

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

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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 January 2016<sup>1</sup>;
- Sufficient capital adequacy as shown by the capital adequacy ratios: N1.0=16,0%, N1.2=12,2%, N1.1=12,2%<sup>2</sup> as of January 2016;
- Comfortable levels of profitability: ROE according to RAS was equal to 9,2% for the period between January 2015 and January 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 January 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 January 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 January 2016 respectively.

##### 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 January 2016. Nizhny Novgorod oblast is characterized by moderate level of investment risks<sup>3</sup>;
- 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 January 2016;
- High level of restructured and rolled over loans in the total loan portfolio. As of January 2016, the share of loans reclassified as better quality loans to total loan portfolio equaled 26%<sup>4</sup>. Additionally, the share of rolled over loans was equal to more than 7% of total loans.

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<sup>1</sup> N2 – instant liquidity normative ratio; N3 – current liquidity normative ratio; N4 – long-term liquidity normative ratio.

<sup>2</sup> N1.0 – capital adequacy ratio; N1.2 - Tier 1 capital ratio; N1.1 - Common Equity Tier 1 (CET 1) ratio.

<sup>3</sup> Nizhny Novgorod oblast was rated as 2B "moderate potential - moderate risk" in the rating of investment attractiveness by RAEX-Moscow in 2015.

<sup>4</sup> 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".

#### Negative factors:

- High concentration of funding on the largest creditors: as of January 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 January 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.

#### 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.

#### COMPANY PROFILE:

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 February 2016 (239<sup>th</sup> 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

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### **Minute's summary:**

The rating committee for JSC CB Assotsiatsiya was held on the 20 April 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.

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: <https://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://www.raexpert.eu/banks/> 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 and/or other third parties) 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 press-release.

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.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.