

February 1, 2022

Peter Harrell
Senior Director for International Economics and Competitiveness
National Security Council
Eisenhower Executive Office Building
1650 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. Harrell:

I am writing to you on behalf of our client, Sovcombank PJSC (Sovcombank), to introduce you to the bank and its background in light of the current tensions between the United States and Russian governments. We recognize that Sovcombank is not well known outside of Russia, and we want to ensure that you and your colleagues have the factual background necessary to understand the bank and its business.

Sovcombank is one of few private banks in Russia, holding 1.7% of the Russian banking sector's assets. The bank holds accounts throughout its branch network for over 8 million predominantly low- and medium-income Russian individuals and families across 1,050 mainly small Russian towns. Sovcombank's shareholders are 34 individuals with no controlling shareholder. Those shareholders include the bank's management and Russian businessmen, but no "Forbes list oligarchs," politically exposed persons (PEPs), or U.S. targeted individuals.

Notwithstanding those facts, however, Sovcombank was recently included on a list of Russian banks in draft legislation by Senator Bob Menendez, the *Defending Ukraine Sovereignty Act* (S. 3488). Its inclusion in the draft legislation has already impugned Sovcombank's good reputation, and we want to ensure that the bank is not further punished by any unwarranted imposition of sanctions.

Therefore, we are writing to you now to fully apprise the United States government of the true background and factual circumstances of Sovcombank, and to initiate a dialogue in that regard. For the reasons set out below, Sovcombank should not be the subject of any impending U.S. sanctions actions, nor should it be named as a potential sanctions target in any legislative or executive authorities.

- In October 2020, the Central Bank of Russian (CBR) added Sovcombank to the country's list of systemically important financial institutions (SIFIs) on the formal grounds that the bank exceeded 1% share in overall banking sector assets and retail deposits – the CBR methodology for identifying Russian SIFIs is not the same as that used in the United States or Western Europe.

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- The current CBR list of Russian SIFIs consists of 13 banks: 6 large state-owned banks, 4 privately-owned banks, and 3 Russian subsidiaries of multinational banks. Nine out of the 10 SIFIs that are not multinational subsidiaries are included in the original version of Senator Menendez’s bill. While the CBR listed SIFIs together hold 78% of total Russian banking assets, Sovcombank itself accounts for only 1.7% of those assets.

The bank’s management team has no other businesses and has collectively invested its savings, time, and skills into Sovcombank for the past 20 years – it identified market niches with limited competition and achieved strong competitive advantages in these niches. A disciplined execution of this strategy, impeccable reputation, and hard work of the management team enabled the bank to generate capital through economic cycles, and to take advantage of market opportunities as they occurred. As a result, the bank has grown from a single branch with 17 employees to a branch network of over 2,601 offices across Russia employing 23,000 people. The bank is an exemplary role model for other Russian entrepreneurs, demonstrating that small private businesses can be very successful and competitive even in traditionally state-dominated industries.

- Sovcombank attracts and retains the best talent in 1,050 Russian towns by offering attractive career opportunities and extensive continuing education options, particularly to women. The bank comprises 73% female staff and 36% female top management, which already exceeds Russian male-dominated societal standards. Nevertheless, Sovcombank has set even more ambitious sustainability targets to further increase the percentage of women in the bank’s top management to 40% in the next few years. Additionally, for a number of years the bank has had no gender pay gap up to middle management levels, and only a 3% pay gap in top management – one of the best metrics not only in Russia, but also internationally (for comparison, large U.S. banks have gender pay gaps up to 29% according to public filings).
- Sovcombank directly provides financing to a large number of U.S. real estate developers and mortgage companies in an aggregate amount of \$482 million.
- Sovcombank maintains extensive business relationships with the largest U.S. banks: Bank of New York Mellon, Citibank, Goldman Sachs, Bank of America, and J.P. Morgan. This business includes trading derivatives and trade finance (Citi, J.P. Morgan, and Goldman Sachs), international payments and correspondent accounts (J.P. Morgan, Citi, and Bank of New York Mellon), trading securities (Citi, J.P. Morgan, Goldman Sachs, and Bank of America) coordinating issuance of bonds (J.P. Morgan and Citi), and planning the future IPO of Sovcombank (J.P. Morgan and Goldman Sachs). Citi and investors provided \$180 million unsecured financing in form of investments in Sovcombank’s Eurobonds and syndicated loans.
- International investors’ investments in Sovcombank reached \$2.2 billion by January 1, 2022. These investments include funding through Eurobonds and syndicated loans and equity stakes in Sovcombank.
- A number of U.S. financial institutions entrusted Sovcombank to support their clients after those financial institutions exited Russia and sold their businesses to Sovcombank: GE

Money in 2014, Liberty Mutual in 2019 and MetLife, Inc. in 2020. Today, Sovcombank still serves millions of former clients of those U.S. financial institutions who left Russia.

- EU financial institutions exiting Russia also choose Sovcombank as the purchaser of their Russian businesses: Oney bank of France, BBVA Group of Spain, Nordea bank of Sweden, and Talanx / HDI of Germany selected Sovcombank to continue servicing their clients.
- Doing business with U.S. and EU companies requires a very high degree of ongoing scrutiny and diligence. To maintain its business relationships, Sovcombank strictly adheres to international Know Your Client (KYC) and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements. As a part of the bank’s regular due diligence, U.S. and EU law firms review the use of proceeds of funding attracted abroad for sanctions compliance requirements.
- Sovcombank has only five individual accountholders with total deposits exceeding \$10 million. Those individuals all are private business owners and entrepreneurs, and none are PEPs or Specially Designated Nationals (SDNs). The bank also has only 15 corporate clients with account balances exceeding \$100 million. None of these corporate clients are SDNs or controlled by SDNs or PEPs, nor are they special purpose vehicles (SPVs) without operational activities.
- Multinational institutional equity investors in the bank include sovereign wealth funds of Saudi Arabia, Kuwait, Qatar, Bahrain and UAE, Japan Bank for International Cooperation, and SBI Holdings, a Tokyo-listed Japanese public investment group, which hold approximately 8% of Sovcombank’s shares.
- The supervisory board of Sovcombank comprises 11 members, including three independent directors – nationals of France, Germany, and India. Each of remaining eight board members represents one or more shareholders. The supervisory board is responsible for the direction of the bank’s operations and policies in conformity with the general objectives of the business.
- Sovcombank does not handle any transactions or accounts involving the export of natural resources, such as natural gas, oil, and other commodities, or involving defense contractors or the Russian military.

Membership in international organizations

Sovcombank is the first Russian bank to integrate the principles of environmental and social responsibility and corporate governance into its business, and it is a proud member of the following global organizations:

- Sovcombank is the first and only Russian bank to support the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**, the working group on climate-related financial disclosures. The bank is committed in writing to applying the TCFD’s recommendations to make bank’s reporting even more transparent.

- Sovcombank is a member of the **United Nations Global Compact**, which seeks to promote responsible, sustainable business practices.
- Sovcombank is the founding signatory to the **United Nations Environment Programme Finance Initiative (UNEP FI)**, a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development to help create a financial sector that serves people and planet while delivering positive impacts.
- Sovcombank is the only Russian bank that is a member of the **United Nations Net-Zero Banking Alliance (NZBA)**, which brings together global banks committed to aligning their lending and investment portfolios with net-zero emissions.
- Sovcombank is a signatory to **Global Reporting Initiative (GRI)**, the global standard for sustainability reporting which cover topics ranging from biodiversity to tax, waste, and emissions.
- Sovcombank complies with **ISO 26000** standards, the guiding principles for businesses and organizations committed to operating in a socially responsible way.

Leading Environmental, Social, and Governance (ESG) practices in Russia

Sovcombank develops its sustainability and ESG strategy by adopting the best international banking practices. The bank's efforts are focused on the following areas:

- **Responsible lending:** Sovcombank is committed to lending in a responsible way. Treating customers fairly is at the heart of the bank, and this means offering value, understanding clients' needs, being transparent, and generally helping clients to make informed choices.
- **Access to banking for low-income clients and fair employer in rural areas:** Sovcombank provides a broad suite of financial services and products to predominantly low-income customers in underbanked rural areas and remote locations in the Russian Federation. Sovcombank operates by far the largest retail network – 2,601 branches and mini-branches – among privately owned banks in Russia.
- **Support for micro, small, and medium enterprises (MSMEs):** Sovcombank owns a digital platform that enables 514,000 MSMEs to supply goods and services to larger companies and the public sector, including municipalities, public services entities, hospitals, schools, public transportation, and other social services.
- **Financial literacy for older generation and low-income clients:** Sovcombank is committed to providing public access to educational materials about money management, budgeting, saving, and spending for its core clientele – millions low-income clients of predominantly older age. The bank supports inclusive access both to finance and to financial literacy improvement in rural areas.

- **Green bonds:** *Bloomberg* ranked Sovcombank for several years as the number one privately-owned arranger of domestic bonds in Russia. The bank built a dedicated team to issue green bonds enabling investors to direct funding towards environmentally friendly activities with a comparable risk-return profile to traditional bonds.
- **Renewable energy and energy saving projects:** Sovcombank extended credit lines and bank guarantees of €1 billion in total to the projects related to zero carbon dioxide emission energy, including wind and solar power, renewable energy, clean water, and energy saving.

Thank you for your consideration, and we are prepared to answer any questions that you or your staff may have. To that end, we would request a virtual meeting on behalf of the bank at your earliest convenience to further discuss this matter.

Sincerely,

Peter Kucik

Peter Kucik
Mercury Public Affairs

Attachments:

SOVCOMBANK GROUP OVERVIEW
Sovcombank Major Depositors Letter