MOODY'S
INVESTORS SERVICE

Credit Opinion: DeltaCredit Bank

Global Credit Research - 07 Jul 2010

Moscow, Russia

Ratings

Category	Moody's Rating
Outlook	Negative(m)
Bank Deposits -Fgn Curr	Baa2/P-2
Bank Deposits -Dom Curr	Baa2/--
NSR Bank Deposits -Dom Curr	Aaa.ru/--
Bank Financial Strength	D
Parent: Societe Generale	
Outlook	Negative
Bank Deposits	Aa2/P-1
Bank Financial Strength	C+
Senior Unsecured	Aa2
Subordinate	Aa3
Jr Subordinate -Fgn Curr	Baa2
Jr Subordinate -Dom Curr	Baa2
Preferred Stock	Baa2
Other Short Term	P-1

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Key Indicators

DeltaCredit Bank

	[1]2009	2008	2007	2006	2005	Avg.
Total Assets (US$ million)	--	--	--	--	--	--
Shareholders' Equity	239.97	164.41	122.77	51.56	43.77	[2]42.48
Return on Average Assets	4.31	1.59	1.94	2.27	1.78	2.38
Recurring Earnings Power [3]	6.23	2.75	3.14	3.10	3.03	3.65
Net Interest margin	6.55	4.05	4.53	5.35	6.82	5.46
Cost/Income ratio (%) [4]	14.63	34.98	42.09	51.94	60.37	40.80
Problem Loans % Gross Loans	2.16	5.43	0.29	5.19	--	3.27
Equity % Assets	13.07	8.64	10.39	10.64	21.83	12.91

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets. [4] Non-Interest Expense % Operating Income.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of D to Bank DeltaCredit (DeltaCredit), which translates into a Baseline Credit Assessment (BCA) of Ba2. The bank's ratings are underpinned by (i) its visible position on the Russian mortgage market; (ii) its strict approach to credit underwriting and modest risk appetite, resulting in satisfactory asset quality to date; (iii) its relatively good financial performance and favourable cost efficiency metrics; (iv) adequate economic capitalisation, while future capitalisation prospects are backed by the financial power of a strong shareholder; and (v) strong oversight and controls on the part of DeltaCredit's parent - Société Générale (SG).

DeltaCredit's ratings are constrained by (i) the bank's still modest franchise value and the limitations on further expansion of the Russian mortgage market in the foreseeable future, as a result of stress on incomes caused by the current harsh economic conditions; (ii) the weakening of the bank's loan book quality in a prolonged economic downturn and (iii) the high dependence on parental funding with lack of alternative sources of long-term financing.

DeltaCredit's long-term global local currency (GLC) deposit rating of Baa2 enjoys a three-notch uplift from the bank's BCA of Ba2 in line with Moody's assessment of the very high probability that the bank's parent - Société Générale (C+ BFSR, with negative outlook) - will provide support to its Russian subsidiary in case of distress. DeltaCredit's short-term local currency deposit rating of Prime-2 is mapped to the bank's long-term GLC deposit rating. No systemic support is factored in the bank's ratings.

DeltaCredit's long-term deposit ratings carry a negative outlook, while its D BFSR carries a stable outlook.

Credit Strengths

- 100% ownership by Société Générale, which results in strong corporate governance and risk management standards

- Enhanced access to capital and funding from the bank's parent

- Long-term expertise in the bank's niche business segment and historically robust credit underwriting standards

- Stable positioning and good brand recognition on the Russian mortgage market

- Relatively good financial performance and favourable cost efficiency metrics

- Adequate economic capitalisation

Credit Challenges

- The still non-mature state of Russia's mortgage-lending practices and legal system

- Dependence on a single business line renders the bank vulnerable to sector-specific risks, and limits opportunities for risk diversification

- The weakening trend of the bank's mortgage loan book in the protracted economic downturn

- Market value of collateral has decreased in many regions, resulting in reduced proceeds from mortgage foreclosures

Rating Outlook

DeltaCredit's D BFSR carries a stable outlook, while its long-term deposit ratings carry a negative outlook that reflects the expectations that DeltaCredit's shareholding structure will change following the recently announced restructuring of SG's subsidiaries in Russia, whereby DeltaCredit is likely to become a 100% subsidiary of a financially weaker (compared to current support provider - SG) entity resulting from a merger of Russia-based Rosbank and BSGV.

What Could Change the Rating - Up

Given the negative outlook on the bank's supported deposit ratings, their upgrade is not currently expected.

DeltaCredit's BFSR is placed relatively high compared to Russia-based peers, and this should be consistently underpinned by (i) further strengthening of the bank's positions on Russia's mortgage market (along with the overall growth of this market segment relative to the country's GDP) and (ii) significant geographical diversification of the bank's business coupled with (iii) the sustainable robust quality of its loan book and a preserved track record of good financial performance.

What Could Change the Rating - Down

DeltaCredit's integration with other Russian subsidiaries of SG is likely to change the support uplift applied by Moody's to calculate DeltaCredit's deposit ratings in accordance with the rating agency's Joint-Default Analysis methodology, as the support will potentially stem from the new entity resulting from the merger of Rosbank and BSGV, as opposed to direct support from SG currently. This change of DeltaCredit's shareholder structure will pressure the bank's supported deposit ratings when the merger process is finalised. Although we believe that parental support will continue to stem from SG group going forward, we note that after the integration this support will most likely be provided by the new parent, which potentially will be financially weaker than SG. Therefore, DeltaCredit's deposit ratings are likely to be downgraded as soon as the announced integration plans are fully implemented.

DeltaCredit's BFSR might be downgraded if the bank were to experience significant deterioration of asset quality as a result of the current unstable economic conditions, especially if not compensated by adequate capital levels. A downgrade might also potentially be caused by the bank's deteriorating liquidity profile and/or worsening financial performance.

Recent Results and Company Events

As at YE2009, DeltaCredit reported under IFRS total assets of USD1.84 billion, a slight decrease from USD1.9 billion a year earlier. Net IFRS income in 2009 was USD80 million (2008: USD25 million). 1Q 2010 unaudited IFRS report total assets of USD1.95 billion and net income of USD14.8 million.

On 18 February 2010 SG announced an integration plan for its Russian business units. The plan envisages that the entity resulting from the merger of Rosbank and BSGV will become a 100% parent of two other subsidiaries of SG in Russia - Rusfinance and DeltaCredit.

DETAILED RATING CONSIDERATIONS

Detailed considerations for DeltaCredit's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a BFSR of D to DeltaCredit, which translates into a BCA of Ba2. The bank's ratings are underpinned by (i) its visible position on the Russian mortgage market; (ii) its strict approach to credit underwriting and modest risk appetite, resulting in satisfactory asset quality to date; (iii) its relatively good financial performance and favourable cost efficiency metrics; (iv) adequate economic capitalisation, while future

capitalisation prospects are backed by the financial power of a strong shareholder; and (v) strong oversight and controls on the part of DeltaCredit's parent - Société Générale (SG).

DeltaCredit's ratings are constrained by (i) the bank's still modest franchise value and the limitations on further expansion of the Russian mortgage market in the foreseeable future, as a result of stress on incomes caused by the current harsh economic conditions; (ii) the weakening of the bank's loan book quality in a prolonged economic downturn and (iii) the high dependence on parental funding with lack of alternative sources of long-term financing.

As a point of reference, the assigned BFSR is at the same level as the D outcome of Moody's bank financial strength scorecard.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

DeltaCredit is one of the largest mortgage mono-liners in Russia. As one of the pioneers of Russia's mortgage market, the bank benefits from its long-standing experience of operations. DeltaCredit targets the prime client segment and enjoys strong market positions in a number of regions.

Lack of a branch network, which has led to a sizeable concentration of DeltaCredit's operations in Moscow region, is largely compensated by the widespread network of agent banks, although the growth of indirect sales has been curbed in recent months due to deteriorating economic conditions.

The core customer segment for the bank is the emerging middle class, which was growing rapidly in Russia before the economic downturn. Concurrently, the bank was rapidly augmenting its mortgage book in pre-crisis years, which reflected both the generally robust economic environment and the bank's prompt access to relatively cheap and flexible parental funding. In 2009, however, the growth of DeltaCredit business volumes stalled due to the negative developments on financial and real estate markets and the increased risks. Last year, mortgage lenders also witnessed the absence of creditworthy individual borrowers and the plunge in market demand for mortgage loans, as households remain uncertain about their future financial stability and shift preferences towards saving, as opposed to borrowing.

Moody's believes that DeltaCredit's targeted client segment and the bank's historically strict credit underwriting standards, in combination with the current unstable economic environment and the lack of mortgage refinancing opportunities, are likely to constrain the bank's market positions at current levels, although DeltaCredit is already a visible player in its market niche. On the other hand, as an integration of SG's subsidiaries in Russia gains momentum we believe DeltaCredit is to play a more central role in the group's mortgage lending business. For instance, there is currently a project for developing a common mortgage platform for all of SG's Russian subsidiaries whereby DeltaCredit's credit underwriting standards, mortgage products and business processes will be rolled out in its sister banks - Rosbank and BSGV.

The above-mentioned factors justify a C+ score for franchise value, along with a neutral trend.

Factor 2: Risk Positioning

Trend: Neutral

DeltaCredit displays a clear ownership structure as a 100% subsidiary of SG, and exhibits good practices of corporate governance and managerial oversight with well-established reporting lines.

Moody's does not observe any dependence of the bank's business on any particular key manager(s), and the agency notes that the majority of senior management have been working for the bank for a long time and demonstrate sharpened expertise. There are no independent directors on the board, but the related-party business is minimal due to the specifics of the business model. The results of risk analysis are prepared and presented regularly in a standard format to the bank's oversight body in SG.

DeltaCredit has stricter-than-average (for Russia) mortgage loans underwriting standards in terms of the requirements to borrowers and mortgage collateral, although the bank used to somewhat slacken its underwriting criteria in the more competitive 2006-1H2008 period when the LTV ratio reached 85% and payment-to-income requirements were in the 50-60% range. Thorough data and documents verification procedures ensure selection of higher-quality borrowers. With regard to the loans originated through agent banks, DeltaCredit has a recourse condition introduced into its standard agreement effective during the first year from the date of purchase of the loan.

We note high concentration of the bank's loan book to Moscow City and Moscow Region (approximately a half of the total book), but we believe this concentration does not overly expose the bank to additional risk, as this region remains the most economically developed, and the location of the borrowers and collateral in the region of DeltaCredit's domicile somewhat facilitates the process of liaison with problem borrowers and initiating litigation procedures, in case of need.

DeltaCredit's business model ensures high granularity of the loan book and, therefore, stability of earnings. At the same time, Moody's notes that DeltaCredit's business line, which is concentrated on one niche (and, in turn, highly dependent on various macroeconomic conditions beyond the bank's control), exposes the bank to the risks specific for this particular segment. Thus, DeltaCredit's business is sensitive to decline of real estate market value. The bank's earnings stability may also be significantly impaired by the immature nature of the mortgage market in Russia and underdeveloped conditions for issuance and sale of domestic Residential Mortgage Backed Securities (RMBS). Moreover, its earnings may be hampered by residential mortgage foreclosure procedures, which in Russia remain generally ineffective, although DeltaCredit has been successful in this area so far.

DeltaCredit is averse to market risks other than those inherent to the bank's core business, and it takes adequate steps to match the currency and interest rate structures of its assets and liabilities and to hedge sizeable gaps. The bank's liquid assets and committed funding are maintained at adequate levels to ensure its continued operations without a reduction in business for a minimum of one year; DeltaCredit also enjoys the option to resort to its parent's funds in case of need.

In February 2010 the bank's shareholder announced plans for forthcoming integration of SG's four Russian subsidiaries. According to the plan, DeltaCredit will become a 100% subsidiary of the entity resulting from a merger of SG's other two subsidiaries - Rosbank and BSGV. We do not expect to see any significant changes in the bank's corporate governance or risk-management practices as a result of this integration.

The scorecard generates a D score for risk positioning, which we consider to be a fair reflection of DeltaCredit's overall corporate governance and risk management approaches. We attach a neutral trend to the score.

Factor 3: Regulatory Environment

Refer to Moody's Banking System Outlook for Russia, published in October 2009, to obtain a detailed discussion on this factor.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Russian banks. Moody's assigns an E+ score for the overall operating environment in Russia. Refer to Moody's Banking System Outlook for Russia, published in October 2009, for information on the country's operating environment.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Neutral

DeltaCredit's profitability was relatively good in 2009: its net IFRS income in 2009 was USD80 million compared to USD25 million in 2008. DeltaCredit's core profitability is mainly driven by net interest income (90% of total operating income in 2009), which has been historically benefiting from low cost of funding and, in 2009, was additionally supported by an opportunistic income gained from placement of excess rouble-denominated liquidity on the inter-bank market in 1H 2009, when this type of liquidity was in acute shortage on Russia's money market. The bank's bottom-line profitability in 2009 continued to be suppressed by loan loss provisioning charges (12% of operating income, compared to 19% in 2008), and we believe this pressure will remain throughout 2010. The adjusted B score for profitability (as opposed to an A score generated by Moody's bank financial strength scorecard based on three year average), captures our expectations as to DeltaCredit's financial performance for the forthcoming year.

Factor 6: Liquidity

Trend: Neutral

DeltaCredit's funding structure is not sufficiently diversified and reflects over-dependence on one single source of funding provided by its parental SG group of companies: this represented 78% of total non-equity funding at YE2009 (YE2008: 72%). That said, we consider SG to be a stable and reliable source of financing for DeltaCredit. The potential future change of the bank's shareholder structure is not likely to alter DeltaCredit's liquidity profile, as purely market sources of sufficiently long-term - to match duration of mortgage loans - funding remain in shortage and therefore can not provide a sizeable alternative to related-party funding in the near future, which is similar to the situation of many other local and international mortgage players. We note that other characteristics of DeltaCredit's liquidity position are fairly good, with liquid assets comprising 16% of total assets at YE2009 (which is comfortable given fairly granular and predictable operating cash flows from the bank's loan book) and a satisfactory maturity match of the bank's assets and liabilities: the maturity analysis does not display any negative cumulative gaps. We assign a D score, along with a neutral trend, to this group of factors.

Factor 7: Capital Adequacy

Trend: Neutral

DeltaCredit has been historically enjoying adequate economic capitalisation, with the Basel I Total CAR and the Tier 1 ratio at 28% and 22.5%, respectively, at YE2009 (YE2008: 26.6% and 19.5%, respectively), and supported by the bank's profitability. We maintain an A score for DeltaCredit's capital adequacy, additionally taking into account the bank's relative good capitalisation compared to many peers, as well as the profitability of its operations demonstrated even during low economic cycle in 2009.

Factor 8: Efficiency

Trend: Neutral

DeltaCredit has been constantly improving its cost efficiency, with the cost-to-income ratio declining from 33% in 2008 to 15% in 2009, and net interest margin - as the major driver of the bank's profitability - at the level of 6.55% (2008: 4.05%) several times covering the ratio of operating expense to average assets of 1.07% (2008: 1.48%). The bank scores A for efficiency, with a neutral trend.

Factor 9: Asset Quality

Trend: Weakening

DeltaCredit's asset quality has been historically robust as specified by its business model and its strict credit underwriting standards. However, the weakening economic environment in Russia and the lack of growth on the bank's loan book (which previously somewhat compensated for the loan seasoning) led to a material level of impaired loans: these accounted for 2.16% in 2009, although having decreased from the peak value of 5.43% at YE2008, when the maximum amount of less than 180 days delinquent loans was reported at the very inception of the financial downturn. The IFRS loan loss reserves were 1.89% at YE2009 and YE2008: 0.84%, reflecting the bank's assumption of adequate coverage of impaired loans by collateral (although this assertion may be challenged given the decline of real estate market prices).

DeltaCredit has developed a number of standard approaches to address financial difficulties of defaulting borrowers; these approaches range from loan restructuring to foreclosure on collateral. To date, the bank has ensured high recovery rates on delinquent loans - through both out-of-court activities and litigation procedures - but maintaining these results in today's unstable economic conditions may prove to be a challenging task.

We believe that the quality of DeltaCredit's assets will not be immune from a further weakening trend, although the bank's historically good credit underwriting standards, its approach towards collateral approval and - as a last resort - its adequate capitalisation level provide some comfort. We assign a weakening trend to the C score for asset quality generated by Moody's bank financial strength scorecard.

Global Local Currency Deposit Rating (Joint Default Analysis)

DeltaCredit's long-term global local currency (GLC) deposit rating of Baa2 (negative outlook) enjoys a three-notch uplift from the bank's BCA of Ba2 in line with Moody's perceptions of the very high probability that the bank's parent - Société Générale (C+ BFSR, with negative outlook) - will provide support to its Russian subsidiary in case of distress. DeltaCredit's short-term local currency deposit rating of Prime-2 is mapped to the bank's long-term GLC deposit rating. No systemic support is factored in the bank's ratings.

National Scale Rating

DeltaCredit is rated Aaa.ru by Moody's Interfax on Russia's National Rating Scale. National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks.

Foreign Currency Deposit Rating

DeltaCredit's long-term and short-term foreign currency deposit ratings of Baa2 (negative outlook) / Prime-2 are at the same levels as the bank's local currency deposit ratings.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

DeltaCredit Bank

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (70%)						**D-**	
Factor: Franchise Value						**C+**	**Neutral**
Market Share and Sustainability		x					
Geographical Diversification		x					
Earnings Stability	x						
Earnings Diversification [2]					x		
Factor: Risk Positioning						**D**	**Neutral**
Corporate Governance [2]				x			
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks				x			
Controls and Risk Management			x				
- Risk Management			x				
- Controls		x					
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information		x					
Credit Risk Concentration		x					
- Borrower Concentration	x						
- Industry Concentration		x					
Liquidity Management			x				
Market Risk Appetite		x					
Factor: Operating Environment						**E+**	**Neutral**
Economic Stability					x		
Integrity and Corruption					x		
Legal System				x			
Financial Factors (30%)						**C+**	
Factor: Profitability						**A**	**Neutral**
PPP % Avg RWA - Basel I	8.62%						
Net Income % Avg RWA - Basel I	5.54%						
Factor: Liquidity						**D**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets					71.31%		
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel I	21.86%						
Tangible Common Equity / RWA - Basel I	21.86%						
Factor: Efficiency						**A**	**Neutral**
Cost/income ratio	30.57%						
Factor: Asset Quality						**C**	**Weakening**
Problem Loans % Gross Loans			2.63%				
Problem Loans % (Equity + LLR)			21.63%				
Lowest Combined Score (9%)						**D**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**D**	
Assigned BFSR						**D**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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