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Lead analysts:

Alexander Rudykh, Senior Analyst
+7 (495) 139-0480, ext. 130
alexander.rudykh@acra-ratings.ru

Vasilisa Baranova, Senior Analyst
+7 (495) 139 04 80, ext. 136
vasilisa.baranova@acra-ratings.ru

ACRA affirms B+(RU) to «Public bank» (JSC), changes outlook to Positive

The credit rating of «Public bank» (JSC) (hereinafter, the Bank) is based on its weak business profile, strong capital adequacy, weak risk profile, and adequate funding and liquidity.

The rating outlook has been changed to Positive on ACRA's expectations that the Bank's business profile assessment may grow on the stronger franchise following a capital increase expected to occur in Q3 2019.

The Bank is a small-sized credit institution operating in the Karachay-Cherkess Republic and Moscow. The Bank focuses on bank guarantees and corporate and retail lending. As of April 01, 2019, the Bank ranked 197th in terms of equity. The controlling shareholder of the Bank is S. Kuznetsov (about 71% shares), other shares are owned by top managers and business partners of the Bank.

Key rating assessment factors

Low business profile assessment reflects the Bank's weak franchise in the banking market, combined with insufficient diversification of operating income. The Bank's share in the key market is estimated as low. The structure of operating income is dominated by fees earned for bank guarantees issued (over 80%). The Bank's strategy is still focused on guarantees issued in accordance with Federal Law No. 44-FZ, as well as on the transactional business based on the Bank's own payment system, which, in ACRA's opinion, will further enhance the Bank's franchise.

Capital adequacy is assessed as strong. As of April 01, 2019, the Bank's capital adequacy ratios were sound (N1.1=12.6%, N1.2=23.4%, N1.0=24.9%). Stress tests showed that, at the 12-months horizon, the Bank is able to withstand an increase in the cost of risk above 500 bps without violating the N1.2 ratio. The Agency notes that the assessment of the Bank's position on capital and stress testing take into account the planned repayment of a part of subordinated deposits for RUB 200 mln and their subsequent conversion into equity, as planned by the Bank's management for 2019.

The Bank's profit generation capacity is assessed as strong, and the averaged capital generation ratio for 2014-2018 exceeds 105 bps. At the horizon of 12–18 months, we expect this indicator to remain at the current level.

Weak assessment of risk profile. The loan portfolio of the Bank is characterized by a relatively high proportion of bad debts (14.5% as of January 01, 2019, including 1.4% of NPL90+) and an increased concentration on the top 10 groups of borrowers (64.7%). Moreover, the Agency expects that the loan portfolio structure will improve after repayment of some problem loans. The bulk of credit risks falls on guarantees issued by the Bank, which is offset by the adequate credit quality of the largest guarantees.

Adequate funding and liquidity. At the end of 2018, the short-term liquidity shortage indicator (STLSI) was positive in both base case and stress scenarios of ACRA. No imbalances for longer periods are observed (as of January 01, 2019, the long-term liquidity shortage indicator (LTLSI) is high). At the same time, ACRA notes an increased concentration on the funds of the top lender (17.6% as of January 01, 2019), which is compensated by a low proportion of client funds in the Bank's liabilities (15.1% as of January 01, 2019).

Key assumptions

- The Bank's business model will remain unchanged;
- N1.2 ratio at least 12% in the next 12–18 months;
- Repurchase and conversion of subordinated deposits (RUB 200 mln) into equity in 2019.

Potential outlook or rating change factors

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A substantial increase in the loan portfolio quality;
- Lower concentration on top ten borrowers;
- Stronger franchise in the banking market;
- Higher operating income diversification.

A negative rating action may be prompted by:

- A substantial decrease in the capital adequacy caused by higher cost of risk or aggressive growth in assets and off-balance sheet liabilities;
- A substantial increase of the operational risk;
- Lower liquidity caused by shrinking high-liquid assets.

Rating components

Standalone creditworthiness assessment (SCA): b+.

Adjustments: none.

Support: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned 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 Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The credit rating assigned to «Public bank» (JSC) was published on May 17, 2018 for the first time. The credit rating and its 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 «Public bank» (JSC), information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of «Public bank» (JSC) and the financial statements of «Public bank» (JSC) drawn up in compliance with the Bank of Russia's Ordinance No. 4927-U of October 08, 2018. The credit rating is solicited, and «Public bank» (JSC) participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by «Public bank» (JSC) in its financial statements have been discovered.

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

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