

Rating Action: Moody's changes outlook to negative on 3 Societe Generale Russian subsidiaries; ratings affirmed

Global Credit Research - 25 Nov 2014

London, 25 November 2014 -- Moody's Investors Service today has today changed the outlook to negative from stable on the long-term deposit, senior unsecured and backed ratings of Rosbank, DeltaCredit Bank and Rusfinance Bank, all three of which are Russian subsidiaries of Societe Generale (deposits A2 negative, standalone bank financial strength rating (BFSR) C- stable/baseline credit assessment (BCA) baa2).

The change of outlook on these ratings reflects the risk that pressure will develop on the Russian banks' loss-absorption capacity, asset quality and profitability, because of (1) the deteriorating operating environment in Russia (Baa2 negative) driven by the crisis in Ukraine (Caa3 negative); (2) the slowdown of the Russian economy (Moody's estimates GDP growth of 0.5% for 2014 and a GDP contraction of 1% for 2015); and (3) capital flight and restricted access to global wholesale markets for Russian issuers.

Concurrently, the rating agency changed the outlook to negative from stable on DeltaCredit Bank's and Rosbank's BFSRs of D (equivalent to a ba2 BCA) and affirmed Rusfinance Bank's BFSR of E+ (equivalent to a b1 BCA, stable outlook) and the long-term deposit and senior unsecured and backed ratings of the three Russian subsidiaries.

Moody's bases its assessment of the three banks' ratings largely on unaudited financial statements for H1 2014 -- prepared under IFRS -- as well as unaudited local GAAP financial statements for the first nine months of 2014, and information received from the banks.

The bank ratings affected by today's announcement are listed at the end of this press release.

RATINGS RATIONALE

--- ROSBANK

The negative outlook reflects Moody's view that rising credit losses and the increased cost of funding will pressure the bank's profitability over the next 12-18 months. The growing volume of problem loans in Rosbank's unsecured consumer portfolio and the default of one corporate client meant that Rosbank's credit costs climbed to 2.6% of loans (annualised) in H1 2014 compared with 1.6% in 2013 (2012: 1.2%). As a consequence, the bank reported relatively weak profitability in H1 2014, with a return on average assets (RoAA) and a return on average equity (RoAE) of 0.6% and 4.1%, respectively (2013: 1.7% and 11.3%).

--- DELTACREDIT BANK

Moody's decision to assign a negative outlook reflects the increased risk that the bank's credit fundamentals will erode, owing to higher credit costs from the likely weakening of individual borrowers' creditworthiness, including their ability to service foreign-currency denominated loans (around 20% of the bank's mortgage portfolio as at mid-2014). The local currency has depreciated by 30% since the beginning of the year. Regular dividend payouts along with steady asset growth has already reduced DeltaCredit Bank's reported Tier 1 ratio to 26.4% as of 30 June 2014, from 27.3% at year-end 2013 (2012: 30.3%). However, Moody's notes that the bank's asset quality has historically remained robust, as mandated by its business model and strict underwriting standards. As of H1 2014, non-performing loans -- defined as 90+ days overdue -- amounted to 0.7% of gross loans (year-end 2013: 0.7%), while credit costs remained at 0.1% (annualised) of the bank's average gross loan portfolio.

--- RUSFINANCE BANK

The negative outlook is informed by Moody's concerns that Rusfinance Bank's -- a 100% subsidiary of Rosbank -- credit fundamentals will face pressure in next 12-18 months, mainly because adverse economic conditions have prompted a 13% contraction of new car sales in January-October 2014 in its car-lending business. The contraction will likely intensify further following the 30% local-currency depreciation and overall decline in consumer consumption in Russia.

Although the group's decision to consolidate its car-lending business in Rusfinance bank will preserve growing business volumes in 2015, its internal capital generation capacity is likely to deteriorate as a result of growing credit costs and the compression of its net interest margin, which dropped to 8.6% in Q1-Q3 2014 from 9.1% in 2013 (2012: 10.7%). As a result, its growing loan book will reduce the bank's regulatory CAR of 14.9% as of 1 October 2014, and profitability will not be able to offset this decline.

--- PARENTAL SUPPORT FROM SOCIETE GENERALE

Moody's maintains its view of a high probability of support from Societe Generale to the three Russian subsidiaries, because of the strategic importance of its Russian operations to the group, shared reputation risks and track record of capital and liquidity support. These assumptions result in a two-notch uplift for Rosbank's and DeltaCredit Bank's Baa3 debt and deposit ratings from their standalone BCAs of ba2, and three-notches of uplift for Rusfinance Bank's Ba1 debt and deposit ratings from its standalone BCA of b1.

WHAT COULD MOVE THE RATINGS UP/DOWN

Rosbank's, DeltaCredit Bank's and Rusfinance Bank's standalone BCAs could be adjusted downward if the current adverse economic conditions in Russia result in higher-than-anticipated credit losses. This would result in an erosion of the banks' profitability and capital metrics. At the same time, the banks' deposit ratings could be downgraded if (1) Moody's believes that the strategic importance of Russian operations to Societe Generale is lessening, leading Moody's to reassess its parental support assumptions; or (2) if Societe Generale's BCA is adjusted downwards.

Currently, the challenging operating environment implies that positive pressure is unlikely to develop on Rosbank's, DeltaCredit Bank's and Rusfinance Bank's ratings in the next 12-18 months. However, Moody's might stabilise the outlook on the three banks' ratings, if the banks demonstrate a track record of sustainable performance and there are material improvements in their operating environment.

LIST OF AFFECTED RATINGS

ROSBANK

- BFSR of D affirmed, equivalent to ba2, outlook changed to negative from stable
- Long-term local-currency and foreign-currency deposit, local-currency senior unsecured debt ratings of Baa3 affirmed, outlook changed to negative from stable
- Short-term local and foreign-currency deposit rating of Prime-3 affirmed

DELTACREDIT BANK

- BFSR of D affirmed, equivalent to ba2, outlook changed to negative from stable
- Long-term local-currency and foreign-currency deposit, local-currency senior unsecured and senior secured debt ratings of Baa3 affirmed, outlook changed to negative from stable
- Long-term backed local-currency senior secured ratings of Baa2 affirmed, stable outlook
- Short-term foreign-currency deposit rating of Prime-3 affirmed

RUSFINANCE BANK

- BFSR of E+ affirmed, equivalent to b1, stable outlook
- Long-term local-currency and foreign-currency deposit, local-currency senior unsecured debt ratings of Ba1 affirmed, outlook changed to negative from stable
- Short-term local and foreign-currency deposit rating of Not-Prime affirmed

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Global Banks published in July 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Headquartered in Moscow, Russia, Rosbank reported total consolidated assets of USD26.2 billion, as at 30 June 2014 according to the bank's unaudited IFRS financials.

Headquartered in Samara, Russia, Rusfinance reported total consolidated assets of USD2.8 billion, as at 30 September 2014 according to the bank's unaudited IFRS financials.

Headquartered in Moscow, Russia, DeltaCredit Bank reported total assets of USD3.6 billion, as at 30 June 2014 according to the bank's unaudited IFRS financials.

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