

MOODY'S INVESTORS SERVICE

Rating Action: Moody's affirms DeltaCredit's Baa3 deposit ratings; changes outlook to stable from negative

Global Credit Research - 10 Jun 2014

London, 10 June 2014 -- Moody's Investors Service has today affirmed DeltaCredit Bank's Baa3 long-term local- and foreign-currency deposit ratings and standalone D bank financial strength rating (BFSR, equivalent to a baseline credit assessment (BCA) of ba2). Concurrently, the rating agency affirmed the bank's Baa3 long-term local-currency senior unsecured debt rating and the Baa3 long-term local currency debt rating of DeltaCredit Bank's senior debt secured by pools of mortgage loans. Moody's has changed the outlook on all of the above-mentioned ratings to stable from negative. DeltaCredit Bank's Prime-3 short-term foreign-currency deposit rating was also affirmed; the short-term rating carries no specific outlook.

Simultaneously, Moody's affirmed DeltaCredit Bank's Baa2 local-currency senior secured debt rating, which benefits from an explicit and irrevocable guarantee issued by the bank's ultimate parent, Société Générale (deposits A2 negative; BFSR C- stable/BCA baa2). DeltaCredit Bank's backed senior secured debt rating continues to carry a stable outlook, which is in line with the outlook on the guarantor's BFSR. DeltaCredit Bank is fully owned by Russia-based JSB Rosbank which is, in turn, 99.4% owned by Société Générale.

Moody's assessment is primarily based on DeltaCredit Bank's audited financial statements for 2013, prepared under IFRS.

RATINGS RATIONALE -- STANDALONE RATINGS

Moody's says that its rating action reflects DeltaCredit Bank's sustainable performance demonstrated amidst deteriorating macroeconomic conditions in Russia. Specifically, Moody's notes the bank's better-than-peers' asset quality metrics, stable profitability and sound capital levels. In addition, DeltaCredit Bank is decreasing its reliance on parental funding through efficient utilisation of a variety of alternative funding sources.

According to Moody's, DeltaCredit Bank's long-term expertise in mortgage lending in the Russian market and its strict credit underwriting standards are expected to keep the amount of non-performing loans (NPLs) for the bank at low level going forward. As of 31 December 2013, the non-performing loans (defined as loans overdue by more than 90 days) accounted for just 0.60% of the bank's total gross loans, compared to the 2.0% sector average reported in the mortgage lending segment (according to the Central Bank of Russia).

DeltaCredit Bank's profitability remains strong and sustainable despite competition in its niche market from state-owned players and increasing funding costs. In 2013, the bank reported return on average assets of 2.86% (2012: 2.63%) while its net interest margin (NIM) remained robust at 4.78% in 2013, virtually unchanged compared to 4.74% reported in 2012. Thanks to the well-matched maturity of its assets and liabilities, DeltaCredit Bank is only moderately susceptible to interest rate risks. Evidenced by stable NIM over 2010-13 (4.8%-4.9%), Moody's believes that DeltaCredit Bank will be able to comfortably accommodate the increase in funding costs currently observed on the Russian market.

DeltaCredit Bank has historically reported good capital levels, with the Basel I total capital adequacy ratio (CAR) and Tier 1 ratio standing at 28.26% and 27.27%, respectively, at year-end 2013 (year-end 2012: 32.24% and 30.34%, respectively). In 2013, DeltaCredit Bank up-streamed 36% of its 2012 IFRS net profits to Rosbank in the form of dividends; however, Moody's is of the opinion that the existing capital cushion is sufficient to absorb heavier credit losses (should they occur) and to support DeltaCredit Bank's loan book growth in the next 12 to 18 months, with the budgeted growth rate expected to be in line with the overall mortgage market growth.

DeltaCredit Bank's dependence on funding provided by its parents (mainly Société Générale, but also Rosbank) reduced to 40% of the bank's total non-equity funding as of year-end 2013 from 56% as of year-end 2012, and the rating agency expects this trend to be maintained, with Rosbank gradually assuming a greater contribution relative to that of Société Générale. DeltaCredit Bank's funding structure has diversified in recent years, following the issue of a variety of market instruments including unsecured domestic bonds, bonds guaranteed by the higher-rated ultimate parent, Société Générale, as well as covered and mortgage-backed bonds. The bank also maintains close bilateral links with a large number of international financial institutions. This range of available alternatives

helps DeltaCredit Bank to select the most efficient options to refinance its liabilities.

RATINGS RATIONALE -- SUPPORTED RATINGS

Moody's explains that DeltaCredit Bank's Baa3 long-term global local- and foreign-currency deposit ratings continue to incorporate the rating agency's assessment of a high probability of support to DeltaCredit Bank from its ultimate shareholder, Société Générale. This support assessment results in a two-notch rating uplift from DeltaCredit's ba2 BCA. The change of the outlook on DeltaCredit Bank's Baa3 long-term deposit ratings to stable from negative reflects the respective change of the outlook on DeltaCredit Bank's standalone D BFSR.

DELTACREDIT'S LOCAL-CURRENCY SENIOR SECURED DEBT BACKED BY PARENTAL GUARANTEE

The Baa2 long-term rating (with stable outlook) assigned to DeltaCredit's local-currency senior secured debt, which benefits from an explicit and irrevocable guarantee issued by Société Générale, is at the same level and carries the same outlook as the standalone ratings of its guarantor.

WHAT COULD MOVE THE RATINGS UP/DOWN

DeltaCredit Bank's ratings are underpinned by the bank's good financial metrics, as well as the financial and operational backing from Société Générale and Rosbank. However, further upwards pressure on DeltaCredit Bank's ratings is limited given the today's challenging operating and economic environment in Russia.

DeltaCredit Bank's standalone ratings might be downgraded if the bank faces material funding constraints that potentially impose limits on its business expansion or contribute to a decline in profitability metrics. A downgrade might also be caused by deterioration of DeltaCredit Bank's asset quality, especially if not compensated by adequate capital levels. Any weakening capacity of Société Générale to provide support may exert downwards pressure on DeltaCredit Bank's debt and deposit ratings, as could potential shifts in the parent bank's willingness to provide such support.

PRINCIPAL METHODOLOGIES

The principal methodology used in this rating was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Domiciled in Moscow, Russia, DeltaCredit Bank reported -- under its audited IFRS -- total assets of \$3.1 billion and total shareholders' equity of \$427 million as at 31 December 2013. Net IFRS profits for 2013 amounted to \$82 million.

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