

ACRA AFFIRMS B+(RU) TO “NK BANK”, CHANGES OUTLOOK TO DEVELOPING

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The credit rating of “NK Bank” (hereinafter, NK Bank, or the Bank) is based on the Bank’s moderately low business profile assessment, satisfactory capital adequacy, critical risk profile assessment, and adequate liquidity and funding position.

The outlook has been changed to Developing due to uncertainty regarding the future quality of the Bank’s loan portfolio and funding structure.

KEY ASSESSMENT FACTORS

The moderately low 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.

ACRA assesses the Bank’s capital adequacy as satisfactory. As of October 1, 2022, the Bank’s capital adequacy ratios were healthy. This allows the Bank to withstand an increase in the cost of risk above 500 bps without violating the N1.2 ratio, even if the Bank is forced to significantly increase its loan portfolio reserves.

At the same time, NK Bank’s capacity to generate capital remains moderate. The averaged capital generation ratio (ACGR) for 2017–2021 is around zero. In addition, the Agency notes that the size of problem and potential problem (in the Agency’s opinion) debt has grown and that the creation of reserves for this debt may significantly lower the ACGR in the future. The assessment is also constrained by the Bank’s low operating efficiency: the average ratio of operating costs to operating income before reserves has been high for the past three years.

NK Bank’s risk profile assessment has been downgraded due to growth of the share of problem and potential problem (in the Agency’s opinion) loans in the Bank’s loan portfolio. Besides this, the loan portfolio concentration is still high.

As of October 1, 2022, the quality of assets outside the loan portfolio was high. The volume of non-core assets on the Bank’s balance sheet is low compared to its equity.

The funding and liquidity position assessment has been upgraded to adequate. As of October 1, 2022, 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 assessment of this factor has been improved because the Bank’s funding structure is more diversified due to falling foreign currency balances of retail clients.

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 2022–2023.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Developing outlook** assumes a variety of trends within the 12 to 18-month horizon: the rating may stay unchanged, be upgraded, or be downgraded.

A positive rating action may be prompted by:

- Lower share of problem and potential problem loans;
- Significantly lower concentration of the loan portfolio;
- Lower dependence on the largest groups of depositors and lenders.

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): **b+**.

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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