

December 29, 2020

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Key rating assessment
factors

ACRA upgrades «Bank Otkritie Financial Corporation» (PJSC) to AA(RU), outlook Stable, and upgrades bond issues to AA(RU)

The credit rating of [«Bank Otkritie Financial Corporation» \(PJSC\)](#) (hereinafter, the Bank) has been upgraded to AA(RU) to reflect the improved state support assessment. The Bank's standalone creditworthiness assessment (SCA) has been upgraded to 'a+' due to a stronger business profile, better risk profile, adequate capital adequacy, and adequate liquidity and funding position.

The credit ratings of bond issues (ISIN RU000A100L14, RU000A101GR3) have been upgraded to AA(RU), i.e. on par with the issuer's rating.

The Bank is a systemically important full-service bank. 100% of its authorized capital is held by the Bank of Russia. The Bank's shares are managed by LLC «Fund of Banking Sector Consolidation Asset Management Company». In July 2019, the financial rehabilitation procedures initiated with respect to the Bank two years ago were completed. Today, the Bank acts as a holding entity of a banking group (the Group), which is active in strengthening its market positions, offering a wide range of financial services.

The assessment score for the likelihood of extraordinary support to the Bank from the government has been upgraded due to certain amendments introduced to the [Methodology for Analyzing Relationships between Rated Entities and the State](#), and it reflects the Agency's opinion that entities controlled directly by the Bank of Russia have higher chances to receive such support in contrast to other rated entities.

The Bank's systemic importance is high, which is expressed in the potential consequences of its default, which could lead to a crisis of confidence in the Russian banking sector in general and the state-owned banks in particular, a systemic banking crisis, significant financial and reputational risks for the state, and social risks. In 2019–2020, the scope of the Group's business have expanded significantly in line with the Bank's strategy.

Very high state influence on the Bank's creditworthiness. The state, represented by the Bank of Russia, exercises the shareholder control over the Bank, determines its development strategy, and controls its operations through the Bank's supervisory board, which includes representatives from the Bank of Russia and the RF Ministry of Finance.

In ACRA's opinion, the strong ties between the Bank and the state are evidenced by the unprecedented financial support (around RUB 850 bln in the form of loans and deposits from the Bank of Russia and over RUB 550 bln in the form of equity) granted to the Bank and B&N Bank, which was acquired by the Bank on January 1, 2019. Moreover, the Bank of Russia remains willing to provide the Bank with extraordinary support in the form of liquidity and capital in case of economic stress and/or significant deterioration in the Bank's creditworthiness.

ACRA's opinion on the degree of support is expressed in the Bank's credit rating on par with that of the Russian Federation minus two notches. In the event of a change in the shareholder structure, including a sale of shares to private investors, the approach to determining the structure of the credit rating and external support will be changed accordingly.

The Bank's business profile has been upgraded to strong (a) following a significant strengthening of the Bank's market positions over the past two years. Despite the fact that the Bank's mid-term plans to further expand its business look less ambitious (in comparison with 2019–2020), the Bank's growth opportunities will continue to allow it to grow faster than the market.

The Bank's franchise in lending and transaction services to legal entities and individuals is strong and the operating income diversification is high due to a comprehensive range of

services offered by the Group. In the medium term, the Bank aims to improve its operational efficiency, which is still low: over the past three years, the CTI averaged around 68%.

The adequate capital position is underpinned by the substantial loss absorption buffer in the context of the current balance sheet and off-balance sheet risks in terms of both regulatory standards (N1.2 at 12.3% as of November 1, 2020 and N20.2 at 12.9% as of July 1, 2020) and Basel III (Tier-1 CAR at 14.7% as of September 30, 2020 against 12.7% as of December 31, 2019). Tier-1 CAR has grown mostly on the revenues from core operations and the disposal of equity securities valued through other aggregate income. This allows the Bank to withstand an increase in credit risk by more than 500 bps. The capital generation exceeded 100 bps in 2019 and 9M 2020, but the averaged capital generation ratio calculated over the last five years is negative because of significant provisioning in 2017.

The risk profile assessment has been upgraded to satisfactory due to a change in the quality of the loan portfolio. The share of impaired loans (IFRS Stage 3 loans amounted to about 7.5% of the portfolio) and the portfolio's concentration on the top 10 groups of borrowers (about 22%) have continued to decline, which is conditioned mostly by the growing portfolio over the last 12 months (by 1.6 times up to 46% of assets as of September 30, 2020). The portfolio's concentration on high-risk industries (0.7x of common capital) is assessed as acceptable. The Group's market risk level has declined from 1.8x in early 2020 to 1.2x, due to both a decrease in the volume of risks accepted and a growth in the common capital. 34% of assets are securities mostly held by non-state pension funds.

The risk management quality is assessed as adequate, taking into account a relatively high quality of newly issued loans.

The adequate liquidity position is due to the volume of high-liquid assets, including the loan facilities undrawn from the Bank of Russia, sufficient to cover potential outflows. Therefore, the short-term liquidity shortage indicator demonstrates a surplus in the base case scenario and a small deficit in the stress scenario. ACRA sees no significant imbalances in the longer terms: the long-term liquidity shortage indicator was about 80% as of September 30, 2020). No major repayments are expected in the next 12 months.

The balanced funding profile is a result of an acceptable concentration of the Bank's resource base on the largest source (37% of liabilities) and a low concentration on the largest groups of lenders (as of September 30, 2020, the share of the largest lender was 2.9% of liabilities, and the share of top 10 groups of lenders was 11.2%). The share of funds held by the Bank of Russia is minimal (0.1% of liabilities).

Key assumptions

- Timely extraordinary support from the Bank of Russia in case of need;
- Maintaining the current business model 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:

- In the case of a change in ownership structure in the medium term, significant improvement in the quality of assets and high/increased capital adequacy, which together can result in higher SCA and credit rating.

A negative rating action may be prompted by:

- A substantial decline in the systemic importance of the Bank for the national economy;
- A loss by the state of its shareholding or operational control over the Bank.

Rating components

SCA: a+.

Adjustments: state support, on par with RF minus 2 notches.

Issue ratings

«Bank Otkritie Financial Corporation» (PJSC), [BO-P05 \(RU000A100L14\)](#), maturity date: July 12, 2022, issue volume: RUB 10 bln, — **AA(RU)**;

[«Bank Otkritie Financial Corporation» \(PJSC\), BO-P06 \(RU000A101GR3\)](#), maturity date: February 25, 2025, issue volume: RUB 15 bln, — **AA(RU)**.

Rationale. The above bond issues represent senior unsecured debt of the Bank. 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. In accordance with the ACRA methodology, the credit ratings of the issues are equivalent to that of the Bank.

Regulatory disclosure

The credit ratings of «Bank Otkritie Financial Corporation» (PJSC) and bonds (ISIN RU000A100L14, RU000A101GR3) issued by «Bank Otkritie Financial Corporation» (PJSC) were assigned under the national scale for the Russian Federation based on the [Methodology for Analyzing Relationships between Rated Entities and the State](#), 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](#). To assign credit ratings to the above-mentioned bond issues, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation](#) was also applied.

The credit ratings of «Bank Otkritie Financial Corporation» (PJSC) and bonds (ISIN RU000A100L14, RU000A101GR3) issued by «Bank Otkritie Financial Corporation» (PJSC) were first published by ACRA on July 3, 2017, July 16, 2019, and March 3, 2020, respectively. The credit rating and credit rating outlook of «Bank Otkritie Financial Corporation» (PJSC) and the credit ratings of bonds (ISIN RU000A100L14, RU000A101GR3) issued by «Bank Otkritie Financial Corporation» (PJSC) 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 Otkritie Financial Corporation» (PJSC), information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS financial statements of «Bank Otkritie Financial Corporation» (PJSC) and financial statements of «Bank Otkritie Financial Corporation» (PJSC) composed in compliance with the Bank of Russia Ordinance № 4927-U dated October 8, 2018. The credit ratings are solicited, and «Bank Otkritie Financial Corporation» (PJSC) participated in the rating process.

No material discrepancies between the provided data and the data officially disclosed by «Bank Otkritie Financial Corporation» (PJSC) in its financial statements have been discovered.

ACRA provided additional services to «Bank Otkritie Financial Corporation» (PJSC). No conflicts of interest were discovered in the course of credit rating process.

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