entity over the Bank.

Significant loss absorption buffer is evidenced by the high capital adequacy (as of October 01, 2018, the N1.2 ratio was 35.6%), which enables the Bank to withstand the credit risk increase of over 500 bps. The average capital generation ratio is high (ACGR of 311 bps for the last five years), which indicates the stable profitability of the Bank and the absence of dividend payments. The high assessment of the operational efficiency is based on the three-year averages of CTI (41.4%) and NIM (8.5%).

Satisfactory risk profile assessment is based on the acceptable share of potentially problem loans in the portfolio (7.7%, including 4.3% of NPL90+ as of July 01, 2018), coupled with the high concentration on top 10 client groups (77.6% of the portfolio), which is counterbalanced, to some extent, by the SI's guarantees issued for a range of loans.

The credit quality of other assets (mostly, correspondent accounts, interbank loans, and deposits with the largest Russian banks and the Bank of Russia) and contingent liabilities is assessed as adequate.

Adequate liquidity and funding position. The Bank is able to withstand a significant outflow of client funds at the 90-days horizon, both in the base case scenario (about RUB 1.3 bln) and the stress scenario (surplus will not exceed 1% of the total liabilities) applied by ACRA. No imbalances were noted for longer periods (as of July 01, 2018, the long-term liquidity shortage indicator amounted to 109%); no major funds outflows are expected in the next 12 months.

The funding factor was assessed taking into account the heightened concentration of the Bank's resource base on the largest clients (as of July 01, 2018, the shares of the largest lender and top 10 lenders amounted to 27.4% and 68.9% of liabilities, respectively).

As of July 01, 2018, the Bank's liabilities included mainly payables to corporates (73.5% of total liabilities), which indicates the low diversification of liabilities. In ACRA's opinion, such risks have been actually taken into account in the assessment of concentration on the largest lenders, therefore, the Agency has not decreased the assessment of the funding factor in this regard.

Key assumptions

- The Bank will follow its current business model in the next 12–18 months;
- "T.C. Ziraat Bankasi" will retain its shareholding and operating control over the Bank.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- lower concentration of the loan portfolio on the largest groups of clients amid lower share of potentially problem loans or issue of bank guarantees by the SI for such loans.

A negative rating action may be prompted by:

- lower creditworthiness of the SI, resulting from, among other reasons, worsening economic situation in Turkey;
- higher share of problem loans in the Bank's loan portfolio;
- deteriorating liquidity position.

Rating components

SCA: bbb.

Adjustments: none.

Support: no.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been 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](#), the [Methodology for Analyzing Relationships Between Rated Entities and Supporting Organizations outside the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating has been assigned to ZIRAAT BANK (MOSCOW) (JSC) for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (November 30, 2018).

Disclosure of deviations from the approved methodologies. The "funding" sub-factor assessment is increased by one notch, as the risks of low diversification of the liabilities due to concentration on corporate funds have been taken into account in assessing the concentration on the largest lenders/depositors.

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

No material discrepancies between the provided data and the data officially disclosed by ZIRAAT BANK (MOSCOW) (JSC) in its financial statements have been discovered.

ACRA provided no additional services to ZIRAAT BANK (MOSCOW) (JSC). No conflicts of interest were discovered in the course of credit rating assignment.

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