

April 29, 2019

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Key rating assessment  
factors

## ACRA affirms the credit rating of LLC CBED «THE BANK OF KAZAN» at BB+(RU), outlook Stable

The credit rating of [LLC CBED «THE BANK OF KAZAN»](#) (hereinafter, the Bank) is based on the unchanged satisfactory capital adequacy and risk profile assessments and the adequate assessment of funding and liquidity.

The Bank is a credit institution operating primarily in the Republic of Tatarstan ([ACRA rating: AA+\(RU\), outlook Positive](#), hereinafter, the Republic). The Bank focuses on corporate lending and bank guarantee services. Its shareholders are the MPI "Committee on land and property relations of Kazan" (about 40%) and OOO "Leasing-Trade" (about 60%) controlled by its ultimate beneficiary Oskar Prokopiev (99.86%).

**The Agency has kept the relatively low business profile assessment of the Bank** in view of its small share in the Russian banking services market (ranking 167<sup>th</sup> by capital in Russia and 8<sup>th</sup> by assets in the Republic). The Agency notes that the Bank has continued to develop its core business lines based on corporate banking services. The Bank has increased the share of non-interest income, which is positive for the assessment of revenue sources diversification. At the same time, ACRA considers the regional concentration of its business as high despite the fact that the Bank has opened a number of branch offices outside the Republic. The equity share held by the key shareholder has continued to grow, while the overall ownership profile has remained transparent. ACRA notes that the operating income diversification is moderate and there are geographic concentration risks.

**ACRA has kept the 'satisfactory' assessment of the Bank's capital adequacy**, which is due to a significant loss absorption buffer and a limited capacity to generate capital. The N1.2 capital adequacy ratio reached 11.15% by April 01, 2019 (against 9.68% as of January 01, 2019). At the same time, the Agency notes the increased volatility of the ratio in 2018: in July-August the ratio was below 9%.

The limited operating efficiency (cost-to-income = 68.3% for 2016-2018) is negative for the Bank's capital generation capacity. For the last five years, the averaged capital generation ratio (ACGR) amounted to about 80 bps. Dividend payouts may also put some pressure on the ACGR. According to ACRA's estimates, the limited capital generation capacity may affect the Bank's ability to withstand the increase in the cost of credit risk without additional capital injections.

**The risk profile assessment has remained satisfactory.** ACRA notes a moderate growth in NPL90+ (up to 3.7%) and the total volume of problem and potentially problem loans (up to 6.7%) in 2018. At the same time, the share of loans issued to top 10 groups of related borrowers has decreased (down to 29.1%), which, coupled with the adequate risk management assessment, has allowed ACRA to keep the portfolio quality assessment unchanged.

The Bank has continued to reduce the volume of loans granted to construction companies (about 30% of common capital) but increased its portfolio of loans issued to real estate companies (61.1% of common capital). ACRA notes an increase in the share of contingent liabilities to construction companies up to 118% of common capital. The increased volume of transactions with companies operating in high-risk industries has restricted the risk profile assessment.

**The Agency has kept the 'adequate' assessment of liquidity and funding factor** on the strong liquidity position of the Bank: under the base case scenario, the Bank demonstrates a surplus of short-term liquidity, and under the stress scenario, the short-term liquidity shortage indicator does not fall below 13%. The long-term liquidity shortage indicator is about 100%, which indicates no imbalances on the longer periods.

The Bank has maintained the low level of dependence on the funds of the largest lenders/depositors. The share of the largest lender/depositor and top 10 lenders/depositors is less than 5% and 25%, respectively. The main source of funds is still households (over 59% of all liabilities less subordinated debt).

### Key assumptions

- The Bank will adhere to the current business model in the next 12–18 months;
- Loan portfolio growth rate not higher than the industry-average (10%-13%) in 2019;
- Cost of credit risk capped at 2%;
- Maintaining operating profitability;
- Tier-1 capital adequacy ratio (N1.2) above 9% in the next 12–18 months.

### 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:

- Higher loss absorption cushion;
- Higher capital generation capacity;
- Lower concentration of the loan portfolio;
- Lower volume of transactions with companies from high-risk industries.

#### A negative rating action may be prompted by:

- Lower capital adequacy ratios;
- Deteriorating loan portfolio quality;
- Higher dependence of the resource base on households' funds.

### Rating components

**Standalone creditworthiness assessment (SCA):** bb+.

**Adjustments:** none.

**Support:** no systemic importance.

### Issue ratings

No debt securities in free float.

### 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](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of LLC CBED «THE BANK OF KAZAN» was published by ACRA on May 11, 2017 for the first time. The credit rating and credit rating outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on the data provided by LLC CBED «THE BANK OF KAZAN», information from publicly available sources, and ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of LLC CBED «THE BANK OF KAZAN» and statements of LLC CBED «THE BANK OF KAZAN» composed in compliance with the Bank of Russia Ordinance No. 4927-U dated October 08, 2018. The credit rating is solicited, and LLC CBED «THE BANK OF KAZAN» participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by LLC CBED «THE BANK OF KAZAN» in its financial statements have been discovered.

ACRA provided no additional services to LLC CBED «THE BANK OF KAZAN». No conflicts of interest were discovered in the course of credit rating assignment.

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