

Fitch Affirms 5 Russian Foreign-Owned Banks at 'BBB'; Outlook Stable

Fitch Ratings-Moscow-06 November 2020:

Fitch Ratings has affirmed five Russian foreign-owned banks' Long-Term Issuer Default Ratings (IDRs) at 'BBB' with Stable Outlooks. They are HSBC Bank (RR) LLC, ING Bank (Eurasia) JSC, SEB Bank JSC, Bank of China (Russia) and China Construction Bank (Russia) Limited. A full list of ratings is provided below.

Key Rating Drivers

The Long- and Short-Term IDRs, Support Ratings and senior debt ratings (where assigned) of the five banks reflect Fitch's view of a high propensity of the parent groups to provide support, if needed. The banks are fully owned by HSBC Holdings Plc (A+/Negative/a+), ING Bank N.V. (AA-/Negative/a+), Skandinaviska Enskilda Banken AB (AA-/Negative), Bank of China Limited (A/Stable) and China Construction Bank Corporation (A/Stable), respectively. The Stable Outlooks on the banks' IDRs reflect that on the Russian sovereign.

In Fitch's view, the parent groups have strong propensity to support their subsidiaries due to full ownership, the high level of integration with the subsidiaries, and their common branding, which implies reputational risks in case the subsidiary defaults. The limited size of the subsidiaries makes potential support manageable for their financially strong parent banks.

The banks' Foreign-Currency IDRs are capped by Russia's Country Ceiling of 'BBB', which reflects the probability of transfer and convertibility restrictions, and the risk the subsidiaries may not be able to benefit from parent support to service their foreign-currency obligations. The banks' Local-Currency IDRs, where assigned, also factor in Russian country risks.

Without the Country Ceiling, Fitch would likely rate SEB Bank JSC, Bank of China (Russia) and China Construction Bank (Russia) Limited one notch lower than their respective parents' IDRs.

ING Bank (Eurasia) JSC would probably be rated one notch below its parent's Viability Rating (VR). Fitch uses a bank's VR as the anchor rating if the parent's IDR includes a one-notch uplift from the presence of a sufficient buffer of qualifying junior and structurally subordinated senior debt to protect its senior creditors in case of failure. In our opinion, this buffer may not be available to

protect the Russia-based subsidiary's creditors.

HSBC Bank (RR) LLC would likely be rated one notch below the VR of HSBC Holdings Plc (a+) since we believe that support from the ultimate holding company will be available for the subsidiary in case of need.

The banks' Short-Term IDR of 'F2' is the higher of two options mapping to a 'BBB' Long-Term IDR as described in our rating criteria. This is because of potential support available from the parents.

Fitch does not assign VRs to the subsidiary banks due to their high dependence on the parent groups in business origination, funding and risk management procedures. The subsidiaries are highly integrated with their parent institutions and the groups' management is involved in all major decision-making at the subsidiary level.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The subsidiary ratings could be upgraded if Russia's sovereign ratings are upgraded and the Country Ceiling is revised upwards.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The Long- and Short-Term IDRs, Support Ratings and senior debt ratings could be downgraded if Russia's sovereign ratings are downgraded and Country Ceiling revised lower.

Significant weakening of the parent banks' credit profiles, sufficient to warrant a multi-notch downgrade of their IDRs to a level of 'BBB' or below (where the anchor rating for support is the parent's IDR) or of their VRs to a level of 'bbb' or below (where the anchor rating for support is the parent's VR) will likely result in a downgrade of the respective subsidiary bank ratings. A sale of the subsidiary to a lower-rated entity or a considerable weakening of the propensity of a parent bank to support its subsidiary can also trigger a downgrade. However, each of these scenarios is currently viewed as unlikely by Fitch.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating

downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

The banks' IDR and Support Ratings are driven by potential support from the parent groups in case of need.

ING Bank (Eurasia) JSC; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Short Term Issuer Default Rating; Affirmed; F2

; Local Currency Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Support Rating; Affirmed; 2

---senior unsecured; Long Term Rating; Affirmed; BBB

HSBC Bank (RR) LLC; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Short Term Issuer Default Rating; Affirmed; F2

; Local Currency Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Support Rating; Affirmed; 2

SEB Bank JSC; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Short Term Issuer Default Rating; Affirmed; F2

; Support Rating; Affirmed; 2

China Construction Bank (Russia) Limited; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Short Term Issuer Default Rating; Affirmed; F2

; Local Currency Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Support Rating; Affirmed; 2

Bank of China (Russia); Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Short Term Issuer Default Rating; Affirmed; F2

; Local Currency Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Stable

; Support Rating; Affirmed; 2

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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