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Key rating assessment
factors

ACRA assigns BB-(RU) to JSCB «Energobank», outlook Stable

The credit rating assigned to [JSCB «Energobank»](#) (hereinafter, the Bank) is due to the Bank's satisfactory business profile coupled with strong capital adequacy, critical risk profile and satisfactory liquidity and funding assessment, which takes into account the Bank's concentration on the ten largest creditors' funds.

The Bank carries out its operations mainly in the Republic of Tatarstan (hereinafter, the Republic), where it has a sustainable market position (as of April 1, 2019, the Bank ranked 6th in terms of assets). The Bank has a low share in the Russian banking market: as of April 1, 2019, it ranked 119th in equity and 135th in assets. The Bank's main activities are lending to agribusiness enterprises, as well as construction and trade companies, and collateral retail lending. I. N. Khairullin and A. N. Khairullin have a controlling stake in the Bank — they own nearly 99% of shares through JSC «Edelweiss Corporation».

The business profile assessment (bb) reflects the Bank's relatively low share in the Russian financial services market and its pronounced regional concentration of business, despite plans to open branch offices outside the Republic.

The Bank's operating income is characterized by a low, although increasing, level of diversification: the Herfindahl-Hirschman index stood at 0.42 in 2018, which indicated the increased concentration on corporate lending (about 63% of operating income). The quality of the Bank's management is assessed by ACRA as satisfactory, corresponding to the average level in the Russian banking sector as a whole. The organizational structure of the Bank matches the scale and specifics of its business. The ownership structure of the Bank is transparent, however, its operations are linked with the companies affiliated with the Bank's owners.

The Bank's strategy until the end of 2019 envisages a sustainable increase in assets thanks to the growth of lending to small and medium-sized enterprises with a simultaneous decrease in the sectoral concentration of the portfolio, as well as the expansion of the client base and geographical diversification by improving remote service channels.

ACRA assesses the Bank's capital adequacy as strong, considering consistently high capital adequacy ratios coupled with the Bank's stable ability to generate capital through income. The Bank's core capital adequacy ratio (H1.2) under RAS was 25.1% as of April 1, 2019. The Bank's operations have been profitable in the last five years, which contributed to the fairly high average capital generation ratio (ACGR = 251 bps). According to the ACRA stress test, the Bank is capable of withstanding a gain in the cost of risk of over 500 bps without breaching the statutory capital adequacy ratios.

Profitability indicators are supported by high net interest margin (NIM = 7.0% for the period between 2016 and 2018), which, however, tends to decrease. The average operating efficiency (CTI) has reached 37.4% for the last three years.

The Bank's critical risk profile is due to the low quality of the loan portfolio and its concentration on the companies, which have signs of being related to the Bank. The concentration on the ten largest borrowers was 36.4%. The loan portfolio is generally characterized by a high share of problem loans (36.2% of the total portfolio as of January 1, 2019). These loans are 72.3% covered by reserves. The share of NPL90+ amounted to 6.7% (they are 97.5% covered by reserves). It is worth noting that a significant part of the problem loans are loans to borrowers working in agriculture (nearly 43% of the loan portfolio) and bearing signs of related parties.

The quality of the Bank's risk management system is assessed by ACRA as satisfactory.

The portfolio of liquid securities (18% of assets) is mainly made up of investments in government bonds. The market risk is insignificant, while the operational risk is assessed as moderate.

Satisfactory funding and liquidity position. The Bank has a surplus of short-term liquidity in ACRA's base case and stress (surplus exceeds 15%) scenarios. The Bank's liquidity is supported by a high-quality portfolio of unencumbered debt securities and requirements for reverse repurchase transactions. On longer-term horizons, ACRA sees no significant imbalances (long-term liquidity shortage indicator, LTLSI, is 74%, which is an acceptable level).

According to the Agency, the Bank's funding structure is sufficiently diversified by sources, but the increased concentration on the funds of the largest groups of creditors negatively affects the assessment of the factor.

Key assumptions

- Maintaining the current business model and ownership structure within the 12 to 18-month horizon;
- Loan portfolio growth rate within 5% in 2019;
- Cost of credit risk at 3%;
- Maintaining operating profitability.

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:

- Significantly reducing the level of problem loans and trimming lending to agribusiness enterprises;
- Reducing the loan portfolio's concentration on the ten largest borrowers;
- Reducing the funding concentration on the largest creditors.

A negative rating action may be prompted by:

- Significant decline in capital adequacy ratios;
- Lower business efficiency and lower profitability;
- Considerable increase in the share of problem loans and the growth of allocations to reserves;
- Deterioration in liquidity position.

Rating components

SCA: bb-.

Adjustments: 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 has been assigned to JSCB «Energobank» 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 JSCB «Energobank», information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the financial statements of JSCB «Energobank» drawn up in

compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and JSCB «Energobank» participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by JSCB «Energobank» in its financial statements have been discovered.

ACRA provided no additional services to JSCB «Energobank». No conflicts of interest were discovered in the course of credit rating assignment.

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