August 8, 2017

Lead Analysts:

Alexander Proklov, Director
+7 (495) 139-0343
alexander.proklov@acra-ratings.ru

Kirill Lukashuk, Senior Director
+7 (495) 139-0482
kirill.lukashuk@acra-ratings.ru

ACRA assigns **A+(RU)** to **Bank "ROSSIYA"**, outlook **Stable**

The credit rating assigned to Bank "ROSSIYA" (hereinafter, the Bank) stems from its relatively strong business profile with satisfactory capital adequacy, moderately low level of non-performing loans, and strong liquidity position. The standalone creditworthiness assessment (SCA) is under certain pressure from a high concentration of both assets and funding on the Bank's largest clients. The Bank's strong competitive advantage and highly probable support from its shareholders have a positive effect on the Bank's rating.

Bank "ROSSIYA" is owned by a group of well-known Russian entrepreneurs, with Yury Kovalchuk as the largest shareholder controlling approximately 40% of the Bank's stock. The Bank is one of the leading universal banks in Russia. Currently, the Bank operates exclusively in the internal financial market of Russia.

Key rating assessment factors

The Bank's business profile (bbb+) reflects its strong position in the Russian banking system. Currently, the Bank ranks 15th in terms of both capital and assets among Russian credit institutions; the Bank has a recognizable brand. Its operating network includes 69 offices and is present in a number of large regions of Russia (the Bank's business is somewhat concentrated in St. Petersburg and in the Northwestern Federal District as well as in the Republic of Crimea).

The Bank's business is moderately diversified: following 2016 results, the Herfindahl-Hirschman Index used by ACRA to assess operating income diversification stood at 0.29. ACRA assesses management quality as satisfactory in the context of the Russian banking sector. The Bank's strategy suggests organic but fairly active growth in lending activities and assets in the existing business lines. The Bank has a transparent ownership structure.

ACRA estimates the Bank's capital adequacy as satisfactory. The Bank's core capital ratio under RAS (N1.2) was 8.2% as at 01.07.2017, which is in line with capital adequacy targets the Bank has set. According to a stress test performed by ACRA, the Bank's capital demonstrates strong capability to absorb credit risks on the 12 to 18-months horizon. According to ACRA's estimates, the averaged capital generation ratio (ACGR) for 2012-2016 amounted to 59 bps resulting from volatile net income figures of the Bank in the last three years.

Operating efficiency of the Bank's activities is supported by cost-to-income ratio that amounted to 37% in 2014-2016 demonstrating stability of operating expenses amid volatile operating income of the Bank.

Satisfactory risk profile assessment reflects fairly low level of non-performing loans combined with some concentration of the Bank's loan portfolio on the largest groups of borrowers. According to the Bank's IFRS statements, as of January 01, 2017, non-performing loans overdue for more than 90 days accounted for only 2.0% in the total loan portfolio, while the total amount of impaired loans (including non-overdue loans) was 7.7% of the total loan portfolio.

Relatively low concentration of loans in high-risk industries has a positive effect on the Bank's risk profile: loans to construction and real estate companies accounted for only 6% in the Bank's loan portfolio. The Bank's securities portfolio is of good quality and well diversified. Market and operational risks are traditionally at acceptable levels and do not exceed core capital amount.

Funding and liquidity factor is assessed as adequate. This assessment is based on the Bank’s short-term liquidity surplus in both base case and stress scenarios as well as on its independence from regulatory funding. Long-term liquidity is marked by adequate coverage of liabilities by assets with corresponding maturities. This factor is restrained by funding concentration on funds of the largest clients of the Bank, which is assumed to remain unchanged on the rating horizon.

ACRA applies an individual upward adjustment of SCA by 1 notch in order to highlight strong competitive advantage of the Bank arising from the sanctions regime imposed on the Bank by foreign states, which results in relatively more favorable conditions for its business activities in Russia.

The credit rating takes into account a high likelihood of support from the parent company. The Bank is not a member of any identifiable group; however, ACRA takes into account the probability of Bank’s support by shareholders and/or companies they own. According to the Methodology for Analyzing Member Company Relationships within Corporate Groups, ACRA assesses probability of such support as high, and therefore, adjusts SCA by 2 notches up.

Key assumptions

- Cost of credit risk remains in the 2%–3% range within the 12 to 18-month horizon;
- Bank’s capital adequacy level (N1.2 ratio) equals or exceeds 8% within the 12 to 18-month horizon;
- NPL90+ will not exceed 5% within the 12 to 18-month horizon.

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:

- Improved capital adequacy ratios, including by virtue of net income growth;
- Decreased loan portfolio concentration on the largest borrowers, while preserving stably low level of non-performing loans;
- Increased funding sources diversification.

A negative rating action may be prompted by:

- Substantially increase share of non-performing loans in the loan portfolio;
- Substantial decrease of capital adequacy ratios.

Rating components

Stand-alone creditworthiness assessment (SCA): bbb+.

Adjustments:

- Individual adjustment owing to strong competitive advantage: 1 notch up.
- Shareholders’ support: 2 notches up.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is 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 Member Company Relationships Within Corporate Groups, 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 Bank “Rossiya” for the first time. The credit rating and credit rating outlook are expected to be revised within one year following the rating action (August 4, 2017).

The assigned credit rating is based on the data provided by Bank “Rossiya”, information from publicly available sources, as well as ACRA’s own databases. The rating analysis was performed using IFRS statements of Bank "Rossiya" and statements of Bank "Rossiya" composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and Bank "Rossiya" participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by Bank "Rossiya" in its financial statements have been discovered.

ACRA provided no additional services to Bank "Rossiya". No conflicts of interest were discovered in the course of credit rating assignment.

Disclosure of deviations from the approved methodologies. An upward adjustment is made in respect of funding sources diversification as the effect from concentration on the corporate funding sources was factored in when assessing concentration on the key clients. The Bank's SCA was adjusted by 2 notches up in order to give consideration to support by shareholders, which exceeds the maximum possible adjustment as set forth in the Methodology for Analyzing Member Company Relationship within Corporate Groups.

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.