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Key rating assessment factors

ACRA affirms BB-(RU) to RosDorBank, changes outlook to Developing, and B-(RU) to bond issue

ACRA has affirmed the credit rating of [RosDorBank](#) (hereinafter, the Bank) at BB-(RU) based on its limited business profile assessment, satisfactory capital adequacy, weak risk profile, and adequate liquidity and funding position. ACRA also affirmed the credit rating of the bond issued by the Bank (ISIN RU000A0ZZZ25) at B-(RU).

The change in outlook to Developing reflects a planned increase in the Bank's charter capital (by RUB 1 bln) in August, 2019, which can lead to a change in the Bank's credit rating within the 12 to 18-month horizon.

RosDorBank is a small Moscow-based bank focused on medium corporate clients. As of January 1, 2019, the Bank ranked 178th in terms of equity among Russian banks. Key shareholders of the Bank include the Artiukhovs family (42.1%) and V. Dorgan (20.8%); other shares are distributed among top managers and VIP clients of the Bank.

Limited business profile assessment reflects a weak franchise of the Bank in the Russian banking market, coupled with low diversified operating income. The quality of management in the Bank is comparable with peers. The Bank's strategy includes operations in the premium retail and medium business segments. Coupled with a moderate risk appetite, such strategy allows the Bank to demonstrate a stably positive financial performance.

The Bank's business is characterized by weak diversification of operating income. According to the Agency's estimates, the Herfindahl-Hirschman Index was 0.38 in 2018.

Satisfactory capital adequacy. As of March 1, 2019, the Bank maintained capital adequacy ratios (N1.1=9.68%, N1.2=9.68%, N1.0=14.27%) indicating an acceptable credit risk absorption capacity in the next 12–18 months. ACRA stress tests showed that the Bank is capable of withstanding the 300–500 bps increase in the cost of risk without breaching the N1.2 ratio.

Furthermore, the Bank has stable profitability regardless of economic cycles, thanks to a high NIM (6.6% in 2018) and a low cost of risk. The Bank regularly makes dividend payments, which results in a low average capital generation ratio of 31 bps over the last five years.

Weak risk profile assessment is due to the maintenance of a relatively high share of NPLs in the Bank's loan portfolio (17% as of January 1, 2019, including 5% of NPL90+) and increased concentration on the top ten borrower groups (37% vs. 24.5% a year earlier) by the end of 2018 coupled with satisfactory risk management.

The credit quality of other assets outside the loan portfolio, including reverse repurchase transactions, securities portfolio and guarantees portfolio, is assessed as adequate.

Comfortable liquidity position reflects the Bank's ability to withstand a significant outflow of client funds in both base case and stress scenarios of ACRA (the liquidity surplus in the stress scenario is 17% of liabilities). ACRA notes the absence of substantial imbalances on longer terms. The planned capital increase can have a positive impact on the long-term liquidity shortage indicator (LTLSI) if the attracted funds are placed into relatively short-term assets, according to the Agency.

Satisfactory funding position. ACRA points to a decrease in concentration on the funds of individuals in 2019 due to the growth in the volume of funds of legal entities with a simultaneous increase in concentration on funds raised from the ten largest groups of creditors (depositors), which account for 31.7% of the Bank's liabilities.

Key assumptions

- Maintaining the current strategy and business model within the 12 to 18-months horizon;
- Capital increase by RUB 1 bln in August, 2019;
- Maintaining high quality of receivables outside the loan portfolio;
- Maintaining capital adequacy ratio (N1.2) above 9% within the 12 to 18-month horizon.

Potential outlook or rating change factors

The **Developing outlook** assumes an equal probability of the rating being either upgraded or downgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Strengthening of the Bank's capital position due to additional issue of shares coupled with a simultaneous improvement in its long-term liquidity position;
- Significant decline in the amount of problem loans;
- Lower concentration on the largest groups of creditors (depositors) in the Bank's liabilities.

A negative rating action may be prompted by:

- A decline in operating efficiency;
- A deterioration in the loan portfolio quality;
- No improvement in the long-term liquidity position;
- Higher dependence of the resource base on one funding source.

Rating components

SCA: bb-.

Adjustments: none.

Support: no.

Issue ratings

[RosDorBank, 02 \(RU000A0ZZZ25\)](#), redemption: December 12, 2024, issue volume: RUB 300 mln. — **B-(RU)**.

Rationale. The 02 series bond issue (RU000A0ZZZ25) has been affirmed at B-(RU) based on the affirmation of the issuer's credit rating. The issue is a Tier 2 capital source, which envisages a significant level of subordination with respect to senior unsecured creditors and determines its rating three notches below the credit rating of the Bank.

Regulatory disclosure

The credit ratings were assigned to RosDorBank and bonds (ISIN RU000A0ZZZ25) issued by RosDorBank under the national scale for the Russian Federation 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 Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation was also used in the process of credit rating assignment. For the first time, the credit rating of RosDorBank and that of its bonds (ISIN RU000A0ZZZ25) were published by ACRA on April 10, 2018, and December 21, 2018, respectively. The credit rating of RosDorBank and its outlook as well as the credit rating of the above bonds are expected to be revised within one year following the publication date of this press release.

The assigned credit ratings are based on data provided by RosDorBank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of RosDorBank, and the financial statements of RosDorBank drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit ratings are solicited, and RosDorBank participated in their assignment.

No material discrepancies between the provided data and data officially disclosed by RosDorBank in its financial statements have been discovered.

ACRA provided no additional services to RosDorBank. No conflicts of interest were discovered in the course of credit rating assignment.

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