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## Key rating assessment factors

# ACRA upgrades PJSC SCB "Metallinvestbank" and its bond issue to A-(RU), outlook Stable

The credit rating of [PJSC SCB "Metallinvestbank"](#) (hereinafter, the Bank) has been upgraded due to the Bank's improved risk profile and funding position. The standalone creditworthiness assessment (SCA) of the Bank is negatively affected by its level of market risk, which exceeds the threshold value established by ACRA's methodology. The credit rating does not take into account the likelihood of support from OMK (United Metallurgical Company) (hereinafter, the Supporting Organization, or the SO).

Metallinvestbank is part of the OMK group, a major metallurgical holding company in Russia. 100% of the Bank's shares belong to OMK-Service JSC, whose beneficiary is Anatoly Sedykh (100%).

**The Bank's satisfactory business profile assessment** is determined by the limited position currently occupied by the Bank in the Russian banking market (64<sup>th</sup> in terms of capital) and a sufficiently recognizable brand. The Bank's head office is located in Moscow, and its five branches are in Belgorod, Vyksa, Nizhny Novgorod, Perm, and Novosibirsk. The Bank focuses on lending to corporate and retail customers, factoring, issuing bank guarantees, as well as transactions in securities, foreign currency, and derivative financial instruments.

The Bank's business is highly diversified: the Herfindahl-Hirschman Index stood at 0.23 as of October 1, 2019. At the same time, ACRA notes that the Bank's corporate portfolio is concentrated on lending to trading enterprises, mainly through factoring transactions.

The ownership structure is transparent. The corporate management system corresponds to the business scale and scope of the Bank. Its development strategy provides for moderate organic growth and ACRA assesses it as adequate.

**ACRA notes that the Bank's loss absorption capacity has improved** under both RAS standards (as of November 1, 2019, the N1.2 ratio was 11.1%, having grown from 8.5% as of December 1, 2018) and Basel standards (the IFRS Tier 1 capital adequacy ratio was 10.4% of total risk-weighted assets at the end of September 2019 vs 9.0% as of January 1, 2019). According to ACRA's stress test, the Bank can absorb a significant increase in the cost of risk (by more than 500 bps) without violating regulatory standards. The Bank's ability to generate capital from retained earnings is assessed as moderate: the averaged capital generation ratio (ACGR) under IFRS amounted to 71 bps for the last five years.

The Bank's net interest margin (NIM) is comparable to that of its peers, equaling close to 5% for the last three years, and the CTI (cost-to-income) ratio is average at about 60% for the last three years.

**The risk profile has improved from satisfactory to adequate** based on the satisfactory assessment of the risk management system and the relatively high quality of the loan portfolio.

As of October 1, 2019, ACRA estimates the share of problem loans at 6.7% of the total loan portfolio, which is assessed by ACRA as moderate. Coverage of possible losses by reserves is assessed as adequate. The concentration of the loan portfolio on the top ten groups of related borrowers is assessed as moderate (8.8% of the total loan portfolio).

The loan portfolio shows a low level of concentration on high-risk industries (12.1% of Tier 1 capital under IFRS). The Bank's securities portfolio (government bonds and corporate Eurobonds) is of high quality. The market risk in relation to Tier 1 capital, calculated according to ACRA's methodology, exceeds the threshold value (87%).

**The funding and liquidity position has been upgraded from satisfactory to adequate** due to reduced concentration on funding from the largest group of lenders related to the SO (which the Bank is part of), and also the smaller share of the ten largest borrowers. The diversification of funding sources is assessed as moderate.

The Bank has a short-term liquidity surplus both in ACRA's base case and stress scenarios and an adequate long-term liquidity profile.

**The rating does not take into account the likelihood of support from the SO**, the parent company of which is OMK-Service JSC. The creditworthiness of the SO is assessed by ACRA as strong, however this factor does not influence the Bank's credit rating.

### Key assumptions

- Maintaining the current structure of shareholder control;
- Maintaining the Bank's current business model within the 12 to 18-month horizon;
- Cost of credit risk at 2% within the 12 to 18-month horizon;
- Level of problem loans no higher than 10% 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 :

- Higher quality and moderate organic growth of the loan portfolio;
- Decrease in market risk.

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

- Lower capital adequacy ratio under IFRS and/or RAS;
- Decrease in the credit quality of assets;
- Deteriorating liquidity position;
- Decrease in diversification of funding sources.

### Rating components

SCA: a-.

### Issue ratings

[Exchange-traded interest-bearing certified unregistered bond, BO-03 series \(ISIN RU000A0ZZL05\)](#), maturity date – September 4, 2023, issue amount – RUB 3 bln — **A-(RU)**.

**Rationale.** The bond issue is a senior unsecured debt instrument of Metallinvestbank. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as equal to other existing and future unsecured and unsubordinated debt obligations of the Bank in terms of priority. According to ACRA's methodology, the credit rating of the issue is equivalent to that of Metallinvestbank — A-(RU).

### Regulatory disclosure

The credit ratings have been assigned to PJSC SCB "Metallinvestbank" and the bonds issued by PJSC SCB "Metallinvestbank" (ISIN RU000A0ZZL05) 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 Member Company Relationships Within Corporate Groups](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale for the Russian Federation was also used to assign the credit rating to the issue listed above.

The credit ratings assigned to PJSC SCB "Metallinvestbank" and the bonds issued by PJSC SCB "Metallinvestbank" were published by ACRA for the first time on February 2, 2018, and September 10, 2018, respectively. The credit rating of PJSC SCB "Metallinvestbank" and its outlook and the credit rating of the bonds issued by PJSC SCB "Metallinvestbank" are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by PJSC SCB "Metallinvestbank", information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of PJSC SCB "Metallinvestbank" and the financial statements of PJSC SCB "Metallinvestbank" drawn up in compliance with Bank of Russia Ordinance No. 4927-U, dated October 8, 2018. The credit ratings are solicited, and PJSC SCB "Metallinvestbank" participated in their assignment.

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

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

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