

November 16, 2020

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Key rating assessment factors

ACRA upgrades PJSC Asian-Pacific Bank to BBB(RU), outlook Developing

ACRA has upgraded the credit rating of [PJSC Asian-Pacific Bank](#) (hereinafter, the Bank) to reflect the improved assessment of the probability of extraordinary support from the state and the simultaneous improvement of the Bank's business profile assessment from bb+ to bbb- and the risk profile assessment from critical to weak. In addition, the funding and liquidity assessment has been downgraded from adequate to satisfactory amid a maintained adequate capital adequacy assessment. The credit rating is also based on the Bank's moderate level of systemic importance for the economies of several Russian regions and the state's strong influence on the Bank's creditworthiness, according to ACRA's methodology.

The unchanged Developing outlook reflects ACRA's opinion on the continued possibility that the Bank will be sold to a third-party investor in the next 12–18 months. According to the current plans of the Bank of Russia (the Bank's main shareholder), the sale should be completed in 2021–2022.

The Bank is credit institution ranking 49th in assets and 65th in equity among Russian banks as of October 1, 2020. The Bank is developing as a full-service credit institution and is focused on unsecured consumer lending. The key regions for the Bank include the Far Eastern and Siberian Federal Districts. The Bank of Russia owns almost 100% of the Bank's shares.

The assessment of the probability of extraordinary support from the state has been improved as a result of changes made to the [Methodology for Analyzing Relationships Between Rated Entities and the State](#) and reflects ACRA's opinion that organizations directly controlled by the Bank of Russia are relatively more likely to receive support than other rated entities. In addition, the Bank is a notable player in the financial services market of the Far Eastern and Siberian Federal Districts. In a number of regions that are part of those districts, the Bank's share in the total volume of funds deposited by individuals with banks amounts to more than 3%. The Bank services a range of state-funded organizations and state-owned companies, offering payroll projects and cash management services.

At the same time, ACRA assesses the systemic importance of the Bank as moderate based on its limited importance for certain industries, living standards, and budget revenues. However, ACRA assesses the degree of state influence as strong. The state retains full shareholder and operational control over the Bank. The Bank is managed by the Banking Sector Consolidation Fund. Since October 2020, the board of directors has included representatives of the Bank of Russia, as well as a representative of the Banking Sector Consolidation Fund. The government has supported the Bank with capital and liquidity in the past.

Given the state's support for the Bank, ACRA has added three notches to the Bank's standalone creditworthiness assessment (SCA) (bb).

The business profile assessment has been upgraded to satisfactory (bbb-) mainly due to the improvement of the operating income diversification assessment in light of the expansion of the Bank's activities. ACRA notes rapid growth in the mortgage portfolio, which will allow the Bank to reduce its dependence on unsecured consumer lending. The Bank's strategy is aimed at further expanding its business as a full-service bank in the Far Eastern and Siberian Federal Districts. The Bank's development plans are viewed by ACRA as realistic and consistent with the macroeconomic situation. The quality of corporate governance is consistent with the scope of the Bank's business and objectives. Permanent governance bodies have operated at the Bank since April 2019, and the board of directors has included independent directors since October 2020.

ACRA maintains its adequate capital adequacy assessment. The N20.2 ratio was 9.21% as of July 1, 2020 (7.56% as of July 1, 2019), and the N1.2 ratio was 9.29% as of October 1, 2020 (8.77% as of July 1, 2019). However, ACRA notes the high volatility of capital adequacy indicators (over the past 12 months the N1.2 ratio averaged 8.55%), and expects the Bank's plans to put pressure on them over the next 12 to 18 months. ACRA notes that the Bank's ability to generate capital has stabilized. In ACRA's opinion, the Bank's substantial loss absorption buffer and current business profitability allow it to withstand a 300–500 bps increase in the cost of credit risk (under the stress test). The Bank's NIM and CTI ratios for 2017–2019 amounted to 6.7% and 58%, respectively.

The improvement of the Bank's risk profile assessment from critical to weak reflects the improvement in the quality of the loan portfolio. The share of Stage 3 loans under IFRS 9 as of June 30, 2020 amounted to 17.5% of the portfolio (27.9% as of December 30, 2019), which is comparable to the level of problem and potentially problem (in ACRA's opinion) debt (15.5% of the portfolio). The improved portfolio quality is associated with the derecognition of a significant amount of overdue loans. In addition, in H1 2020, the Bank issued a comparable volume of loans of relatively high quality. The concentration of the portfolio remains low due to the high share of consumer loans — the share of claims on the ten largest groups of related borrowers is less than 10% of the portfolio. Growing issuance of mortgage loans has allowed the Bank to increase the level of collateralization of the loan portfolio, which also positively affects the assessment of the risk profile. The expectations of a rapid increase in the size of the loan portfolio continue to constrain the assessment.

The funding and liquidity assessment has been changed to satisfactory based on the deterioration of the short-term liquidity shortage indicator (STLSI) in ACRA's stress scenario, as well as the decline in the short-term liquidity indicator (STLI) compared to the previous rating action. The factors behind these changes can be attributed to the growth of short-term transactions on repo obligations, as well as an increase in liabilities to legal entities. ACRA also notes the presence of a liquidity gap within the 90-day horizon. At the same time, the long-term liquidity shortage indicator (LTLSI) remains at an adequate level (55%). With regard to the structure of the resource base, ACRA notes that the Bank's dependence on funds from retail clients has decreased from 74.8% of liabilities as of June 30, 2019 to 59.2%, while dependence on the largest creditors (depositors) is growing. As of June 30, 2020, the share of funds from the largest group of creditors (depositors) was 7.9% of liabilities, while the share of the ten largest groups of creditors was 18.6%.

Key assumptions

- Maintained state shareholder and operational control over the Bank's activities until its sale;
- Provision of additional capital and/or liquidity by the Bank of Russia if necessary.

Potential outlook or rating change factors

The **Developing outlook** assumes an equal probability of the rating being either upgraded or downgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Substantial decrease in the amount of problem debt in the loan portfolio;
- Increase in capital adequacy and substantially improved ability to generate capital;
- Significant improvement of the liquidity position.

A negative rating action may be prompted by:

- Decrease in capital adequacy;
- Deterioration in the quality of the credit portfolio;
- Growth in the share of unsecured lending in the credit portfolio;

Rating components

- Higher dependence of the resource base on retail clients' funds.

SCA: bb.

Adjustments: SCA + 3 notches to account for state support.

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](#), the [Methodology for Analyzing Relationships Between Rated Entities and the State](#), and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating of PJSC Asian-Pacific Bank was published by ACRA for the first time on November 20, 2018. The credit rating of PJSC Asian-Pacific Bank 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 PJSC Asian-Pacific Bank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS financial statements of PJSC Asian-Pacific Bank and the financial statements of PJSC Asian-Pacific Bank drawn up in compliance with Bank of Russia Ordinance No. 4927-U, October 8, 2018. The credit rating is solicited, and PJSC Asian-Pacific Bank participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by PJSC Asian-Pacific Bank in its financial statements have been discovered.

ACRA provided additional services to PJSC Asian-Pacific Bank. No conflicts of interest were discovered in the course of credit rating assignment.

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