

Rating Action: Moody's upgrades Sovcombank's deposit ratings to Ba1 and affirms BCA at ba2; outlook remains stable

10 Nov 2020

London, 10 November 2020 -- Moody's Investors Service ("Moody's") Moody's Investors Service has today upgraded Sovcombank PJSC's (Sovcombank) long-term local and foreign-currency deposit ratings to Ba1 from Ba2. At the same time, Moody's has upgraded the bank's long-term and short-term Counterparty Risk Ratings (CRR) to Baa3/P-3 from Ba1/Not Prime (NP), its long-term and short-term Counterparty Risk (CR) Assessment to Baa3(cr)/P-3(cr) from Ba1(cr)/NP(cr). Concurrently, Moody's affirmed the bank's ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and the bank's short-term local and foreign currency deposit ratings of NP.

A full list of assigned ratings can be found at the end of this press release.

RATINGS RATIONALE

The upgrade of Sovcombank's ratings reflects Moody's view that the probability of the bank's deposits benefiting from support from the Central Bank of Russia (CBR) should it be needed is now high. This results in one notch of uplift to the bank's deposit ratings from its BCA of ba2. The upgrade follows the CBR's announcement on 29 October 2020 that it formally designated Sovcombank -- the ninth largest banking group in Russia by total assets -- as a systemically important financial institution (SIFI).[1]

The affirmation of Sovcombank's BCA reflects the bank's (1) good loss-absorption capacity, illustrated by its high pre-provision profitability and strong provisioning, which together provide a considerable buffer to withstand potential asset risks; (2) sound asset-quality indicators, supported by good portfolio diversification and sizable exposure to high quality bonds; and (3) good liquidity. At the same time the bank's standalone credit profile will remain challenged by its exposure to market risk and somewhat volatile earnings.

For the first six months in 2020, Sovcombank posted a net income of RUB10 billion, which translated into an annualised net income to tangible assets ratio of 1.2% compared with 2.6% in full-year 2019. Sovcombank's bottom-line profitability was strained by rising cost of risk and losses from revaluation of its fixed-income securities in Q12020. As of 30 June 2020, the bank's securities portfolio, which predominantly consisted of Russian corporate bonds and Eurobonds and bonds issued by government related issuers accounted for around 48% of total assets and bears limited credit risk, but remains a source of market risk for Sovcombank.

Sovcombank's problem loans (Stage 3 under IFRS) amounted to 3.6% of gross loans as of 30 June 2020, while the level of loan loss reserves coverage was good at 142%. Sovcombank's asset quality will remain supported by its good loan book diversification with a significant exposure to creditworthy customers from the corporate sector and focus on secured loans in the retail segment.

Being designated systemically important bank, Sovcombank is a subject to the tightened regulatory requirements that apply to systemically important banks in accordance with the Basel III standards, including the capital surcharge, liquidity coverage ratio and net stable funding ratio. Systemic importance gives the bank the right to apply for a committed credit line facility from the CBR, which can be used both to meet its liquidity coverage ratio requirement and for liquidity support, in case of need.

STABLE OUTLOOK

The stable outlook on Sovcombank's deposit rating reflects limited downside risk to the bank's BCA because the elevated risks stemming from the deteriorated operating conditions will be counter-balanced by the bank's ample liquidity and robust loss absorption. Thus, a likelihood of any rating changes for Sovcombank in the next 12 to 18 months is limited.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Sovcombank's BCA and its deposit ratings will not likely be upgraded in next 12-18 months given the unfavorable operating and economic conditions in the country. The bank's deposit ratings could be

downgraded if its solvency profile were to deteriorate materially beyond Moody's current expectations amid further weakening of the operating conditions.

LIST OF AFFECTED RATINGS

..Issuer: Sovcombank PJSC

Upgrades:

- Short-term Counterparty Risk Assessment, Upgraded to P-3(cr) from NP(cr)
- Long-term Counterparty Risk Assessment, Upgraded to Baa3(cr) from Ba1(cr)
- Short-term Counterparty Risk Rating, Upgraded to P-3 from NP
- Long-term Counterparty Risk Rating, Upgraded to Baa3 from Ba1
- Long-term Bank Deposits, Upgraded to Ba1 from Ba2, Outlook Remains Stable

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed ba2
- Baseline Credit Assessment, Affirmed ba2
- Short-term Bank Deposits, Affirmed NP

Outlook Actions:

-Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

REFERENCES/CITATIONS

[1] http://cbr.ru/press/pr/?file=29102020_141842PR2020-10-29T14_13_19.htm

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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