

RAEX-Europe upgraded the credit rating of JSC RUSNARBANK from 'B+' to 'BB-' according to the international scale. The rating outlook was changed from developing to stable.

RAEX-Europe upgraded the credit rating of JSC RUSNARBANK from 'B+' to 'BB-' (Sufficient level of creditworthiness) according to the international scale. The rating outlook changed from developing to stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

BANKING SYSTEM RISK ASSESSMENT:

The bank's operations are concentrated as follows: 100% in Russia. The banking system risk (BSR) of Russia is moderate. Therefore, the overall systemic risk of JSC RUSNARBANK was assessed as moderate.

JUSTIFICATION OF THE RATING:

The credit rating upgrade of JSC RUSNARBANK from 'B+' to 'BB-' and the change in the outlook from developing to stable primarily reflects the presence of support from the bank's major shareholder, including the recent increase in Tier 1 capital. Positive profitability dynamics, a stable funding base, as well as adequate capital adequacy ratios and a favorable liquidity position support the ratings. At the same time, the creditworthiness of the bank continues to be constrained by the limited competitive position and low growth rate of assets and revenues as compared to the overall Russian banking sector. In addition, concentration on a narrow selection of banking products, as well as the deterioration in the quality of the corporate portfolio, also adversely affected the rating.

Being a small-scale Russian bank headquartered in Moscow and represented in Belgorod Region, JSC RUSNARBANK exhibits a **narrow geographical distribution**, as well as very limited competitive position in the market where it operates (160th place by assets as of September 2021¹). The bank's assets according to Russian Accounting Standards (RAS) for the period from 01.10.2020 to 01.10.2021 increased by only 1%.

On the positive side, we should note the bank's **commitment to implementing the strategy for 2020-2025** with clear targets and qualitative metrics, as well as corporate governance and risk management improvements. The long-term strategy is focused on issuance of auto loans and provision of guarantees for participation in government tenders. As of 01.10.2021, the bank was among the 30 largest banks in terms of issued guarantees². The development of auto lending and issuance of guarantees is carried out without expanding the bank's physical presence and without increasing operating costs. The bank uses both an online platform³ and agent networks as sales channels with the following coverage: guarantees in all regions, auto loans in 40 regions, business mortgages in Moscow and Moscow region, as well as in St. Petersburg.

In 2021, we observed a further **deterioration of the quality of the bank's corporate loan portfolio**. The share of overdue corporate loans has risen dramatically to 53,2% as of September

¹ http://vid1.rian.ru/ig/ratings/banki_05_10_21.pdf

² <https://kuap.ru/banks/ranks/>

³ <https://norma24.ru/>

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2021. However, the share of overdue loans (more than 90 days) in total loans increased only by 1,1 p.p. to 3,7% during the period 01.10.2020-01.10.2021. These figures are primarily explained by an increase in the volume of retail lending with a simultaneous winding down of corporate lending (44% reduction of loans as of September 2021 year-on-year). As a result of the active build-up of auto loans (increase by 34% over the year), the structure of gross loans has shifted towards loans to individuals, while the share of corporate loans is only 9,5%. The retail loans are characterized by a low level of overdue debt, which amounted to 1,5% as of September 2021 according to RAS. The volumes of restructured debts as of 01.10.2021 stood at about 7,3% of loans of legal entities and individuals according to RAS.

In the short term, we do not expect further deterioration in the quality of the loan portfolio, given that the **accelerated growth of auto loans** is inherent in the entire banking sector and is the result of increased demand for loans from the population due to growing car prices and rising interest rates by banks. Further growth in car prices will keep collateral coverage high and motivate borrowers to service their debt. However, in the long term, high concentration on one type of lending product may create asset quality risks in the event the auto loan market overheats.

The bank is also actively moving in the **second strategic direction - issuing guarantees**. In the period from 01.10.2020 to 01.10.2021, the portfolio of this product grew by 36% and amounted to 230% of assets and 7,5x of capital. The guarantee portfolio is mainly concentrated in the construction industry (81%), the main security are sureties of legal entities and individuals - 98%. However, the accelerated growth of the guarantee portfolio does not create a significant pressure on the bank's capital, given that around 98% of issued guarantees are insured by insurance companies with high credit ratings⁴. In addition, the level of payouts under guarantees is at a low level: the ratio of payments under guarantees issued to the total amount of guarantees for the period from 01.10.2020 to 01.10.2021 was less than 1%.

Risks related to the potential deterioration of the asset quality are partly mitigated by the favorable **profitability indicators**, which showed a stable dynamic over the past year remaining at acceptable levels: ROE calculated on the basis of RAS stood at 18,7% for the period of 01.10.2021 till 01.10.2021. Coverage of operating costs by net interest, fees and commission's income after provision for impairment of loans was favorable at around 215% as of period 01.10.2020-01.10.2021. Net interest income rose 28,5% and the net interest margin rose from 5,7% to 7,0% over the same period, aided by an increase of higher-margin auto lending. Net fee and commission income grew even more sharply, by 37,5% in 3Q 2021 y-o-y. On the other side, negative pressure on profitability was exerted by the factor of formation of reserves due to an increase in NPLs.

The bank's stability was supported by additional **capitalization**: In August 2021, there was an increase in Tier 1 capital by RUB 500 m due to the conversion of the bank's subordinated debt into share capital. An additional issue of common shares was fully purchased by the Credit Bank of Moscow. As a result, the capital adequacy remained adequate as shown by the current capital adequacy metrics: general capital adequacy ratio stood at 13,1%, while Tier 1 capital and Common Equity Tier 1 (CET 1) ratio were both at 12,0% at the end of the 3Q 2021. Additionally, we calculate that the capital adequacy ratios would remain above the minimum regulatory levels in case of a full impairment of up to 15% of the loan portfolio as of September 2021.

The bank has a favorable **liquidity position**: the instant, current and long-term liquidity ratios stood at prudent levels of 122%, 144% and 87% respectively as of September 2021. Furthermore, there is a high level of reliability on the funds placed on the correspondent accounts in other banks, as these banks have a BBB- rating or better according to the international scale.

Additional liquidity sources in the form of fund raising opportunities through REPO with highly rated securities (100% of securities represented by the federal government bonds of Russia⁵),

⁴ Insurance companies: SOGAZ, VSK, Sber Insurance

⁵ BBB- according to RAEX-Europe: [https://raexpert.eu/reports/Press release Russia 11.06.2021.pdf](https://raexpert.eu/reports/Press%20release%20Russia%2011.06.2021.pdf)

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accounted for 12% of raised funds as of 3Q 2021. Moreover, the bank can be supported by inflow of funds from shareholders in case of liquidity shortage (overdraft and interbank lending from Credit Bank of Moscow);

The funding base of the bank is stable, the main components are deposits from individuals and legal entities, which have grown over the period from 01.10.2020 to 01.10.2021 by 9,4% and represent more than 99% of the funding sources. However, the bank continues to be characterized by a rather concentrated funding base, as the share of the largest group of creditors represents 36% of raised funds as of September 2021. On the positive side, the Agency ascertains presence of the long-lasting relationship with the top non-related creditors, as well as substantial amount of funds can be raised from the related entities.

Internal stress factors:

- Not identified.

Internal support factors:

- Not identified.

External stress factors:

- Not identified.

External support factors:

- Support from the main shareholder: PJSC Credit Bank of Moscow.

ESG Disclosure

Inherent factors:

- Compliance with regulation, Owners' reputation, Shareholding structure, Changes in the shareholding structure for the year, Strategy of the company, Level of transparency, The auditor for IFRS reports, Human resources and management, Quality of reporting, Risk management structure, Insurance risk management, Credit risk management, Market risk management, Liquidity risk management, Operational risk management, Geographical diversification of the insurance portfolio.

Drivers of change factors:

- None.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Continued growth of the bank's assets with the achievement of goals and indicators of the strategy for 2020-2025 along with an increase in diversification of the bank's funding sources;
- Stable asset quality during the mid-term perspective combined with stable liquidity position, as well as stable financial stance of the bank's shareholders;

The following developments could lead to a downgrade:

- Deterioration of the bank's loan portfolio quality, which might negatively affect the profitability and capital adequacy figures;
- Deterioration of the bank's market position in terms of assets and loans due to the high competition from larger private and state-owned banks;
- Unexpected actions from the Central Bank of Russia in relation to the bank or overall stringing of the banking system supervision with adverse effects for small and medium-sized banks;

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COMPANY PROFILE:

JSC RUSNARBANK has a general license N 3403 issued on 11.04.2002. The bank had 34 SME borrowers, 3 borrowers from large business and 9 964 individual borrowers as of 01.10.2021. The bank is also a member of the Deposit Insurance System (DIS) since 11.06.2008.

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
20.11.2020	Scheduled review	B+	Developing
21.08.2020	Scheduled review	B+	Developing
22.05.2020	Scheduled review	B+	Developing
24.05.2019	Scheduled review	B+	Stable
25.05.2018	Scheduled review	B+	Stable
18.10.2017	Unscheduled review	B+	Stable
26.05.2017	Initial assignment	B+	Developing

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Minute's summary:

The rating committee for JSC RUSNARBANK was held on 18 November 2021. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Banks methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment:

- [Methodology for Assigning Credit Ratings to Banks – Full Version \(from August 2020\)](#)
- [Methodology for Assigning Banking Sector Risk Score – Full Version \(from September 2019\)](#)

Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaire from JSC RUSNARBANK based on the form provided by the Agency;
- Financial statements from JSC RUSNARBANK, according to according to the Russian Accounting Standards for the past 24 months;
- Audited annual reports of JSC RUSNARBANK, according to IFRS (including the auditor's report and notes to the accounts) for 2013-2020;
- Audited annual report of JSC RUSNARBANK, according to RAS (including the auditor's report) for 2016-2021;
- Statute of JSC RUSNARBANK;
- Strategy of JSC RUSNARBANK;
- Documents regulating risk management of JSC RUSNARBANK;
- Documents regulating corporate governance of JSC RUSNARBANK;
- Answer for additional request based on the form provided by the Agency;
- Information received during the interview with the management of the bank;
- Information from media and other public sources.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Banks. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the bank with information considered as the most reliable and up to date in accordance to the overall position of the bank and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

Risk warning

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Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.

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