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Key rating assessment  
factors

## ACRA affirms AAA(RU) to “BNP PARIBAS Bank” JSC, outlook Stable

The credit rating assigned to “[BNP PARIBAS BANK](#)” JSC (hereinafter, BNP Paribas, or the Bank) is driven by the very high probability of extraordinary support from its parent company with high creditworthiness. BNP Paribas has a moderately high standalone creditworthiness (SCA) stemming from adequate capital adequacy, a strong risk profile assessment, as well as an adequate liquidity and funding position and a medium business profile.

BNP Paribas is a credit institution ranking 104<sup>th</sup> in assets and 70<sup>th</sup> in proprietary capital among Russian banks. BNP Paribas S.A. (hereinafter, BNP Paribas S.A., the Parent Bank, Supporting Institution, or SI) is the ultimate beneficiary of 100% of the Bank’s shares. BNP Paribas S.A. is the key entity in the BNP Paribas Group (hereinafter, the Group), one of the largest financial groups globally.

**Very high likelihood of extraordinary support from the shareholder.** In ACRA’s opinion, the Parent Bank (independently or through other entities of the Group) can provide BNP Paribas with sufficient long-term and short-term financing and capital injections, if needed. ACRA determines the resulting assessment of the country risk of jurisdiction of the foreign supporting institution (Eurozone, the USA, etc.), as compared to the country risk of Russia, and creditworthiness assessment of the SI as strong.

The degree of relationship between the Bank and its shareholder is assessed as strong, in view of the following factors:

- Explicit operational integration between BNP Paribas and the SI (the Parent Bank defines corporate procedures and risk management standards that the Bank applies with due consideration given to Russian regulations);
- BNP Paribas S.A. considers the Bank as a strategically important asset emphasizing the vital role of the Bank’s clearing operations for ruble settlements;
- BNP Paribas provides services to a number of other Group companies as well as to high-profile clients of the Group;
- Representatives of the Parent Bank are members of the Bank’s Supervisory Board.

In view of the above, the credit rating of the Bank is determined as on par with the Russian Federation.

**Satisfactory assessment of the business profile.** Business profile assessment of the Bank is determined by its strong franchise in servicing large Russian and multinational companies operating in the Russian Federation. Operating income diversification is low (mostly generated from interest income from funds deposited with other banks including the Bank of Russia). The strategy of BNP Paribas involves cooperation with Russian and international companies and includes lending, derivative financial instruments transactions, cash management services, trade and export finance, etc. The corporate governance system is compliant with the requirements of the Parent Bank, which is the sole shareholder of BNP Paribas.

**Substantial loss absorption buffer** is supported by the Bank’s high regulatory capital adequacy level (as of December 1, 2018, N1.2 stood at 38.9% and N1.0 equaled 62.3%). The final assessment of the Bank’s capital position is affected by relatively weak performance (the average cost-to-income ratio (CTI) reached 60% in 2015-2017, and the net interest margin (NIM) was below 1.5%). At the same time, BNP Paribas has been continuously profitable: the averaged capital generation ratio totaled 70 bps for the last five years.

**Strong risk profile assessment** is based on high asset quality beyond the loan portfolio and on adequate risk management quality. The loan portfolio was insignificant compared to the total amount of assets (less than ten borrowers) as of June 30, 2018. In view of the small size of the loan portfolio, use of guarantees from the Parent Bank with respect to a number of claims, and 100% provisioning for NPL90+, ACRA believes that the loan portfolio quality has no effect on the risk profile of BNP Paribas. Claims to the Parent Bank are the main assets of the Bank. The quality of counterparties in off-balance sheet liabilities is also assessed as high. The amount of market and operational risks taken have no effect on the final risk profile assessment. The Bank has an appropriate risk management system in place: the principles of its activities are guided by the requirements of both the Bank of Russia and BNP Paribas S.A.

**Strong liquidity position** is primarily driven by the large amount of liquid and high-liquid assets as well as by a limited number of liabilities to be repaid in the next three months. As a result, the figures of the short-term liquidity shortage indicator (STLSI) demonstrate that the Bank has a liquidity surplus of RUB 23 bln in the base case scenario, and the surplus exceeds 38% of liabilities in the stress scenario. The long-term liquidity shortage indicator (LTLSI) value above 200% corresponds to a strong assessment. ACRA notes that BNP Paribas has a wide range of options for raising additional liquidity including funds from the Bank of Russia and BNP Paribas S.A.

**Concentrated funding profile.** Funds of legal entities are the core of the Bank's resource base: they totaled around 70% of liabilities excluding the subordinated debt as at June 30, 2018. At the same time, ACRA notes the high share (more than 40% of total liabilities) of funds of the largest client. The above funding concentration results in a lower assessment of the funding factor by the Agency.

## Key assumptions

- Retaining the current conservative development model;
- Moderate growth of the loan portfolio;
- Retaining the shareholding and operational control by BNP Paribas S.A.

## 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 declining interest of BNP Paribas Group in developing business in the Russian Federation;
- A substantial deterioration of the financial standing of the SI;
- A declining quality of the loan portfolio following its growth.

## Rating components

**Standalone creditworthiness assessment (SCA): a+.**

**Adjustments:** no.

**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 and is 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](#).

The credit rating assigned to “BNP PARIBAS BANK” Joint stock company was published by ACRA for the first time on January 23, 2018. The credit rating and its outlook are expected to be revised within one year following the rating action date (January 18, 2019).

Disclosure of deviations from approved methodologies. The risk profile factor was not used to assess the quality of the loan portfolio. In view of the small size of the loan portfolio, use of guarantees from the Parent Bank with respect to a number of claims, and 100% provisioning for NPL90+, ACRA believes that the loan portfolio concentration and quality has no effect on the risk profile of “BNP PARIBAS BANK” Joint stock company.

The credit rating was assigned based on the data provided by “BNP PARIBAS BANK” Joint stock company, information from publicly available sources, as well as ACRA’s own databases. The rating analysis was performed using the IFRS statements of “BNP PARIBAS BANK” Joint stock company and BNP Paribas S.A., and the financial statements of “BNP PARIBAS BANK” Joint stock company drawn up in compliance with Bank of Russia Ordinance No. 4212-U of November 24, 2016. The credit rating is solicited, and “BNP PARIBAS BANK” Joint stock company participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by “BNP PARIBAS BANK” Joint stock company in its financial statements have been discovered.

ACRA provided an additional service to “BNP PARIBAS BANK” Joint stock company in the form of informational support (training session). No conflicts of interest were discovered in the course of credit rating assignment.

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