

ACRA UPGRADES “COMMERCIAL INDO BANK” LLC TO A+(RU), CHANGES OUTLOOK TO STABLE

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The credit rating of “Commercial Indo Bank” LLC (hereinafter, the Bank) has been upgraded in view of the Bank’s improved business profile that reflects the expanding business scale and growing importance of the Bank as a key intermediary that serves trade turnover between the Russian Federation and the Republic of India. The Bank’s standalone creditworthiness assessment (SCA) is based on its strong capital adequacy, strong risk profile, and adequate liquidity and funding position. ACRA also takes into account a high likelihood of support to the Bank from its shareholders whose creditworthiness is strong.

The Bank is a moderate credit institution focusing on settlement and deposit services offered to companies that service export-import transactions between Russia and India. The Bank is owned by one of the largest financial entities of the Republic of India (the Supporting Entity, or the SE).

KEY ASSESSMENT FACTORS

The likelihood of extraordinary support from the Supporting Entity reflects the shareholder’s propensity to provide the Bank with short-term and long-term financing if necessary. In its assessment of the degree of support, ACRA takes into account the assessment of the SE’s creditworthiness and its scale of business far exceeding that of the Bank.

Given the Agency’s opinion on the level of potential support to the Bank from the SE, the Bank’s SCA is upgraded by two notches.

The Bank’s business profile assessment has been upgraded to moderate as its business scale has expanded significantly: the balance sheet total grew by more than seven times in the period from June 30, 2022 to December 31, 2023. At the same time, the diversification of the Bank’s operational income is still limited as the main income source is interest income from funds held in the Bank of Russia. The factor assessment takes into account the transparency of the shareholder structure and the strategic commitment to continue cooperation with companies linked to the Republic of India.

ACRA assesses the Bank’s capital position as strong given the high regulatory capital adequacy ratio (N1.2) that ensures that the Bank is able to withstand an increase in the cost of risk by over 500 bps. The Bank demonstrates the high ability to generate capital as the averaged capital generation ratio (ACGR) remained high in 2019–2023. The three-year average CTI and NIM are comparable to those demonstrated by peer banks, so that they do not impact the Bank’s position in capital.

The strong risk profile assessment is based on the conservative risk-taking approach: most of the Bank’s assets are short-term deposits held with the Bank of Russia and funds held in the SE’s NOSTRO accounts. ACRA assesses the risk management quality as satisfactory.

The adequate funding and liquidity position reflects a high volume of liquid assets and high concentration of funding sources. The short-term liquidity shortage indicator calculated by ACRA shows that the Bank has excess liquidity in both the base case and stress scenarios. The long-term liquidity shortage indicator corresponds to the strong assessment. The Bank's resource base is low-diversified and almost entirely consists of corporate funds. Concentration on corporate funds in the structure of funding sources is taken into account when assessing concentration on the funds of the largest creditors. In this regard, the Agency does not downgrade the assessment of the funding and liquidity factor for this part.

KEY ASSUMPTIONS

- The SE maintaining shareholder and operational control.
- Tier 1 capital adequacy ratio (N1.2) above 12% within the 12 to 18-month horizon.
- Maintaining operating profitability.
- Maintaining the strong liquidity position.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- The Bank becoming more competitive in the Russian banking services market, provided that there is no growth of its operational risks;
- Significant increase in the diversification of funding sources.

A negative rating action may be prompted by:

- Reduced interest of the SE in developing business in the Russian Federation;
- Substantial deterioration of the SE's financial standing and the operating environment;
- Deterioration of the Bank's liquidity position;
- Rapid growth of the share of loans in the Bank's portfolio coupled with simultaneous deterioration of their quality.

RATING COMPONENTS

SCA: a-.

Adjustments: none.

Support: SCA plus two notches.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the](#)

National Scale for the Russian Federation, Methodology for Analyzing Rated Entities Associated with a State or a Group, and Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

The credit rating of “Commercial Indo Bank” LLC was published by ACRA for the first time on April 13, 2020. 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 was assigned based on data provided by “Commercial Indo Bank” LLC, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the IFRS financial statements of “Commercial Indo Bank” LLC and the financial statements of “Commercial Indo Bank” LLC drawn up in compliance with Bank of Russia Ordinance No. 6406-U dated April 10, 2023. The credit rating is solicited, and “Commercial Indo Bank” LLC participated in its assignment.

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

ACRA provided additional services to “Commercial Indo Bank” LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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