

**Rating Action: Moody's affirms Sovcombank's ratings following Rosevrobank's acquisition announcement**

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Global Credit Research - 23 Mar 2018

London, 23 March 2018 -- Moody's Investors Service, ("Moody's") has today affirmed Sovcombank's Ba3/NP long- and short-term global local and foreign currency deposit ratings and ba3 baseline credit assessment (BCA). Moody's also affirmed Sovcombank's Ba2(cr)/NP(cr) long- and short-term Counterparty Risk Assessments respectively. All long term deposit ratings have a stable outlook. A full list of affected ratings can be found at the end of this press release.

The affirmation of Sovcombank's ratings follows the announcement on 13 March 2018 by Sovcombank that it would increase its ownership in Rosevrobank (not rated) to 92% effective stake from the current 45%. Sovcombank expects to close the acquisition in H1 2018, subject to regulatory approvals, and to merge with Rosevrobank in 2019.

Following consolidation with Rosevrobank, Sovcombank's consolidated assets will increase by around 30% and the group will become the 11th largest bank in Russia by total assets.

**RATINGS RATIONALE**

The affirmation of Sovcombank's ratings reflects Moody's expectation that its credit profile, following the acquisition and merger with Rosevrobank, will remain stable over the next 12-18 months. Moody's also expects that in the longer term Sovcombank will benefit from the merger because the banks' business models complement one another well, and the merger will create a large and diversified financial institution.

Moody's expects that solvency metrics of the combined bank will remain solid, supported by good asset quality, strong profitability and healthy capital position of both banks.

The rating agency estimates that as a result of acquisition and subsequent consolidation, Sovcombank's consolidated Tangible Common Equity ratio (Moody's key measure of capital) will initially decline, but remain solid, above 13% by the end of 2018 (14.5% as at end of September 2017) and commensurate with Ba-rated peers, supported by strong internal capital generation.

Sovcombank will continue to report strong profitability, reducing its reliance on one-off gains. Moody's estimated that, Sovcombank and Rosevrobank combined IFRS net profit was RUB 25.4 billion as at 30 September 2017, which translated into a strong annualized Return on combined Average Assets of around 4.4%. Moody's expects that Sovcombank's robust recurring profitability will sustain in the long term, and will benefit from Rosevrobank's low cost of funding, strong fees and commissions and cost-efficient business model.

Asset quality is another relative credit strength for both banks and Moody's expects that the combined entity will benefit from Sovcombank and Rosevrobank's good asset diversification with significant exposure to creditworthy customers from corporate and sub-sovereign sectors and increased focus on secured retail loans. At the end of Q3 2017, Sovcombank and Rosevrobank Non-Performing loans (loans overdue more than 90 days) accounted for 2.8% and 2.0% of their gross loans, respectively, and were sufficiently covered by loan loss reserves. At the same time Sovcombank will remain exposed to an elevated market risk given that the bank's fixed income portfolio accounted for around 50% of total assets or over 400% of the bank's equity as of 30 September 2017. The portfolio is predominantly consisted of Russian Eurobonds and bonds issued by government related issuers rated Ba with a relatively short duration and bear limited credit risk.

Moody's also expects Sovcombank's liquidity profile to remain healthy over the next 12-18 months. Sovcombank's funding base mainly comprising retail deposits will benefit from Rosevrobank's focus on corporate deposits and will become more balanced and diversified with reduced reliance on interbank funding related to Repo transactions.

In addition, Sovcombank's successful experience in merging and integrating banks in recent years significantly reduces execution risks.

## WHAT COULD MOVE THE RATINGS UP/DOWN

An upgrade in the bank's ratings could result from a longer track record of sustainable and robust financial performance or if the bank, given its increased asset base is designated as a systemically important financial institution.

Conversely, the ratings could be downgraded if there were a sharp deterioration in the operating environment in Russia that would lead to a substantial deterioration of the bank's asset quality, capitalization or liquidity profile.

## LIST OF AFFECTED RATINGS

Issuer: Sovcombank

Affirmations:

...LT Bank Deposits, Affirmed Ba3, Outlook remains Stable

...ST Bank Deposits, Affirmed NP

...Adjusted Baseline Credit Assessment, Affirmed ba3

...Baseline Credit Assessment, Affirmed ba3

...LT Counterparty Risk Assessment, Affirmed Ba2(cr)

...ST Counterparty Risk Assessment, Affirmed NP(cr)

Outlook Actions:

...Outlook, Remains Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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