

ACRA AFFIRMS AA-(RU) TO PJSC SOVCOMBANK, AA-(RU) TO BOND ISSUES RU000A0ZYJR6, RU000A100DZ5, RU000A101MB5, XS2291914971, A-(RU) TO BOND ISSUES RU000A0ZYWZ2, XS2010043656, AND BB+(RU) TO BOND ISSUE RU000A0ZYX28, ASSIGNS STATUS “RATING UNDER REVISION: DEVELOPING”

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The affirmation of the credit rating of **PJSC Sovcombank** (hereinafter, Sovcombank, or the Bank) reflects ACRA’s opinion on the credit institution’s ability to fulfil its obligations in the current conditions and takes into account the current specifics of regulation of the activities of Russian banks.

The analysis was performed based on the Bank’s IFRS financial reporting for 9M 2021, RAS financial accounting for subsequent periods, and information received from the Bank as part of the rating analysis. Sovcombank’s credit rating is based on its strong capital position, as well as adequate assessments of its business profile, risk profile, funding, and liquidity. The Bank’s systemic importance for the Russian banking system is reflected in the addition of two notches to its standalone creditworthiness assessment (SCA).

The affirmation of the Bank’s credit rating and SCA is grounds for the affirmation of the credit rating of the bond issues RU000A0ZYJR6, RU000A100DZ5, RU000A101MB5, and XS2291914971, which represent senior unsecured debt, at AA-(RU), the rating of the subordinated bond issues RU000A0ZYWZ2 and XS2010043656, which are additional capital instruments, at A-(RU), and the subordinated bond issue RU000A0ZYX28, which is an additional capital instrument, at BB+(RU).

The “Rating under revision: developing” status has been assigned due to Sovcombank’s announcement of the suspension of coupon payments for Eurobond issues (XS2393688598, XS2113968148, XS2010043656, XS2291914971) and the need to perform additional analysis of the legal and financial consequences of this move for the credit institution. At the same time, ACRA notes that the suspension is partly the result of technical issues (the Bank’s lack of access to foreign assets and international payment infrastructure), and is not determined by the Bank’s creditworthiness. The suspension of coupon payments for perpetual Eurobonds (XS2393688598, XS2113968148), which are additional capital instruments, is not a violation of the terms of their issuance.

ACRA also takes into account the fact that the legal consequences of the suspension of interest payments for bond issue XS2010043656 may arise no earlier than the 14th day after the payment date (April 7, 2022), while the next coupon payment for bond issue XS2291914971 is scheduled

for July 26, 2022. When deciding whether to remove the status, ACRA will review both the approaches developed by Sovcombank to address the current situation, as well as the influence of all other factors on its creditworthiness.

Sovcombank is a universal bank that occupies a sustainable position in both retail and corporate lending. The Bank is one of the ten largest credit institutions in the Russian market in terms of equity and assets and ranks tenth by volume of private deposits.

KEY ASSESSMENT FACTORS

The adequate business profile assessment is driven by Sovcombank's strong franchise in consumer lending and competitive positions in lending to the large business and SME sectors. The Bank is one of the ten largest credit institutions in the Russian Federation in terms of available equity capital and a number of other operating indicators. When carrying out its strategy in 2021, Sovcombank continued to actively grow its market positions, including by actively carrying out M&A deals. Furthermore, the loan portfolio grew at a much faster rate than industry indicators. ACRA notes a fairly high diversification of operating income (the Herfindahl–Hirschman index for 9M 2021 was 0.12), at the same time, the Bank's performance continued to be heavily dependent on the retail segment, with more than 50% of pre-tax profit coming from transactions with individuals.

The Bank's strong capital position is confirmed by sufficiently high capital adequacy ratios and indicators — N1.2 amounted to 10.7% as of February 1, 2022, and Tier 1 capital amounted to 12.6% as of September 30, 2021. The capital adequacy assessment is also supported by the Bank's strong capacity to generate internal capital: the averaged capital generation ratio (ACGR) exceeds 300 bps for the last five years. According to ACRA's estimates, the current loss absorption buffer allows the Bank to withstand significant growth in the cost of credit risk without violating regulatory capital adequacy ratios. Operational efficiency in 2021 also remained at a sufficiently high level. However, in the current operating environment, which is in particular characterized by rapid growth of the cost of borrowing, Sovcombank's profitability indicators will be under pressure.

Sovcombank's adequate risk profile reflects the relatively high quality of the loan portfolio amid its very fast growth in 2021. As of the end of Q3 2021, the share of Stage 3 and POCI loans under IFRS 9 amounted to around 2.5% of the portfolio (taking into account loans of Orient Express Bank). The total volume of loans categorized by ACRA as problem and potentially problem did not exceed 5%. In addition, over 9M 2021 the Bank wrote off loans worth around RUB 9.6 bln (about 1% of the total loan portfolio as of the end of the period). ACRA believes that in the current environment the quality of the portfolio will change in line with industry trends. Sovcombank has retained the acceptable concentration of its loan portfolio, which among other things was due to its rapid growth (according to ACRA's assessments, total growth of the loan portfolio exceeded 70%, which is considerably higher than growth recorded by other systemically important financial institutions). The Agency also notes that collateralization of the loan portfolio is below 50% taking into account guarantees and sureties provided to companies with high creditworthiness.

Adequate liquidity and funding position. Sovcombank can withstand an outflow of client funds in ACRA's base case scenario, and has ample opportunities to attract additional liquidity in stress situations. The bank is a systemically important financial institution, which also gives it broad access to Bank of Russia liquidity.

ACRA notes that Sovcombank's dependence on a single funding source is moderate. The bulk of liabilities is made up of corporate funds (around 40% according to IFRS as of September 30, 2021), while the merger with Orient Express Bank made a significant contribution to the growth

of retail liabilities. The Bank's dependence on the largest creditors (depositors) is relatively low and does not influence the assessment of the sub-factor.

Moderate systemic importance is a reflection of the volume of the Bank's operations in the context of Russia's financial system. According to ACRA's assessments, the total volume of funds of individuals on Sovcombank's balance sheet was around RUB 600 bln as of February 2, 2022 (more than 1.5% of all funds of individuals held in bank accounts in the Russian Federation). Sovcombank is widely present in different regions of the country. The Bank's bankruptcy would lead to a manageable shock scenario in the banking system. Therefore, ACRA has added two notches to Sovcombank's SCA.

KEY ASSUMPTIONS

- Continuous operation of the Bank;
- Sovcombank maintaining its competitive positions in the Russian banking system;
- Tier 1 capital adequacy above 9% within the 12 to 18-month horizon;
- Continued stable access to existing liquidity sources within the 12 to 18-month horizon.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **“Rating under revision: developing”** status assumes an equal probability of the rating remaining unchanged or being upgraded or downgraded.

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

- Resolution of the Bank's Eurobond payment situation, which would allow obligations to be considered fulfilled in accordance with the specifics of the current regulatory regime, while other factors of the credit rating remain unchanged.

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

- Failure to resolve the Bank's Eurobond payment situation, which would allow obligations to be considered fulfilled in accordance with the specifics of the current regulatory regime;
- Deterioration of the Bank's capital position as a result of an increase in the cost of credit risk and/or a significant decrease in operating efficiency;
- Deterioration of credit portfolio quality;
- Higher share of unsecured loans in the portfolio;
- Growth of dependence of the resource base on a single funding source (including regulatory funding) and/or growth of the Bank's dependence on its major creditors (depositors).
- Loss of competitive advantages in key business segments.

RATING COMPONENTS

SCA: **a**.

Adjustments: systemic importance, +2 notches.

ISSUE RATINGS

Rationale. The issues listed below represent senior unsecured debt of Sovcombank. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Bank in terms of priority. According to ACRA's methodology, the credit rating of the issues is equivalent to that of PJSC Sovcombank, i.e. AA-(RU).

Certificated exchange-traded interest-bearing non-convertible bond issued by PJSC Sovcombank, BO-05 series (RU000A0ZYJR6), maturity date: November 25, 2027, issue volume: RUB 10 bln — AA-(RU).

Certificated exchange-traded interest-bearing non-convertible bond issued by PJSC Sovcombank, BO-P01 series (RU000A100DZ5), maturity date: May 17, 2029, issue volume: RUB 10 bln — AA-(RU).

Uncertificated exchange-traded interest-bearing non-convertible bond issued by PJSC Sovcombank, BO-P02 series (RU000A101MB5), maturity date: April 17, 2030, issue volume: RUB 12 bln — AA-(RU).

Eurobonds issued by PJSC Sovcombank (LPN, actual issuer: SovCom Capital D.A.C.) (XS2291914971), maturity date: January 26, 2025, issue volume: USD 300 mln — AA-(RU).

Rationale. The bond issues listed below are Tier 2 capital instruments, which envisages a significant level of subordination against priority unsecured creditors and determines the credit rating of the issues at three notches below Sovcombank's credit rating — A-(RU).

Certificated interest-bearing non-convertible bond issued by PJSC Sovcombank, 2B03 series (RU000A0ZYWZ2), maturity date: February 21, 2029, issue volume: USD 150 mln — A-(RU).

Subordinated Eurobonds issued by PJSC Sovcombank (LPN, actual issuer: SovCom Capital D.A.C.) (XS2010043656), maturity date: April 7, 2030, issue volume: USD 300 mln — A-(RU).

Rationale. The bond issue listed below is a Tier 1 capital instrument, which envisages a significant level of subordination against priority unsecured creditors and determines the credit rating of the issue at five notches below Sovcombank's SCA — BB+(RU).

Certificated interest-bearing non-convertible bond issued by PJSC Sovcombank, 1B02 series (RU000A0ZYX28), maturity date: N/A, issue volume: USD 100 mln — BB+(RU).

REGULATORY DISCLOSURE

The credit ratings have been assigned to PJSC Sovcombank and the bonds (ISIN RU000A0ZYJR6, RU000A100DZ5, RU000A101MB5, XS2291914971, RU000A0ZYWZ2, XS2010043656, RU000A0ZYX28) issued by PJSC Sovcombank under the national scale for the Russian Federation based on the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating of PJSC Sovcombank and the credit ratings of the bonds (ISIN RU000A0ZYJR6, RU000A100DZ5, RU000A101MB5, XS2291914971, RU000A0ZYWZ2, XS2010043656, RU000A0ZYX28) issued by PJSC Sovcombank were published by ACRA for the first time on November 25, 2016, December 7, 2017, May 30, 2019, April 28, 2020, January 25, 2021, March

28, 2018, October 25, 2019, and March 28, 2018, respectively. The credit rating of PJSC Sovcombank and its outlook, as well as the credit ratings of the bonds (ISIN RU000A0ZYJR6, RU000A100DZ5, RU000A101MB5, XS2291914971, RU000A0ZYWZ2, XS2010043656, RU000A0ZYX28) issued by PJSC Sovcombank are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by PJSC Sovcombank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS consolidated financial statements of PJSC Sovcombank and the financial statements of PJSC Sovcombank drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit ratings are solicited, and PJSC Sovcombank participated in their assignment.

In assigning the credit ratings, 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 PJSC Sovcombank. No conflicts of interest were discovered in the course of credit rating process.

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