

Rating Action: Moody's upgrades the BCA of Kazakhstan-based SB Sberbank to b1 from b2, affirms its Ba1 deposit ratings and changes the outlook to positive

23 Jul 2021

London, 23 July 2021 -- Moody's Investors Service ("Moody's") has today upgraded SB Sberbank JSC's (SB Sberbank) Baseline Credit Assessment (BCA) to b1 from b2, affirming its Adjusted BCA of ba2, its long-term local and foreign currency bank deposit ratings of Ba1, its long-term Counterparty Risk Assessment (CR Assessment) of Ba1(cr) and its long-term local and foreign currency Counterparty Risk Ratings (CRRs) of Ba1. The bank's Not Prime short-term deposit ratings and CRRs and its Not Prime(cr) short-term CR Assessment were affirmed. The outlook on the long-term deposit ratings and the overall issuer outlook were changed to positive from stable.

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

RATINGS RATIONALE

The upgrade of SB Sberbank's BCA recognizes the improvements in the bank's financial fundamentals, which were sustained amid the adverse operating environment in 2020, when Kazakhstan's economy was hit by the coronavirus pandemic and the oil price plunge. In 2020 and the first quarter of 2021, the bank's asset quality avoided deterioration and its capital position strengthened, while its profitability and liquidity buffer remained robust.

Following a marked reduction in the bank's problem loans (defined as Stage 3 and purchased or originated credit impaired under IFRS-9) in 2018-19, the share of such loans remained approximately flat in 2020, despite the deteriorated operating environment. The bank's loan loss reserve coverage of problem loans (93% as of year-end 2020) considerably exceeded the sector average.

SB Sberbank's capital adequacy has strengthened materially over the last two years, supported by the bank's profitable performance and capitalization of its 2019 earnings. Despite record dividends paid out in Q2 2021, the bank's regulatory Tier 1 ratio remained solid at 15.6% as of 1 June 2021. SB Sberbank has demonstrated its capacity to consistently generate a ROAA of 2.0-2.5%, and Moody's expects the bank's capital position to be maintained in the next 12-18 months, on the back of resumed loan growth, stable profitability and normalized dividend payouts.

SB Sberbank's liquidity and funding profile is solid: the bank is predominantly funded by customer deposits and long-term funds raised from state-owned development institutions. Despite significant concentration of its corporate deposit base, liquidity risks are well covered by the ample buffer of liquid assets held by the bank (40% of the tangible banking assets as of the end of March 2021, excluding pledged securities).

VERY HIGH AFFILIATE SUPPORT

SB Sberbank's Adjusted BCA of ba2 benefits from two notches of uplift above its b1 BCA, given Moody's assessment of a very high probability of affiliate support from the bank's parent, Sberbank (Baa3 stable, ba1). This assessment reflects the parent's 99.99% ownership and control of SB Sberbank, the strategic importance of the neighboring Kazakh market to Sberbank, their common brand and high reputational risk for the parent, as well as the historical track record of support.

MODERATE GOVERNMENT SUPPORT

The additional one notch of uplift in SB Sberbank's Ba1 deposit ratings above its ba2 Adjusted BCA result from Moody's view of a moderate probability of support from the Government of Kazakhstan (Baa3 positive). This assessment reflects the balance between SB Sberbank being a foreign subsidiary, which limits the government's propensity to support the bank, and its very strong market position as Kazakhstan's second-largest bank. This prominent market position supports SB Sberbank's systemic importance to the banking system of Kazakhstan, underpinning Moody's assessment of the likelihood of government support in case of need.

OUTLOOK CHANGED TO POSITIVE FROM STABLE

Moody's changed the outlook on SB Sberbank's long-term deposit ratings to positive from stable, to reflect the expected operating environment improvements, which should support the bank's asset quality and profitability, and potentially higher government support capacity, which is currently captured in the positive outlook assigned to the sovereign debt rating.

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

SB Sberbank's BCA could be upgraded if the bank's asset quality improves and its profitability remains strong over the next 12-18 months. The bank's deposit ratings could be upgraded if a BCA upgrade was combined with an improvement in the parent's standalone credit strength, as reflected in its BCA, or an upgrade of Kazakhstan's sovereign rating. The bank's BCA could be downgraded, if its financial fundamentals significantly deteriorate, while weakening in the parent's standalone credit strength could result in a downgrade of SB Sberbank's deposit ratings.

LIST OF AFFECTED RATINGS

..Issuer: SB Sberbank JSC

Upgrade:

...Baseline Credit Assessment, Upgraded to b1 from b2

Affirmations:

...Adjusted Baseline Credit Assessment, Affirmed ba2

...Short-term Counterparty Risk Assessment, Affirmed NP(cr)

...Long-term Counterparty Risk Assessment, Affirmed Ba1(cr)

...Short-term Counterparty Risk Ratings, Affirmed NP

...Long-term Counterparty Risk Ratings, Affirmed Ba1

...Short-term Bank Deposit Ratings, Affirmed NP

...Long-term Bank Deposit Ratings, Affirmed Ba1, Outlook Changed To Positive From Stable

Outlook Action:

...Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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b. With Access to Internal Documents: NO

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