

May 22, 2019

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## Key rating assessment factors

# ACRA assigns B(RU) to JSC CB Solidarnost, outlook Stable

The credit rating assigned to [JSC CB Solidarnost](#) (hereinafter, the Bank) is based on its moderately low business profile assessment, satisfactory capital adequacy, critical risk profile assessment, and adequate assessment of funding and liquidity positions.

The Bank is a medium-sized credit institution registered in Samara. The Bank is focused on corporate lending and household deposits. As of January 1, 2019, the Bank ranked 71<sup>st</sup> in capital among Russian banks.

**Moderately low business profile assessment (bb-)** reflects a relatively low share held by the Bank in the Russian financial services market (the Bank ranks 122<sup>nd</sup> in assets); however, at the regional level, the Bank's market positions are adequate.

The Bank's business diversification is assessed as relatively high. According to ACRA's calculations, the Herfindahl-Hirschman Index amounted to 0.18 as of January 1, 2019. ACRA also notes that about 21% of revenue is generated by transactions in securities and revaluation of foreign currencies.

The organizational structure of the Bank matches the scope and specifics of its business.

The Bank is currently undergoing the financial rehabilitation procedure designed to make the Bank a credit institution that serves cash flows and goods turnover between Russia, China and Vietnam. The financial rehabilitation is administered by Zarubezhenergoproekt JSC, the Bank's 100% owner whose financial position is characterized by significant leverage and insufficient rate of income generation.

**Capital adequacy is assessed as satisfactory**, taking into account that the Bank is currently undergoing the financial rehabilitation procedure, and therefore it is required to comply with certain key ratios only. As of January 1, 2019, the Bank's capital adequacy ratios were high (N1.1 and N1.2 ratios at 28.3% and N1.0 ratio at 40.9%), which was in line with the financial rehabilitation plan and allowed the Bank to withstand a credit risk increase of more than 500 bps.

The Bank's capital is under pressure from its low operating efficiency, as the average NIM amounted to 2.2% and the CTI equaled to 148.1% for 2016–2018.

ACRA also notes that the Bank's capital generation capacity is low, which is caused by its low operating efficiency (according to ACRA's estimations based on the RAS financial data of the Bank, the averaged capital generation ratio, ACGR, is negative for 2016–2018).

**The risk profile assessment is critical** due to a high share of problem loans (61% of loan receivables, including 51% of NPL90+, which is a result of the activities undertaken by former owners of the Bank and which is taken into account in the development of the financial rehabilitation plan) and a relatively high concentration of the loan portfolio on top 10 groups of borrowers (over 55% of the loan portfolio).

The risk profile is further affected by a substantial amount of receivables (about 51% of the Bank's common capital) due from Probusinessbank OJSC (the former owner and external administrator of the Bank), and substantial investments into non-core assets (RUB 2.75 bln invested into a closed-end unit investment fund). The current version of the financial rehabilitation plan includes the above assets on the balance sheet of the Bank.

In addition, ACRA notes a relatively high level of market risk (over 100% of the common capital of the Bank), which also limits the risk profile assessment.

**Adequate liquidity assessment.** As of January 1, 2019, the Bank was able to withstand a substantial outflow of client funds in both the base case scenario (up to RUB 1.06 bln) and the stress scenario (shortage of 9% of the total liabilities) applied by ACRA. We note no imbalances on longer terms: the long-term liquidity shortage indicator (LTLSI) exceeded 100% as of January 1, 2019.

**The diversification of funding sources is assessed as moderate.** The Bank's funding is based on household deposits (90.3% of the liabilities less subordinated loans, as of January 1, 2019); therefore, the concentration on the largest clients/client groups is insignificant (the share of top 10 clients/client groups in the total liabilities is as low as 5.9%).

## Key assumptions

- Maintaining the current business indicators as part of the financial rehabilitation plan;
- N1.2 ratio exceeding 12% 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:

- A significant decrease in the level of problem loans;
- Lower concentration of the Bank's loan portfolio on top 10 borrower groups;
- Lower volume of non-core assets.

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

- N1.2 ratio going below 12%;
- Deteriorating liquidity position;
- Higher dependence on the funds of the largest lenders/depositors;
- Higher volume of loans granted to related parties.

## Rating components

**Standalone creditworthiness assessment (SCA):** b.

**Adjustments:** none.

**Support:** no.

## Issue ratings

There are no outstanding issues.

## 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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

A credit rating has been assigned to JSC CB Solidarnost 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 JSC CB Solidarnost, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS financial statements of JSC CB Solidarnost and statements of JSC CB Solidarnost composed in compliance with the Bank of Russia's Ordinance No. 4927-U dated October 08, 2018. The credit rating is solicited, and JSC CB Solidarnost participated in its assignment.

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

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

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