

December 27, 2018

ACRA affirms BBB-(RU) to PJSCB «DERZHAVA», outlook Stable

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Key rating assessment factors

The credit rating assigned to [PJSCB «DERZHAVA»](#) (hereinafter, the Bank) is based on the Bank's medium business profile, adequate funding and liquidity and capital adequacy, and satisfactory risk profile. The Bank's creditworthiness is moderate compared to Russian peers.

The Bank is a small Moscow-based bank that focuses on bank guarantees, transactions in securities and, to a lesser extent, lending to small and medium-sized businesses and individuals. As of November 01, 2018, the Bank ranked 116th in terms of capital and 163rd in terms of assets among Russian banks.

The controlling beneficiary shareholder of the Bank is S. Ents (about 83% shares); the remaining shares belong to V. Polyakov.

Satisfactory business profile assessment reflects a low share of the Bank in the Russian banking market amid its strong positions in the bank guarantees segment. The Bank ranks 20th in terms of the volume of guarantees issued in 11M2018.

The business profile assessment takes into account the operating income moderately diversified by source. The sources include mainly commission fee for issuance of bank guarantees and interest income from debt securities.

The Bank's ownership structure is clear up to its ultimate beneficiaries. ACRA has no negative information about such beneficiaries.

Adequate capital adequacy buffer. As of November 01, 2018, the Bank's capital adequacy ratios were acceptable (N1.1 = 8.16%, N1.2 = 8.99%, N1.0 = 10.62%). Taking into account the expected increase in the portfolio of issued guarantees, ACRA is of the opinion that the N1.2 CAR will be maintained not lower than 8.0% in the next 12 months.

The current level of capital adequacy allows the Bank to sustain the increase in the risk cost by more than 400 bps without violating the regulatory standards.

The Bank's own capacity to generate capital is estimated by ACRA as satisfactory (the averaged capital generation ratio (ACGR) amounted to 213 bps for 2013–2017). According to ACRA estimates for 6M2018, the net interest margin (NIM) and the cost to income (CTI) were 5.6% and 38.4%, respectively.

Satisfactory risk profile assessment. The loan portfolio is about 19% of the total assets of the Bank, with a medium proportion of non-performing loans. As of June 30, 2018, the proportion of NPL90+ in the portfolio amounted to 8.7%. Over 90% of such loans are covered with reserves.

At the same time, a significant portion of credit risk accepted by the Bank falls on guarantees issued (about nine-fold capital of the Bank). The quality of the largest principals is assessed as high. The Bank has developed a multifactor scoring system for potential principals (the system includes a significant part of the key risk indicators for corporates). The quality of management of the main risks is assessed as satisfactory in comparison with peers.

The Bank's portfolio of securities includes bonds issued by high credit quality issuers. The market risk accepted by the Bank is considered by ACRA as moderate.

Adequate funding and liquidity assessment. As of July 01, 2018, the short-term liquidity shortage indicator (STLSI) was positive both in the base case and in the stress scenario of ACRA. The long-term liquidity shortage indicator (LTLSI) was 114%. At the same time, there is an increased concentration on the funds of the largest lenders (as of July 01, 2018, the shares of the largest lender / top 10 largest lenders were 24.1% and 47.2% of liabilities, respectively).

Key assumptions

- The current business model of the Bank will remain unchanged in the next 12–18 months;
- The credit risk cost will be 2-3%;
- N1.2 ratio will be higher than 8% in the next 12–18 months;
- The current funding profile will remain unchanged.

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:

- Higher capital adequacy ratio due to lower cost of risk;
- Higher credit quality of receivables outside the loan portfolio;
- Lower concentration on the top 10 lenders.

A negative rating action may be prompted by:

- Lower capital adequacy ratios amid higher risk costs;
- Deteriorating loan portfolio quality;
- Growing market risk accepted by the Bank.

Rating components

Standalone creditworthiness assessment (SCA): bbb-.

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 of PJSCB «DERZHAVA» was first published by ACRA on December 29, 2017. The credit rating and its outlook are expected to be revised within one year following the rating action date (December 26, 2018).

Disclosure of deviations from ACRA methodologies. As the share of the loan portfolio in the total assets of the Bank is insignificant (about 19%) and the coverage of problem loans with reserves is high, the risk profile was assessed in accordance with Par. 4.4.2.3 of the [Methodology for Credit Ratings Assignment to Banks and Bank Groups under the National Scale for the Russian Federation](#).

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

No material discrepancies between the provided information and the data officially disclosed by PJSCB «DERZHAVA» in its financial statements have been discovered.

ACRA provided no additional services to PJSCB «DERZHAVA». No conflicts of interest were discovered in the course of credit rating assignment.

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