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## Key rating assessment factors

# ACRA affirms BBB-(RU) to PJSC METKOMBANK, outlook Stable

The credit rating has been assigned to [PJSC METKOMBANK](#) (the Bank) based on the satisfactory business profile, strong capital adequacy, strong liquidity, and satisfactory risk profile and funding assessments.

The Bank is a medium-sized credit institution operating primarily in Moscow and the Urals Federal District. The active operations mainly include loans to non-financial companies and investments in securities. As of April 01, 2019, the Bank ranked 55<sup>th</sup> place in equity and 77<sup>th</sup> in assets among Russian credit institutions. Since February 2016, the Bank has been carrying out the financial recovery of JSC "Econombank" (Econombank).

**Satisfactory business profile assessment** reflects the lean client base of the Bank, while its share in the key segment (corporate lending) is assessed as not high. The assessment is supported by the diversification of the Bank's operating income (in 2018, the Herfindahl-Hirschman index amounted to 0.28). The corporate governance quality is assessed as adequate; the quality of strategic planning is considered adequate and matching the Bank's business model. ACRA positively assesses the growing volume of market lending and guarantee business, but also notes that the share of captive business has been growing and may grow further in the future.

**Strong loss absorption buffer.** The Bank's capital adequacy ratios have been tending to decline on the growing volume of assets, but the Bank have managed to keep them high enough (as of April 01, 2019, N1.2 = 19.9%). This allows the Bank to withstand a significant increase in the cost of risk (by 500+ bps) in the next 12–18 months and comply with regulatory standards. The Bank's capital generation capacity is estimated as low: the averaged capital generation ratio (ACGR) is estimated at 41 bps for 2014–2018. In the last years, the Bank has paid dividend of not less than 50% of the profit of the previous year.

**Satisfactory risk profile assessment.** The loan portfolio of the Bank (excluding receivables on the balance sheet of Econombank) is characterized by high concentration: as of December 31, 2018, the top 10 groups of borrowers accounted for about 80% of the volume of loans issued by the Bank. At the same time, ACRA notes the increased concentration on loans to companies affiliated with the shareholders or their business partners (about 69% of the common capital as of December 31, 2018). The loan portfolio quality is assessed as satisfactory: the share of problem loans (in terms of the ACRA methodology) has declined y-o-y, and as of January 01, 2019, it was about 7.7% (including 5.6% of NPL90+), with a reserve coverage of 82% (NPL90+ were 100% covered).

The Agency also notes that a significant portfolio of securities, which include equity instruments, is a source of increased market risk relative to the market average (more than 100% of the common capital under RAS). In 2018, a negative revaluation was noted on certain items in the portfolio. The quality of debt securities (about 78% of the portfolio) is assessed by ACRA as predominantly high.

**Strong liquidity.** As of the end of 2018, the short-term liquidity shortage indicator (STLSI) was positive in both the base case and the stress scenarios of ACRA (the liquidity reserve amounted to about RUB 28 bln and RUB 14 bln, respectively). The long-term liquidity position is also assessed as strong: the long-term liquidity shortage indicator (LTLSI) exceeds 100%.

**Satisfactory funding structure** stems from the increased concentration on the funds of the largest group of lenders (over 25% of the Bank's liabilities as of December 31, 2018). The funding sources profile is acceptable, as individuals' funds form 43% of liabilities.

**Key assumptions**

- Keeping the current business model;
- N1.2 exceeding 15% in the next 12–18 months;
- Cost of risk within 3–3.5%;
- NIM within 4–4.5%;
- Keeping the current funding structure.

**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:**

- Declining concentration of the loan portfolio on borrowers and declining share of problem and non-performing loans;
- Stronger competitive positions in the key segments;
- Declining concentration on the largest groups of lenders;
- Lower market risk.

**A negative rating action may be prompted by:**

- Substantially declining capital adequacy ratios;
- Substantially declining loan portfolio quality;
- A substantial growth in lending to companies affiliated with shareholders or their business partners;
- Deteriorating liquidity positions.

**Rating components**

**SCA:** bbb-.

**Adjustments:** none.

**Support:** no.

**Issue ratings**

No outstanding issues have been rated.

**Regulatory disclosure**

The credit rating has been assigned under the national scale for the Russian Federation and is 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 the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating assigned to PJSC METKOMBANK was first published by ACRA on June 9, 2018. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on the data provided by PJSC METKOMBANK, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS financial statements of PJSC METKOMBANK and financial statements of PJSC METKOMBANK composed in compliance with the Bank of Russia Ordinance No. 4927-U dated October 08, 2018. The credit rating is solicited, and PJSC METKOMBANK participated in its assignment.

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

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

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