

## ACRA AFFIRMS A(RU) TO “COMMERCIAL INDO BANK” LLC, OUTLOOK STABLE

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The credit rating of “Commercial Indo Bank” LLC (hereinafter, the Bank) reflects the Bank’s moderate standalone creditworthiness assessment (SCA) and the high likelihood of support from shareholders, which have strong creditworthiness. The Bank’s SCA is based on its strong capital adequacy, strong risk profile, adequate liquidity and funding position, and satisfactory business profile assessment.

As of February 1, 2022, the Bank ranked 157<sup>th</sup> by capital among Russian banks. State Bank of India and Canara Bank own 60% and 40% of the Bank, respectively, and are both controlled by the Republic of India. State Bank of India is the largest bank in India by assets, whereas Canara Bank is the fifth largest.

### KEY ASSESSMENT FACTORS

**High probability of extraordinary support from the Supporting Entity.** In ACRA’s opinion, the shareholders are still interested in providing the Bank short-term and long-term financing if necessary. As per the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), the Agency views State Bank of India (hereinafter, the Supporting Entity, or the SE) as the shareholder whose support may potentially have the strongest impact on the rated entity’s creditworthiness, given its strong influence over strategic planning at the Bank, as well as its deep involvement in the Bank’s operations and control over its key indicators. ACRA notes the high level of creditworthiness of the SE, as well as the scope of the Bank’s business, which should not limit the effectiveness of potential support. The Bank is currently the main agent of parent companies for carrying out transactions with Indian companies operating in Russia. The level of dependence of the rated entity and the SE on homogenous risk factors is assessed as medium. Therefore, the Bank’s credit rating is increased two notches higher than its SCA (bbb+).

**ACRA assesses the Bank’s business profile as satisfactory** due to its limited diversification and relatively weak position in the Russian market. The Agency takes into account the transparency of the shareholder structure and the specifics of the strategy, which is aimed at continuing cooperation with companies linked to the Republic of India.

**ACRA assesses the Bank’s capital position as strong** given the high regulatory capital adequacy ratio (N1.2 stood at 86.43% as of February 1, 2022). The Bank’s ability to generate capital is adequate as the averaged capital generation ratio (ACGR) totals 147 bps. NIM (net interest margin) averaged 6.1% in 2018–2020. The cost-to-income (CTI) ratio for the aforementioned period is 46.3%, which is higher than peer banks.

**ACRA assesses the Bank’s risk profile as strong.** As of June 30, 2021, the Banks’s loan portfolio amounted to around 8% of its assets. The largest portion of assets was formed by claims to the Bank of Russia and correspondent accounts at foreign banks. ACRA notes the absence of

problem loans (Stage 3 under IFRS9) on the Bank's balance sheet as of June 30, 2021. Since the last reporting period, the Bank has considerably reduced the size of its securities portfolio, and due to this market risk has returned to a comfortable level.

**The adequate funding and liquidity position is based** on a high volume of liquid assets and high concentration of funding sources. The short-term liquidity shortage indicator shows that in ACRA's base case scenario, the Bank has nearly RUB 3.9 bln of excess liquidity, and regulatory liquidity ratios have consistently been above minimum. The long-term liquidity shortage indicator exceeded 370% as of June 30, 2021. The Bank's liabilities include corporate deposits and interbank loans. Dependence on the largest depositors is relatively high, with the largest depositor and the 10 largest clients accounting for 37% and 83% of total liabilities, respectively. Concentration on corporate funds in the structure of funding sources is taken into account when assessing concentration on the funds of the largest creditors. In this regard, the Agency does not reduce the assessment of the funding and liquidity factor for this part.

### KEY ASSUMPTIONS

- The SE maintaining shareholder and operational control;
- Tier 1 capital adequacy (N1.2) above 12% within the 12 to 18-month horizon;
- Maintaining operating profitability;
- Maintaining the strong liquidity position.

### POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

#### A positive rating action may be prompted by:

- The Bank becoming more competitive in the Russian banking services market;
- Significant increase in the diversification of funding sources.

#### A negative rating action may be prompted by:

- Reduced interest of the SE in developing business in the Russian Federation;
- Substantial deterioration of the SE's financial standing and the operating environment;
- Deterioration of the Bank's liquidity position;
- Rapid growth of the share of loans in the Bank's portfolio coupled with simultaneous deterioration of their quality.

### RATING COMPONENTS

SCA: **bbb+**.

Adjustments: none.

Support: SCA plus two notches.

### 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 “Commercial Indo Bank” LLC was published by ACRA for the first time on April 13, 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 “Commercial Indo Bank” LLC, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the IFRS financial statements of “Commercial Indo Bank” LLC and the financial statements of Commercial Indo Bank LLC drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and “Commercial Indo Bank” LLC 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 no additional services to “Commercial Indo Bank” LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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