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Key rating assessment
factors

ACRA affirms A(RU) to Commercial Indo Bank LLC, outlook Stable

The credit rating assigned to [Commercial Indo Bank LLC](#) (hereinafter, the Bank) reflects the Bank's moderate standalone creditworthiness assessment (SCA) and the high probability of external support from its parent companies, both of which have strong creditworthiness. The SCA is based on the Bank's strong capital adequacy, strong risk profile, strong liquidity, satisfactory funding position, and satisfactory business profile.

As of March 1, 2021, the Bank ranked 168th in capital among Russian banks. State Bank of India and Canara Bank (hereinafter, the Supporting Organizations, or SOs) own 60% and 40% of the Bank, respectively, and both under the majority control of the Republic of India. State Bank of India is the largest bank in India by assets, whereas Canara Bank is the seventh largest.

High probability of extraordinary support from the SOs. In ACRA's opinion, if necessary, both State Bank of India and Canara Bank will be able to provide the Bank with sufficient long- and short-term funding, as well as capital injections. The final assessment of the country risk of the jurisdictions of the foreign SOs (the Republic of India) is moderately weak in comparison with Russia's country risk. The standalone creditworthiness of both Supporting Organizations is assessed as strong.

ACRA assesses the tightness of connection between the Bank and the SOs as strong due to the following:

- Pronounced operational integration between the Bank and the SOs (the SOs determine the Bank's corporate procedures);
- The Bank is a lead agent of the SOs that conducts operations with Indian companies that do business in Russia.

Therefore, the Bank's credit rating is increased by two notches above the SCA of bbb+.

ACRA assesses the Bank's business profile as satisfactory due to its limited diversification and relatively weak position in the Russian market. ACRA takes into account the transparency of the shareholder structure and a well-shaped strategy for 2020-2023 based on realistic economic prerequisites for development, as well as the Bank's goal to operate in the niche of servicing companies associated with the Republic of India.

ACRA assesses the Bank's capital position as strong given the high regulatory capital adequacy ratio (N1.2 stood at 48.13% as of February 1, 2021). The Bank's ability to generate capital is adequate, with the average capital generation ratio totaling 181 bps. This is mainly due to the Bank's low expenses on loan losses. NIM (net interest margin) averaged 5.9% in 2017–2019. ACRA notes the loss that the Bank incurred due to the impairment of Otkritie Bank and Promsvyazbank's bonds in 2017, which adversely affected the Bank's profits.

The Bank's risk profile has been upgraded to strong in view of the growing share of low credit risk assets. As of March 1, 2021, the Bank's loan portfolio amounted to 6% of its assets. The largest portion of the assets is formed by Russian sovereign bonds and financial assets held with the Bank of Russia. ACRA notes the absence of problem loans (Stage 3 under IFRS9) in the Bank's loan book as of June 30, 2020. The guarantees portfolio stood at RUB 247 mln as of June 30, 2020. The Bank's strategy includes organic growth of the loan book, expansion in mortgage lending, and higher volume of guarantees issued on government contracts.

The strong liquidity position is based on a high volume of liquid assets. The short-term liquidity shortage indicator shows that in ACRA's base case scenario, the Bank has nearly RUB 3.5 bln of excess liquidity, and regulatory liquidity ratios have consistently been above minimum.

ACRA notes the Bank's high resource base concentration, which limits its funding assessment. The Bank's liabilities include corporate deposits and interbank loans. Dependence on the largest depositors is relatively high, with the largest depositor / top 10 customers accounting for 38% / 84% of total liabilities. The largest creditor is the embassy of the Republic of India and ACRA believes that the relationship between the Bank and this depositor is highly predictable.

Key assumptions

- State Bank of India and Canara Bank maintaining shareholder and operational control over the Bank;
- N1.2 above 12% within the 12 to 18-month horizon;
- Maintaining operating profitability;
- Maintaining the strong liquidity position.

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 positive rating action may be prompted by:

- Improvement in the SOs' financial standing;
- Significant increase in the diversification of funding sources.

A negative rating action may be prompted by:

- Reduced interest of the SOs in developing business in the Russian Federation;
- Substantial deterioration of the SOs' financial standing and the operating environment;
- Deterioration in the Bank's liquidity position;
- Rapid growth in the share of loans in the Bank's portfolio coupled with simultaneous deterioration in their quality.

Rating components

SCA: bbb+.

Adjustments: none.

Support: SCA + 2 notches.

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 Relationships Between Rated Entities and Supporting Organizations Registered Outside 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 Commercial Indo Bank LLC was published by ACRA for the first time on April 13, 2020. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on the data provided by Commercial Indo Bank LLC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS statements of Commercial Indo Bank LLC and statements of Commercial Indo Bank LLC composed in compliance with the Bank of Russia Ordinance No. 4927-U, dated October 8, 2018. The credit rating is solicited, and Commercial Indo Bank LLC 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 no additional services to Commercial Indo Bank LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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