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ACRA affirms A(RU) to PJSC Sovcombank, outlook Stable, and rates two subordinated bond issues

The credit rating of [PJSC Sovcombank](#) (hereinafter, Sovcombank or the Bank) has been affirmed at A(RU) with a Stable outlook. The rating action has been taken ahead of the scheduled date due to the Bank's disclosure of a planned increase of its effective share in [JSB ROSEVROBANK \(ACRA rating A-\(RU\), outlook Stable](#), hereinafter, REB) up to 92% and a subsequent merger of the businesses by Sovcombank. The deal will be closed by the end of April this year.

The rating action reflects ACRA's opinion that the purchase will not have an immediate impact on the creditworthiness of Sovcombank. We believe that, until the merger is actually implemented, the increase of share in REB will not impact the Bank's standalone creditworthiness assessment (SCA) (a). On the other hand, the operational integration expected to be completed in 2019 may be positive for the Sovcombank's business profile assessment underpinned by a stronger franchise, higher business diversification, and lower funding costs of the united bank that will have higher volume of current corporate accounts. This may influence ACRA's opinion on the rating/rating outlook. We note that Sovcombank and REB are close in terms of their credit quality, which mitigates merger risks for investors. ACRA notes that Sovcombank possesses a significant experience in M&A transactions. The acquisition of REB has been carried out step-by-step since 2015; and the key officers of Sovcombank are members of the Supervisory Board and lead the Risk Committee of REB.

ACRA has also affirmed A(RU) issue rating to the Bank's BO-05 series bond (RU000A0ZYJR6) and rated the 1B02 series subordinated bond issue (RU000A0ZYX28) at BB+(RU) and the 2B03 series subordinated bond issue (RU000A0ZYWZ2) at BBB(RU). Both subordinated bonds are capital instruments with a substantial level of subordination against priority unsecured creditors. According to the RU000A0ZYX28 bond issue terms and conditions, the Bank may, in its discretion, cancel interest payments at any interest payment date, and no creditor will have the right to claim such interest. The loan may be written off in case any of the following events occurs: 1) N1.1 is below 5.125% for six or more banking days in total, within any 30 consecutive banking days; 2) the Bank of Russia's board of directors / the Banking Supervision Committee of the Bank of Russia approves a plan for the Bank of Russia / Deposit Insurance Agency to implement bankruptcy prevention measures in respect of Sovcombank. In accordance with ACRA methodology, the resulting credit rating of RU000A0ZYX28 bond is determined five notches below Sovcombank's SCA (a).

According to the RU000A0ZYWZ2 bond issue terms and conditions, the loan may be written off in case any of the following events occurs: 1) N1.1 is below 2% for six or more banking days in total within any 30 consecutive banking days; 2) the Bank of Russia's board of directors / the Banking Supervision Committee of the Bank of Russia approves a plan for the Bank of Russia / Deposit Insurance Agency for implementation of bankruptcy prevention measures in respect of Sovcombank. The credit rating of RU000A0ZYWZ2 bond is determined three notches below the Sovcombank's rating (A(RU)).

The Bank of Russia authorized to include the above subordinated bonds into the own funds of Sovcombank.

Key issue properties (RU000A0ZYX28)

Issuer	PJSC Sovcombank
Issuer credit rating	A(RU), outlook Stable
Actual issuer	PJSC Sovcombank
Type of security	Certified interest-bearing non-convertible unregistered bond, 1B02 series
Issue volume	USD 100 mln
ISIN	RU000A0ZYX28
Final placement date	March 07, 2018
Maturity date	n/a
Capital tier	Tier 1

Key issue properties (RU000A0ZYWZ2)

Issuer	PJSC Sovcombank
Issuer credit rating	A(RU), outlook Stable
Actual issuer	PJSC Sovcombank
Type of security	Certified interest-bearing non-convertible unregistered bond, 2B03 series
Issue volume	USD 150 mln
ISIN	RU000A0ZYWZ2
Final placement date	March 07, 2018
Maturity date	February 21, 2029
Capital tier	Tier 2

Key assumptions

- The Bank to maintain its competitive positions in the business segments;
- Loan portfolio growth rates within 20–25%;
- Credit risk cost within 2–3%;
- NIM within 5–5.5%;
- Tier 1 CAR (N1.2) above 9% at the 12 to 18-months horizon;
- The Bank to maintain its current funding structure.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A sustained increase of market share in key business segments;
- Maintaining of a moderate risk appetite amid business growth rate not exceeding market average;
- Improvement in the funding source balance.

A negative rating action may be prompted by:

- A significant deterioration of the regulatory capital adequacy as a result of risk cost increase;
- A deteriorating liquidity position due to a thinning high-liquid asset cushion of the Bank;
- A substantial growth in secured lending;
- A loss of competitive advantages in key business segments as a result of further consolidation in the banking sector with the participation of major banks.

Rating components

SCA: a.

Adjustments: none.

Support: no.

Issue ratings

[PJSC Sovcombank, BO-05 \(ISIN RU000A0ZYJR6\)](#); maturity date: November 25, 2027, issue volume: RUB 10 bln — A(RU).

Regulatory disclosure

The credit rating of PJSC Sovcombank and the credit ratings of bonds issued by PJSC Sovcombank (ISIN RU000A0ZYJR6, ISIN RU000A0ZYX28, ISIN RU000A0ZYWZ2) were assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above bond issues.

The credit rating of PJSC Sovcombank and the credit rating of RU000A0ZYJR6 bond issued by PJSC Sovcombank were first published by ACRA on November 25, 2016 and December 07, 2017, respectively. Credit ratings have been assigned to RU000A0ZYX28 и RU000A0ZYWZ2 bonds issued by PJSC Sovcombank for the first time. The PJSC Sovcombank's credit rating and outlook and the credit ratings of RU000A0ZYJR6, RU000A0ZYX28, RU000A0ZYWZ2 bond issues are expected to be revised within 12 months following the rating action date (March 26, 2018).

The credit ratings were assigned and affirmed based on the data provided by JSC Sovcombank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS financial statements of JSC Sovcombank and financial statements of JSC Sovcombank composed in compliance with the Bank of Russia's Ordinance No. 4212-U dated November 24, 2016. The credit ratings are solicited, and JSC Sovcombank participated in the rating process.

No material discrepancies between the provided information and the data officially disclosed by PJSC Sovcombank in its financial statements have been discovered.

ACRA provided additional services to PJSC Sovcombank. No conflicts of interest were discovered in the course of credit rating process.

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