ACRA assigns AAA(RU) to SEB Bank JSC, outlook Stable

The credit rating assigned to SEB Bank JSC (the Bank) is based on the very high likelihood of extraordinary support from the parent company with high creditworthiness. The Bank’s standalone creditworthiness assessment (SCA) is moderately high, in view of its strong capital adequacy, adequate risk profile, adequate liquidity and funding, and medium business profile.

The Bank is a credit institution ranking 120th in terms of assets and 125th in terms of equity among Russian banks. The 100% share in the Bank is owned by SEB AB (publ) (the Supporting Organization), the parent company of SEB Group (the Group), which is one of the largest financial groups in Europe, Sweden and other Scandinavian and Baltic countries. The Bank offers comprehensive services to the Russian representative offices of SEB Group clients whose parent companies are located in Scandinavian countries, Germany, Baltic countries, UK, Austria, Switzerland, and operates in the interbank and foreign exchange markets.

Key rating assessment factors

Very high likelihood of extraordinary support from the key shareholder. ACRA is of the opinion that, in case of need, the Supporting Organization will provide the Bank with short-term and long-term funding and capital injections. ACRA assesses the country risk of the Supporting Organization’s jurisdiction (Sweden) against the country risk of Russia as strong. The Supporting Organization’s creditworthiness is assessed by ACRA as strong.

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

- High operational integration between the Bank and the Supporting Organization (the parent company establishes corporate risk management procedures and standards applied by the Bank subject to the Russian laws);
- The Bank’s board of directors includes representatives of the Supporting Organization;
- SEB AB is the main source of Bank’s funds raised in the interbank market, and, along with SEB AG, SEB AB issues guarantees on loans provided by the Bank;
- The Bank services parent company clients that have representative offices in Russia, thereby securing the strategic relations between the Group and its client in all regions of presence.

In view of the above, and taking into account possible reputational risks for SEB AB in case of default of the Bank, ACRA is of the opinion that the credit rating of the Bank is on par with the Russian Federation.

Adequate business profile is determined by the Bank’s low positions in the Russian banking system and low diversification of sources of the operating income (which includes mainly interest income coming from loans issued to corporates and funds placed with other banks, as well as from income generated by foreign currency transactions).

The Bank’s main strategic objective is the presence of the Group in Russia in order to service and expand the client base by providing excellent services and improving the quality of service to corporate customers. The list of Bank’s services includes lending, cash management, trade finance, foreign currency transaction, and advisory services.

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The ownership structure is transparent, and the owner’s business reputation is strong.

The corporate governance quality is assessed as high, taking into account the ongoing monitoring by the parent bank and significant work experience and high qualification of the top managers of the Bank.

**Strong capital adequacy.** The Bank complies with the regulatory capital adequacy standards set forth by the Bank of Russia. As of April 01, 2018, the capital adequacy ratios N1.2 and N1.1 were equal to 81.3% and N1.0 to 83.8%, which is much higher than the regulatory requirements. The Bank is able to withstand a substantial increase of credit risk by over 500 bps.

The average capital generation ratio (ACGR) amounted to 292 bps for the period from 2013 to 2017, which is a result of the Bank’s high capital generation capacity.

The operating effectiveness of the Bank assessed by CTI and NIM for the last three years is comparable with peers.

**Adequate risk profile** stems from the high quality loan portfolio and the adequate quality of risk management.

In ACRA’s opinion, the risk management system of the Bank is transparent and matches the specifics and scope of its business. The risk management system is based on the standards of the Group. Stress tests have been carried out regularly in respect of all major risks.

According to the Bank's IFRS financial statements as of October 01, 2017, the Bank had almost no impaired loans. The overwhelming majority of loans issued by the Bank are covered by the guarantees of the Group, and therefore the volume of loss reserves allocated by the Bank is minimal. Taking into account the specifics of its operations, the Bank is characterized by a very high concentration on top 10 groups of related borrowers (over 95% of the portfolio).

The operational risk does not affect the risk profile assessment. The level of market risk is insignificant.

**Adequate liquidity and funding assessments.** The Bank demonstrates a short-term liquidity surplus in the base case scenario of ACRA. Under the stress scenario, the liquidity shortage does not exceed 5% of liabilities. The long-term liquidity shortage indicator (LTLISI) is 87%, which corresponds to the strong assessment.

The funding factor was assessed taking into account the increased concentration of the Bank’s resource base on the funds of the largest corporate clients and the parent bank (as of October 01, 2017, the share of the largest lender was about 36% of liabilities, the share of the top 10 lenders was 84%).

As of October 01, 2017, the Bank's liabilities included mainly amounts due to corporates (76.5% of total liabilities), which indicates a low diversification of liabilities. In ACRA's opinion, these risks have actually been taken into account in the assessment of concentration on the funds of the largest lenders, therefore it does not affect the assessment of the funding factor in this regard.

**Key assumptions**

- The current ownership structure and operational control of SEB AB will not change;
- The Bank will follow the current business model, and its operational performance and loan portfolio quality will not change.
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:

- A lower propensity of the Group to support its business in Russia and a change in the ownership structure of the Bank;
- A substantial decline in the Bank's operational performance and loan portfolio quality.

Rating components


Adjustments: none.

Support: on par with 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.

The credit rating has been assigned to SEB Bank JSC for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (May 25, 2018).

Disclosure of deviations from the approved methodologies. The assessment of the rating factor “funding and liquidity” has been adjusted one notch up, because risks of low-diversified liabilities have been taken into account in the assessment of the concentration on the largest lenders.

The credit rating was assigned based on the data provided by SEB Bank JSC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS financial statements of SEB Bank JSC and the financial statements of SEB Bank JSC drawn up in compliance with Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit rating is solicited, and SEB Bank JSC participated in its assignment.

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

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