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Key rating assessment factors

ACRA assigns AA-(RU) to Bank RRDB (JSC), outlook Stable

The credit rating assigned to [Bank RRDB \(JSC\)](#) (hereinafter, the Bank) stems from its strong 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 the Bank's affiliates, namely, Rosneft Group companies, and the risks arising from the fast-track development strategy of the Bank. The rating is supported by a high likelihood of extraordinary support from the parent holding.

Bank RRDB (JSC) is owned and controlled by Rosneft Oil Company (Rosneft), the Russia's largest oil company and one of the largest oil companies in the world. The Bank acts as a settlements center for Rosneft and its subsidiaries. The Bank provides a wide range of services to Rosneft counterparties, clients, and employees.

The **Bank's business profile reflects** its strong position in the banking system of Russia: currently, the Bank ranks 12th in terms of capital and 25th in terms of assets among Russian banks; the Bank has a high-quality brand, and its operating income is highly diversified. At the same time, the business profile is affected by the specific market niche of the Bank, as currently it is focused on servicing the fuel and power companies. ACRA also takes into account the long-term risks associated with the Bank's fast-track development strategy, which provides for a rapid increase in assets and an expansion of business lines, as well as the Bank's entry into the list of the largest Russian banks.

The Bank acts as a temporary administrator of Peresvet Bank (the process is supposed to take 15 years), which is not consolidated in the Bank's balance sheet yet. ACRA estimates the Bank's engagement in the rehabilitation as neutral in terms of its creditworthiness, since the rehabilitation is carried out with the participation of creditors.

ACRA estimates 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 calculated according to Basel standards. As of June 1, 2017, the RAS N1.2 capital adequacy ratio was 41.0%, which reflects the recent significant capital injection carried out by the shareholder under the new strategy aimed at rapid growth of assets. According to the ACRA stress test, the Bank currently demonstrates an exceptionally high capability to absorb credit risks on the 12 to 18-months horizon, even taking into account the expected significant increase in the loan portfolio.

Satisfactory risk profile assessment reflects very low level of non-performing loans, combined with the loan portfolio concentration on the fuel and power companies. According to the Bank's IFRS statements, as of January 01, 2017, only 1.8% of the total loan portfolio accounted for NPL90+, while the total amount of impaired loans (including non-overdue loans) was 4.7% of the total loan portfolio.

According to the data provided by the Bank, the share of non-performing loans continued to decline in 1Q2017, reflecting the rapid growth and still good quality of the loan portfolio, which is dominated by loans to the fuel and power companies. The Bank's strategy includes a significant increase in lending to new borrowers from various sectors of the economy, but the quality of new loans has yet to be confirmed in the coming years, given the specific risks inherent to such industries.

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

Funding and liquidity is assessed as adequate, which is caused by a short-term liquidity surplus in both base case and stress scenarios and independence from regulatory funding.

At the same time, a very high funding concentration on fuel and power companies has a restraining effect on this factor. The Bank's strategy assumes a gradual funding diversification through corporate customers mainly, but ACRA does not expect radical changes in the funding structure on the 12 to 18-months horizon.

The credit rating takes into account a high likelihood of support from the parent company, Rosneft, therefore, SCA is adjusted 3 notches up.

ACRA believes that Rosneft has strong creditworthiness and sufficient resources to provide the capital and liquidity for the Bank, if necessary. ACRA notes that in recent years the shareholder has significantly recapitalized the Bank, which confirms the shareholder's commitment to actively develop the Bank's business in the long term. The high likelihood of support is also due to a deep operational integration between the Bank and Rosneft.

The assessment of the likelihood of support is currently restricted by a relatively small size of the Bank relative to the assets and operating income of the supporting organization, and the absence of guarantees and cross-default obligations on the part of the supporting organization.

Key assumptions

- The credit risk costs will remain 2–3% within the 12 to 18-month horizon;
- NPL90+ will not exceed 5% within the 12 to 18-month horizon.

Potential outlook or rating change factors

A positive rating action may be prompted by:

- Decreased loan portfolio concentration on affiliates and stably low level of non-performing loans;
- Increased funding sources diversification.

A negative rating action may be prompted by:

- Substantial growth of non-performing loans;
- Substantial decrease in returns and capital adequacy (N1.2 below 12%).

Rating components

SCA: a-

Adjustments: Group influence: 3 notches up to SCA.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is 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](#).

A credit rating has been assigned to Bank RRDB (JSC) for the first time. The credit rating and credit rating outlook are expected to be revised within one year following the rating action (July 21, 2017).

The assigned credit rating is 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 IFRS consolidated statements of Bank RRDB (JSC)

and statements of Bank RRDB (JSC) composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and Bank RRDB (JSC) participated in its 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 no additional services to Bank RRDB (JSC). No conflicts of interest were discovered in the course of credit rating assignment.

Disclosure of deviations from the approved methodologies. An upward adjustment is made in respect of the concentration on the largest borrowers in view of the high credit quality of the largest group of related borrowers that are Rosneft companies. The funding sources diversification assessment is adjusted upward, as the effect of concentration on corporate funding sources is taken into account in the assessment of concentration on key customers, including Rosneft companies.

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