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Research Update:

VTB Bank (Austria) And VTB Bank (France) Rated 'BB+/B'; Outlook Negative

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Overview

In our view, VTB Bank (Austria) has high strategic importance to Russia-based VTB Bank JSC (BBB-/Negative/A-3). We regard VTB Bank (France) as a core subsidiary of VTB Austria.

- We are assigning our 'BB+/B' ratings to VTB Austria and VTB France.
- The negative outlook on the long-term ratings on VTB Austria and VTB France mirrors that on VTB Bank JSC and ultimately that on the Russian Federation.

Rating Action

On July 15, 2014, Standard & Poor's Ratings Services assigned its 'BB+' long-term and 'B' short-term counterparty credit ratings to Austria-based VTB Bank (Austria) AG and its subsidiary VTB Bank (France) SA. The outlook is negative.

Rationale

We consider VTB Austria to be a "highly strategic" subsidiary of Russia-based VTB Bank JSC. In accordance with our criteria, we rate "highly strategic" subsidiaries one notch lower than the group credit profile of the parent.

VTB Austria and its subsidiaries (VTB Austria subgroup) provide access to Western European markets for its Russian parent and form an important part of the group's international business profile and funding strategy. VTB Austria subgroup has an important function for the wider group, primarily servicing Russian clients outside Russia and collecting deposits from Western European clients to support the overall group's lending business. The activities VTB Austria subgroup undertakes are closely aligned with VTB Bank JSC's mainstream business and customer base. VTB Austria serves, to a large extent, the same clients as the VTB Bank JSC, and the parent has committed strong operational, managerial, and financial support. However, we acknowledge that the subgroup has some complexity in its business, reflecting its focus on multiple markets and different business models for the markets in Austria, Germany, and France, and thus we do not consider it to be fully integrated within the wider VTB group.

VTB Austria subgroup represents about 6% of VTB Bank JSC's total assets; broadly half of the subgroup relates to operations of VTB Austria itself and the remainder is split between operations in France and Germany.

We assume that VTB Austria will remain a "highly strategic" subsidiary of VTB Bank JSC and continue to receive operational, managerial, and financial support from its parent.

We regard VTB France as a core subsidiary of VTB Austria. We understand that, despite its separate legal set up as a subsidiary, VTB France operates more like a branch of VTB Austria.

Outlook

The negative outlook on VTB Austria and VTB France mirrors that on VTB Bank JSC. The negative outlook on VTB Bank JSC in turn mirrors that on the Russia Federation. We consider that sovereign-related risks in Russia will continue to weigh on the group's creditworthiness and that there are increasing challenges for Russian banks in a difficult operating environment.

Any rating actions on the parent, VTB Bank JSC, will likely result in a parallel action on VTB Austria, reflecting that we rate "highly strategic" subsidiaries one notch lower than the group credit profile of the parent. Also, any long period of underperformance at VTB Austria, or inability to achieve its profitability or financing goals, could lead us to reconsider its "highly strategic" status, and therefore lower the ratings.

Any rating action on VTB Austria will in turn lead to a parallel action on VTB France, because we equalize the ratings on VTB Austria and VTB France due to the French subsidiary's core status in the VTB Austria subgroup.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: Austria, June 3, 2014

Ratings List

New Rating

VTB Bank (Austria) AG

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VTB Bank (France) SA

Counterparty Credit Rating

BB+/Negative/B

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