

Fitch Affirms Sberbank Kazakhstan at 'BBB-'; Withdraws VTB Kazakhstan's Ratings

Fitch Ratings-Moscow/London-22 January 2014: Fitch Ratings has affirmed Kazakhstan-based Subsidiary Bank Sberbank of Russia OJSC's (SBK) Issuer Default Ratings (IDR) at 'BBB-' with a Stable Outlook and upgraded its Viability Rating (VR) to 'bb-' from 'b+'.

Fitch has also withdrawn without affirmation Subsidiary JSC VTB Bank (Kazakhstan)'s (VTBK) ratings, as the bank has chosen to stop participating in the rating process. Fitch will no longer provide ratings or analytical coverage of VTBK.

A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS - SBK'S IDRS, SUPPORT RATING, SUPPORT RATING FLOOR, DEBT RATINGS AND NATIONAL RATING
SBK's IDRs are based on the high probability of support from its owner, Sberbank of Russia (Sberbank, BBB/Stable), if needed. Sberbank's propensity to support SBK would likely be high, in Fitch's view, given the full ownership, the strategic importance of Sberbank's expansion in the CIS region and internationally, the moderate cost of any potential support, significant potential reputational risks arising from a subsidiary default, Sberbank's strong track record to date of supporting its subsidiaries, including SBK, and the solid government relations between Russia and Kazakhstan.

The one-notch differential between Sberbank's and SBK's IDRs reflects the cross-border ownership, some operational independence of the Kazakh subsidiary and SBK's so far limited contribution to Sberbank's operations (less than 2% of consolidated assets), although Fitch understands that Sberbank considers development of SBK an important part of its international expansion.

RATING SENSITIVITIES - SBK'S IDRS, SUPPORT RATING, SUPPORT RATING FLOOR, DEBT RATINGS AND NATIONAL RATING
SBK's ratings would likely be upgraded or downgraded in case of similar rating action on the parent or if Fitch's view of support propensity changes.

KEY RATING DRIVERS - SBK'S VR

The upgrade of SBK's VR to 'bb-' from 'b+' reflects the continuing strengthening of the bank's domestic franchise; its track record of robust performance driven by solid margins and low funding costs. It also reflects the low level of problem loans, albeit the recent rapid loan growth (47% in 2013) may result in asset quality deterioration as the loan book seasons, and the ordinary benefits of support, including reasonable capitalisation maintained through timely capital injections by the parent.

SBK's asset quality compares well with large Kazakh banks. At end-9M13, reported non-performing loans (NPLs; more than 90 days overdue) were a low 2.6% and covered by provisions equal to 3.3% of the portfolio. However, Fitch considers that some of the top 25 loans (amounting to 7% of gross loans), are potentially risky although not NPLs. Positively, SBK's available capital buffer and robust pre-impairment profitability (4.3% of average total assets in 9M13, annualised) are sufficient to fully cover these exposures in a downside scenario.

SBK reported a reasonable 12.7% regulatory total capital adequacy ratio at end-2013, supported by a KZT7.5bn equity injection from Sberbank in December 2013 and earnings retention.

On the funding side, SBK relies on corporate deposits, which tend to be sticky, with the loans/deposits ratio standing at 92% at end-3Q13. However, the bank plans to gradually increase the share of market funding.

RATING SENSITIVITIES - SBK'S VR

SBK's VR has limited upgrade potential from its current level given the somewhat unseasoned loan book and further growth challenges. A sharp deterioration in asset quality and loss absorption capacity could lead to a downgrade.

SBK is the fifth-largest bank in Kazakhstan, focusing primarily on corporate business. Sberbank currently owns virtually 100% of SBK.

The rating actions are as follows:

SBK

Long-Term foreign currency IDR: affirmed at 'BBB-'; Outlook Stable

Long-Term local currency IDR: affirmed at 'BBB-'; Outlook Stable

Short-Term foreign currency IDR: affirmed at 'F3'

Viability Rating: upgraded to 'bb-' from 'b+'

Support Rating: affirmed at '2'

National Long-Term Rating: affirmed at 'AA(kaz)'; Outlook Stable

Senior unsecured debt rating: affirmed at 'BBB-(EXP)'

Senior unsecured debt National Rating: affirmed at 'AA(kaz)(EXP)'

Subordinated debt rating: affirmed at 'BB+'

Subordinated debt National Rating: affirmed at 'AA-(kaz)'

VTBK

The following ratings have been withdrawn without affirmation:

Long-Term foreign currency IDR: 'BBB-'; Negative Outlook

Short-Term foreign currency IDR: 'F3'

Long-Term local currency IDR: 'BBB-'; Negative Outlook

Support Rating: '2'

National Rating: 'AA(kaz)'; Negative Outlook

Senior unsecured debt rating: 'BBB-'

Senior unsecured debt National Rating: 'AA(kaz)'

Confidentiality Notice: The information contained in this e-mail and any attachment(s) is confidential and for the use of the addressee(s) only. If you are not the intended recipient of this e-mail, do not duplicate or redistribute it by any means. Please delete this e-mail and any attachment(s) and notify us immediately. Unauthorized use, reliance, disclosure or copying of the contents of this e-mail and any attachment(s), or any similar action, is strictly prohibited. Fitch Ratings reserves the right, to the extent permitted by applicable law, to retain, monitor and intercept e-mail messages both to and from its systems.

This e-mail has been scanned by the MessageLabs Email Security System. For more information, please visit <http://www.messagelabs.com/email>.
