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#### Key rating assessment factors

#### Key assumptions

#### Potential outlook or rating change factors

## ACRA assigns BB+(RU) to DALENA BANK, Ltd, outlook Stable

The credit rating assigned to [Dalena Bank, Ltd](#) (the Bank) is a result of the Bank's moderately low business profile assessment, strong capital adequacy metrics, satisfactory risk profile assessment, and adequate positions in funding and liquidity.

The Bank is a Moscow-based credit institution that has a basic banking license and is focused on the cash and settlement services for corporate customers. As of January 01, 2019, the Bank ranked 290<sup>th</sup> by equity and 299<sup>th</sup> by assets. The ultimate beneficiary is Yu. Nikonov (with 80.1% shares); other shares are held by business partners and minority shareholders.

**Moderately low business profile assessment (bb-)** reflects the Bank's weak franchise in the banking market, coupled with moderately high operating income diversification (the Herfindahl-Hirschman Index amounted to 0.22 in 2018) and satisfactory quality of management in the context of the Russian banking sector. The Bank's strategy assumes moderate growth and persistent focus on the integrated services for corporates.

**Significant capital reserves coupled with low operating efficiency.** The Tier 1 capital adequacy ratio is high (as of January 01, 2019, N1.2 ratio was 66.5%), which allows the Bank to withstand significant increase in the cost of credit risk (over 500 bps). Moreover, the Bank has been consistently profitable, as the averaged capital generation ratio for the last five years is 398 bps. However, ACRA notes that the operating efficiency of the Bank is limited: the cost-to-income ratio averaged to 78% for 2016–2018.

**Satisfactory risk profile assessment** is based on the satisfactory quality of risk management function and adequate quality of receivables outside the loan portfolio. As of January 01, 2019, the Bank's assets included funds held with the Bank of Russia (54.8% of the total assets) and high-quality debt securities (25.7%). On the other hand, the concentration on the top 10 borrowers is high (over 70% of Tier 1 capital).

Moreover, ACRA notes that the operation risk facing the Bank is rather high and amounts, according to ACRA estimates, to over 100% of Tier 1 capital.

As of late 2018, the share of the Bank's loan portfolio in the total assets was about 5%.

**Adequate funding and liquidity assessment.** In ACRA's opinion, the Bank's position in liquidity is strong, which is confirmed, in particular, by the short-term liquidity shortage indicator: liquidity surplus is RUB 2.4 bln in the base case scenario and 46.7% in the stress scenario. The liquidity surplus is underpinned by the large volume of high-liquid assets that mostly include funds held with the Bank of Russia and debt securities. There are no imbalances for longer periods: the long-term liquidity shortage indicator exceeds 100%.

The funding assessment is restricted by the concentration on funds of the group of lenders related to the Bank (about 44% of the total liabilities).

- The Bank will maintain the current strategy and business model in the next 12–18 months;
- Capital adequacy ratios and liquidity indicators will remain high;
- The quality of the portfolio of securities will remain high.

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:

- Better market positions of the Bank through higher volume of new business amid adequate level of risk on credit transactions;
- Lower concentration on the largest group of lenders.

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

- Lower diversification of the operating income;
- Deteriorating capital adequacy metrics;
- Higher credit risk caused by a significant growth in the loan portfolio;
- Higher credit risk on receivables outside the loan portfolio.

**Rating components****SCA:** bb+.**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 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 has been assigned to Dalena Bank, Ltd for the first time. 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 the data provided by Dalena Bank, Ltd, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the financial statements of Dalena Bank, Ltd drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 08, 2018. The credit rating is solicited, and Dalena Bank, Ltd participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by Dalena Bank, Ltd in its financial statements have been discovered.

ACRA provided no additional services to Dalena Bank, Ltd. No conflicts of interest were discovered in the course of credit rating assignment.

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