

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's changes outlook to stable from negative on Vozrozhdenie Bank's B1 deposit ratings; ratings affirmed

Global Credit Research - 20 Dec 2016

London, 20 December 2016 -- Moody's Investors Service has today affirmed the long-term local and foreign-currency deposit ratings of Vozrozhdenie Bank (V.Bank) at B1 and changed the outlook to stable from negative for these ratings. The rating agency has also affirmed the bank's baseline credit assessment (BCA) / adjusted BCA of b1, its short-term local- and foreign-currency deposit ratings of Not Prime, its long-term Counterparty Risk Assessment (CR Assessment) of Ba3(cr) and its short-term CR Assessment of Not Prime(cr).

RATINGS RATIONALE

The affirmation of the B1 deposit ratings with the stable outlook reflects V.Bank's recently stabilized credit profile with recovering profitability and Moody's expectation of lower credit costs in the next 12 to 18 months. Owing to stabilization of problem loans, growing net interest income and strict control over operating expenses, V.Bank's net income recovered to 1.3% of average assets (annualized) in the most recent two financial quarters; before that, the bank was loss-making during the four financial quarters. This improvement, combined with Moody's view that the contraction in the Russian economy is ending and the rating agency's expectation of nascent economic growth of 1.5% in 2017, will benefit the bank's financial metrics.

The bank's loan loss reserves, that now account for 83% of all overdue loans and 108% of NPLs, sufficiently cover our estimate of expected losses, as we recently observe limited build-up in problem loans. Loans with various signs of problems (include individually impaired loans in the corporate and SME segments, "watch list" corporate loans and all overdue loans in the retail segment) stood unchanged at RUB27.4 billion (15% of gross loans) as of 30 September 2016 compared to 30 June 2016. We expect V.Bank to report a further decline in credit costs in the next 12 to 18 months, that will further support profits and will help the bank to enhance its capital buffers. As of 30 September 2016, V.Bank reported regulatory Tier 1 ratio of 8.23% and total capital adequacy ratio of 12.62%.

Given this, Moody's has stabilized the outlook on Vozrozhdenie Bank, whose credit profile the rating agency expects to remain stable and supportive of the current rating levels in the next 12-18 months, amid an improving operating environment.

WHAT COULD MOVE RATINGS UP OR DOWN

The ratings could be upgraded following sustainable improvements in the bank's financial profile and strengthening and diversification of its franchise as reflected in a stronger performance of the corporate and SME segments.

The ratings could be downgraded if the loss absorption capacity and financial fundamentals of the bank erode beyond Moody's current expectations.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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