

July 31, 2020

ACRA affirms AAA(RU) to Credit Agricole CIB AO, outlook Stable

Lead analysts:

Alexey Bredikhin, Director
+7 (495) 139-0484
alexey.bredikhin@acra-ratings.ru

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

Key rating assessment factors

The credit rating of [Credit Agricole CIB AO](#) (hereinafter, the Bank) is based on the high likelihood of strong support from its main shareholder Credit Agricole CIB. The Bank's standalone creditworthiness assessment (SCA) is high, which is supported by its adequate business profile, substantial capital buffer, adequate risk profile, and adequate funding and liquidity.

The Bank provides integrated banking services (lending, guarantees and letters of credit, trade finance, treasury) to large Russian companies and multinational corporations operating in Russia. As of end-June 2020, the Bank ranked 71st in terms of equity and 84th in terms of assets in the Russian market.

The Bank is wholly owned, directly or indirectly (through Credit Agricole CIB Global Banking), by Credit Agricole CIB, a subsidiary of Credit Agricole S.A., a diversified banking holding, whose assets are located in the EU (predominantly France and Italy) the UK, the US, Asia-Pacific (including Japan), and other countries.

High likelihood of strong shareholder support. ACRA believes that if necessary, Credit Agricole S.A. (hereinafter, the Group), acting through Credit Agricole CIB (hereinafter, the Supporting Organization, or SO), may support the Bank with long-term and short-term funding, as well as capital injections (currently, the Bank has excessive capital). ACRA assesses as strong both the country risk of jurisdiction of the Supporting Organization compared to the country risk of Russia and the creditworthiness of the Supporting Organization.

ACRA believes that the degree of association between the Bank and the Supporting Organization is strong based on the following:

- 100% of the Bank's shares are owned by the Supporting Organization;
- The Supporting Organization pursues its Russian corporate business strategy through the Bank;
- The Russian banking market is of high importance for the Supporting Organization;
- The operational integration between the Bank and the Supporting Organization is significant in corporate management and risk management;
- The Supporting Organization acts as a guarantor on a range of loans issued by the Bank.

In view of the small size of the Bank compared to the Supporting Organization and the high reputational risks the Group would face were the Bank to go bankrupt (taking into account the scope of its Russian business), the resulting credit rating of the Bank is on par with the Russian Federation.

The Bank's adequate business profile assessment stems from its strong positions in servicing large Russian companies and multinational corporations operating in Russia. The scope of the Group's Russian business significantly exceeds the assets of the Bank, as a substantial portion of credit risks is posted on the balance sheet of the SO or balance sheets of other banks in the Group.

Substantial capital adequacy margin amid low operational efficiency. High capital adequacy (N1.2 averaged 17.2% for the twelve months prior to July 1, 2020) allows the Bank to withstand a substantial increase in the cost of credit risk. As the credit portfolio risks are nearly 100% secured by the guarantees of the SO, ACRA believes that the

likelihood of the stress scenario is extremely low. At the same time, the Bank's profitability ratios were not high (ROA averaged 0.2% and ROE averaged 1.7% in 2017–2019, as calculated based on net income) due to the low operating efficiency of the business: the average NIM for 2017–2019 amounted to 2.4%, while CTI was 89%. However, ACRA notes that the assessment of profitability and efficiency does not take into account the income generated on the balance sheet of the SO.

Adequate risk profile assessment. The risk management contributors include transparency, adequate regulation, high underwriting standards, and sufficient control on the part of the Supporting Organization and the Group. The core of the portfolio includes loans provided to the largest Russian companies and subsidiaries of multinational corporations, whose credit quality is high. The Bank's loan portfolio is characterized by high concentration (as of December 31, 2019, the top ten groups of borrowers accounted for 94% of the portfolio). However, almost the entire loan portfolio is secured by guarantees issued by the SO or companies with high credit quality. This factor significantly mitigates credit risks taken by the Bank (the cost of risk was equal to zero in 2017–2019). The quality of the loan portfolio is assessed as high (no non-performing loans). The portfolio of bank loans is made up of receivables from banks with a high level of creditworthiness. The market risk related to derivatives is assessed as low, because the transactions are of market nature and to the benefit of corporate clients who are borrowers of the Bank.

Strong liquidity position. The short-term liquidity shortage indicator remains positive in ACRA's base case scenario and in the stress scenario there is no liquidity deficit. The long-term liquidity position is also assessed as strong, as the long-term liquidity shortage indicator stands at 85%.

High-concentrated funding profile. The Bank's liabilities (net of subordinated loans and derivatives) include corporate funds (92%) and interbank loans (6%) granted mainly by the Group's banks. The concentration of the largest lenders is considered high, as the share of funds from the ten largest lenders was 62% of liabilities (net of subordinated loans and derivatives) as of December 31, 2019. However, ACRA assesses positively the mostly stable nature and predictable dynamics of balances on accounts and deposits of the largest corporate lenders.

Key assumptions

- Maintained shareholder and operational control over the Bank by the Group;
- Cost of credit risk within 0–0.5%;
- N1.2 above 8.5% within the 12 to 18-month horizon;
- Maintaining the current funding profile.

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 or operational control by the Group or a substantial decrease in Bank's significance within the Group.

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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

A credit rating of Credit Agricole CIB AO was first published by ACRA on August 11, 2017. The credit rating and credit rating 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 Credit Agricole CIB AO, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of Credit Agricole CIB AO and the standalone financial statements of Credit Agricole CIB AO drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and Credit Agricole CIB AO participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by Credit Agricole CIB AO in its financial statements have been discovered.

ACRA provided no additional services to Credit Agricole CIB AO. 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.