

## ACRA AFFIRMS AAA(RU) TO JSC SUMITOMO MITSUI BANK RUS, ASSIGNS "RATING UNDER REVIEW: DEVELOPING" STATUS

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The credit rating of [JSC Sumitomo Mitsui Rus Bank](#) (hereinafter, SMBCR, or the Bank) reflects the Bank's strong capital adequacy assessment and adequate risk profile, funding and liquidity, and business profile assessments. The support from the Bank's parent entity (hereinafter, the Group, or the Supporting Entity, or the SE) with a high creditworthiness is also positive for the rating.

The "Rating under revision: developing" status is associated with the introduction by the Japanese Government of certain restrictions on investment activities of Japanese companies in Russia, which creates uncertainty about the impact of potential barriers and limitations on the ability to provide extraordinary support by the SE and requires further analysis of the consequences of these restrictions for the Bank's creditworthiness.

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. As of end-2022, the Bank ranked 63<sup>rd</sup> in equity and 67<sup>th</sup> in assets among banks operating in Russia. The Bank's ultimate beneficiary is one of the world's largest banking groups.

### KEY ASSESSMENT FACTORS

**The very high likelihood of extraordinary support from the shareholder.** In its assessment of the likelihood of extraordinary support from the SE to the Bank, the Agency believes that the SE is still able to support the Bank, regardless a change in the Japanese Government's approach to regulation of the capital movement between Japan and the Russian Federation, including the requirement to obtain approval from the Japanese regulator for long-term capital investments. At the same time, further expansion of the sanctions mechanism may affect the SE's ability to provide any form of extraordinary support, which is reflected in the "Rating under revision: developing" status. In case it is confirmed that support in any form is impossible, the assessment may be downgraded significantly.

The significance of other factors of support includes the approaches outlined in the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#) and reflects the Agency's opinion that, if necessary, the supporting entity can provide funding to the Bank. ACRA takes into account that:

- The Group's creditworthiness is high compared to the Bank's standalone creditworthiness. The scale of the Bank's business is not a factor that could limit the effectiveness of potential support;

- The Bank is under full strategic and operational control by the Group that determines corporate risk management procedures and standards applied by the Bank in compliance with the Russian laws;
- The Group and the Bank operate under a single brand, so that a potential default of the Bank would be associated with the Group;
- The SE operates in a jurisdiction other than the jurisdiction of the Bank's presence, which makes the support dependent on the freedom of capital movement between the countries. Moreover, cessation of the Bank's operations or deconsolidation of the Bank would not give rise to critical risks for the Group-wide strategy.

In view of the above, and given the potential reputational risks for the Group in case of the Bank's default, ACRA has determined the credit rating of the Bank at AAA(RU).

**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.

The Bank's strategic goal is to ensure the proper conditions to maintain and expand its Russian client base as well as that of the Group 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. 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. Shareholders make decisions on dividend payments each year, and no dividends were disbursed over the past eight years.

**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 parent bank 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 SE.

As of year-end 2021, the Bank had no impaired loans, which reflects its effective business model. Most loans are guaranteed by banks of the Group or parent companies of borrowers, which further mitigates the credit risk taken by the Bank. The risk profile assessment also takes into account the high 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 both ACRA's base case and stress scenarios, the Bank demonstrates no shortage of short-term liquidity. The Agency 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 SE may provide the Bank with a material amount of funding under open credit lines. The funding assessment is limited by

the concentration on SE funds and large corporate clients. This is in line with the highly focused nature of the Bank's business model in Russia.

## KEY ASSUMPTIONS

- The Group maintaining its shareholding and operating control over the Bank.
- Maintaining the current business model and the high quality of the loan portfolio.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **“Rating under revision: developing” status** assumes a variety of trends: the rating may stay unchanged, or downgraded.

**Removal of the “Rating under revision: developing” status and affirmation of the credit rating may be prompted by:**

- ACRA obtaining a confirmation of the SE's ability to support the Bank with capital and/or liquidity.

**Removal of the “Rating under revision: developing” status and downgrade of the credit rating may be prompted by:**

- Confirmation of further impairment or inability of the SE to support the Bank with capital and/or liquidity.

## RATING COMPONENTS

SCA: **a+**.

Adjustments: none.

Support: ACRA is of the opinion that the SE has the ability to provide extraordinary support in the amount sufficient for the Bank to maintain uninterrupted operations. Taking into account the support factors, the Bank's rating is assigned at AAA(RU).

## 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](#), [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of JSC Sumitomo Mitsui Rus Bank was published by ACRA for the first time on July 21, 2020. 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 data provided by JSC Sumitomo Mitsui Rus Bank, information from publicly available sources, and 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.

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

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