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Key rating assessment
factors

ACRA assigns AAA(RU) to CB “J.P. Morgan Bank International” (LLC), outlook Stable

The credit rating assigned to [CB “J.P. Morgan Bank International” \(LLC\)](#) (hereinafter, J.P. Morgan, or the Bank) is due to the very high probability of extraordinary support from the parent company which has a high level of creditworthiness. J.P. Morgan has a high standalone creditworthiness assessment due to its strong capital adequacy position, strong risk profile assessment, adequate funding and liquidity position, and average business profile.

J.P. Morgan is a credit organization ranked 114th in terms of equity and 40th in terms of capital among banks in the Russian Federation. Almost 100% of the Bank's shares are owned by JPMorgan Chase & Co (hereinafter, the Parent Bank, or the Supporting Organization), one of the largest financial groups in the world.

Very high probability of extraordinary support from the Supporting Organization.

In ACRA's opinion, the Parent Bank can, if necessary, provide the Bank with sufficient short- and long-term financing either individually or via other Supporting Organization structures. It can also increase the Bank's capital, subject to regulatory approval. The final assessment of the respective country risks for jurisdictions of the foreign Supporting Institution (the US and others) relative to Russia's country risk and the final creditworthiness assessment of the Supporting Institution are determined by ACRA as strong.

ACRA assesses the level of connection between the Bank and the Supporting Organization as strong due to the following factors:

- Pronounced operational integration between the Bank and the Supporting Organization (the Supporting Organization determines corporate processes used in the Bank while taking into account the requirements of Russian legislation);
- The Supporting Organization considers the Bank to be a strategically important asset, noting the importance of its operations with Russian clients, including major national corporations;
- The majority of the Board of Directors is made up of representatives of Supporting Organization companies;
- The main amount of funds placed by the Supporting Organization in the Bank is common equity tier 1 and cannot be withdrawn without following a number of procedures.

Therefore, the Bank's credit rating is assessed as on par with the Russian Federation.

Satisfactory risk profile assessment. The assessment of the Bank's risk profile is mainly determined by its limited market positions and moderate diversification of operating income, which is made up primarily of fees and income from operations in the currency market. The Bank's operations are an element of the Supporting Organization's overall strategy of work with Russian clients. The Bank's direct functions include opening and maintaining accounts, conversion operations, financial market operations, depository services, and trade financing. The Bank does not lend to legal entities or individuals, but plans to expand its work with corporate clients. The corporate management system in the Bank is built to meet the requirements of the Supporting Organization.

The considerable loss absorption cushion is confirmed by the high level of the Bank's core capital according to regulatory norms (N1.2 – 62.27% as of October 1, 2018). At the same time, proprietary funds account for approximately 80% balance currency. In addition, J.P. Morgan is stably profitable. The average capital generation ratio (ACGR) is 107 bps for the last 5 years. ACRA notes the Bank's limited operating efficiency (the average CTI from 2015 to 2017 was approximately 75%). The Bank does not make dividend payments or direct net profits to increase capital.

ACRA assesses the Bank's risk profile as strong, taking into account the high quality of its assets outside of the debt portfolio. J.P. Morgan does not conduct lending to legal entities or individuals and therefore, the most of the risk-weighted assets (RWA) makes up the Supporting Organization's liabilities on the funds placed in its accounts by the Bank. ACRA simultaneously assesses the quality of counterparties on off-balance sheet liabilities and derivative financial transactions as high. The Bank's risk management is largely implemented at the level of the Supporting Organization.

ACRA considers the Bank's liquidity position to be strong based on fact that due to the funds placed in accounts of the Supporting Organization and that were previously raised as a contribution to the authorized capital, J.P. Morgan can cover all liabilities to third-party creditors (depositors). This is due to lack of need to fund credit or other bank operations.

J.P. Morgan's liabilities are formed primarily by funds of legal entities (40.2%) with more than 15.8% of all liabilities being made up by funds of the Supporting Organization, which determines the increased concentration of the funding profile.

Key assumptions

- The Supporting Organization maintaining shareholder and operational control;
- Maintaining the current model of Bank development;
- Maintaining the profitability of operations;
- High capital adequacy and liquidity.

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:

- The Supporting Organization's decreased interest in developing business in the Russian Federation;
- Deterioration of the Supporting Organization's financial condition.

Rating components

SCA: a+.

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 CB "J.P. Morgan Bank International" (LLC) for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (December 4, 2018).

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

No material discrepancies between the provided information and the data officially disclosed by by CB “J.P. Morgan Bank International” (LLC) in its financial statements have been discovered.

ACRA provided no additional services to CB “J.P. Morgan Bank International” (LLC). No conflicts of interest were discovered in the course of credit rating assignment.

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