

May 17, 2019

Leading analysts:

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

Alexey Bredikhin, Director  
+7 (495) 139-0483  
alexey.bredikhin@acra-ratings.ru

Key rating assessment  
factors

## ACRA assigns BB-(RU) to LLC CB «GT BANK», outlook Stable

The credit rating assigned to [LLC CB «GT BANK»](#) (hereinafter, the Bank) is due to the Bank's moderately low business profile assessment, strong capital adequacy, critical risk profile assessment, and its adequate liquidity and funding position.

The Bank is a small credit organization who carries out its operations mainly in the Krasnodar Krai. The Bank's main activities are corporate lending – in particular companies providing communication services – and raising funds from individuals. As of January 1, 2019, the Bank ranks 184<sup>th</sup> in equity among Russian banks.

**The moderately low business profile assessment (bb-)** reflects the Bank's relatively low share in the Russian financial services market (ranked 237<sup>th</sup> in assets). At the regional level, however, the Bank holds adequate market positions and a stable base of borrowers and depositors.

ACRA assesses the Bank's business diversification as relatively low. Operating income comes mainly from interest revenues on loans issued to clients (63% of operating income). According to ACRA's calculations, the Herfindahl-Hirschman index stood at 0.43 as of January 1, 2019.

The Bank's strategy provides for growth in asset transactions via an emphasis on corporate lending. In terms of liability transactions, the Bank intends to develop its corporate cash settlement services in order to diversify liabilities.

The Bank's ownership structure is completely transparent. The main shareholders are D.R. Isaev, holding a 64.5% share in authorized capital, and his relative P.R. Yakubova, holding a 26.3% share.

**ACRA assesses the Bank's capital adequacy as high.** As of January 1, 2019, the Bank maintained its capital adequacy with reserves (N1.1 and N1.2 – 23%). This allows the Bank to withstand an increase in the cost of risk higher than 500 bps without violating the N1.2 ratio.

The Bank's ability to generate capital is assessed as high. Over the past five years, the Bank has demonstrated positive financial results. This is due to the Bank's high averaged capital generation ratio (ACGR), which stood at 485 bps for 2014-2018.

**The Bank's critical risk profile** is due to the high concentration of the loan portfolio on the 10 largest groups of borrowers (more than 78% of the total loan portfolio) along with a high share of problems loans (15% of all loans, of which 14% are NPL90+).

An additional negative impact on the risk profile is the significant amount of investments in non-core assets represented by real estate received as compensation (RUB 633 mln, or slightly more than 37.5% of equity).

**Adequate liquidity position.** As of January 1, 2019, the Bank was able to withstand a substantial outflow of client funds both in the base case scenario (up to RUB 629 mln.) and in the stress scenario (deficit at 3.1% of total liabilities). Long-term liquidity is adequate; the long-term liquidity shortage indicator (LTLSI) stood at around 82%.

The diversification of funding sources is assessed as moderate. The Bank's main funding source is funds from individuals (94.3% of liabilities, not including subordinated loans as of January 1, 2019), and therefore ACRA does not note any significant concentrations of resources for individual clients (groups) (the 10 largest clients (groups) accounted for only 4.5% of liabilities).

**Key assumptions**

- Maintaining the current strategy and business model within the 12 to 18-month horizon;
- Maintaining N1.2 above 12% within the 12 to 18-month horizon;
- Cost of credit risk at 3-4%.

**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:**

- Reducing the level of problem loans;
- Reducing the loan portfolio's concentration on the 10 largest groups of borrowers;
- Reducing dependence on the main source of funding by drawing from different sources;
- Reducing the volume of non-core assets.

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

- Decrease in N1.2 below 12%;
- Deterioration in liquidity position;
- Increased dependence on funds from the largest depositors.

**Rating components**

**SCA:** bb-.

**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 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 has been assigned to LLC CB «GT BANK» 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 credit rating was assigned based on the data provided by LLC CB «GT BANK», information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of LLC CB «GT BANK» and the financial statements of LLC CB «GT BANK» drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and LLC CB «GT BANK» participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by LLC CB «GT BANK» in its financial statements have been discovered.

ACRA provided no additional services to LLC CB «GT BANK». No conflicts of interest were discovered in the course of credit rating assignment.

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75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

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