

Announcement: Moody's changes outlook on BFSRs of VTB Capital plc, VTB Bank (Austria), and VTB Bank (France) to stable from negative

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All ratings affirmed

Moscow, September 06, 2010 -- Moody's Investors Service has today changed to stable from negative the outlook on the D- bank financial strength ratings (BFSR) of VTB Capital plc (VTBC), VTB Bank (Austria) (VTBA), and VTB Bank (France) (VTBF). At the same time, Moody's has affirmed the banks' Baa3 long-term local and foreign currency deposit ratings, Baa3 senior debt ratings, and Prime-3 short-term local and foreign currency deposit ratings. The outlook on the deposit and debt ratings is stable.

"According to Moody's, the rating actions on VTBC, VTBA and VTBF reflect the stable trends in their financial fundamentals. As those banks are mostly exposed to Russian counterparties in terms of credit risk, the gradual economic recovery in that country is supportive of their asset quality. In Moody's opinion, loan loss provisions and capital buffers at those banks appear to be sufficiently adequate to offset expected credit losses under Moody's base case stress-tests," says Eugene Tarzimanov, a Moody's Vice-President -- Senior Analyst and lead analyst for those banks.

Moody's also notes that the stable outlook on the BFSR on parent Bank VTB (VTB, Baa1 debt/deposit ratings; the outlook on the BFSR of VTB was changed to stable from negative on 20 August 2010) is also supportive for the financial fundamentals of its subsidiaries -- VTBC, VTBA and VTBF. In particular, in Moody's opinion, VTB's liquidity appears to be adequate, with cash, cash equivalents and relatively liquid securities accounting for around 22% of total assets at Q1 2010. VTB's total capital adequacy ratio (CAR) of 22.2% at Q1 2010 indicates that VTB has an adequate buffer against potential credit losses.

VTBC

Located in London, VTBC is the investment banking arm of VTB. VTBC's principal corporate clients are either based in Russia or are engaged in business with Russian entities, while its capital markets counterparties are principally those transacting in Russian securities or currency. Within this niche, VTBC has a well-recognised presence and, in many cases, strong support of the parent for client origination.

Earnings diversification by business lines has improved, from a low level. The main revenue drivers are now trading and fees (rather than net interest income -- as in previous years). Moody's notes that the investment banking business generated a net profit of around USD109 million for 2009, which was almost fully offset by the USD104 million net loss in the legacy business (corporate lending). Going forward, Moody's expects losses in the legacy business to decrease due to fewer loan loss provisions; at the same time, the investment business could report improved returns as VTBC further expands its business reach and product offering.

VTBC is adequately capitalised, with a Tier 1 ratio of 13.7% and total CAR of 27% at YE2009. The bank's capitalisation and loan loss reserves (13.4% of gross loans at YE2009) provide an adequate buffer against expected credit and market losses.

Factors constraining the VTBC's ratings include (i) exposures to higher-risk Russian securities and counterparties, (ii) short track record in investment banking, (iii) pressured financial fundamentals, particularly profitability, and (iv) concentrated funding base.

VTBA

Vienna-based VTBA is a corporate bank. VTBA is the consolidating entity for VTB's banking operations in France and Germany. VTBA is adequately capitalised, with a consolidated 10.2% Tier 1 ratio at YE2009, and total CAR at 20.3%. In Moody's opinion, this level appears to be sufficiently adequate to offset expected credit losses; the rating agency notes that problem loans accounted for around 7% of gross loans at YE2009 and included a high share of very old and fully provisioned problem loans.

VTBA's core lending and trade finance business generated adequate revenues in 2009. Both net interest income and fees showed good dynamics -- supported by a wider net interest margin and healthy commissions on loans and guarantees. As a result, the bank's recurring earning power (pre-provision income as a percentage of risk-weighted assets) stood at an adequate 3.2% in 2009.

VTBA keeps a relatively high proportion of relatively liquid assets on its balance sheet (one-half of total assets at YE2009), due to sizeable placements on the interbank market. However, Moody's assessment of the bank's liquidity also takes into account its heavy reliance on interbank funding, which accounted for 66% of total liabilities (including capital), at YE2009; those funds are mostly "on call". Counterparties on both sides of the balance sheet are 50-60% Western banks, with the rest being Russian/CIS banks.

Factors constraining VTBA's ratings include the bank's modest niche business franchise, and its exposure to higher-risk Russian and CIS counterparties.

VTBF

VTBF is a corporate bank located in Paris. At YE2009, VTBF's net income stood at EUR39 million, up from EUR15 million for 2008. With an ROAA of 3.8% for 2009, VTBF's profitability is good compared to Russian and European banks, and is in line with its risk profile. VTBF is mostly self-funded through capital funds, which financed around 70% of liabilities at YE2009. The bulk of those derive from the EUR568 million subordinated loan (around 50% of liabilities).

With capital funds covering 70% of assets at YE2009 (taking into account the subordinated debt), VTBF is very well capitalised. At Q1 2010, 7% of loans to banks and 6.5% of corporate loans were classified as problematic (90 days overdue). This gave an overall 6.3% ratio of problem loans to gross corporate and bank loans. Most problem loans to banks (or half of all problem credit exposures) relate to old legacy loans to a few Cuban banks. In Moody's opinion, the credit quality of the non-legacy loan book is relatively adequate, and is likely to stabilise in the short-term, as borrowers (mostly Russian) recover from the global financial crisis. Moody's notes that coverage of problem loans by provisions is adequate

for both banking and corporate exposures (6.0% and 7.5%, respectively).

Factors constraining VTBF's ratings include the bank's modest niche business franchise, and its exposure to higher-risk Russian and CIS counterparties.

Debt and Deposit Ratings

VTBC, VTBA and VTBF's long-term global local currency (GLC) deposit rating are Baa3, based on the banks' own Baseline Credit Assessments of Ba3 and the rating of their Russian parent, VTB (Baa1). In Moody's support assumptions, the rating agency has taken VTB's Baa1 fully supported foreign currency deposit rating as a basis, which incorporates Moody's view of the very high likelihood of support for VTB and its foreign subsidiaries from the Russian government. Moody's believes that such support from the Russian government (directly or indirectly through VTB) is very likely for VTBC, VTBA and VTBF, therefore the rating agency incorporates three notches of support into the debt and deposit ratings of those banks.

Moody's assessment of the probability of parental support, as well as its exceptional use of the deposit rating (rather than Baseline Credit Assessment) of the parent VTB as the basis of support, takes into account the following considerations: (1) all three foreign subsidiaries share the same name and brand as its parent bank; (2) the parent's demonstrated intention to deepen integration of its European subsidiaries into VTB group; (3) a history of support provided to the foreign obligations of VTB from the Russian government and VTB, involving funding and exceptions granted for foreign currency transfers during a moratorium; and (4) the continued likelihood of exceptions being extended during any future possible moratoria, given the importance of VTB and subsidiaries to the economic functioning of the Russian Federation, and the provision of access -- by VTB's subsidiaries -- to international financial markets.

Moody's also believes that VTBC, VTBA and VTBF are unlikely to receive any systemic support from the governments of their domicile countries (UK, Austria and France, respectively).

Moody's previous ratings actions on VTBC, VTBA and VTBF were implemented on 3 July 2009, when the BFSRs of those banks were downgraded to D- with negative outlook, from D. The rating actions concluded the review process initiated in February 2009, when the BFSRs and deposit ratings of those banks were put on review for a possible downgrade. The negative outlook on the BFSRs reflected Moody's expectation that the operating environment -- in Russia and globally -- would continue to negatively impact the financial fundamentals of those banks, particularly capitalisation, asset quality, profitability and liquidity.

The principal methodologies used in rating VTBC, VTBA and VTBF are "Bank Financial Strength Ratings: Global Methodology", published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007, which can be found at www.moody.com in the Ratings Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in London, UK, VTBC reported consolidated assets of USD3.7 billion and shareholders' equity of USD611 million at YE2009 (IFRS -- audited). The bank posted a net income of USD4.6 million for 2009.

Headquartered in Vienna, Austria, VTBA reported consolidated assets of EUR5.5 billion and shareholders' equity of EUR622 million at YE2009 (Austrian GAAP -- audited). The bank posted a net income of EUR122 million for 2009.

Headquartered in Paris, France, VTBF reported consolidated assets of EUR1.1 billion and shareholders' equity of EUR163 million at YE2009 (French GAAP -- audited). The bank posted a net income of EUR39 million for 2009.

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