

ACRA UPGRADES “NK BANK” TO BB-(RU), CHANGES OUTLOOK TO STABLE

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The credit rating of “NK Bank” (hereinafter, NK Bank, or the Bank) has been upgraded in view of a better capital adequacy assessment on the back of high regulatory ratios and sustainable capital generation ratio.

The credit rating is based on the Bank’s limited business profile assessment, adequate capital adequacy, critical risk profile assessment, and adequate liquidity and funding position.

The outlook has been changed from Developing to Stable due to a declining uncertainty regarding the future dynamics of rating factors.

KEY ASSESSMENT FACTORS

The limited business profile assessment (bb) primarily reflects the Bank’s relatively low share in the Russian market. NK Bank offers services to corporate and retail customers. The Bank’s main business lines are corporate lending and private banking services. NK Bank is among Russia’s second hundred largest in terms of equity and assets. The Bank’s business diversification is relatively high.

The Bank’s strategy envisages maintaining positions in the corporate segment and in servicing high net worth individuals.

The capital adequacy assessment has been upgraded to adequate. As of October 1, 2023, the Bank’s common capital adequacy ratio N1.2 was 31%, which allows the Bank to withstand an increase in the cost of risk above 500 bps without violating this standard, even if the Bank is forced to significantly increase its loan portfolio reserves.

At the same time, the Agency notes that the Bank’s capital generation capacity has stabilized: the averaged capital generation ratio (ACGR) for 2018–2022 is 24 bps. Taking into account profits anticipated in 2023, ACRA expects the ACGR to remain positive in the short term. In the future, the capital adequacy assessment will be supported by the Bank’s growing operating efficiency since the ratio of operating costs to operating income before reserves has been declining steadily, while the NIM has remained rather stable.

NK Bank’s risk profile assessment is still critical. The share of non-performing and potentially non-performing loans in the Bank’s loan portfolio exceeds 25%. Besides this, the loan portfolio concentration is still high.

As of October 1, 2023, the quality of the most assets outside the loan portfolio was high. The volume of non-core assets on the Bank’s balance sheet is low compared to equity, while operational and market risks are low as well.

The funding and liquidity factor is assessed as adequate. As of October 1, 2023, the Bank was able to withstand a substantial outflow of client funds in ACRA's base case and stress scenarios. Long-term liquidity is strong.

The funding concentration has remained a constraining factor for the overall funding and liquidity assessment. The share of the largest group of depositors is 15% of the total liabilities, while the share of top ten groups is 61%. At the same time, the diversification by funding source is still acceptable.

KEY ASSUMPTIONS

- Maintaining the current strategy and business model in the next 12–18 months;
- Maintaining the capital adequacy ratio (N1.2) at no lower than 12% in the next 12–18 months;
- Positive net profits in 2023–2024.

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:

- Lower share of problem and potential problem loans;
- Significantly lower concentration of the loan portfolio;
- Sustainable decline of the ratio of operating costs to operating income before provisions.

A negative rating action may be prompted by:

- N1.2 declining below 12%;
- Significant growth of the share of retail clients in the funding structure.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bb-**.

Adjustments: none.

Support: none.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned to “NK Bank” 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](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating of “NK Bank” was published by ACRA for the first time on January 22, 2021. 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 “NK Bank”, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the IFRS financial statements of “NK Bank” and the financial statements of “NK Bank” drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited and “NK Bank” 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 “NK Bank”. No conflicts of interest were discovered in the course of credit rating assignment.

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