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ACRA UPGRADES JSC KOSHELEV-BANK TO BB+(RU), OUTLOOK TO STABLE

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The credit rating of JSC KOSHELEV-BANK (hereinafter, KOSHELEV-BANK or the Bank) has been upgraded due to the improvement of the capital adequacy assessment from satisfactory to adequate, the unchanged limited business profile assessment, satisfactory risk profile assessment, and an adequate funding and liquidity position.

KOSHELEV-BANK is a regional bank that offers financial services primarily in the Samara Region and develops as a universal credit institution, servicing both legal entities and individuals.

KEY ASSESSMENT FACTORS

The limited business profile assessment (bb) is based mainly on the Bank's position in the Russian financial services market (it is among 200 largest credit institutions in terms of capital). The Bank's development is focused on SME lending, mortgage lending, and securities trading. KOSHELEV-BANK's strategy generally meets the macroeconomic and regional prerequisites for development, and the quality of corporate governance matches the Bank's scale and lines of business. High diversification of the sources of operating income remains a positive factor in assessing KOSHELEV-BANK's business profile, which is evidence of the universal nature of its business.

The capital adequacy assessment has been improved from satisfactory to adequate due to an increase in the buffer for absorbing unexpected losses over a 12–18 month horizon as a result of the Bank's internal generation of new capital and its expected additional capitalization by the end of 2024. According to stress tests, KOSHELEV-BANK is able to withstand growth in the cost of credit risk by more than 500 bps. At the same time, capital adequacy ratios are maintained at an adequate level (including N1.2 at 12% as of October 1, 2024). The averaged capital generation ratio (ACGR), calculated for the past five years, continues to grow (120 bps over 2019–2023) due to the Bank's stable business profitability and an absence of dividend payments (excluding dividend payments in 2021). However, the Bank's operational efficiency metrics remain relatively weak — the costs to income (CTI) ratio and net interest margin (NIM) calculated for the past three years amount to 65% and 3.5%, respectively.

The satisfactory risk profile assessment reflects mainly the adequate quality of the loan portfolio (57.5% of assets as of June 30, 2024) and takes into account the low share (less than 5%) of non-performing and potential non-performing assets in the portfolio coupled with acceptable concentration of the portfolio on the 10 largest groups of borrowers (around 27%). The volume of lending to construction sector entities and real estate transactions has continued to decline (to 0.6x of common capital). The credit quality of the securities portfolio and the portfolio of contingent liabilities is assessed as adequate. However, the volume of accepted market risk remains heightened (1.35x of common capital).

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ACRA assesses the Bank's funding and liquidity position as adequate. The liquidity position is strong, which is confirmed, in particular, by the short-term liquidity shortage indicator, which demonstrates excess liquidity in both the base case and the stress scenarios. The strong short-term liquidity position is due to the large amount of securities held on the Bank's balance sheet that can be used to attract additional funds. The long-term liquidity shortage indicator is also fulfilled with a margin (it exceeds 100%). The concentration of the Bank's funding sources is still heightened, while retail funds remain the key funding source for the Bank (75%). The diversification of liabilities by groups of the largest lenders of KOSHELEV-BANK is assessed as low (the share of the largest group is 4% of liabilities, while the share of the 10 largest groups is 13.4%). The Bank's dependence on funds from the regulator is insignificant (no more than 2% as of June 30, 2024).

KEY ASSUMPTIONS

- Maintaining the current business model within the 12 to 18-month horizon;
- Maintaining the profitability of operations;
- N1.2 no lower than 12% within the 12 to 18-month horizon;
- Maintaining a large volume of highly liquid assets.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Further improvement in capital adequacy ratios and maintaining strong capital generation capacity and/or significant growth of operational efficiency;
- Sustainably lower share of non-performing and potential non-performing assets coupled with no increase of portfolio concentration on the largest groups of borrowers and/or significant decline of accepted market risk.

A negative rating action may be prompted by:

- Deterioration of loan portfolio quality in terms of both growth of non-performing and potential non-performing loans and higher concentration of the largest groups of borrowers;
- Higher share of loans granted to companies operating in high-risk industries;
- Higher volume of accepted market risk and/or materialization of this risk;
- Deterioration of the funding and/or liquidity position.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bb+**.

Adjustments: none.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the Methodology for Assigning Credit Ratings 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 of JSC KOSHELEV-BANK was published by ACRA for the first time on December 5, 2019. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on data provided by JSC KOSHELEV-BANK, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of JSC KOSHELEV-BANK and the financial statements of JSC KOSHELEV-BANK drawn up in compliance with the requirements of the Bank of Russia. The credit rating is solicited and JSC KOSHELEV-BANK participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided additional services to JSC KOSHELEV-BANK. No conflicts of interest were discovered in the course of credit rating assignment.

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