

## Expert RA Upgrades the Rating of Sovcombank to ruAA

### Brief overview:

Licence number	963
Licence type	General
Deposit insurance	Yes
Headquarters	Kostroma

### Bank's key financial figures:

Figure	01.01.20	01.01.21
Assets, RUB billion	1 153	1 452
Equity, RUB billion.	139	208
N 1.0, %	13.0	15.3
N 1.2, %	9.8	12.6
Actual loan provisioning ratio, bank-to-bank loan excluded, %	9.2	9.0
Past-due debt in the portfolio of legal body and individual entrepreneur, %	4.3	3.1
Past-due debt in the portfolio of private individual, %	8.3	10.7
Share of the key source of liabilities %	38.3	32.0
Share of the largest lender, %	3.5	2.8
Share of 10 largest lenders, %	12.6	15.8
Funding of the liabilities (except subordinated) LAT, %	24.1	34.0

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

### Operating performance indicators:

Indicator	2019	2020
Net profit, mln rbls.	38 081	18 466*
ROE, %	35.0	12.3
NIM, %	4.8	5.1

\*Unadjusted for events after Balance Sheet Date,  
Source: Expert RA's calculations based on PJSC Sovcombank's data "

### Leading rating analyst:

Ruslan Korshunov,  
Senior Director, Bank Ratings

## Summary

Moscow, February 11, 2021. Expert RA has raised its credit rating on Sovcombank to 'ruAA' with an outlook as stable. Previously, the bank was rated ruA+ with positive outlook.

The credit rating revision reflects the increased probability of Sovcombank receiving support in financial and administrative matters from the federal government authorities after being included in the list of systemically important credit institutions (SICIs). Another factor behind the rating action is a significant reduction in the volume of the bank's short-term (up to 30 days) reverse-repo exposures, which has improved Sovcombank's liquidity position, with the rest of its financials remaining quite comfortable. The rating reflects the bank's strong market position, high corporate governance standards, strong profitability metrics, comfortable liquidity position, adequate asset quality, and adequate capital buffer.

PJSC Sovcombank is a large universal bank (ranking 10th by assets as of Jan 1, 2021), specializing in retail and corporate banking and also acting as an investment bank. Sovcombank's wide geographic scope and extensive network infrastructure (2.3 thous. branches and offices in 76 Russian regions) support its strong position in the retail banking sector (Russia's 11th-largest bank by retail loans as of Jan 1, 2021). In October 2020, Sovcombank was included in the list of SICIs, which fact has been reflected in the credit rating. The Agency continues to view the bank's low related-party transacting (in 9M2020, related party assets accounted for less than 6% of the bank's capital, according to Sovcombank's IFRS consolidated financial statements) as a rating strength.

## Rating Overview

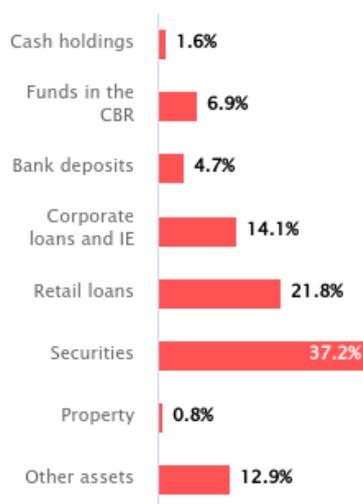
Our assessment of Sovcombank's market position as strong reflects its well-diversified revenue base (its Herfindahl- Hirschman Index for income diversification was below 0.3 in 2020), and a significant nationwide competitive position (Sovcombank is Russia's third-largest privately owned bank by assets). In 2020, Sovcombank grew both organically and through acquisition of smaller banks; also, it took over Express-Volga subsidiary bank in June 2020. The bank diversifies by massively expanding its insurance, leasing and factoring business lines using subsidiary companies. In 2020, it increased its corporate customer base by bringing in top industry players, and strengthened its position in the installment card and auto loan markets. In October 2020, Sovcombank was included in the list of SICIs based on its business scale and other eligibility criteria set forth in Ordinance 3737-U, which fact was reflected in the credit rating. The Agency continues to view the bank's low related-party transacting (in 9M2020, related party assets

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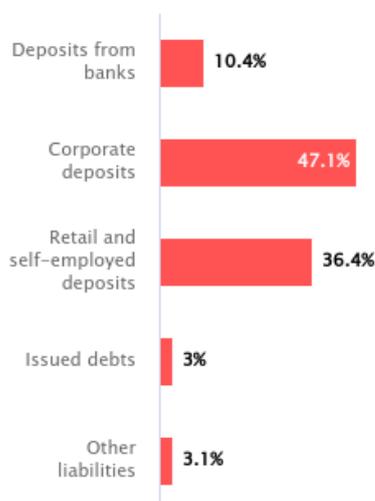
Banking Sector Health Index as of Oct 1, 2020

### Assets structure as of 01.01.21



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

### Liability structure as of 01.01.21



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

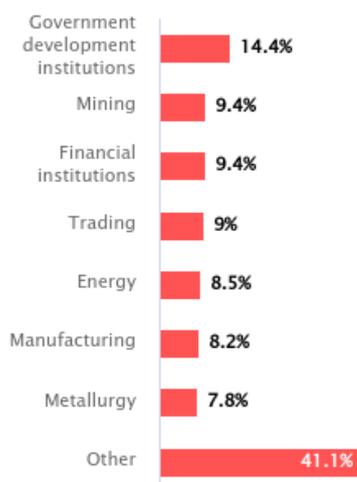
accounted for less than 6% of the bank's capital, according to Sovcombank's IFRS consolidated financial statements) as a rating strength.

Sovcombank's capital position is adequate and its operating efficiency is strong. In 2020, the bank's capital position kept strengthening: the N1.1 ratio measuring the bank's loss absorption buffer increased from 7.2 to 11.3% of assets and off-balance-sheet commitments exposed to credit and market risks. The capital base was increased by the issue of subordinate Eurobonds, profitable investment in bonds, and a multifold increase in the interest revenue from Halva instalment cards related fees, while asset quality remained adequate despite the economic downturn. Although the cost of risk rose significantly (to 3.3% in 9M2020 compared with 1.6% in 9M2019, according to the bank's IFRS financial statements), Sovcombank's operating efficiency improved on the back of a consistently strong profitability (the cost-to-income ratio was 40% in 9M2020 vs. 48% in 9M2019, and ROE was 19.3% in 9M2020, according to the bank's IFRS financial statements). The concentration of large credit risk exposures relative to net assets is low (22 % as of Jan 1, 2021), with corporate borrowers rated 'ruAA-' and better accounting for a substantial part of the bank's large exposures.

Sovcombank's asset quality is adequate. This assessment reflects the manageable level of non-performing loans, NPLs, in the bank's total loan book (Stage 3 and POCI financial assets accounted for 3.2% as of Oct 1, 2020, according to the bank's IFRS financial statement), while the total-provisions-to-NPL coverage ratio is high (137%). The share of restructured loans in the bank's retail loan portfolio remains low (2.2% as of Oct 1, 2020), although increased during the COVID-19 pandemic, with around 70% of customers continuing regular payments of their restructured loans, of which one-half are secured by cars or real property. The retail loan book is adequately diversified by product, and the share of secured loans is much higher than in banks with similar specialization patterns (61%, according to Sovcombank's 9M2020 IFRS financial statement). The corporate loan portfolio is reasonably diversified by sector (three largest sectoral borrowers accounted for around 33% as of Oct 1, 2020), reflecting a low individual borrower concentration. The bank's securities portfolio is mostly comprised of high investment grade bonds (on Oct 1, 2020, around 86% of the bank's holdings were backed by issuers rated 'ruA-' or better on Expert RA's rating scale).

The revision of our assessment of Sovcombank's liquidity position to comfortable from fair is based on the reduction in the volume of the bank's short-term (up to 30 days) reverse-repo exposures (from 26% to 0.2% of funds borrowed in 4Q2020) due to the closure of the vast majority of transactions following the sale of collateral securities that had appreciated after a decline in 1H2020. Also, the volume of short-term funding decreased due to the increase in the bank's longer-term reverse-repo exposures (relevant transactions are expected to be closed this year and substituted by other funding sources). As a result of these developments, the share of encumbered securities in the bank's gross assets fell twofold, to 9% as of Jan 1, 2021, leading to a higher coverage of liabilities with highly liquid instruments (from 20% to 32% during 4Q2020). The reduction in the volume of the reverse-repo exposures improved Sovcombank's compliance with the short-term liquidity coverage regulatory ratio, one of the SICI eligibility criteria. The bank's funding concentration on the largest creditors remains low, although increased in 4Q2020 (the share of liabilities related to top ten creditors/creditor groups increased to 16% from 11%). On the other hand, corporate deposits were up 61% in 2020, the result being a decrease,

### Corporate loan portfolio, breakdown by sector, as of 01.01.21



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

from 38% to 32%, in retail and self-employed deposits in the bank's funding base.

The bank's corporate governance and strategic planning policies are strong. Sovcombank now has institutional investors in its ownership structure, has issued a subordinated loan and social bonds, and is planning an IPO. All this allows its corporate governance and business standing to be assessed positively. In addition, Sovcombank succeeded in going through the stages of the previous credit cycles, integrating acquired banks and companies in its business model and strengthening its positions in the SMR and retail markets. Notably, the changed focus of the bank's retail lending business from unsecured consumer loans to real property- and car-backed loans has been having a good effect on the borrowers' payment discipline in times of economic turbulence. In 2020, the bank managed to adhere to its conservative provisioning policy, the result being an increased capital buffer amid strong profitability metrics and successful M&A deals. Sovcombank's strategic goals for 2021/22 are to develop the digital banking and financial services in its auto business, while the Halva Project, will continue to be one of the key business drivers. In Expert RA's opinion, the expansion of the Halva card portfolio may push up the proportion of NPLs in the bank's retail loan book, although this should be offset by the profit margin on the Halva cards, as well as enhanced customer loyalty and increased cross-sales.

## Rating Outlook

The outlook assigned to the rating is stable, meaning a high likelihood of the rating remaining unchanged in the midterm.

## Reporting for Regulatory Purposes

Expert RA's credit rating on PJSC Sovcombank was first published on Nov 28, 2008. The nearest previous press release for this rated entity was issued on Oct 13, 2020.

The assigned rating is a Russian national scale long-term credit rating. Both the rating and the outlook for it are expected to be revised no later than one year after this press release.

The credit rating is assigned using Expert RA's Methodology For Assigning Credit Ratings to Banks (<https://raexpert.ru/ratings/methods/current>) entered into force on July 30, 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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