

ACRA DOWNGRADES INDUSTRIAL SAVINGS BANK TO B-(RU), CHANGES OUTLOOK TO STABLE

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The credit rating of **Industrial Savings Bank** (hereinafter, the Bank) reflects the Bank's satisfactory capital adequacy, critical risk profile, and adequate funding and liquidity assessments. The Bank is also characterized by a relatively low business profile assessment.

The Bank ranks 205th in assets among Russian banks; its main lines of business include lending and other financial services to corporate customers. The Republic of Crimea is one of the regions where the Bank operates.

KEY ASSESSMENT FACTORS

The relatively low business profile assessment (b+) is due to the Bank's weak position in the Russian financial services market (221st in equity) and the lack of clear competitive advantages. The business profile assessment is supported by the satisfactory level of business diversification, which is based on the large amount of other operating income. The Bank operates in the Crimean Peninsula, where competition in the banking sector is still relatively weak.

The Bank's capital adequacy position is assessed as satisfactory. As of February 1, 2022, the N1.2 CAR was 13.22%, and the average N1.2 ratio for the past 12 months equaled to 12.38%. The Agency notes that in 2022, the Bank's Tier 1 capital is going down but capital adequacy ratios are still stable. Over the past five years, the Bank's average capital generation ratio (ACGR) amounted to 3 bps, taking into account ACRA's adjustments. According to ACRA's stress test, the Bank's current capital adequacy ratios and profitability allow it to withstand an increase in the cost of credit risk within 300–500 bps. Given the performance over the past reporting period, the Bank's operational efficiency has improved: in 2019–2021, the average CTI declined from 80% to 72% and the average NIM amounted to 8.8%.

The risk profile assessment has been downgraded to critical to reflect a stronger concentration on lending to high-risk industries. As of January 1, 2022, the share of loans granted to the construction and real estate sector amounted to 177% of the Bank's Tier 1 capital. Another risk factor is the upward trend in the volume of non-performing and potentially non-performing loans: as of January 1, 2022, the share of non-performing loans was 22.3% of the Bank's loan portfolio, but by April 1, 2022, it exceeded 25%. The reserve coverage of these loans was less than 50%, which is partly due to the large amount of collateral provided by borrowers. The loan portfolio concentration remains high (the share of loans issued by the Bank to the ten largest groups of related borrowers was about 59% as of January 1, 2022), which has a negative impact on the portfolio quality assessment.

The Bank's liquidity position remains strong. According to ACRA's estimates, as of January 1, 2022, the Bank had a short-term liquidity surplus of over RUB 2.2 bln in the base case scenario for calculating the short-term liquidity shortage indicator; the stress scenario showed that this indicator exceeded 28% of liabilities.

The high concentration of the resource base is a rating negative factor. The main source of funding for the Bank is corporate funds (about 61% of liabilities as of January 1, 2022), while the largest group of lenders/depositors accounted for about 36% of total liabilities. Funds held with the Bank by the top ten groups of lenders/depositors form more than 50% of all funds raised.

KEY ASSUMPTIONS

- Maintaining the current business model within the 12 to 18-month horizon.
- Cost of credit risk within 5%.
- Maintaining positive operational efficiency.
- N1.2 at least 9% within the 12-month horizon.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12-month horizon.

A positive rating action may be prompted by:

- Substantially lower share of non-performing loans and concentration on the largest groups of borrowers;
- Substantially lower concentration on the largest funding sources; lower dependence on the funds of the largest lenders/depositors;
- Higher diversification of the loan portfolio.

A negative rating action may be prompted by:

- Lower capital adequacy ratios;
- Deteriorating liquidity position;
- Lower operational efficiency.

RATING COMPONENTS

Standalone Creditworthiness Assessment (SCA): **b-**.

Adjustments: no.

Support: no.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Microfinance Organizations on 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](#).

The credit rating of Industrial Savings Bank was published by ACRA for the first time on July 19, 2018. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating is based on the data provided by Industrial Savings Bank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the financial statements of Industrial Savings Bank drawn up in accordance with the Bank of Russia's Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and Industrial Savings Bank participated in the rating process.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no ancillary services to Industrial Savings Bank. No conflicts of interest were identified in the course of credit rating assignment.

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