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Key rating assessment factors

ACRA affirms AAA(RU) to JSC Sumitomo Mitsui Rus Bank, outlook Stable

The credit rating assigned to [JSC Sumitomo Mitsui Rus Bank](#) (hereinafter, SMBCR, or the Bank) is primarily based on the very high likelihood of extraordinary support from the Bank's parent entity (SMBC Group), which boasts high creditworthiness. The Bank's moderately high standalone creditworthiness assessment (SCA) is driven by its strong capital adequacy, adequate risk profile, adequate funding and liquidity, and adequate business profile.

The Bank ranks 69th in total assets and 62nd in equity among banks operating in Russia as of June 1, 2021. SMBC is a 99% shareholder and SMBC BI (Bank International) (Previously SMBC Europe) is a 1% shareholder. SMBC BI is wholly owned by SMBC, meaning SMBCR's beneficiary owner is 100% of SMBC Group (hereinafter, the Supporting Entity, the SE, or the Group), one of the largest financial institutions in Japan as well as the world. The Bank focuses solely on providing comprehensive corporate banking services to large Multinational Corporates (MNCs) operating in Russia and certain Russian blue chips, as well as interbank market investments.

Very high likelihood of extraordinary support from the shareholder. In ACRA's view, the SE will provide the Bank with short-term and long-term funding and capital injections in light of the following:

- The creditworthiness of the Group is high compared to the standalone creditworthiness of the Bank. The scope of the Bank's business is not a factor that could limit the effectiveness of potential support;
- The Group exercises complete shareholder and operational control over the Bank (the parent company determines the Bank's corporate risk management procedures and standards, taking into account Russian law);
- The Bank and the Group operate under the same brand and therefore a possible default of the Bank may be associated with the Group.

The Agency takes into account the fact that the SE operates in a jurisdiction that differs from the jurisdiction of presence of the Bank, which makes the possibility of providing support dependent on the freedom of movement of capital between the countries. In addition, the termination of the Bank's activities or its deconsolidation will not lead to the emergence of critical risks for the implementation of the group-wide strategy.

Due to the above, as well as taking into account possible reputational risks for SMBC BI in the event of the Bank's default, ACRA sets the Bank's credit rating at AAA(RU).

The Bank's business profile is assessed as adequate. The assessment is mainly driven by the Bank's medium capital positions among Russian banks and the relatively weak diversification of its operating income, which includes interest income from deposits in other banks and corporate lending services.

The Bank's strategic goal is to ensure the proper conditions to maintain and expand its Russian client base as well as that of the Group through additional products and services as well as higher service quality comparative to peers. The Bank's services include lending, trade finance, deposits, and services related to foreign exchange transactions.

The Bank's management quality matches its business scale and its ownership structure is clear and transparent.

The strong capital adequacy assessment is driven by the Bank's exceptionally high regulatory capital ratios (N1.2 at 50.7% and N1.0 at 63.4% as of June 1, 2021). The current

capital adequacy levels allow the Bank to withstand a substantial increase in the cost of risk of well over 500 bps.

Performance indicators remain positive; the averaged capital generation ratio reached 138 bps in 2016–2020, the average cost-to-income ratio demonstrated high efficiency at 68.5% in 2018–2020, and the net interest margin stood at 1.6% during the same period. Shareholders make decisions on dividend payments each year and no dividends were disbursed over the abovementioned period.

The Bank's adequate risk profile assessment is driven by the high quality of the loan portfolio as well as adequate risk management quality despite credit concentration. ACRA does not believe this concentration is a significant risk given the Bank's business model, which is to focus on MNCs that are mostly parent bank clients or peer subsidiaries located around the world.

The Bank's risk management system is transparent and characterized by high underwriting standards, high integration with general group approaches, and close control on the part of the SE.

As of year-end 2020, the Bank had no impaired loans, reflecting its effective business model. Most loans are guaranteed by SMBC BI and the Group or borrower parent companies, which further mitigates the credit risk taken by the Bank. The risk profile assessment also takes into account the high level of concentration on the largest borrowers.

The creditworthiness of the Bank's counterparties under contingent liabilities is also acceptable. The operational risk accepted by the Bank does not affect the final risk profile assessment. The Bank does not hold material investments in securities and therefore, market risk is minimal.

Adequate funding and liquidity. Under ACRA's stress test, the short-term liquidity shortage demonstrated by the Bank is manageable. The Agency notes the historically stable nature of the Bank's corporate deposits. ACRA assesses the Bank's position on long-term liquidity as strong, which is mainly due to the short-term nature of the Bank's active transactions, as well as the structure of its funding. If necessary, the SE may provide the Bank with a material amount of funding under open credit lines. The funding assessment is limited by the concentration on SE funds and large corporate clients (as of year-end 2020, the largest creditor accounted for about 16% of liabilities, while the top ten creditors accounted for 71.5%). This is in line with the highly focused nature of the Bank's business model in Russia.

Key assumptions

- The Group maintaining shareholder and operational control over the Bank;
- Maintaining the current business model and the high quality of the loan portfolio.

Potential outlook or rating change factors

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

A negative rating action may be prompted by:

- Loss of shareholder and operational control on the part of the Group;
- Substantial decline in the Bank's performance and asset quality;
- Substantial deterioration of the SE's financial status.

Rating components

SCA: a+.

Adjustments: none.

Support: ACRA is of the opinion that in case of need, the supporting entity would be able to provide the Bank with extraordinary support in the form of capital and/or liquidity.

Taking into account the support factors, the Bank's rating is set four notches above the SCA.

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](#), the 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 credit rating of JSC Sumitomo Mitsui Rus Bank was published by ACRA for the first time on July 21, 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 JSC Sumitomo Mitsui Rus Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS statements of JSC Sumitomo Mitsui Rus Bank and the financial statements of JSC Sumitomo Mitsui Rus Bank drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and JSC Sumitomo Mitsui Rus Bank participated in its assignment.

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

ACRA provided additional services to JSC Sumitomo Mitsui Rus Bank. No conflicts of interest were discovered in the course of credit rating assignment.

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