

RAEX-Europe downgraded the credit rating of JSC RUSNARBANK from 'BB-' to 'B-' according to the international scale. The rating outlook was changed from stable to negative. The ratings are withdrawn.

RAEX-Europe downgraded the credit rating of JSC RUSNARBANK from 'BB-' to 'B-' (Moderately low level of creditworthiness) according to the international scale. The rating outlook was changed from stable to negative, which means that in the mid-term perspective there is a high probability of downgrading the rating score. RAEX-Europe withdrew the credit rating of JSC RUSNARBANK in order to comply with the Council Regulation (EU) 2022/428 of 15 March 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine.¹

BANKING SYSTEM RISK ASSESSMENT:

The bank's operations are concentrated in Russia (100%). The banking system risk (BSR) of Russia is very high. Therefore, the overall systemic risk of JSC RUSNARBANK was assessed as very high.

JUSTIFICATION OF THE RATING:

Despite the high profitability indicators, a stable funding base, as well as favorable capital adequacy ratios, the downgrade of the credit rating of JSC RUSNARBANK from 'BB-' to 'B-' and the change in the outlook from stable to negative were caused by a number of negative factors, which occurred in 1Q 2022. Firstly, the banking system risk (BSR) of Russia has increased from moderate to very high as a result of tough international sanctions against the Central Bank of Russia (CBR) and large banks representing more than 80% of the Russian banking sector. The current sanctions significantly limit the ability of banks to service their obligations in foreign currency and in the medium term may lead to a significant reduction in the stability of the banking system. Along with this, the ability of the CBR to fulfill the currency obligations of the government and provide support to banks was limited due to the blocking of a large part of Russia's international reserves. Due to rising geopolitical tensions and the conflict in Ukraine, Russia's increased sovereign risks have a negative impact on macroeconomic stability and the creditworthiness of the banking system.

Secondly, changes in the ownership structure of RUSNARBANK that took place in March 2022, in the Agency's opinion, lower the probability of support from the shareholders in case of financial distress. Moreover, RUSNARBANK's creditworthiness continues to be constrained by its limited competitive position and low asset and income growth compared to the Russian banking sector. In addition, the rating is constrained by the bank's concentration on a narrow range of products, as well as the low quality of the corporate loan portfolio.

The negative outlook reflects the continued tightening of sanctions against the Russian banking system, economy and government, causing shocks to the economy that are expected to become more widespread as the conflict in Ukraine continues. The Agency expects further deterioration of the macroeconomic situation, such as a significant reduction of GDP, growth of unemployment and inflation, weakening of the external position and the state of public finances. This, in turn, may lead to a drop in banks' profitability indicators and an increase in credit and currency risks.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0428&from=EN>.

ESG Disclosure

Inherent factors:

- Compliance with regulation, Owners' reputation, Shareholding structure, Changes in the shareholding structure for the year, Strategy of the company, Level of transparency, The auditor for IFRS reports, Human resources and management, Quality of reporting, Risk management structure, Insurance risk management, Credit risk management, Market risk management, Liquidity risk management, Operational risk management, Geographical diversification of the insurance portfolio.

Drivers of change factors:

- None.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- De-escalation of the conflict in Ukraine, which could lead to a decrease in sanctions and a decrease in the systemic risks of the banking sector;
- Continued growth of the bank's assets with the achievement of goals and indicators of the strategy for 2020-2025 along with an increase in diversification of the bank's funding sources;
- Significant improving the quality of the corporate loan portfolio.

The following developments could lead to a downgrade:

- Threats of further escalation and additional international sanctions against the banking sector and economy of Russia;
- Deterioration of the bank's loan portfolio quality, which might negatively affect the profitability and capital adequacy figures;
- Unexpected actions from the Central Bank of Russia in relation to the bank or overall stringing of the banking system supervision with adverse effects for small and medium banks.

COMPANY PROFILE:

JSC RUSNARBANK has a general license N 3403 issued on 11.04.2002. The bank had 34 SME borrowers, 3 borrowers from large business and 9 964 individual borrowers as of 01.10.2021. The bank is also a member of the Deposit Insurance System (DIS) since 11.06.2008.

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
23.11.2021	Scheduled review	BB-	Stable
20.11.2020	Scheduled review	B+	Developing
21.08.2020	Scheduled review	B+	Developing
22.05.2020	Scheduled review	B+	Developing
24.05.2019	Scheduled review	B+	Stable
25.05.2018	Scheduled review	B+	Stable
18.10.2017	Unscheduled review	B+	Stable
26.05.2017	Initial assignment	B+	Developing

Minute's summary:

The rating committee for JSC RUSNARBANK was held on 14 April 2022. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Banks methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment:

- [Methodology for Assigning Credit Ratings to Banks – Full Version \(from August 2020\)](#)
- [Methodology for Assigning Banking Sector Risk Score – Full Version \(from September 2019\)](#)

Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaire from JSC RUSNARBANK based on the form provided by the Agency;
- Financial statements from JSC RUSNARBANK, according to according to the Russian Accounting Standards for the past 24 months;
- Audited annual reports of JSC RUSNARBANK, according to IFRS (including the auditor's report and notes to the accounts) for 2013-2021;
- Audited annual report of JSC RUSNARBANK, according to RAS (including the auditor's report) for 2016-2020;
- Statute of JSC RUSNARBANK;
- Strategy of JSC RUSNARBANK;
- Documents regulating risk management of JSC RUSNARBANK;
- Documents regulating corporate governance of JSC RUSNARBANK;
- Answer for additional request based on the form provided by the Agency;
- Information received during the interview with the management of the bank;
- Information from media and other public sources.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Banks. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the bank with information considered as the most reliable and up to date in accordance to the overall position of the bank and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.