

RAEX-Europe confirmed the credit rating of JSC RUSNARBANK at 'B+' according to the international scale. The developing rating outlook is confirmed.

RAEX-Europe confirmed the credit rating of JSC RUSNARBANK at 'B+' (Moderately low level of creditworthiness) according to the international scale. The developing rating outlook was confirmed which means that in the mid-term perspective there is an equal probability of downgrade, upgrade or maintenance of 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 FOR THE CONFIRMATION OF THE RATING AND DEVELOPING OUTLOOK:

The Agency confirmed the rating of JSC RUSNARBANK at 'B+' with developing outlook. The rating still continues to be restrained by the limited competitive position of the bank as compared to the whole Russian market, low diversification of the funding base, as well as narrow geographical diversification of operations. At the same time, the rating assessment was supported by sufficient capital adequacy ratios, solid liquidity position, as well as by the acceptable quality of the loan portfolio and low credit risk security portfolio.

The developing outlook reflects continuing uncertainty about the macroeconomic situation and systematic risks of the Russian banking system in the face of the crisis related to COVID-19; and on the other hand – reflects the bank's vulnerable position on the market taking into account its size, brand awareness, moderately high share of risky sectors among the clients as well as the financial stance of the bank's shareholders. As an additional factor of uncertainty, we highlight the changes of the Bank's key shareholder – the Credit Bank of Moscow. The deal was finalized in 2Q 2020 and the bank is still in the transition stage. After the partially successful implementation of the mid-term business strategy for 2017-2019, which aim was to change the Bank's specialization towards lending to small and medium sized enterprises, guarantees business as well as mortgage loans, the Bank implemented the long-term strategy for 2020-2025 with clear targets and qualitative metrics to be achieved, as well as corporate governance and risk management improvement. However, the new long-term strategy was introduced in December 2019 and did not take into account the scenario of global recession caused by COVID-19 crisis. In this regard the Agency will monitor closely the implementation of the business-plans of the bank, its financial stance as well as adaptation to new macroeconomic environment within the following months.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Continued growth of the numbers of borrowers and enlargement of the loans portfolio together with significant improvement of the bank's market share on the mortgage and car loans segments, as well as on a national level;
- Stable asset quality during the upcoming months 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 bank;
- 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;

COMPANY PROFILE:

JSC RUSNARBANK has a general license N 3403 issued on 11.04.2002. The bank had 48 SME borrowers, 1 borrower from large business and 8 122 individual borrowers as of 01.10.2020. The bank is also a member of the Deposit Insurance System (DIS) since 11.06.2008.

Related research:

- ◆ Research Report on the Russian Banking Industry – 06.09.2017:
https://raexpert.eu/files/Industry_annual_report_Banks_06.09.2017.pdf

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
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

Minute's summary:

The rating committee for JSC RUSNARBANK was held on 18 November 2020. 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 \(from September 2019\)](#)
- [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 2013-2019;
- Audited annual report of JSC RUSNARBANK, according to RAS (including the auditor's report) for 2016-2019;
- 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.

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

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

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.