

Rating Action: Moody's takes rating actions on subsidiaries of 3 Russian financial institutions

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Actions follow corresponding changes to the parents' ratings

London, 27 February 2015 -- Moody's Investors Service has today taken rating actions on the supported senior unsecured debt and deposit ratings of subsidiaries of the following three Russian financial Institutions: Bank VTB, JSC, Sberbank and Vnesheconombank.

These rating actions follow Moody's downgrade of the long-term deposit, debt and issuer ratings of the respective Russian parents on 24 February, 2015. For additional information, please refer to the related announcement: https://www.moody.com/research/--PR_319010

Specifically, the actions affected the supported senior unsecured and deposit ratings of the following international and domestic subsidiaries of:

--- VTB Group: VTB Bank (Austria) AG, VTB Bank (Deutschland) AG, VTB Capital plc, VTB24, VTB Bank (Armenia), VTB Bank (Azerbaijan) and Bank of Moscow

--- two subsidiaries of Sberbank: SB Sberbank JSC in Kazakhstan and Denizbank A.S in Turkey

--- one domestic subsidiary of Vnesheconombank: SME Bank.

Each of these subsidiaries' supported ratings benefit from Moody's assessment of parental support uplift.

At the same time the standalone bank financial strength ratings (BFSRs) and the corresponding baseline credit assessments (BCAs) of the following subsidiaries were also lowered: VTB Bank (Austria) AG, VTB Bank (Deutschland) AG, VTB Capital plc, VTB24, VTB Bank (Armenia).

This rating action concludes the review for downgrade placed on these ratings in December 2014; for a full list of affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

The downgrade of the Russian parents' long-term deposit, debt and issuer ratings has prompted a similar downgrade of the subsidiaries' supported ratings, driven by the parents' reduced capacity to provide support. At the same time, the rating agency notes the demonstrated willingness of these financial institutions to provide assistance to their domestic and international subsidiaries, in the context of ongoing operating environment volatility.

--- VTB GROUP'S SUBSIDIARIES

The supported ratings of the domestic and international subsidiaries of VTB Group incorporate Moody's assessment of the very high probability of support from the parent, whose ratings, in turn, benefit from Moody's assessment of government (systemic) support being provided in the event of need. Moody's believes that the systemic support from the Russian government in the event of need (directly or indirectly through VTB) will partially benefit the group's subsidiaries given (1) the government's majority ownership of VTB Group; (2) the strategic presence of these subsidiaries in key locations for the international and trade finance activities of VTB's client-base; and (3) the strong track record of support being extended to the group and its European subsidiaries from the Russian government and the Central Bank of Russia (CBR).

At the same time, Moody's incorporates a high probability of parental support for VTB Bank (Azerbaijan) from Bank VTB, JSC's standalone BCA of b1, given its 51% ownership, and VTB group's commitment to develop its franchise in Azerbaijan which is a relatively new market for the group, unlike its established European subsidiaries.

VTB Bank (Austria) AG

Moody's downgraded VTB Bank (Austria) AG's supported long-term deposit ratings to Ba3 from Ba1, with a negative outlook. The negative outlook on the supported rating is aligned with the outlook on the support provider's rating.

The lowering of the BFSR to E+ (BCA of b1) from D- (BCA of ba3) reflects the pressures on gradually declining profitability and deleveraging trends that VTB Bank (Austria) is experiencing. In addition, Moody's expects negative asset-quality trends to exert pressure on the bank's already modest capital-generation level.

VTB Bank (Deutschland) AG

Moody's downgraded VTB Bank (Deutschland) AG's supported long-term deposit ratings to Ba3 from Ba1, with a negative outlook. The negative outlook on the supported rating is aligned with the outlook on the support provider's rating.

The lowering of the BFSR to E+ (BCA of b1) from D- (BCA of ba3), at the same level as the parent, reflects the strong linkages with the parent group and its client-base which is exposed to Russia's economic environment as well as the bank's dependence on a short-term funding base, which may experience volatility and lead to deleveraging pressures. At the same time, the bank's capitalisation remains high, albeit with constrained internal capital-generation capacity.

VTB Capital Plc

Moody's downgraded VTB Capital's supported long-term ratings to Ba3 from Ba1 with a negative outlook. The negative outlook on the supported rating is aligned with the outlook on the support provider's rating.

The lowering of the BFSR to E+ (BCA of b1) from D- (BCA of ba3), reflects the worsening profitability of this entity, which, through its client-base is partly exposed to Russia's economic environment as well as the bank's dependence on parental funding. In addition, Moody's expects that negative profitability will put pressure on the internal capital creation of the bank.

VTB24

Moody's downgraded VTB24's long-term local-currency deposit and senior secured ratings to Ba1 from Baa3 with a negative outlook. The negative outlook on the supported rating is aligned with the outlook of the support provider's rating. The foreign-currency deposit rating was downgraded to Ba2 from Ba1 following the lowering of the country's foreign-currency deposit ceiling to Ba2 from Ba1, on 20 February 2015. Moody's considers that given the central role of VTB24 in the group's retail franchise in Russia, its supported ratings should be aligned with that of the parent.

The lowering of the BFSR to E+ (BCA of b1) from D- (BCA of ba3), reflects Moody's expectation that this retail-orientated institution's asset quality will worsen, putting pressure on its profitability and modest capitalisation in the current Russian economic environment.

VTB24 is fully funded by customer deposits and remains the net lender to the rest of the group, so refinancing risk is limited.

VTB Bank (Armenia)

Moody's downgraded VTB Bank (Armenia)'s local-currency deposit rating to Ba3 from Ba2. The negative outlook on the supported rating is aligned with the outlook of the support provider's rating. The lowering of the BFSR to E+ (BCA of b1) from D- (BCA of ba3) reflects a combination of ongoing pressures on the bank's standalone credit profile from the deteriorating operating environment in Armenia and the lowering of its ultimate parent's standalone ratings. The credit profiles of the two entities are interlinked, as VTB Bank Armenia is highly dependent for parental funding that represented 32% of total non-equity funding as at year-end 2014 (according to local GAAP accounts), and the parent closely supervises its Armenian subsidiary's business origination standards and risk-management practices.

The rating incorporates one notch of uplift from its standalone BCA of b1 owing to Moody's assessment of a high probability of support from Bank VTB, JSC (Ba1 negative). This reflects the Armenian subsidiary's strong strategic fit with the group, as well as a track record of ongoing capital and liquidity support from the group.

VTB Bank (Azerbaijan)

Moody's downgraded VTB Bank's (Azerbaijan) long-term local and foreign-currency deposit ratings to B1 from Ba3 with a negative outlook. The negative outlook on the supported rating is aligned with the outlook of the support provider's BFSR and final rating. VTB Bank (Azerbaijan)'s BFSR at E+ (BCA of b2) was unaffected.

Bank of Moscow

Moody's downgraded Bank of Moscow's long-term local and foreign-currency deposit and senior unsecured ratings to Ba2 from Ba1 with a negative outlook. The negative outlook on the supported rating is aligned with the outlook of the support provider's rating. Moody's maintains its assessment of high probability of parental support for the bank resulting in a three-notch uplift of the bank's deposit ratings from its stand-alone BCA of b2, which is unaffected by today's action.

--- SBERBANK SUBSIDIARIES

SB Sberbank JSC (subsidiary of Sberbank (Kazakhstan))

Moody's downgraded SB Sberbank's long-term local and foreign-currency deposit ratings to Ba3 from Ba2 with a stable outlook following the lowering of Sberbank's BCA to ba2 from ba1, which is used as an anchor for parental support.

Moody's incorporates a high probability of parental support into SB Sberbank's ratings, resulting in two notches of uplift from the bank's b2 BCA, which is based on the 100% ownership and control, the strategic importance of the Kazakh subsidiary to Sberbank, and track record of parental support. The stable outlook on SB Sberbank's supported Ba3 rating reflects the current one-notch difference and resilience to a potential one-notch lowering of the parent's ba2 BCA, as well as SB Sberbank's stable BFSR at E+ (mapping to b2 BCA).

Denizbank A.S. (Turkey)

Moody's downgraded Denizbank's long-term local and foreign-currency deposit ratings to Ba2 from Ba1 with a negative outlook following the lowering of Sberbank' BCA to ba2 from ba1, which is used as an anchor for parental support.

Moody's maintains a high probability of support due to parental support assumptions, which results in a one notch uplift from the bank's ba3 BCA; Moody's bases the uplift on Sberbank's 99% ownership and control, and the strategic importance of the Turkish subsidiary to Sberbank.

SME Bank -- subsidiary of Vnesheconombank

Moody's downgraded SME Bank's supported long-term local-currency deposit and debt ratings to Ba1 from Baa3. At the same time, the foreign-currency deposit ratings were downgraded to Ba2 from Ba1 following the lowering of the country's foreign-currency deposit ceiling to Ba2 from Ba1, on 20 February 2015. The outlook on the supported rating is negative and is now aligned with the outlook on the support provider's rating.

The deposit and debt ratings of SME Bank incorporate Moody's assessment of a very high probability of support being provided by the parent in the event of need, whose ratings, in turn, benefit from Moody's assessment of systemic support. Moody's believes that any systemic support from the Russian government in the event of need (directly or indirectly through Vnesheconombank) will benefit SME Bank given that (1) SME Bank is a fully owned subsidiary of Vnesheconombank; (2) SME Bank is used as a major government conduit to support the country's small and medium-sized enterprises; and (3) there is a track record of such support being extended to SME Bank from the Russian government and Vnesheconombank.

WHAT COULD MOVE THE RATINGS UP/DOWN

Moody's considers that upward pressure on the long-term ratings of these subsidiaries is unlikely given the negative outlook on the parents' ratings. The supported ratings of these subsidiaries would be negatively affected if the ratings of their respective parents were downgraded further.

The subsidiaries' standalone credit profiles -- as expressed by their BFSRs and BCAs -- could come under pressure in the event of any further significant deterioration in their financial fundamentals and risk-absorption capacity, given the challenging domestic operating environment, as indicated by the negative outlooks on most of these banks' BFSRs.

LIST OF AFFECTED RATINGS

SB Sberbank JSC:

Long-term LC and FC Deposit ratings were downgraded to Ba3 from Ba2, outlook was revised to stable.

Denizbank A.S.:

Long-term LC and FC Deposit ratings were downgraded to Ba2 from Ba1, outlook was revised to negative.

VTB24:

BSFR was lowered to E+ from D- (now equivalent to a BCA of b1), outlook was revised to stable;

Long-term LC Deposit rating was downgraded to Ba1 from Baa3, outlook was revised to negative;

Long-term LC Senior Secured rating was downgraded to Ba1 from Baa3, outlook was revised to negative;

Long-term LC Senior Secured rating was downgraded to (P)Ba1 from (P)Baa3;

Long-term FC Deposit rating was downgraded to Ba2 from Ba1, outlook was revised to negative;

Short-term LC Deposit rating was downgraded to NP from P-3.

VTB Capital S.A.:

Long-term FC Senior Secured and Senior Unsecured ratings were downgraded to Ba1 from Baa3, outlook was revised to negative.

VTB Capital plc:

BSFR was lowered to E+ from D- (now equivalent to a BCA of b1), outlook was revised to stable;

Long-term LC and FC Deposit ratings were downgraded to Ba3 from Ba1, outlook was revised to negative.

VTB Bank (Austria) AG:

BSFR was lowered to E+ from D- (now equivalent to a BCA of b1), outlook was revised to stable;

Long-term LC and FC Deposit ratings were downgraded to Ba3 from Ba1, outlook was revised to negative.

VTB Bank (Deutschland) AG:

BSFR was lowered to E+ from D- (now equivalent to a BCA of b1), outlook was revised to stable;

Long-term LC and FC Deposit ratings were downgraded to Ba3 from Ba1, outlook was revised to negative.

VTB Bank (Armenia):

BSFR was lowered to E+ from D- (now equivalent to a BCA of b1), outlook was revised to stable;

Long-term LC Deposit rating was downgraded to Ba3 from Ba2, negative outlook

VTB Bank (Azerbaijan):

Long-term LC and FC Deposit ratings were downgraded to B1 from Ba3, outlook was revised to negative.

Bank of Moscow:

Long-term LC and FC Deposit ratings were downgraded to Ba2 from Ba1, outlook was revised to negative;

Long-term LC and FC Senior Unsecured ratings were downgraded to Ba2 from Ba1, outlook was revised to negative;

Long-term FC Senior Unsecured MTN program rating was downgraded to (P)Ba2 from (P)Ba1;

Long-term FC Subordinate rating was downgraded to B1 from Ba3, outlook was revised to negative.

Kuznetski Capital S.A.:

Long-term FC BACKED Subordinate rating was downgraded to B1 from Ba3, outlook was revised to negative.

SME Bank:

Long-term LC Deposit rating was downgraded to Ba1 from Baa3, outlook was revised to negative;

Long-term FC Deposit rating was downgraded to Ba2 from Ba1, outlook was revised to negative;

Long-term LC Senior Unsecured rating was downgraded to Ba1 from Baa3, outlook was revised to negative.

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

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