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Key rating assessment
factors

ACRA upgrades the credit rating of LLC CBED «THE BANK OF KAZAN» to BB+(RU), outlook Stable

The upgrade of the credit rating assigned to [LLC CBED «THE BANK OF KAZAN»](#) (hereinafter, the Bank of Kazan, or the Bank) is driven by the increase of loss absorption cushion, which resulted from a higher core capital adequacy ratio amid maintaining capital generation capacity.

The Bank of Kazan is a credit institution operating primarily the Republic of Tatarstan ([AA+\(RU\), outlook Stable](#)), hereinafter, the Republic. The key growth focus for the Bank are corporate lending and guarantee provision. Its shareholders are the MPI "Committee on land and property relations of Kazan" (42.17%) and OOO "Leasing-Trade" (57.83%), with the latter's ultimate beneficiary being Oskar Prokopiev (99.86%).

The Agency keeps the relatively low business profile assessment of the Bank in view of its small share in the Russian banking services market (ranking 184th in terms of capital in Russia and 8th in terms of assets in the Republic of Kazakhstan). The Bank plans to substantially increase the scale of its corporate lending and guarantee business lines in the next 12 months. The Agency believes that the Bank of Kazan is capable of implementing the approved strategy, in particular, by virtue of maintaining its corporate governance at a satisfactory level. The ownership structure exhibits an increase of the key shareholder's stake, while maintaining the overall transparency. ACRA points to moderate diversification of the operating income and risks related to its geographic concentration.

Increased assessment of the Bank's loss absorption capacity is determined by a substantial growth of Tier-1 (N1.2) capital adequacy ratio that reached 10.41% as at April 1, 2018 (this ratio equaled 7% as at April 1, 2017). Core capital of the Bank of Russia has increased by 48% year-over-year on the back of both charter capital growth and as a result of subordinated deposits conversion into additional Tier-1 capital. At the same time, the Bank of Kazan has been consistently profitable on the operating level in the last five years owing to a relatively high net interest margin (NIM, totaling 6.6% in 2015-2017) and low cost of credit risk. In the last five years, the averaged capital generation ratio (ACGR) was around 90 bps. The Agency points to the fact that the Bank started paying dividends, which may have a negative effect on ACGR going forward. The expected acceleration of loan portfolio growth and low operating efficiency (cost to income, CTI, equaled 76.5% in 2017) limit ACRA's assessment of the Bank's capacity to withstand an increase in the cost of credit risk without additional capital injections. The Agency notes that the key shareholder of the credit institution plans to continue increasing the core capital by converting subordinated liabilities.

Keeping the Bank's risk profile assessment is related to higher concentration on the top ten borrowers amid substantial decline of the portfolio of loans to real estate and construction industries. Claims to the above companies has decreased from 204% to 52.4% of the core capital in 2017. However, the share of the Bank's contingent liabilities to construction companies is 74% of core capital. The Agency notes that the Bank retained high quality of its loan portfolio. As at December 31, 2017, NPL90+ accounted for up to 2.6% of total loans, and problem and potentially problem loans were as low as 5%. However, concentration on the top ten borrowers tends to growth: their share exceeded 30% of the total loan portfolio. ACRA notes that the Bank's risk management quality remains adequate.

The Agency keeps its assessment of liquidity and funding position of the Bank of Kazan as 'adequate' primarily owing to a strong liquidity position. Under the stress scenario, this indicator should not fall below 9%. The long-term liquidity shortage indicator (LTLSI) exceeds 80%, which confirms no imbalances in the longer term.

The Bank of Kazan maintains a relatively high level of resource base diversification despite the increasing share of individuals' funds in total liabilities (59%). The share of the largest creditor (depositor) is below 5%; top ten creditors (depositors) account for less than 25% of liabilities.

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Loan portfolio gains equal the industry-average rates (10%-13%) in 2018;
- Cost of credit risk capped at 2%;
- Maintaining operating profitability;
- Maintaining Tier-1 capital adequacy (N1.2) above 9% 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:

- Further increase of the loss absorption cushion;
- Higher capital generation capacity of the Bank;
- Lower concentration of the loan portfolio.

A negative rating action may be prompted by:

- A decline of capital adequacy ratios;
- Deteriorating loan portfolio quality;
- Higher dependence of the resource base on funds of individuals.

Rating components

Standalone creditworthiness assessment (SCA): bb+.

Adjustments: none.

Support: no systemic importance.

Issue ratings

No debt securities in free float.

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](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of LLC CBED «THE BANK OF KAZAN» was published by ACRA on May 11, 2017 for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (May 4, 2018).

The assigned credit rating is based on the data provided by LLC CBED «THE BANK OF KAZAN», information from publicly available sources, and ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of LLC CBED «THE BANK OF KAZAN» and statements of LLC CBED «THE BANK OF KAZAN» composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and LLC CBED «THE BANK OF KAZAN» participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by LLC CBED «THE BANK OF KAZAN» in its financial statements have been discovered.

ACRA provided no additional services to LLC CBED «THE BANK OF KAZAN». No conflicts of interest were discovered in the course of credit rating assignment.

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