

Bulletin:

Sovcombank's Planned Acquisition Of Orient Express Bank Has A Marginal Impact On Its Capitalization

March 25, 2021

MOSCOW (S&P Global Ratings) March 25, 2021--S&P Global Ratings today said that the announced acquisition of Orient Express Bank (OEB) by Sovcombank PJSC (SCB; BB/Positive/B) is in line with Sovcombank's growth strategy. We believe this transaction, currently pending regulatory approval, should have only a marginal impact on Sovcombank's capitalization if it proceeds.

Under our base-case scenario, we now expect SCB's risk-adjusted capital ratio (which differs from regulatory metrics) to stay at 5.4%-5.5% compared with our previous projection of 5.6%-5.8%. Similarly, we now expect the bank's earnings buffer--an important factor underlying our positive outlook for the rating--will remain strong at 110 basis points (bps)-115 bps on a three-year average basis rather than 120 bps.

Based on SCB's management's estimates, SCB will realize only little or no one-off gains from the transaction because it expects to pay around the net asset value (after additional provisions) for OEB. The acquisition, if successfully implemented, might strengthen SCB's business position since it can add up to 3 million customers to its client base, with a particular focus on credit cards, an important component of SCB's strategy. We note that SCB has a track record of successful acquisitions. However, we also believe the deal will exercise material pressure on SCB's integration team, and therefore do not expect any further sizeable acquisitions in the next two years. With over 500 offices, OEB will be the largest of SCB's acquisitions to date.

We understand that the terms and conditions of the transaction will indemnify SCB and OEB against claims of OEB's shareholders. This, we believe, will somewhat offset risks associated with recent corporate conflicts at OEB.

This report does not constitute a rating action.

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