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Key rating assessment
factors

ACRA upgrades Bank RRDB (JSC) to AA(RU) and bond issues to AA(RU), changes outlook to Stable

The credit rating of [Bank RRDB \(JSC\)](#) (hereinafter, RRDB, or the Bank) has been upgraded to reflect ACRA's opinion regarding the growth in the volume and diversification of the Bank's business amid continued moderate risk for core operations, which is expressed in the improvement of the business profile assessment. ACRA has also upgraded the credit ratings of RRDB's bonds (ISIN RU000A0ZYCJ8, RU000A0ZYQX9, RU000A100691, RU000A101NQ1) to AA(RU).

The credit rating stems from the Bank's sustainable business profile and strong capital adequacy. The standalone creditworthiness assessment (SCA) is under certain pressure from a high concentration of both assets and funding on RRDB's affiliates, namely, the companies of the parent group (hereinafter, the Supporting Organization, the SO, or the parent company), as well as from risks arising from the fast-track development strategy of the Bank.

RRDB acts as a settlement center for the parent holding company and provides a wide range of services to its counterparties, clients, and employees.

High likelihood of support from the parent company. ACRA believes that the creditworthiness of the shareholding company is strong and it has sufficient resources to provide RRDB with capital and liquidity if necessary. ACRA notes that the shareholder significantly recapitalized RRDB in 2016, which confirms its commitment to developing the Bank's business. The high likelihood of support is also backed by the deep operational integration between the Bank and the parent company. On the other hand, the assessment of the likelihood of support is capped by the small size of the Bank compared to the Supporting Organization's assets and operating income. Therefore, 3 notches are added to the Bank's SCA.

The Bank's business profile assessment reflects its strong positions in the Russian banking sector: the Bank ranked 13th in terms of capital and 14th in terms of assets among Russian banks as of June 1, 2020. The Bank has a high-quality brand, and its operating income is highly diversified. The improvement of the business profile assessment reflects the assessment of the progressive growth in the Bank's share of the banking market, in particular low-risk lending to major corporate clients, and the stability of the highly diversified income base. However, the business profile assessment still includes the specific market niche of the Bank, as currently it is focused on servicing fuel and power companies, and the possible risks associated with the Bank's fast-track development strategy, which provides for a rapid increase in the size of assets.

RRDB is the temporary administrator of Peresvet Bank (the procedure is supposed to run until 2032). ACRA estimates RRDB's engagement in the rehabilitation as neutral in terms of its creditworthiness.

ACRA assesses the Bank's capital adequacy as strong, which is positive for the SCA. In its audited IFRS financial statements, the Bank did not disclose the Tier 1 ratio. As of June 1, 2020, the RAS N1.2 capital adequacy ratio was 15.5% (RRDB does not disclose its IFRS Tier-1 capital indicator in its audited financial statements). This indicator is on a downward trend due to the Bank gradually increasing the size of its loan portfolio. However, ACRA does not expect the capital adequacy indicator to fall to a level that could impact the assessment of this factor within the 12 to 18-month horizon. In addition, the Bank has a high capital generation potential (the average capital generation ratio, or ACGR, has exceeded 100 bps in the past five years). According to ACRA's stress test, the Bank has a high capacity to absorb potential credit risks: RRDB can withstand a significant increase in

the cost of risk without breaching regulatory requirements (including taking into account the expected growth of the loan portfolio).

The satisfactory risk profile assessment reflects the level of non-performing loans (that remains very low), combined with the loan portfolio's heightened concentration on major borrowers (the 10 largest groups of borrowers accounted for 44% of the portfolio as of the start of 2020) and fuel and power companies. According to the Bank's IFRS statements, the volume of impaired loans (third-stage loans under IFRS and acquired or issued impaired loans) was 2.2% of the total loan portfolio as of January 1, 2020. The Bank's strategy includes a significant increase in lending to new borrowers from various sectors of the economy, which caps the risk profile assessment.

The quality and diversification of the Bank's securities portfolio is good, as the portfolio includes bonds issued by the largest Russian non-financial corporations and banks, as well as the Russian Government and quasi-sovereign borrowers.

The funding and liquidity factor is assessed as adequate, taking into account the Bank's short-term liquidity surplus in ACRA's base case scenario and a minor deficit in the stress scenario, and the strong long-term liquidity position of the Bank.

At the same time, the high funding concentration on the parent company and related companies limits this factor. RRDB's strategy assumes gradual diversification of funding (primarily in the corporate sector), but ACRA does not expect any major changes in the funding structure in the 12 to 18-month horizon.

Key assumptions

- Cost of credit risk no higher than 3% within the 12 to 18-month horizon;
- Problem loans (as per ACRA's assessment) no higher than 5% within the 12 to 18-month horizon;
- N1.2 capital adequacy ratio exceeding 12% 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:

- Lower loan portfolio growth rate amid a stably low level of problem loans;
- Lower concentration of the loan portfolio on the largest groups of borrowers;
- Increased diversification of funding sources.

A negative rating action may be prompted by:

- Growth in the share of problem loans in the loan portfolio;
- Substantial decrease in profits and capital adequacy (to N1.2 ratio below 12%);
- Significant narrowing of the functions and declining importance of the Bank within the parent group;
- Deteriorating liquidity position of the Bank.

Rating components

SCA: a.

Adjustments: influence of the SO: SCA + 3 notches.

Issue ratings

[Bank RRDB \(JSC\), 001R-01 \(RU000A0ZCJ8\)](#), maturity date: October 12, 2020, issue volume: RUB 10 bln — **AA(RU)**.

[Bank RRDB \(JSC\) 001R-02 \(RU000A0ZYQX9\)](#), maturity date: July 30, 2021, issue volume: RUB 5 bln — **AA(RU)**.

[Bank RRDB \(JSC\) 001R-03 \(RU000A100691\)](#), maturity date: March 8, 2024, issue volume: RUB 5 bln — **AA(RU)**.

[Bank RRDB \(JSC\), 001R-04 \(RU000A101NQ1\)](#), maturity date: May 9, 2025, issue volume: RUB 5 bln — **AA(RU)**.

Rationale. The bonds listed above are senior unsecured debt instruments of RRDB. Due to the absence of either structural or contractual subordination of the issues, ACRA ranks them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Bank. According to ACRA's methodology, the credit rating of the issues is equivalent to that of [Bank RRDB \(JSC\), i.e. AA\(RU\)](#).

The credit ratings have been assigned to Bank RRDB (JSC) and the bonds (RU000A0ZYCJ8, RU000A0ZYQX9, RU000A100691, RU000A101NQ1) issued by Bank RRDB (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](#), 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](#). In the course of assigning a credit rating to the above bond issues, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale of the Russian Federation](#) was also applied.

The credit rating assigned to Bank RRDB (JSC) and the credit ratings of the bonds issued by Bank RRDB (JSC) — RU000A0ZYCJ8, RU000A0ZYQX9, RU000A100691, and RU000A101NQ1 — were published by ACRA for the first time on July 25, 2017, October 9, 2017, January 31, 2018, March 14, 2019, and May 14, 2020, respectively. The credit rating of Bank RRDB (JSC) and its outlook and the credit rating of the bonds of Bank RRDB (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 RRDB (JSC), information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS consolidated financial statements of Bank RRDB (JSC) and the financial statements of Bank RRDB (JSC) drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit ratings are solicited, and Bank RRDB (JSC) participated in their assignment.

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

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

Regulatory disclosure

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