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## ACRA affirms BB-(RU) to JSCB «Energobank», outlook Stable

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### Key rating assessment factors

The credit rating of [JSCB «Energobank»](#) (hereinafter, the Bank) reflects the Bank's satisfactory business profile, strong capital adequacy, critical risk profile, and satisfactory liquidity and funding, which includes the concentration of the Bank's liabilities on the largest lenders' funds.

The Bank operates mainly in the Republic of Tatarstan, where it has sustainable market positions (as of April 1, 2021, the Bank ranked fifth in assets). The Bank's share in the Russian banking market is low: as of April 1, 2021, it ranked 112<sup>th</sup> in equity and 139<sup>th</sup> in assets. The Bank's core business lines include lending to agribusinesses, construction and trade companies, as well as collateralized retail lending. I. N. Khairullin currently holds a controlling stake in the Bank: he controls 50% in JSC "Edelweiss Corporation", which in turn owns 99% of the Bank's shares. The remaining 50% of shares in JSC "Edelweiss Corporation" are owned by G.R. Khairullina (30%) and A. A. Khairullin (20%).

**The business profile assessment (bb) reflects** the Bank's relatively low share in the Russian financial services market, as well as the dependency of its operating income upon interest proceeds on loans provided to corporate borrowers, and the pronounced regional focus of its business.

In 2020, the Bank's operating income diversification assessment improved to 'moderate' (the Herfindahl-Hirschman Index reached 0.3), which was mostly due to a decline in the interest income on corporate loans (about 53% of operating income). The quality of the Bank's management is assessed by ACRA as satisfactory and corresponding to the average level in the Russian banking sector. The organizational structure of the Bank matches the scale and specifics of its business. The ownership structure of the Bank is currently transparent; and it worth noting that its operations are linked with companies affiliated with the Bank's shareholders.

The Bank's strategy for 2020–2022 envisages a conservative increase in consumer and SME lending, with a simultaneous improvement in the loan portfolio quality and a decrease of its sectoral concentration. The Bank's plans for increasing the corporate portfolio have been affected by the COVID-19 pandemic and weaker economic environment. The Bank's strategy also includes a further growth of capital and increase in business efficiency through better online banking services.

**ACRA assesses the Bank's capital adequacy as strong**, considering consistently high capital adequacy ratios and the Bank's sustainable ability to generate capital through income. The Bank's capital adequacy ratio (N1.2) under RAS was 25.7% as of April 1, 2021. The Bank's operations have been profitable in the last five years, which contributed to the fairly high average capital generation ratio (ACGR = 198 bps). According to ACRA's stress test, the Bank is capable of withstanding an increase in the cost of risk of over 500 bps without breaching the statutory capital adequacy ratios.

Profitability indicators are supported by moderately high net interest margin (NIM = 5.8% in 2018–2020). The Bank is characterized by the high efficiency of operations: the average CTI has reached 43.9% for the last three years.

**The Bank's critical risk profile** is due to the low quality of the loan portfolio and its concentration on companies that have signs of being related to the Bank. As of April 1, 2021, the concentration on the ten largest borrowers was 34.2%.

The loan portfolio contains a high share of problem loans (around 37% of the total portfolio as of April 1, 2021). These loans are 76% covered by reserves. The share of NPL90+ decreased year-on-year from 5.8% to 5.6%, while the share of such loans covered with reserves increased from 98.7% to 99.7%.

It is worth noting that the major portion of problem loans are still loans to agribusinesses (nearly 36% of the loan portfolio) and those bearing signs of related-party loans.

The quality of the Bank's risk management system is assessed by ACRA as satisfactory.

The portfolio of liquid securities (20% of assets) includes government bonds and the Bank of Russia's bonds. The market risk is insignificant, while the operational risk is assessed as moderate.

**The funding and liquidity position is satisfactory.** The Bank demonstrates a surplus of short-term liquidity in ACRA's base case and stress (the surplus is around 7%) scenarios. The Bank's liquidity is supported by a high-quality portfolio of unencumbered debt securities. On longer-term horizons, ACRA sees no significant imbalances (long-term liquidity shortage indicator, LTLSI, is 71%, which is an acceptable level).

In the Agency's opinion, the Bank's funding structure is sufficiently diversified by source, but the increased concentration on the largest groups of lenders is negative for the factor's assessment.

### Key assumptions

- Maintaining the current business model 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:

- Significant decline in the volume of problem loans;
- Trimming lending to agribusiness enterprises;
- Lower concentration of the loan portfolio on the ten largest groups of borrowers;
- Lower funding concentration on the largest groups of lenders;
- Better position in long-term liquidity.

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

- Significant decline in capital adequacy ratios;
- Lower business efficiency and profitability;
- Considerable increase in the share of problem loans;
- Deterioration in liquidity position.

### Rating components

**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 Credit Ratings Assignment to Banks and Bank Groups under the National Scale for the Russian Federation](#) and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating of JSCB «Energobank» was first published by ACRA on May 20, 2019. The credit rating of JSCB «Energobank» 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 the data provided by JSCB «Energobank», information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the financial statements of JSCB «Energobank» drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and JSCB «Energobank» participated in its assignment.

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

ACRA provided no additional services to JSCB «Energobank». No conflicts of interest were discovered in the course of credit rating assignment.

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