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Key rating assessment
factors

ACRA affirms BB+(RU) to Dalena Bank, Ltd, outlook Stable

The BB+(RU) credit rating, outlook Stable, has been affirmed to [Dalena Bank, Ltd](#) (the Bank) on our expectations that the Bank will continue to adhere to its current conservative strategy, which implies a cautious risk-taking approach and supports comparably high business profile, capital adequacy and liquidity metrics.

The current credit rating of the Bank is based on the moderately low assessment of its business profile, strong positions in capital adequacy, satisfactory risk profile, and adequate funding and liquidity assessment.

The Bank is a Moscow-based credit institution that has a basic banking license and is focused on cash and settlement services for corporate customers. As of February 1, 2020, the Bank ranked 276th by equity and 255th by assets. The major owner is Mr. Nikonov, who together with related shareholders (ultimate beneficiaries are relatives of Mr. Nikonov) holds 80.1% shares of the Bank. Remaining stakes are held by business partners and minority shareholders.

The moderately low business profile assessment (bb-) reflects the Bank's low brand awareness and weak franchise in the banking market. The above risks are somewhat mitigated by the Bank's conservative strategy with an extremely low risk tolerance and the focus on cash and settlement services. ACRA believes that business relations of Mr. Nikonov, the controlling shareholder of the Bank, play a significant role in the Bank's business and contribute heavily to attracting and retaining customers.

In addition to ordinary cash and settlement services to corporates, the Bank also offers cash and settlement services to individuals and legal entities adjudged bankrupt in accordance with Federal Law No. 127-FZ. The share of funds held on the accounts of bankrupt customers generally amounts to 10–15% of the Bank's liabilities; those funds are accumulated in the Bank for one to six months, thus generating additional fee and interest income for the Bank.

Last year, the Bank began issuing bank guarantees in favor of state order contractors, however increasing competition from larger market players amid declining lending activity in the banking sector may restrain the expansion of this business line.

The strong capitalization of the Bank hinges on the high capital adequacy amid limited profitability indicators. As of February 1, 2020, the N1.2 ratio amounted to 62%, which indicates that the Bank is able to absorb a significant amount of credit losses in unforeseen stressful situations.

The Bank's satisfactory risk profile assessment is based on its conservative risk taking approach: more than 75% of its balance sheet are high-liquid and low-risk assets, including those held with the Bank of Russia, the Ministry of Finance of the Russian Federation, and major state-owned credit institutions. However, the risk profile assessment is constrained by high single-name concentrations, as the top 10 credit risks amount to about 70% of Tier 1 capital.

Foreign exchange risks are minimal; therefore, the current weakening of ruble has no direct negative impact on the Bank.

The adequate funding and liquidity assessment reflects, on the one hand, the highly liquid balance sheet, and on the other hand, a significant concentration of liabilities. As of the end of 2019, the short-term liquidity shortage indicator (STLSI) amounted to RUB 2.5 bln or 85% in the base case scenario and RUB 1.9 bln or 63% in the stress scenario, and the long-term liquidity shortage indicator (LTLSI) was at the comfortable level, 275%. ACRA notes that the related-party funding usually accounts for 35–45% of the Bank's liabilities.

Key assumptions

- The Bank will maintain its current business model featuring low risk tolerance;
- Capital adequacy ratios and liquidity indicators will remain high;
- The quality of assets including securities will remain high.

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:

- More stable operational environment;
- Higher diversification of funding sources;
- Emergence of new sustainable business lines driving the operational diversification, amid sustainably adequate risk profile.

A negative rating action may be prompted by:

- Substantial and prolonged deterioration of the operational environment;
- Transition to a more aggressive development model;
- Volatile funding base.

Rating components

SCA: bb+.

Adjustments: none.

Support: no.

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 Dalena Bank, Ltd was first published by ACRA on March 25, 2019. 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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