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Lead analysts:

Irina Nosova, Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

Valeriy Piven, Senior Director
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Key rating assessment factors

ACRA upgrades JSC “Moscow Industrial bank” to BBB(RU), outlook Stable

On June 24, 2021, [JSC “Moscow Industrial bank”](#) (hereinafter, MInBank, or the Bank) changed its form of incorporation from public-joint stock company to joint-stock company. In ACRA's opinion, this change has no impact on the Bank's credit rating.

ACRA has withdrawn the status "Rating under revision: Developing", since it does not expect the Bank's rating to change in the next 90 days.

The credit rating has been upgraded to reflect the better assessment of the likelihood of extraordinary support from the state and the upgrade in the Bank's standalone creditworthiness assessment (SCA) from 'bb-' to 'bb' on the back of the step-by-step implementation of the plan for the Bank of Russia participation in the prevention of bankruptcy of the Bank (the Plan).

MInBank is a small-sized bank in terms of capital (ranked 71st among Russian banks as of June 2021) that operates a quite broad national branch network.

On April 29, 2021, the Bank of Russia, the sole owner of the Bank (the 100% share is held in a trust by Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company), announced that, in accordance with draft amendments to certain federal laws, the 100% share in the Bank might be transferred to Rosimushchestvo for further transfer to Promsvyazbank PJSC (hereinafter, PSB, ACRA's rating: [AA\(RU\), outlook Stable](#)). On July 2, 2021, a relevant law that allows for such transfer was adopted (Federal Law No. 326-FZ "Amending Articles 16 and 19 of Federal Law "On insurance of deposits in banks of the Russian Federation").

The score for extraordinary state support has been upgraded due to introduction of the Methodology for Analyzing Rated Entities Associated with a State or a Group. The likelihood of support to the Bank is high in view of the following: 1) the Bank of Russia is exercising shareholding control over the Bank; 2) previously, the Bank was financially supported by the Bank of Russia through a RUB 128.7 bln recapitalization in July 2019 and a RUB 40 bln liquidity injection in Q1 2019 to support the Bank's operations; 3) since January 21, 2019, the Bank of Russia has been consistent in ensuring the Bank's operations as part of the Plan.

The degree of mutual dependence of the Bank and the Bank of Russia on similar risk factors is assessed as medium.

In view of the above, in determining the final credit rating, ACRA has added three notches to the Bank's SCA.

The satisfactory business profile assessment (bbb-) is determined by the market position and the medium diversification of operating income (the Herfindahl–Hirschman Index for 2020 is 0.3). In view of the upcoming acquisition of the Bank by PSB, the Bank's new strategy will pursue the goal of synchronizing product range and tuning internal processes in line with PSB's approaches. It is also expected that the Bank will continue to operate as a universal credit institution remote from any operating losses. The quality of corporate governance is assessed as satisfactory.

The capital adequacy score has been downgraded from weak to critical since the Bank has long been in breach of capital adequacy ratios, which is caused by both business reformatting and additional provisions for problem assets. In ACRA's opinion, the associated risks are mitigated by the Bank of Russia Board of Directors' decision to maintain the continuity of the Bank's business.

The risk profile score has been changed from critical to satisfactory. This is due to amendments made to the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#) with respect to determining the share of problem loans. As part of the implementation of the Plan, a significant portion of Stage 3 loans within the "old" loan portfolio was provisioned by more than 90%. Without taking into account such loans, the current share of problem loans in the Bank's loan portfolio is estimated at 9.7% (covered with reserves by about 80%). In the short term, ACRA expects that a significant share of the Bank's distressed and non-core assets (mainly claims, investment real estate, investments in shares of corporates) will be transferred to the group of TRUST Bank (PJSC), which, according to the Bank of Russia, is to be completed by November 1, 2021 (previously, August 1, 2021). Taking into account the upcoming "clearing" of the balance sheet from bad assets, the current concentration of the Bank's loans on the ten largest groups of borrowers does not exceed 30% of loans, and that on high-risk industries is about 0.4x of common capital. At the same time, the volume of investments in non-core assets (mostly, liquid residential real estate) is about 19% of common capital.

The credit quality of the securities portfolio (50% of assets) is high and the level of market credit risk is heightened (135% of common capital), which is caused by, among other things, the low volume of capital.

The Bank's risk management function is assessed as satisfactory.

Adequate liquidity position. ACRA assesses the Bank's ability to fulfill its obligations on the 90-day horizon as strong, since the Bank demonstrates excess short-term liquidity in the base case and stress scenarios. As of March 31, 2021, the long-term liquidity shortage indicator, LTLSI, stood at an acceptable level. In July 2021, the Bank faced a liquidity outflow of around RUB 22 bln (9% of liabilities as of March 31, 2021; the amount was granted by the Bank of Russia to support liquidity), however, if necessary this amount can be replaced by funds obtained under a repurchase agreement made with CCP NCC ([AAA\(RU\), outlook Stable](#)).

Satisfactory funding profile. The Bank's funding base mainly includes deposits held by individuals (58% of liabilities as of March 31, 2021), and, consequently, there is no pronounced concentration on the ten largest groups of lenders (19% of liabilities). At the same time, CCP NCC is the largest lender accounting for 17% of liabilities.

Key assumptions

- The state retaining its shareholding control over the Bank;
- State support in the form of capital and/or liquidity, if necessary;
- Maintaining the current business model.

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:

- Significantly stronger capital position of the Bank;
- Transfer of problem assets from the balance sheet of the Bank;
- Significant improvement in operating efficiency.

A negative rating action may be prompted by:

- Loss of the shareholding control over the Bank by the state;
- Increase in the concentration of the resource base on the largest groups of lenders or sources, and decline in the liquidity position.

Rating components

SCA: bb.

Adjustments: none.

Support: state support, +3 notches to the SCA.

Issue ratings

No outstanding issues have been rated.

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](#), the Methodology for Analyzing Rated Entities Associated with a State or a Group, and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of JSC "Moscow Industrial bank" was published by ACRA for the first time on August 12, 2019. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

Disclosure of deviations from approved methodologies. A deviation from the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#) was made: in determining the risk profile, a number of indicators were calculated using an approach similar to determining the share of problem loans in the loan portfolio, that is, without taking into account the provisioned portion of the loans and other problem assets formed before the transfer of the Bank under the control of the Bank of Russia.

The credit rating was assigned based on the data provided by JSC "Moscow Industrial bank", information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS consolidated statements of JSC "Moscow Industrial bank" and statements of JSC "Moscow Industrial bank" composed in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and JSC "Moscow Industrial bank" 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 additional services to JSC "Moscow Industrial bank". No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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