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ACRA upgrades rating of Bank GPB (JSC) to AA+(RU), changes outlook to Stable, and upgrades bonds to AA+(RU)

ACRA has upgraded the credit rating of Bank GPB (JSC) (hereinafter, the Bank) based on an improvement in the Bank's risk profile assessment to adequate, which has led to an improvement in the Bank's standalone creditworthiness assessment (SCA) to a+. The credit rating is also based on the Bank's strong and stable business profile, adequate capital position, and satisfactory liquidity and funding positions. In addition, the rating is supported by the Bank's critical systemic importance for the Russian financial market.

The credit ratings of the Bank's issued bonds (ISIN RU000A0ZYHK5, RU000A0JX0P9, RU000A0ZYM05, RU000A0JUV08, RU000A0JUQ39, RU000A0JUMH3, RU000A0JU7Y9, RU000A0JT6J5, RU000A0ZYRX7, RU000A0ZYRY5, RU000A0JXHQ8, RU000A0JXP45, RU000A0JXTF6, RU000A0ZYAE3, RU000A0ZYEE5, RU000A0ZYB73, RU000A0ZZQU2, RU000A0ZZUL3, RU000A0ZZXM5, RU000A1000A0, RU000A1002E8, RU000A1003R8, RU000A1007E7, RU000A100832, RU000A100AF3, RU000A100DX0, RU000A100HH4, RU000A100JB3, RU000A100VR4, RU000A101350), which are senior unsecured debt instruments, have been upgraded to AA+(RU) due to the upgraded credit rating of the Bank.

Gazprombank is one of Russia's largest universal financial institutions that specializes in lending and other banking services to large businesses. The largest shareholders of the Bank are PJSC Gazprom and NPF GAZFOND.

Key rating assessment factors

The strong business profile is based on the Bank's sustainable franchise, primarily in the area of lending to large businesses. ACRA believes that one of the Bank's strongest competitive advantages is its close operational and strategic alliance with PJSC Gazprom (AAA(RU), outlook Stable). The Bank is an industry leader in terms of capital and assets. Its business profile assessment is further supported by the high quality of its corporate governance and adequate development strategy.

Adequate capital adequacy assessment. According to ACRA, the Bank maintains substantial Tier-1 and N1.2 capital adequacy ratios, with the former amounting to 12.5% as of June 30, 2019, according to the Bank, and the latter equaling 10.51% as of October 1, 2019. However, ACRA notes that the Bank's ability to generate new capital is low, which is partly due to limited operational efficiency and increased expenses for the development of retail business. The current loss absorption buffer enables the Bank to withstand a significant increase in the cost of risk and maintain its N1.2 ratio within regulatory requirements.

Upgrading the risk profile assessment to adequate reflects the improvement of its individual factors. According to data as of June 30, 2019, the share of stage 3 loans and impaired loans as per IFRS 9 has declined to 6.1% of their total volume (7.2% one year earlier). NPL90+ amounted to 2.3% as of June 30, 2019. However, ACRA notes the relatively high concentration of the loan portfolio, as the share of the ten largest borrowers in H1 2019 amounted to 24.1%. In addition, ACRA has seen a decrease in the level of market risk accepted by the Bank as a result of both the sale of individual assets and increased equity. ACRA also notes a decrease in loans to related parties. The increased level of specialized lending and direct investment, which exceeds equity, continues to limit the risk profile assessment.

Adequate liquidity management policy. The Bank's liquidity position is assessed as sufficiently comfortable. In ACRA's base case and stress scenarios, the Bank has no problems withstanding a significant outflow of customer funds.

According to ACRA, major repayments expected within the 12 to 18-month horizon will not impair the Bank's liquidity. The current funding profile is concentrated on the largest creditors (depositors), the most significant of which is the Gazprom Group accounting for 22.7% of total liabilities at the end of H1 2019. ACRA notes that the Bank's relationships with the Group are stable and predictable. ACRA expects the Bank to remain dependent on corporate funds, whose share exceeds 60% of all liabilities.

Critical systemic importance of the Bank for the Russian financial market. According to ACRA, the Bank's default could trigger a systemic crisis in certain segments of the Russian banking market and a number of industries, which would have a negative impact on the financial stability of the Russian economy. ACRA notes the critical importance of the Bank's uninterrupted operations for PJSC Gazprom and a number of leading companies in the national economy. The Bank of Russia categorizes the Bank as a systemically important credit institution.

Key assumptions

- Maintaining strong competitive positions in key business segments;
- Maintaining cost of credit risk within 1%;
- Maintaining net interest margin within 2-3%;
- Maintaining Tier-1/N1.2 above 9% within the 12 to 18-month horizon;
- Maintaining the stable quality of the loan portfolio.

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:

- Improved risk profile factors (reducing problem debt, the concentration of the loan portfolio on the ten largest groups of borrowers, and the volume of specialized lending and direct investment);
- Improved ability to generate internal capital.

A negative rating action may be prompted by:

- Substantial decline in core capital adequacy caused by advanced growth of at-risk assets or significant losses (increased cost of risk);
- Deteriorating operational efficiency;
- Deteriorating quality of the loan portfolio.

Rating components

(SCA): a+.

Adjustment: systemic importance, plus 3 notches to the SCA.

Support: none.

Issue ratings

Rationale. The issues listed below are senior unsecured debt instruments of Bank GPB (JSC). Due to the absence of either structural or contractual subordination of the issues, ACRA regards them 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 ratings of the issues are equivalent to that of Bank GPB (JSC), i.e. AA+(RU).

Key issue properties

Bank GPB (JSC), exchange-traded bond, series BO-15 (RU000A0ZYHK5), maturity date: December 1, 2020, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-12 (RU000A0JX0P9), maturity date: December 2, 2019, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-25 (RU000A0ZYM05), maturity date: December 26, 2020, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-10 (RU000A0JUV08), maturity date: September 26, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-09 (RU000A0JUQ39), maturity date: June 27, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-08 (RU000A0JUMH3), maturity date: May 23, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-07 (RU000A0JU7Y9), maturity date: October 22, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), certified interest-bearing bearer bond, series 12 (RU000A0JT6J5), maturity date: October 6, 2022, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-18 (RU000A0ZYRX7), maturity date: February 12, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-19 (RU000A0ZYRY5), maturity date: February 12, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-23 (RU000A0JXHQ8), maturity date: February 20, 2020, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-16 (RU000A0JXP45), maturity date: April 18, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-13 (RU000A0JXTF6), maturity date: June 14, 2020, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-14 (RU000A0ZYAE3), maturity date: September 19, 2020, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-17 (RU000A0ZYEE5), maturity date: October 31, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series BO-24 (RU000A0ZYB73), maturity date: September 26, 2020, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-01P (RU000A0ZZQU2), maturity date: October 26, 2023, issue volume: RUB 8 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-02P (RU000A0ZZUL3), maturity date: November 20, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-03P (RU000A0ZZXM5), maturity date: June 13, 2022, issue volume: RUB 7 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-04P (RU000A1000A0), maturity date: December 28, 2020, issue volume: RUB 2 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-05P (RU000A1002E8), maturity date: January 31, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-06P (RU000A1003R8), maturity date: February 14, 2024, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-07P (RU000A1007E7), maturity date: March 26, 2023, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-08P (RU000A100832), maturity date: April 2, 2023, issue volume: RUB 6 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-09P (RU000A100AF3), maturity date: April 23, 2022, issue volume: RUB 15 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-10P (RU000A100DX0), maturity date: November 29, 2021, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-11P (RU000A100HH4), maturity date: July 1, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-12P (RU000A100JB3), maturity date: January 5, 2025, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-13P (RU000A100VR4), maturity date: September 30, 2023, issue volume: RUB 5 bln — **AA+(RU)**.

Bank GPB (JSC), exchange-traded bond, series 001P-14P (RU000A101350), maturity date: November 22, 2024, issue volume: RUB 10 bln — **AA+(RU)**.

Regulatory disclosure

The credit ratings have been assigned to Bank GPB (JSC) and the bonds issued by Bank GPB (JSC) 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 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 credit ratings to the issues listed above.

The credit rating assigned to Bank GPB (JSC) was published by ACRA for the first time on November 24, 2016. The credit rating assigned to the bond issue ISIN RU000A0ZYHK5 was published by ACRA for the first time on December 1, 2017; to ISIN RU000A0JX0P9 — on December 7, 2016; to ISIN RU000A0ZYM05 — on December 25, 2017; to ISIN RU000A0JUV08, RU000A0JUQ39, RU000A0JUMH3, RU000A0JU7Y9, and RU000A0JT6J5 — on December 28, 2017; to ISIN RU000A0ZYRX7 and RU000A0ZYRY5 — on February 9, 2018; to ISIN RU000A0JXHQ8 — on February 28, 2017; to ISIN RU000A0JXP45 — on April 24, 2017; to ISIN RU000A0JXTF6 — on June 16, 2017; to ISIN RU000A0ZYAE3 — on September 19, 2017; to ISIN RU000A0ZYEE5 — on October 30, 2017; to ISIN RU000A0ZYB73 — on September 25, 2017; to ISIN RU000A0ZZQU2 — on October 25, 2018; to ISIN RU000A0ZZUL3 — on November 11, 2018; to ISIN RU000A0ZZXM5 — on December 13, 2018; to ISIN RU000A1000A0 — on December 28, 2018; to ISIN RU000A1002E8 — on January 30, 2019; to ISIN RU000A1003R8 — on February 14, 2019; to ISIN RU000A1007E7 — on March 26, 2019; to ISIN RU000A100832 — on April 2, 2019; to ISIN RU000A100AF3 — on April 23, 2019; to ISIN RU000A100DX0 — on May 29, 2019; to ISIN RU000A100HH4 — on July 1, 2019; to ISIN RU000A100JB3 — on July 5, 2019; to ISIN RU000A100VR4 — on September 30, 2019; and to ISIN RU000A101350 — on November 21, 2019. The credit rating of Bank GPB (JSC) and its outlook and the credit ratings of the bonds issued by Bank GPB (JSC) 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 Bank GPB (JSC), information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of the Gazprom Group and the financial statements of Bank GPB (JSC) drawn up in compliance with Bank of Russia Ordinance No. 4927-U, dated October 8, 2018. The credit ratings are solicited, and Bank GPB (JSC) participated in their assignment.

No material discrepancies between the provided information and the data officially disclosed by Bank GPB (JSC) in its financial statements have been discovered.

ACRA provided additional services to Bank GPB (JSC). No conflicts of interest were discovered in the course of credit rating assignment.

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