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**Key rating assessment
factors**

ACRA affirms the credit rating of PJSC SCB "Metallinvestbank" and its bond issue (RU000A0ZZL05) at BBB+(RU), outlook Stable

The credit rating assigned to [PJSC SCB "Metallinvestbank"](#) (hereinafter, the Bank) is based on a sustainable business profile and strong capital adequacy. The standalone creditworthiness assessment (SCA) of the Bank is negatively affected by its level of market risk which exceeds the threshold value established by ACRA's methodology. The credit rating takes into account the likelihood of support from OMK (United Metallurgical Company) (hereinafter, the Supporting Organization, or the SO).

Metallinvestbank is a part of the OMK group, a major metallurgical holding company in Russia. 100% of the Bank's shares belong to OMK-Service JSC, whose beneficiary is Anatoly Sedykh (100%).

The Bank's satisfactory business profile assessment is determined by the limited position currently occupied by the Bank in the Russian banking market (74th in terms of capital) and a sufficiently recognizable brand. The Bank's head office is located in Moscow, and its five branches are in Belgorod, Vyksa, Nizhny Novgorod, Perm, and Novosibirsk. The Bank is focused on lending to corporate and retail customers, factoring, issuing bank guarantees, as well as transactions in securities, foreign currency, and derivative financial instruments.

The Bank's business is highly diversified: the Herfindahl-Hirschman Index is 0.18. At the same time, ACRA notes that the Bank's corporate portfolio is concentrated on lending to trading enterprises, mainly through factoring transactions.

The ownership structure is transparent. The system of corporate management corresponds to the business scale and scope of the Bank. Its development strategy provides for moderate organic growth and it is assessed by the Agency as adequate.

ACRA notes that the Bank's loss absorption capacity is high under both regulatory standards (as of October 1, 2018, the N1.2 ratio was 9.54%) and Basel standards (the Tier 1 capital adequacy ratio was about 9.82% at the end of September 2018). According to ACRA's stress test, the Bank can withstand a significant increase in the cost of risk (by more than 500 bps) without violating regulatory standards. The ability to generate capital from retained earnings is assessed as moderate: the averaged capital generation ratio (ACGR) under IFRS amounted to 68 bps for the last five years.

The Bank's net interest margin (NIM) is comparable to that of its peers, equaling close to 4% for the last three years, and the CTI (cost to income) ratio is average at about 50% for the last three years.

The satisfactory risk profile is characterized by the satisfactory assessment of the risk management system and the quality of the loan portfolio. According to the Bank's IFRS financial statements as of October 1, 2018, the share of problem and potentially problem loans amounted to 9.2% of the total loan portfolio, which is assessed by ACRA as moderate. The concentration of the loan portfolio on the top ten groups of related borrowers is also assessed as moderate (17.3% of the total loan portfolio).

The portfolio shows a low level of concentration on high-risk industries (11.9% of Tier 1 capital under IFRS). The Bank's securities portfolio (government bonds and corporate Eurobonds) is of high quality. The market risk, calculated according to ACRA's methodology, exceeds the threshold value and is assessed as elevated (91%).

Satisfactory funding and liquidity assessment. The Bank has a short-term liquidity surplus both in ACRA's base case and stress scenarios and an adequate long-term liquidity profile. This factor is limited by the high concentration of funding on the largest group of creditors, entities associated with companies of the Supporting Organization. The diversification of funding sources is assessed as moderate.

The rating takes into account the likelihood of support from the Supporting Organization, the parent company of which is OMK-Service JSC. Therefore, ACRA has added one notch to the Bank's SCA. The creditworthiness of the Supporting Organization is assessed by ACRA as strong, and, if necessary, the Supporting Organization is able to inject capital and provide liquidity to the Bank. The connection between the Bank and the Supporting Organization is assessed as moderate.

The likelihood of support to the Bank is due to its substantial operational integration into the OMK group and its strategic importance for the group. In 2014, OMK-Service JSC granted the Bank a subordinated loan of RUB 1.8 bln with a 2024 maturity. On August 30, 2018, the Bank received a loan of USD 16 mln from OMK-Service JSC, which also confirms the shareholders' propensity to support the Bank.

Key assumptions

- Maintaining the current structure of shareholder control;
- Maintaining the Bank's current business model within the 12 to 18-month horizon;
- Cost of credit risk at 2% within the 12 to 18-month horizon;
- Level of problem loans no higher than 10% 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:

- Higher quality and moderate organic growth of the loan portfolio;
- Lower concentration of the resource base on the largest group of customers;
- Decrease in market risk.

A negative rating action may be prompted by:

- Lower capital adequacy ratio under IFRS and/or RAS;
- Decrease in the credit quality of assets;
- Deteriorating liquidity position.

Rating components

SCA: bbb.

Adjustments: Group: +1 notch to the SCA.

Issue ratings

[Exchange-traded interest-bearing certified unregistered bond, BO-03 series \(RU000A0ZZL05\)](#), maturity date – September 4, 2023, issue amount – RUB 3 bln — BBB+(RU).

Credit rating rationale. The following bond issue represents senior unsecured debt of Metallinvestbank. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as equal to other existing and future unsecured and unsubordinated debt obligations of the Bank in terms of priority. According to ACRA's methodology, the credit rating of the issue is equivalent to that of Metallinvestbank – BBB+(RU).

Regulatory disclosure

The credit ratings of PJSC SCB "Metallinvestbank" and the bond issued by PJSC SCB "Metallinvestbank" (ISIN RU000A0ZZL05) have been assigned under the national scale for the Russian Federation and are 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](#). The Methodology for Assigning Credit Ratings

to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation was also used in the credit rating assignment of the specified issue.

The credit ratings of PJSC SCB "Metallinvestbank" and the bond issued by PJSC SCB "Metallinvestbank" (ISIN RU000A0ZZL05) were first published by ACRA on February 2, 2018, and September 10, 2018, respectively. The credit rating and outlook of PJSC SCB "Metallinvestbank" and credit rating of the bond issued by PJSC SCB "Metallinvestbank" (ISIN RU000A0ZZL05) are expected to be revised within one year following the rating action date (January 30, 2019).

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

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

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

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