

July 21, 2020

Lead analysts:

Batchuluun Lkhagvaa, Director
+7 (495) 139-0480 ext. 135
batchuluun.lkhagvaa@acra-ratings.ru

Victor Antonov, Associate Director
+7 (495) 139-0480, ext. 221
victor.antonov@acra-ratings.ru

Key rating assessment factors

ACRA assigns 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 72nd in total assets and 61st in equity among banks operating in Russia as of end-June 2020. SMBC is a 99% shareholder and SMBCE (SMBC Europe) is a 1% shareholder. SMBCE is wholly owned by SMBC, meaning SMBCR's beneficiary owner is 100% of SMBC Group (hereinafter, the Supporting Organization, or SO), 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 SO. In ACRA's view, the SO will provide the Bank with short-term and long-term funding and capital injections if necessary. ACRA assesses the country risk of the SO's jurisdiction (Japan) against the country risk of Russia as strong. ACRA also assesses the Supporting Organization's creditworthiness as strong.

The degree of integration between the Bank and the SO is assessed as strong in view of the following:

- Operational integration between the Bank and the SO;
- The Bank services the SO's clients operating in Russia who are strategically important for the SO;
- The Bank's Board of Directors consists of members who represent the SO;
- SMBCE and SMBC Group are important funding sources for the Bank and provide guarantees for a substantial part of the loans it issues.

The support assessment of the Bank is determined as on par with the Russian Federation given the Bank's small size compared to the SO's balance sheet and the potential reputational risks for the SO should the Bank default on any obligation or go bankrupt.

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.

SMBCR's strategic goal is to ensure the proper conditions to maintain and expand its Russian client base as well as that of the Supporting Organization 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 43.7% and N1.0 at 57.5% as of May 1, 2020). 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 average capital generation ratio reached 170 bps in 2015–2019, the average cost to income ratio demonstrated high efficiency at 66.5% in 2017-2019, and the net interest margin stood at 2.3% 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 SO 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 SO.

As of year-end 2019, the Bank had no impaired loans, reflecting its effective business model. Most loans are guaranteed by SMBCE and SMBC 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. ACRA 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 SO may provide the Bank with a material amount of funding under open credit lines. The funding assessment is limited by the concentration on SO funds and large corporate clients (as of year-end 2019, the largest creditor accounted for about 16% of liabilities, while the top ten creditors accounted for 80.3%). This is in line with the highly focused nature of the Bank's business model in Russia.

Key assumptions

- SO 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 SO;
- Substantial decline in the Bank's performance and asset quality;
- Substantial deterioration of the SO's financial status.

Rating components

SCA: a+.

Adjustments: none.

Support: on par with the RF.

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 outside the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to JSC Sumitomo Mitsui Rus Bank for the first time. 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 the data provided by JSC Sumitomo Mitsui Rus Bank, information from publicly available sources, as well as 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.

No material discrepancies between the provided information and the data officially disclosed by JSC Sumitomo Mitsui Rus Bank in its financial statements have been discovered.

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

(C) 2020

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.