

## Expert RA Upgrades the Rating of Sovcombank to ruA+

### Brief overview:

Licence number	963
Licence type	General
Deposit insurance	Yes
Headquarters	Kostroma

### Bank's key financial figures:

Figure	01.01.20	01.09.20
Assets, mln rbls	1 152 493	1 523 039
Capital, mln rbls.	138 919	191 140
N 1.0, %	13.0	14.9
N 1.2, %	9.8	12.5
Actual loan provisioning ratio, bank-to-bank loan excluded, %	9.2	9.6
Past-due debt in the portfolio of legal body and individual entrepreneur, %	4.3	4.6
Past-due debt in the portfolio of private individual, %	8.3	10.5
Share of the key source of liabilities %	38.3	29.7
Share of the largest lender, %	3.5	2.7
Share of 10 largest lenders, %	12.6	11.0
Funding of the liabilities (except subordinated) LAT, %	22.0	23.3

Source: Expert RA estimates based on the data by Sovcombank PJSC

### Operating performance indicators:

Indicator	2019	July 1, 2019 – July 1, 2020
Net profit, mln rbls.	38 081	25 508
ROE, %	35.0	19.7
NIM, %	4.8	4.8

Source: Expert RA estimates based on data by Sovcombank PJSC

### Leading rating analyst:

Ruslan Korshunov,  
Senior Director, Bank Ratings

## Summary

Moscow, October 13, 2020. Expert RA has upgraded the credit rating of Sovcombank to ruA+ with positive outlook. Previously, the bank was rated ruA with positive outlook.

The rating upgrade is due to the scale up of the bank's operations and their greater diversification over the last year, with maintained adequate asset quality. We note that the bank has already generated the sizeable amount of provisions amid the slowdown in economy and COVID-19 restrictions, keeping the comfortable amount of capital stock. In view of adequate asset quality, the bank's financial performance by the end of this year may as good as it was a year ago.

The bank's rating is due to the strong market position and the high management quality, the adequate assessment of asset quality and the capital adequacy level, as well as the comfortable liquid position. A moderately high probability of financial and administrative support from the federal authorities in a case of extreme necessity, in relation to the business volumes and the profile of the funds attracted by the bank, have a positive impact on the rating level. The Agency maintained a positive outlook as it expects the bank to be included in the list of systemically important credit institutions (SICI), with which criteria the bank will comply under the updated methodology that enters into effect in 2021. The planned reduction in bank-to-bank loans as part of direct repo transaction will have a positive impact on liquidity cushion. With non-worsened financial metrics, this may boost the credit rating.

PJSC Sovcombank is a large multipurpose bank (ranking 10th by assets as of 01.09.20) focusing on retail and corporate operations, as well as on investment banking services. The bank's firm foothold in consumer lending sector is due to a wide geographic reach and a huge salespoint network (2 200 units in 76 Russian regions). The Khotimsky brothers, Dmitry and Sergey, are the major beneficiaries of the banking institution (jointly holding a 37 percent stake). The Khotimsky are also the members of the bank's Supervisory Board.

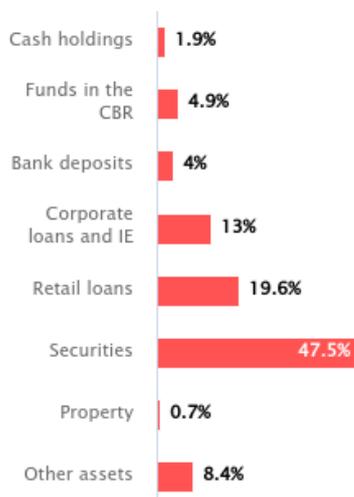
## Rating Overview

Strong market position is due to highly diversified sources of income (Herfindahl-Hirschman index for income reaches 0.17 as of 01.07.20) and a firm foothold at the federal level. The bank has considerably scaled up its operations: the amount of assets has grown by 45 percent from 01.09.19 to 01.09.20 compared to the 12-percent market average growth for the same period, which allowed Sovcombank to rank among top 10 banks in terms of assets. Organic growth, as well as the M&A transactions and the takeover of the subsidiary Express-Volga bank occurred in June 2020 helped the bank to gain such positions. The

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**Assets structure as of 01.09.20**

Source: Expert RA estimates based on the data by Sovcombank PJSC

**Liability structure as of 01.09.20**

Source: Expert RA estimates based on the data by Sovcombank PJSC

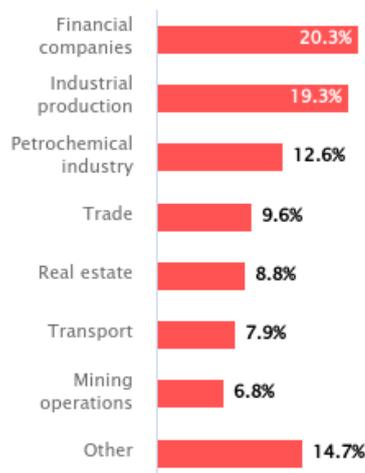
recent purchase of the Sovest project boosted the number of partners and the clients of the Khalva project, which cemented the bank's foothold in the instalment credit card segment. The Agency still positively assesses the weaker focus on related-party transactions (the share of related-party assets in equity totals 1 percent, in H1 2020, the IFRS consolidated statements read).

Adequate equity position amid high operational efficiency despite the substantial growth in value at risk (CoR totaled 3.4% in H1 2020 compared to 1.4% a year earlier), the bank manages to maintain comfortable capital stock both due to the earned profit and through the placement of subordinated Eurobonds (the bank withstood full impairment of 12.5 of assets exposed to credit or market risks and off-balance-sheet liabilities, before capital increase or exposure reduction) and off-balance sheet liabilities without violations of capital requirements, as of 01.09.20). The concentration of active banking operations on large credit risk objects is low (23% as of 01.09.20). The considerable part of the operations accounts for the companies having ruAA- or higher credit ratings. The bank is characterized by high return on equity (RoE=13,6% and RoA=1,5% for H1 2020, according to the IFRS consolidated statements; RoE=19,7% and RoA=2% for the period from 01.07.19 to 01.07.20, according to the Russian Accounting Standards), which allows to maintain capital through profit. There has also been an increase in business efficiency of the bank (CIR stood at 43% in H1 2020 compared to 50% in H1 2019, IFRS data show).

Adequate asset quality reflects that there is an acceptable share of troubled debt in the total loan portfolio (the share of stage 3 and POCI was at 3.5%, according to IFRS as of 01.07.20) with a high level of coverage of these loans by reserves for loans issued (141%). Despite its growth due to the coronavirus pandemic, the loan-rescheduling ratio in the retail portfolio remains low (2.4% as of 01.07.20), while about 58 percent of rescheduled loans are secured. The retail portfolio is characterized by adequate product diversification and a high share of secured loans (63% in H1 2020, according to IFRS), which is significantly higher than that of banks of similar specialization. The corporate portfolio is characterized by an acceptable sectoral concentration (by H1 2020 the share of the largest industry was about 20 percent of corporate loans, the share of the three largest industries was about 52 percent, according to IFRS). The portfolio of securities on the bank's balance sheet is represented by highly reliable bonds (as of 01.07.2020, about 87 percent of the portfolio, accounting for about half of gross assets, was formed by securities of issuers with a credit rating of ruA- and higher according to the Expert RA scale).

Comfortable liquid position. The bank has ramped up the volume of attracted corporate clients' funds by 49 percent for the period from 01.09.19 to 01.09.20, which resulted in lower concentration of the resource base on the funds of individuals and entrepreneurs (from 44 percent to 33 percent of attracted funds over the same period). The hike in the volume of bank-to-bank loans as part of direct repo transactions – proceeds from these operations were allocated to the purchase of bonds – contributed to the declining share of retail clients in H1 2020. The share of encumbered securities in gross book values amounted to 17 percent as of 01.09.20, which resulted in the lower coverage of attracted funds with highly liquid assets (LAM) and liquid assets (LAT). But the volume of repo transactions will decline by the end of the year amid further recovery of securities market, which may have a positive impact on the liquid position assessment and due to which Sovcombank would comply the SICI requirements. The bank may obtain this status in the short term. The concentration of the raised funds on the largest lenders

### Corporate loan portfolio, breakdown by sector, as of 01.07.20



Source: Expert RA estimates based on the data by IFRS ,Sovcombank PJSC

is assessed as low (the share of top-10 lenders/group of lenders in net liabilities was 11% as of 01.09.20).

High level of corporate governance and strategic resourcing. The bank's corporate governance and business reputation can be assessed positively due to the equity investment sovereign and private funds, as well as the successful attraction of syndicated loan from foreign banks and placement of subordinated loan in H2 2019 – Q1 2020. Sovcombank has successfully moved through all stages of the previous credit cycles, integrated the acquired banks into its business model and strengthen its position in retail segment and SME sector. With the strategic shift of the bank's retail lending focus from unsecured consumer lending to car loans, mortgage and loans against property, the credit institution will pass through the crisis with smaller losses than the banks focusing only on unsecured loans. Preventive reserve augmentation in Q1 2020 along with the lack of downtrend in credit quality demonstrates the bank's conservative provisioning policy, which is positively assessed by the Agency.

## Rating Outlook

The rating has a positive outlook, which implies a high probability of the rating upgrade in the medium term.

## Reporting for Regulatory Purposes

The credit rating of PJSC Sovcombank was first published on 28.11.2008. Previous rating press release on this rated entity was published on 26.05.2020.

The credit rating is assigned according to the Russian national scale and for a long term. The review of the credit rating and its outlook is expected no later than one year from the issue date of this press release.

The credit rating was assigned based on the Methodology for Assigning Credit Ratings to Debt Instruments <https://raexpert.ru/ratings/methods/current> (came into effect on 30.07. 2020).

The assigned rating and its outlook reflect all essential information about the rating entity at the disposal of Expert RA JSC, which reliability and quality, in the opinion of Expert RA, are appropriate. The key sources of information used as part of the rating analysis are the data provided by the Bank of Russia, PJSC Sovcombank, as well as Expert RA JSC data. The information used during the rating analysis was sufficient to apply the methodology.

The credit rating was assigned as part of the concluded agreement, PJSC Sovcombank took part in the rating assignment.

The number of the rating committee participants was sufficient to ensure a quorum. The leading rating analyst presented the factors affecting the rating to the members of the rating committee, and the committee members expressed their opinions and suggestions. The rating committee chairman allowed each member of the rating committee an opportunity to express their opinion before the voting.

Expert RA JSC has not provided any additional service to PJSC Sovcombank over the last 12 months.

## **Disclaimer**

The credit ratings assigned by Expert RA represents the opinion of Expert RA on the ability of the rated person (issuer) to fulfill the financial obligations undertaken by the entity and (or) the credit risk of its particular financial obligations. Credit ratings do not establish a fact or recommend buying any particular securities or assets, making investment decisions.

The ratings assigned by Expert RA reflect all data related to the rated entity and which is at the disposal of Expert RA, which quality and authenticity are appropriate, according to Expert RA.

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