

**Rating-Agentur Expert RA GmbH downgraded the credit rating of JSC CB Assotsiatsiya from 'BB' to 'BB-' according to the international scale. The rating outlook was changed from negative to stable.**

Rating-Agentur Expert RA GmbH downgraded the credit rating of JSC CB Assotsiatsiya from 'BB' (Sufficient level of creditworthiness) to 'BB-' (Sufficient level of creditworthiness) according to the international scale. The rating outlook was changed from negative to 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=312,7%, N3=389,6% and N4=20,7% as of October 2016<sup>1</sup>;
- Sufficient capital adequacy as shown by the capital adequacy ratios: N1.0=16,2%, N1.2=13,0%, N1.1=13,0%<sup>2</sup> as of October 2016; in addition, the levels of all capital adequacy ratios remain above the minimum statutory level in case of full impairment (11% of the loan portfolio);
- Reduced currency risk as the maximum open currency position on one currency was equal to 0,3% of the bank's capital. Also, the open currency position in all currencies was equal to 0,3% of the bank's capital as of October 2016;
- High level of collateral to loan portfolio ratio. The coverage of the loan portfolio (without taking into account interbank loans) by collateral including and excluding collateral formed by guarantees and sureties were 506,1% and 146,2% as of October 2016 respectively;
- High level of reliability of funds placed on correspondent accounts and issued interbank loans.

##### Restricting factors:

- Deterioration of the loan portfolio quality over the first 10 months of 2016 evidenced by the negative dynamics of overdue debt. The overdue debt on loans to individuals increased from 5,0% as of 01.04.2016 to 8,2% as of October 2016, while overdue debt on loans to legal entities increased from 4,3% to 5,2% over the same period;
- 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>;
- High level of restructured and rolled over loans in the total loan portfolio. As of October 2016, the share of loans reclassified as loans with better quality to total loan portfolio

<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 the 2B "moderate potential - moderate risk" in the rating of investment attractiveness by RAEX-Moscow in 2015.

equaled 34,5%<sup>4</sup>. Additionally, the share of rolled over loans was equal to more than 11% of total loans;

- High concentration of the corporate loan portfolio among industries. Loans to the three largest industries equaled 57,5% of the total loan portfolio of legal entities and individual entrepreneurs as of September 2016;
- Provision policy still bearing risks for the bank despite widening the gap between calculated and minimum possible reserve ratio from 1,1 p.p. as of June 2016 to 2,2 p.p. as of October 2016;
- Concentration of credit risks on the largest customers remains elevated despite the positive dynamic: the largest credit risks to total assets net of reserves amounted to 27,6% as of October 2016, compared with 36,1% as of June 2016.

#### Negative factors:

- High concentration of funding on the largest creditors combined with a decline of the funding base. The amount of raised funds decreased by 4,7% over the past 12 month as of October 2016. Despite having declined by 14 p.p. between December 2015 – October 2016, the share of the 10 largest creditors in gross liabilities and equity remains high at 21,4%. Additionally, the share of the largest creditor in gross liabilities and equity was 11,7% as of October 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 cashflow, capital and balance-sheet plans for 2016). Additionally, the bank does not have a mandatory policy for collateral insurance;
- Decreasing profitability indicators as shown by negative dynamics of return on equity calculated without reversible components (net income from foreign exchange transactions and revaluation of it, etc.): from 7,0% in 1Q 2016 to 6,2% in 3Q 2016.

#### SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Significant and sustainable improvements of the bank's profitability indicators (calculated without volatile components) combined with sustainable increase of the bank's net interest income;
- Considerable and sustainable decrease of the share of overdue debt within the following quarters, following the high ratios of collateral to loans;
- Reduction of the concentration of balance sheet transactions on the largest clients as evidenced by the positive trend over previous quarters;
- Consistent improvements in the bank's corporate governance and risk management procedures.

The following developments could lead to a downgrade:

- Significant decrease of the bank's ROE calculated without reversible components combined with instability of the bank's financial results;
- 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);

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

- Deterioration of the bank's financial metrics as a result of an unexpected withdrawal of short-term customer's funds, given the current maturity mismatch between loans and customer's funds.

"The downgrade of the credit rating of JSC CB Assotsiatsiya is mainly driven by the negative dynamic of the bank's return on equity (calculated without volatile components, such as net income from foreign exchange transactions). The growth of overdue debt during the 10m 2016 is an additional factor, which had a negative impact on the rating's assessment. During that period the share of overdue debt on loans to individuals increased by more than 3p.p. up to 8,2%, while overdue debt on loans to legal entities increased from 2,7% to 5,2%.

The creditworthiness of JSC CB Assotsiatsiya is still positively supported by solid liquidity ratios and sufficient capital adequacy as well as high levels of loan collateral and low currency risks. The rating outlook of JSC CB Assotsiatsiya was changed to stable from negative, reflecting the Agency's opinion that the probability of further significant deterioration of the quality of the bank's loan portfolio as well as profitability indicators is low in the mid-term.

According to the bank's expectation there is a high probability that the level of overdue debt can return to the levels typical for 1Q 2016 by the end of 2016. In the view of the Agency, a significant and sustainable decrease of the share of overdue debt within the following quarters, combined with the improvement of the bank's profitability indicators (calculated without volatile components) and a sustainable increase of the bank's net interest income may lead to a positive rating action." – Clarified Vladimir Gorchakov, Rating Associate 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 Kostroma oblast. Assets of the bank was equal to RUB 9 583 m as of 01.10.2016 (222<sup>nd</sup> place in the ranking of Russian banks by assets), the bank's equity was equal to RUB 1 196 m as of the same reporting date. The bank had profit after taxes equal to RUB 86,4 m for the 9m 2016.

Responsible expert: Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH.

Reviewer: Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH.

#### Related research:

- ◆ Research Report on the Russian Banking Industry – 26.08.2016:  
[http://raexpert.eu/files/Industry\\_report-Banks\\_26.08.2016.pdf](http://raexpert.eu/files/Industry_report-Banks_26.08.2016.pdf)

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
DATE OF THE RATING ASSIGNMENT / REVIEW	DEFINE WHETHER THIS WAS THE FIRST ASSIGNMENT OR A REVIEW OF THE RATING	RATING GRADE	RATING OUTLOOK
26.04.2016	Initial assignment	BB	Stable
02.09.2016	Unscheduled review	BB	Negative

### Minute's summary:

The rating committee for JSC CB Assotsiatsiya was held on the 18 November 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 August 2016) can be found under the following link: <https://raexpert.eu/files/methodology/Methodology-Short-Credit-Ratings-BanksV2.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 2012-2015;
- 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 review.

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.