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ACRA assigns B+(RU) to «Public bank» (JSC), outlook Stable

The credit rating assigned to «Public bank» (JSC) (hereinafter, the Bank) is based on its weak business profile, strong capital adequacy, weak risk profile, and adequate funding and liquidity.

The Bank is a small-sized credit institutions operating in the Karachay-Cherkess Republic and Moscow. The Bank focuses on bank guarantees and corporate and retail lending. As of April 01, 2018, the Bank ranked 209th in terms of equity. The controlling shareholder of the Bank is S. Kuznetsov (about 71% shares), other shares are owned by top managers and business partners of the Bank.

Key rating assessment factors

Low business profile assessment reflects the Bank's weak franchise in the banking market, combined with insufficient diversification of operating income. The Bank's share in the key market is estimated as low. The structure of operating income is dominated by fees earned for bank guarantees issued (more than 70%). The Bank's strategy is focused on guarantees issued in accordance with Federal Law No. 44-FZ, as well as on the transactional business based on the Bank's own payment system.

Capital adequacy is assessed as strong. As of April 01, 2018, the Bank's capital adequacy ratios were sound (N1.1=9.6%, N1.2=18.2%, N1.0=20.6%). Stress tests showed that, given the growth in assets at risk expected by ACRA, the Bank is able to withstand an increase in the cost of risk above 500 bps without violating the N1.2 ratio on the horizon of 12 months. The Agency notes that the assessment of the Bank's position on capital and stress testing take into account the planned repayment of a part of subordinated deposits for RUB 200 million and their subsequent conversion into equity, as planned by the Bank's management in June–July 2018.

The Bank's own profit generation capabilities are assessed as strong, and the averaged capital generation ratio for 2013-2017 exceeds 100 bps. At the horizon of 12–18 months, we expect this indicator to remain at the current level.

Weak assessment of business profile. The loan portfolio of the Bank is characterized by a relatively high proportion of bad debts (14.6% as of January 01, 2018, including 2.5% of NPL90+) and an increased concentration on the top 10 groups of borrowers (72.2%). Significant credit risks are caused by large loans issued without adequate security.

The bulk of credit risks falls on guarantees issued by the Bank (they exceed the capital by more than four times), which is offset by the high credit quality of the largest guarantees.

In the next 12–18 months, ACRA also expects the Bank's operating risks to grow as a result of the increase in the scale of the transactional business as part of the Bank's own payment system.

Adequate funding and liquidity. At the end of 2017, the short-term liquidity shortage indicator (STLSI) was positive in both base case and stress scenarios of ACRA. No imbalances for longer periods are observed (as of January 01, 2018, the long-term liquidity shortage indicator (LTLSI) is high). At the same time, ACRA notes an increased concentration on the funds of the top 10 lenders (41.8% as of January 01, 2018), which is compensated by a low proportion of client funds in the structure of liabilities of the Bank (20.4% as of January 01, 2018).

Key assumptions

- The Bank's business model will remain unchanged;
- N1.2 at least 12% in the next 12–18 months;
- Cost of risk (for the aggregate portfolio of loans and guarantees) not higher than 2%;
- Repurchase and conversion of subordinated deposits (RUB 200 million) into equity in June–July 2018.

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 substantial increase in the loan portfolio quality;
- A lower concentrations on top 10 borrowers/guarantee beneficiaries;
- A stronger franchise in the banking market combined with a higher diversification of the operational income.

A negative rating action may be prompted by:

- A substantial decrease in capital adequacy caused by higher cost of risk or aggressive growth in assets and off-balance sheet liabilities;
- A substantial increase of the operational risk;
- Lower liquidity caused by shrinking high-liquid assets.

Rating components

Standalone creditworthiness assessment (SCA): b+.

Adjustments: none.

Support: 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 «Public bank» (JSC) for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (May 15, 2018).

The assigned credit rating is based on the data provided by «Public bank» (JSC), information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of «Public bank» (JSC) and the financial statements of «Public bank» (JSC) drawn up in compliance with Bank of Russia Ordinance No. 4212-U of November 24, 2016. The credit rating is solicited, and «Public bank» (JSC) participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by «Public bank» (JSC) in its financial statements have been discovered.

ACRA provided no additional services to «Public bank» (JSC). No conflicts of interest were discovered in the course of credit rating assignment.

Disclosure of deviations from the approved methodologies. In its assessment of the funding factor, ACRA did not take into account low diversification of liabilities resulting from high concentration on the largest client group and top 10 client groups, as the share of funds raised from individuals and corporates is 20.4% of the total liabilities.

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