ACRA

PRESS RELEASE

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# ACRA DOWNGRADES ING BANK (EURASIA) JSC TO AA(RU), CHANGES OUTLOOK TO STABLE

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The credit rating of ING BANK (EURASIA) JSC (hereinafter, the Bank) has been downgraded based on the lowering of the assessment of the degree of extraordinary support from the parent bank (hereinafter, the Supporting Entity, or the SE) from high to medium and the related reduction in the number of support notches added to the Bank's standalone creditworthiness assessment (SCA) from five to two. At the same time, the SCA has been increased from a to a+ to reflect the improvement of the assessment of capital adequacy and the risk profile from adequate to strong coupled with a reduction in the assessment of the business profile from stable (bbb+) to adequate (bbb), and the Bank maintaining its adequate funding and liquidity positions.

ING BANK (EURASIA) JSC is a subsidiary of a foreign bank that is part of a major European financial group. It specializes in working with corporations and large financial institutions.

## KEY ASSESSMENT FACTORS

**The assessment of support from the SE has be lowered from high to medium.** ACRA notes that at the end of 2023 there were no conditional obligations provided by the Supporting Entity in favor of the Bank for loans issued (in connection with their repayment last year), as well as no explicit guarantees and assurances from the authorized persons of the SE to provide extraordinary support to the Bank if necessary. This led to a decline in the assessment of the factor Guarantees and Other Support Channels (as per the Methodology for Analyzing Rated Entities Associated with a State or a Group).

When assessing support, ACRA also took into account the scope of the Bank's business and the SE's business, and believes that the SE's participation in the Bank's capital and other reputational ties will be retained over the 12 to 18-month horizon.

Due to the above, ACRA sets the Bank's credit rating at two notches higher than its SCA (previously, ACRA added five notches to the SCA).

**The assessment of the business profile has been changed from stable (bbb+) to adequate (bbb)** due to the lower volume of business. At the same time, the Bank's capital positions, on the contrary, have strengthened considerably against the backdrop of profit in 2023 and the absence of dividend payments. The quality of management is assessed as sufficiently high, while the Bank's strategy continues to involve a conservative approach to accepting risks. At the same time, the diversification of the Bank's business remains low due to the specifics of operations, while a considerable improvement in operating income diversification is not expected in the medium term.

**The improvement of the capital position from adequate to strong** is based mainly on the averaged capital generation ratio (ACGR), calculated for the past five years, moving away from negative values and its considerable growth to 300 bps. The main reason for this is the Bank recording substantial net profit in 2022 and 2023 and the absence of dividend payments (for example, in the period from 2019 to 2021). This also has a positive impact on capital adequacy ratios, which tend to grow (including the N1.2 ratio reaching 90% as of April 1, 2024) and the ability to absorb credit risks over the 12 to 18-month horizon (considerably above 500 bps). The Bank's operational efficiency indicators calculated for the last three years remain at the average level for the group of peer banks.

**The risk profile assessment has been increased from adequate to strong** due to the Bank maintaining the high quality of (mainly interbank) receivables, securities portfolio, and issued corporate loans on the back of a rather conservative risk management policy.

**Adequate funding and liquidity position.** The strong assessment of the liquidity sub-factor is determined expertly taking into account ACRA's information on the Bank's stable compliance with mandatory standards with a significant margin (including the N2 ratio at 554%, N3 at 533%, and N4 at -2.5% as of April 1, 2024). At the same, the concentration of the resource base on the largest funding source (funds of legal entities) remains high, while concentration on the largest groups of creditors is assessed as moderate.

## KEY ASSUMPTIONS

- Capital adequacy ratio (N1.2) above 12% within the 12 to 18-month horizon;
- Maintaining the current funding structure within the 12 to 18-month horizon;
- SE retaining shareholder and operational control.

## 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:**

- Significant strengthening of market position amid development of business and widening of business lines;
- Lower concentration of obligations on the largest source or the largest creditors;
- Sufficient facts at ACRA's disposal confirming the SE's propensity to provide support to the Bank.

**A negative rating action may be prompted by:**

- Lower support for the Bank from the SE as a result of the emergence of sufficient grounds for the Agency to worsen the assessments of support factors;
- Significant deterioration of the Bank's capital position or lower operational efficiency;
- Significant deterioration of the Bank's liquidity position, including on the back of a deterioration of asset quality.

## RATING COMPONENTS

SCA: **a+**.

Adjustments: none.

Support: SCA plus two notches.

## 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 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 the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The creditworthiness assessment of the SE was determined based on the Methodology for Assigning Credit Ratings to Banks and Banking Groups under the International Scale, Methodology for Mapping Credit Ratings Assigned under ACRA's International Scale to Credit Ratings Assigned under ACRA's National Scales and the Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale.

The credit rating of ING BANK (EURASIA) JSC was published by ACRA for the first time on August 10, 2017. 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 ING BANK (EURASIA) JSC, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the consolidated IFRS financial statements of ING BANK (EURASIA) JSC and the financial statements of ING BANK (EURASIA) JSC drawn up in compliance with Bank of Russia Ordinance No. 6406-U dated April 10, 2023. The credit rating is solicited and ING BANK (EURASIA) JSC 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 ING BANK (EURASIA) JSC. No conflicts of interest were discovered in the course of credit rating assignment.

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

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