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## ACRA assigns B(RU) to JSC «BANK REALIST», outlook Stable

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### Key rating assessment factors

The credit rating of [JSC «BANK REALIST»](#) (hereinafter, the Bank) is based on its comfortable capital cushion, adequate liquidity and funding factor, coupled with a weak business profile and a satisfactory risk profile.

JSC «BANK REALIST» (formerly known as JSC BANK MPB) is a small-size credit institution performing its business activities primarily in Moscow. In July 2017, the Bank was acquired by Bureaucrat LLC, whose shareholders are Oleg Karchev, Vladislav Mangutov and Alexey Abramov, who also co-own [BaikalInvestBank JSC \(ACRA rating: B-\(RU\), outlook Stable\)](#) and MERLION group of companies. The Bank is focused on lending to non-financial companies and on bank guarantees. As at June 1, 2018, the Bank ranked 252<sup>nd</sup> by equity and 320<sup>th</sup> by assets among Russian banks. In the next six months, the Bank is expected to merge with BaikalInvestBank JSC, while retaining all available licenses.

**Business profile assessment** reflects the weak franchise of the Bank in the banking market as well as ACRA's negative opinion with regard to business reputation of one of the beneficiaries, who was the shareholder of JSC "ROST BANK" and a number of affiliated banks with respect to which the Bank of Russia decided to activate financial rehabilitation procedure in November 2014. The Bank's share in the key segments of the Russian banking sector is insignificant and its brand is not readily recognizable. The Agency notes that the diversification of the Bank's operating income is moderate (the Herfindahl-Hirschman Index stood at 0.3x for 2017), and the operating income is dominated by interest income from loans granted to non-financial companies and fees from bank guarantees.

**Comfortable loss absorption cushion.** As at May 1, 2018, the Bank's capital adequacy ratios were high (with N1.1 at 16.4%, N1.2 at 16.4%, N1.0 at 20.2%), which allows the Bank to withstand a significant increase in the cost of risk without violating the mandatory standards on the 12–18 months horizon. The Bank's own profit generation capacity is assessed as moderate (the average capital generation ratio, ACGR, is estimated at 55 bps in the period from 2013 to 2017). ACRA expects that in 2018, this indicator will remain at the current level.

**Satisfactory risk profile assessment.** The Bank's loan portfolio is characterized by a high concentration on borrowers (as of December 31, 2017, the share of the top 10 borrowers was 58%) and a moderate share of problem loans (from January 01, 2018 to June 01, 2018, the share grew from 3.2% to 8.5%). The assessment is limited by the risk that the quality of the loan portfolio may deteriorate amid growing business volumes (in 5M2018, the growth was about 20%). The quality of management of the main risks is assessed as satisfactory as compared to peers.

The quality of the top principals under guarantees issued and the securities portfolio is assessed as adequate.

**Adequate liquidity and funding factor.** At the end of 2017, the short-term liquidity shortage indicator (STLSI) showed a significant margin in both the base case and the stress scenarios of ACRA. The long-term liquidity shortage indicator (LTLSI) exceeded 100%. The funding structure is characterized by a high proportion (more than 60% of liabilities) of individuals' funds and an acceptable concentration on the funds of the largest lenders (as at December 31, 2017, the share of the largest lender (excl. subordinated obligations) was 7% of the Bank's liabilities, and the share of the top 10 lenders was 19.6%).

<b>Key assumptions</b>	<ul style="list-style-type: none"><li>• The current business model will not change;</li><li>• N1.1 and N1.2 ratios will be above 10% in the next 12–18 months;</li><li>• The cost of risk will be 2–3%;</li><li>• Net interest margin (NIM) will be 7–8%;</li><li>• The current funding profile will not change.</li></ul>
<b>Potential outlook or rating change factors</b>	<p>The <b>Stable outlook</b> assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.</p> <p><b>A positive rating action may be prompted by:</b></p> <ul style="list-style-type: none"><li>• Stronger competitive positions in the key segments;</li><li>• Moderate risk appetite and business growth rate not exceeding the market average;</li><li>• Lower concentration on the largest lenders.</li></ul> <p><b>A negative rating action may be prompted by:</b></p> <ul style="list-style-type: none"><li>• Lower capital adequacy ratios;</li><li>• Lower loan portfolio quality;</li><li>• Weaker liquidity.</li></ul>
<b>Rating components</b>	<p><b>Standalone creditworthiness assessment (SCA):</b> b.</p> <p><b>Adjustments:</b> none.</p> <p><b>Support:</b> none.</p>
<b>Issue ratings</b>	No outstanding issues have been rated.
<b>Regulatory disclosure</b>	<p>The credit rating has been assigned under the national scale for the Russian Federation and is based on the <a href="#">Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation</a> and the <a href="#">Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities</a>.</p> <p>A credit rating has been assigned to JSC «BANK REALIST» for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (July 04, 2018).</p> <p>The assigned credit rating is based on the data provided by JSC «BANK REALIST», information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of JSC «BANK REALIST» and statements of JSC «BANK REALIST» composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and JSC «BANK REALIST» participated in its assignment.</p> <p>No material discrepancies between the provided data and the data officially disclosed by JSC «BANK REALIST» in its financial statements have been discovered.</p> <p>ACRA provided no additional services to JSC «BANK REALIST». No conflicts of interest were discovered in the course of credit rating assignment.</p>

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