Rating-Agentur Expert RA GmbH assigned "BB" credit rating to JSC CB "Assotsiatsiya" according to the international scale. The rating outlook is stable.

Rating-Agentur Expert RA GmbH assigned "BB" (Sufficient level of creditworthiness) credit rating according to the international scale to the JSC CB "Assotsiatsiya". The rating outlook is stable which means that in the mid-term perspective the likelihood of the credit rating stability is high.

MAJOR FACTORS THAT INFLUENCED THE RATING:

Positive factors:

- Maturities of assets and liabilities are well matched in the short- and the long-run, as evidenced by the liquidity ratios: N2=246,1%, N3=188,5% and N4=26,4% as of 01.02.2016[1];
- Sufficient capital adequacy as shown by the capital adequacy ratios: N1.0=16,0%, N1.2=12,2%, N1.1=12,2%[2] as of 01.02.2016;
- Comfortable levels of profitability: ROE according to RAS was equal to 9,2% for the period between 01.02.2015 and 01.02.2016;
- Reduced currency risk as the maximum open currency position on one currency was equal to 1,9% of the bank's capital. Also, the open currency position in all currencies was equal to 2,0% of the bank's capital as of 01.02.2016;
- Well diversified loan portfolio among industries. Loans to the three largest industries equaled 52% of the total loan portfolio of legal entities and individual entrepreneurs as of 01.02.2016;
- High level of collateral to loan portfolio ratio. The coverage ratios of the loan portfolio by collateral including and excluding collateral formed by guarantees and sureties were 382,1% and 127,1% as of 01.02.2016 respectively.

Negative factors:

- High concentration of funding on the largest creditors: as of 01.02.2016, the share of the 10 largest creditors in gross liabilities and equity was 29,6% while the share of the largest creditor in gross liabilities and equity was 13,3%;
- Loose loan provision policy: the difference between calculated and minimum possible reserve ratio amounted to 0,8 p.p. as of 01.02.2016;
- Lack of specific risk-analysis instruments and certificates of management quality. The bank's strategy planning is short-term oriented (the bank has only plans for cash-flow, capital and balance-sheet for 2016). Additionally, the bank does not have an obligatory policy of collateral insurance.

Restricting factors:

- Significant geographical concentration of transactions. The share of funds raised in the base region was equal to 96%; the share of loans issued in the base region was equal to 92% as of 01.02.2016. Nizhny Novgorod oblast is characterized by moderate level of investment risks[3];
- Noticeable concentration of active operations on the largest customers: the largest credit risks to the total assets net of reserves amounted to 36,4% as of 01.02.2016;

[1] N2 – instant liquidity normative ratio; N3 – current liquidity normative ratio; N4 – long-term liquidity normative ratio.
[2] N1.0 – capital adequacy ratio; N1.2 - Tier 1 capital ratio; N1.1 - Common Equity Tier 1 (CET 1) ratio.
[3] Nizhny Novgorod oblast was rated as 2B "moderate potential - moderate risk" in the rating of investment attractiveness by RAEX (Moscow) in 2015.

- High level of restructured and rolled over loans in the total loan portfolio. As of 01.02.2016, the share of loans reclassified as better quality loans to total loan portfolio equaled 26%[4]. Additionally, the share of rolled over loans was equal to more than 7% of total loans.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Significant reduction of the concentration of active and passive operations on the largest clients;
- Changes in the bank's provision policy evidenced by noticeable increase of the difference between calculated and the lowest possible reserve ratio;
- Consistent improvements in the bank's corporate governance and risk management procedures.

The following developments could lead to a downgrade:

- Sharp increase of overdue debt in the part of loan portfolio which was prolonged and rolled over;
- Significant decrease of profitability indicators due to needs of additional loan loss reserves accumulation and deterioration of the external economic environment;
- Tightening of the Central Bank of Russia policy regarding loans to related parties, in particular the introduction of the normative ratio N25 (credit risk of one single related party to the bank's equity).

"The credit rating of JSC CB "Assotsiatsiya" is positively supported by solid liquidity ratios, sufficient capital adequacy and satisfactory profitability indicators. In addition, low currency risks of the bank alongside acceptable loan portfolio diversification by industries and sufficient levels of loan collateral, support our rating assessment.

In our view, there are also several risks which contributed negatively to the creditworthiness assessment of the bank. A highly concentrated resource base combined with the bank's non-conservative provision policy were among the main factors which disfavored the rating." – clarified Vladimir Gorchakov, Lead expert of Rating-Agentur Expert RA GmbH.

Joint-Stock Company Commercial Bank "Assotsiatsiya" (number of license - 732) specialized on issuing loans to SMEs and big local enterprises, raising funds from individuals and local big enterprises (current accounts and deposits). The head office of the bank and 24 additional branches are located in Nizhny Novgorod oblast, where the bank conducts the largest part of its operations. The bank also has one additional office in the Kostroma oblast. Assets of the bank was equal to 9 560 RUB m as of 01.03.2016 (239th place in the ranking of Russian banks by assets), the bank's equity was equal to 1 157 RUB m as of the same reporting date. The bank has losses after taxes equal to 8,2 RUB m for the 1Q 2016.

Responsible expert: Vladimir Gorchakov, lead expert of Rating-Agentur Expert RA GmbH.
Reviewer: Gustavo Angel, expert of Rating-Agentur Expert RA GmbH.

For further information contact:

Rating-Agentur Expert RA GmbH
Walter-Kolb-Strasse 9-11,
60594 Frankfurt am Main, Germany
+49 (69) 3085-45-00
E-mail: info@raexpert.eu
www.raexpert.eu

[4] This figure refers to the indicator "share of loans classified in accordance with paragraph 3.10 of regulation №254-P to total loans to individuals, legal entities, individual entrepreneurs and banks".

Minute's summary:

The rating committee for JSC CB "Assotsiatsiya" was held on the 20.04.2016. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Banks methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

Rating history: No rating history (initial assignment of the rating).

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment: methodology for assigning credit ratings to banks. Short Public Version (from April 2015) can be found under the following link: http://raexpert.eu/files/methodology/Methodology-Short-Credit_Ratings-Banks.pdf. Descriptions and definitions of all rating categories can be found under the following link: http://raexpert.eu/banks.php under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaire from JSC CB "Assotsiatsiya" based on the form provided by the Agency;
- Financial statements from JSC CB "Assotsiatsiya", following RAS form for the past 24 months: 101, (102, 806, 807, 808, 345)*, 110, 115, 116, 117, 118, 123, 125, 128, 129, 135, 155, 157, 202, 302, 501, 603, 634, 711;
- Audited annual reports of JSC CB "Assotsiatsiya" according to IFRS (including the auditor's report and notes to the accounts) for 2012-2014;
- Statute of JSC CB "Assotsiatsiya";
- Documents regulating risk management of JSC CB "Assotsiatsiya";
- Documents defining development plans of JSC CB "Assotsiatsiya" for 2016;
- Documents regulating corporate governance of JSC CB "Assotsiatsiya";
- Answer for additional request based on the form provided by the Agency;
- Information received during the interview with the management of the bank;
- Information from media and other public sources.

*On a quarterly basis.

Limits of the Credit Rating:

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the bank with information considered as the most reliable and up to date in accordance to the overall position of the bank and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest:

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating assessment.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.