May 23, 2017

PJSC ROSBANK

Lead analysts:

Irina Nosova, Associate Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

Mikhail Doronkin, Senior Analyst
+7 (495) 139-0484
mikhail.doronkin@acra-ratings.ru

Credit rating components	
Business profile	
First stage	a
Second stage	a+
Key risk factors	
Capital adequacy	Adequate (+1)
Risk profile	Adequate (+1)
Funding and liquidity	Adequate (0)
SCA	**aa**
Adjustments	
Systemic	0
Individual	0
Support	
Systemic importance	2
Group support	On par with the RF
State support	0
Credit rating	**AAA(RU)**
Outlook	**Stable**

Key rating assessment factors

A very high probability of the Bank obtaining extraordinary support from its shareholder. In case of necessity, Societe Generale Group (hereinafter — SG Group) represented by its parent bank Societe Generale S.A. (hereinafter — supporting organization, SO) is ready to provide to PJSC ROSBANK (hereinafter — ROSBANK, or the Bank) that together with its wholly-owned subsidiaries, namely Limited Liability Company Rusfinance Bank and JSC Commercial Bank DeltaCredit, forms ROSBANK Group (hereinafter — the Group) both short-term and long-term financing, as well as to infuse capital.

Strong business profile. Given the Group's comprehensive activities, its diversification of operating income before provisions is assessed as high (the Herfindahl-Hirschman index is at the level of no more than 0.2). The Group's strategy for 2017 is generally considered to be in line with the current macroeconomic tendencies, and assessed by ACRA as adequate and feasible. The management quality at ROSBANK is defined as the highest, given its top management long-term successful working experience and the fact that Societe Generale S.A. is executing complete control over the Bank' operating activities and over the Group engaged in the business in the Russian Federation territory.

A material loss absorption cushion rests on the Bank's and the Group's own capital standing high by both the regulatory norms (N1.2 and N1.1 equaled 9.8% on April 1, 2017, the Group's N20.2 and N20.1 equaled 9.7% on January 1, 2017) and the Basel standards (the Group's Tier-1 was 15.8% at end-2016), which allows the Group to sustain a more than 500 bps increase in credit risk, while the relatively low averaged capital generation ratio (ACGR) of 50 bps shown over the past five years can be mostly put down to the Group's loss-making activities in 2015.

Adequate risk profile assessment is based on the Group's quality risk management system, which is characterized by transparency and independency in intragroup decision-making, as well as by regular improvement on its stress methods, carrying out of stress tests and assessment of the current operating environment. The Group's loan portfolio quality is assessed as satisfactory, with the share of problem and potentially problem loans being at an adequate level — 10.8% of portfolio, while NPL90+ stood at 9.1%. In ACRA's opinion, the concentration on the largest borrowers (14.8% of portfolio), high-risk industries (8% of loans) and related parties (46% of Tier-1) is low.

Strong liquidity position is based on high volume of liquid and highly liquid assets that provide an adequate coverage of potential outflows (over the past six months, the short-term liquidity indicator has been consistently near 90%).

Balanced funding profile. The Group's funds are typically raised from clients (61% of its liabilities) mainly in the form of term accounts. It should be noted that there is no substantial concentration on the largest creditors (the top 10 comprise 13.9% of resource base). The Group is also actively involved in debt placement (21% of its resource base), redemptions of no more than RUB 44 bln (some 5% of assets) are expected in the next 12 months.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A negative rating action may be prompted by:

- A decline in shareholders' willingness to support the Bank.
- A significant supporting organization's own creditworthiness deterioration.

Brief information about the bank

ROSBANK is a systemically important full-service bank holding leading positions in the Russian banking sector in terms of assets and capital (enters the top-10 list in terms of capital among banking groups) and operating in 71 RF regions. The Bank is a 99.95%-owned subsidiary of Societe Generale S.A. (domiciled in France), a parent bank of the international financial group Societe Generale.

Rating components

Business profile (a+)

Adequate business profile of ROSBANK rests on its sustainable franchise, an efficient management system and coherent and well-planned development strategy, as well as on its highly diversified operating income and transparent ownership structure.

A high assessment of the franchise factor of ROSBANK is based on the Bank's significant market positions, its wide branch network (the Bank operates in the majority of RF regions, primarily in the Moscow region) and its brand awareness. Given the Group's comprehensive activities (it provides loans to its corporate clients through ROSBANK, residential mortgages through JSC Commercial Bank DeltaCredit, auto and POS (point-of-sale) loans through Limited Liability Company Rusfinance Bank), its diversification of operating income before provisions is assessed as high (the Herfindahl-Hirschman index is at the level of no more than 0.2). That said, the Group's strategy is mostly aimed at enhancing synergy through its structure.

The bulk of the Group's assets (67% of its total assets) is made up by loans provided and interbank loans (13% of assets), its liabilities are mostly formed by the funds held for customers (61% of the Group's resource base) and debt securities issued (21% of liabilities).

Although the Bank's strategy is focused on big business (i.e. listed companies) lending, it aimed at increasing the volume of loans to SMB (small- and medium-sized business) and therefore may assume additional risks. But, given the Bank's pretty conservative risk management policies and its rather moderate appetite for growth in SMB segment, ACRA believes the assumed risks will be acceptable.

The macroeconomic factors the Bank's strategy for 2017 is based upon are assessed by ACRA as adequate. The management quality at ROSBANK compared with its Russian peers is defined as the highest, given its top management long-term successful working experience and the fact that Societe Generale S.A. is executing complete control both over the Bank' operating activities and over the Group engaged in business in the Russian Federation territory.

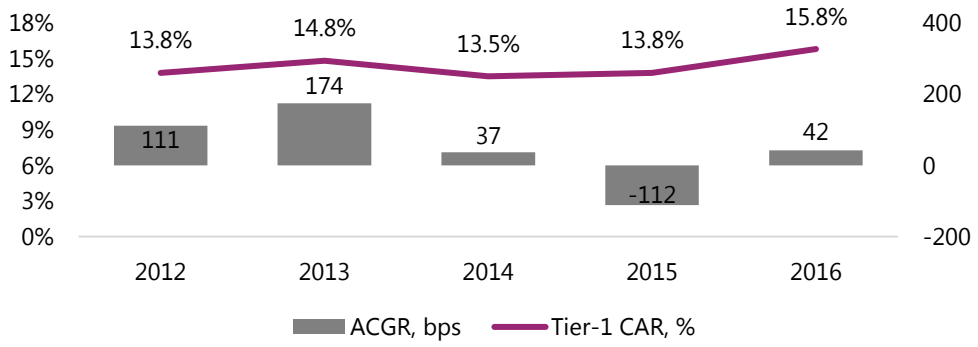
Key risk factors

Capital adequacy: adequate (+1)

By ACRA's assessments, both the Bank's and the Group's capital adequacy is adequate, as they have a significant loss absorption cushion to cover the assumed risks. At present, however, the operating efficiency is low as compared to the market leaders and the peer average.

On December 31, 2016, the Group's saw its Basel core capital adequacy at 15.8%, which is well above the recommended 6%. Given the higher risk ratios for consumer (collateral-free) loans set by the Bank of Russia, the Bank's RAS capital adequacy ratio (N20.2) as at end-2016 was at a lower level (9.7%) against the recommended minimum of 6%, while its total Tier-1, including capital conservation buffer (CCB) and capital surcharge for systemically important financial institutions ("SIFI surcharge"), equals up to 6,775%. The low averaged capital generation ratio (ACGR) of 50 bps shown over the past five years was due to the Group's loss-making activities in 2015 and its low profits in 2014 and 2016 (RUB 3.2 bln and RUB 3.1 bln, respectively) against the backdrop of an economic downturn in the RF that began in the second half of 2014.

Figure 1. Capital adequacy and generation at ROSBANK Group



Source: PJSC ROSBANK, ACRA

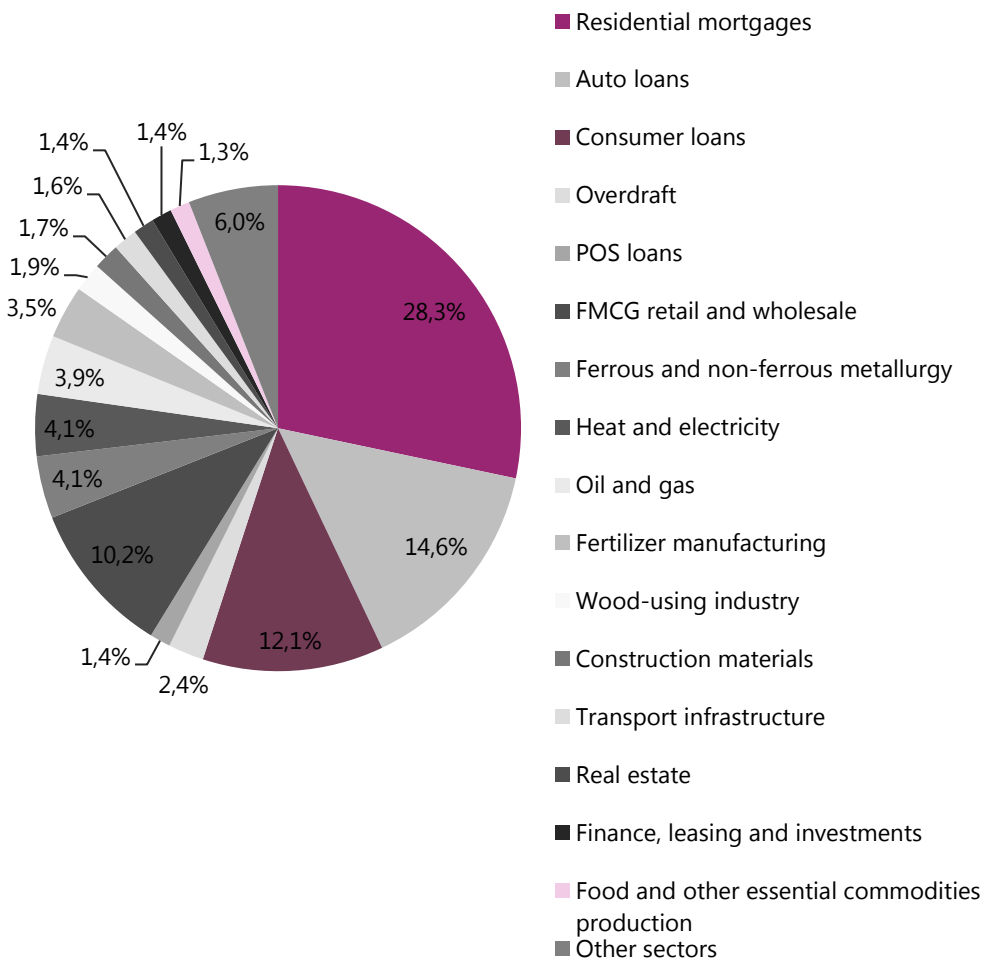
The results of a stress testing conducted by ACRA reveal that the Bank's current capital adequacy ratio allows it to sustain a more than 500 bps increase in credit risk without running the risk of a core capital adequacy decrease (Tier-1 and by the regulatory norms) below 6%.

The Group's operating efficiency is at a relatively low level: over the past three years, cost-to-income ratio (CTI) before provisions equaled to 66%, while net interest margin (NIM) stood at 4.4%, which are slightly below the peer average. By the end of 2017, ACRA expects the Group should achieve somewhat improved results, noting that improvement is not likely to be significant.

Risk profile: adequate (+1)

The adequate assessment of the Group's risk profile rests on such key factors as high level of its risk management, acceptable level of problem and potentially problem loans, low concentration of its loan portfolio on the largest borrowers, related parties and companies working in high-risk industries, as well as on high quality of investments in securities.

Figure 2. ROSBANK Group's loan structure as of December 31, 2016



Source: PJSC ROSBANK

The IFRS share of loans with heightened risk (i.e. those overdue by more than 90 days) stood at 9.1% of the loan portfolio before loss provisions and, given the potentially problem loans (based on an analysis by ACRA of thirty largest borrower groups as of December 12, 2016), stood at 10.8% of the portfolio. That said, provisions covering some 75% of the said problem loans are assessed by ACRA as acceptable.

The Group's loan portfolio is characterized by low concentration on companies working in high-risk industries (construction and real estate — 8% of core capital), related parties (46% of core capital) and the largest borrowers' groups (15% of portfolio), loans denominated in foreign currency account for 18% of portfolio.

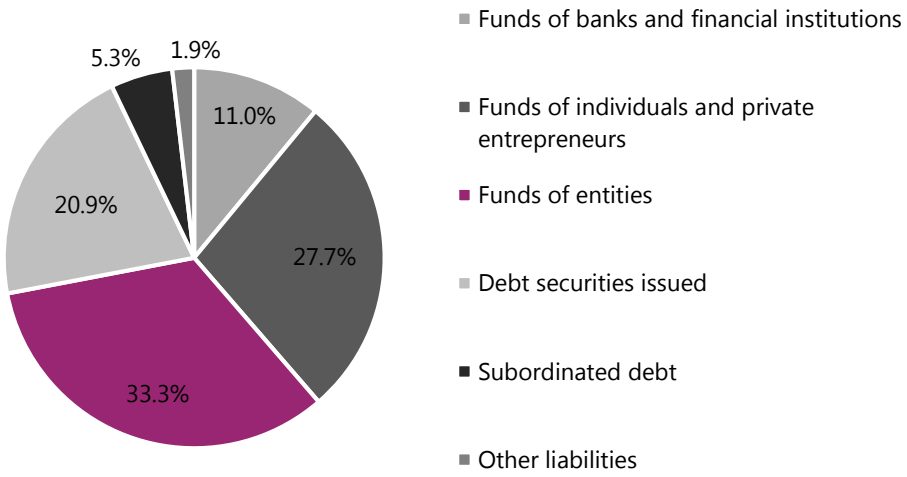
Levels of other types of risks, namely market and operational, are not essential (do not exceed the volume of the Group's core capital in quantitative terms), while the Group's securities portfolio quality (some 9% of assets) is assessed as high owing to a significant share of both federal loan bonds (87% of investments) and bonds of issuers with a stable financial position.

In ACRA's opinion, quality of the risk management system and risk policies pursued by the Bank is high, as the Group actively applies the standards accepted by it. An independent risk management strategy — focused mainly on the Group's risk function control and modernization — has been implemented at ROSBANK. Furthermore, the Bank conducts regular stress testing of its capital adequacy and liquidity parameters. The Bank adheres to a conservative policy in its transactions on interbank and securities markets.

Funding and liquidity: adequate (0)

ACRA assesses the Group's liquidity management policy as strong, taking into account high volume of liquid and highly liquid assets that provide an adequate coverage of potential outflows (over the past six months, the short-term liquidity indicator has been consistently near 90%). Besides, the Bank can raise short-term liquidity from its shareholder Societe Generale S.A. in a timely manner.

Figure 3. ROSBANK Group's resource base structure as of December 31, 2016



Source: PJSC ROSBANK

The funding factor of the Bank is assessed by ACRA as balanced. The dominant part of the Group's resource base is formed by funds raised from clients (61% of liabilities), mainly in the form of term accounts. That said, ACRA specifies that the Bank's resource base has moderate concentration on the largest creditors (the biggest creditor — 4.3%, the top 10 creditors — 13.9%). Debt securities issued (21% of liabilities) serve as the second major funding source: redemptions of no more than RUB 44 bln (some 5% of assets) are expected in the next 12 months.

Additional adjustments

Systemic

No grounds for systemic adjustments.

Individual

No grounds for individual adjustments.

Support

Systemic importance

The Group's systemic importance for the Russian banking sector is assessed by ACRA as moderate. Given the fact that the Group's resource base comprises a significant share of retail deposits (RUB 144 bln on December 31, 2016) and the Group's branches operate in the majority of RF regions, the Agency believes, if the Banks defaults, this may lead to a systemic crisis of the Russian banking market and have a negative impact

on the Russian economy. ROSBANK features on the list of systemically important credit institutions, according to the Bank of Russia's criteria.

Group support: on par with the RF

In ACRA's opinion, in case of necessity, Societe Generale Group represented by its parent bank Societe Generale S.A. is ready to provide to ROSBANK both short-term and long-term financing, as well as to infuse capital for the reasons stated below:

- The Russian market is deemed strategically important for Societe Generale Group.
- Operational integration in place (e.g. the Bank being a part of Societe Generale Group's corporate investment platform).
- The Bank's potential default can entail substantial operational and financial risks for Societe Generale Group.

Furthermore, Societe Generale S.A. is executing complete control over the Bank' operating activities and over the Group engaged in the business in the Russian Federation territory. In view of this, the Bank's level of connection to its shareholder is assessed as very strong.

The final assessment of a country risk associated with presence jurisdiction of the foreign supporting organization (domiciled in France) against the RF country risk is defined by ACRA as strong. When making its assessments, the Agency took into consideration such factors as level of economic development, level of financial systems development, and access of the said jurisdictions residents to global financial markets. Based on its analysis, ACRA assesses the risk associated with presence jurisdiction of the supporting organization well below the RF country risk that implies strong presence jurisdiction of a foreign supporting organization and allows for the highest possible level of support for a rated entity's creditworthiness from the foreign supporting organization provided the latter receives a high final creditworthiness assessment.

Creditworthiness of Societe Generale S.A., as a supporting organization, is assessed by ACRA as strong, considering its loan portfolio quality, operation profitability, as well as capital adequacy and liquidity.

In view of this, the Bank's credit rating is defined on par with the RF.

State support

ACRA does not consider ROSBANK as a state-influenced entity.

Issue ratings

No outstanding issues have been rated.

Rating history

25.04.2017 — AAA(RU), outlook Stable.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation, Methodology for Analyzing Relationships Between Rated Entities and Supporting Organizations Registered outside the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

The credit rating has been assigned to PJSC ROSBANK for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (April 25, 2017).

Disclosure of deviations from the approved methodologies. Neither the short-term, nor the long-term liquidity shortage indicators (STLSI and LTLSI, respectively) were calculated in the course of rating assignment, the assessment of PJSC ROSBANK's liquidity position was based on its statements drawn up in compliance with Forms 0409122 and 0409125.

The assigned credit rating is based on the data provided by PJSC ROSBANK, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of PJSC ROSBANK and the standalone financial statements of PJSC ROSBANK, drawn up in compliance with the Bank of Russia Ordinance No. 4212-U of November 24, 2016. The credit rating is solicited, and PJSC ROSBANK participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by PJSC ROSBANK in its financial statements have been discovered.

ACRA provided an additional service to PJSC ROSBANK in the form of informational support (a practical seminar). No conflicts of interest were discovered in the course of credit rating assignment.

Appendix

Table 1. Consolidated balance sheet items, RUB mln

	2014	2015	2016
Assets	**1,126,148**	**1,011,177**	**880,706**
Cash and equivalents	36,591	26,942	20,056
Receivables from the Bank of Russia and Russian Finance Ministry	36,064	72,384	23,573
Mandatory provisions with the Bank of Russia	5,575	3,899	4,869
Receivables from banks and financial institutions	246 113	146,307	121,220
Debt securities	83,965	88,660	83,004
Other financial assets assessed at fair value through profit or loss, or available for sale	138	132	204
Loans to and receivables from RF subjects, non-budgetary funds and municipal authorities	3,706	4,683	4,392
Loans to and receivable from entities and individual entrepreneurs	223,851	256,897	241,774
Loans to and receivable from individuals	449,333	372,954	341,644
Intangible assets and goodwill	1,405	2,144	2,008
Premises and equipment	23,897	20,105	19,675
Deferred tax assets	2,091	3,363	3,086
Other financial assets	2,590	2,101	3,414
Other non-financial assets	10,829	10,607	11,787
Liabilities	**996,505**	**890,678**	**757,149**
Funds of banks and financial institutions	260,322	122,178	83,231
Funds of the Bank of Russia	44,027	18,861	190
Funds of individuals and individual entrepreneurs	170,170	200,449	209,407
Funds of entities	315,506	316,258	252,486
Debt securities issued	146,049	159,795	158,133
Subordinated debt	46,443	58,281	39,872
Deferred tax liabilities	919	1,548	1,409
Financial liabilities assessed at fair value through profit or loss	-	1,366	745
Other liabilities	13,069	11,941	11,676
Own funds	**129,644**	**120,502**	**123,558**
Charter capital	17,587	17,587	17,587
Paid-in capital	59,707	59,707	59,707
Real estate revaluation fund	9,363	6,834	5,952
Revaluation fund for financial assets available for sale and/or hedging	(2,176)	(1,616)	(1,309)
Currency translation difference	1,982	2,771	1,684
Other capital generating sources	(679)	(891)	(158)
Retained earnings	43,859	36,110	40,095

Source: ROSBANK Group IFRS statements

Table 2. Consolidated profit and loss statement items, RUB mln

	2014	2015	2016
Interest income	89,922	93,459	86,718
Interest expenses	(41,522)	(56,130)	(47,761)
Net interest income	**48,399**	**37,330**	**38,956**
Impairment provision change	(17,989)	(21,107)	(12,277)
Net interest income after impairment provision	**30,411**	**16,223**	**26,680**
Fee and commission income	13,945	12,098	10,794
Fee and commission expenses	(2,198)	(2,565)	(2,790)
Net non-interest income	**11,747**	**9,533**	**8,004**
Other income net of expenses	(902)	179	2 460
Net income (expenses)	**41,256**	**25,935**	**37,144**
Administrative and other operating expenses	(36,199)	(35,135)	(32,955)
Income (loss) before taxes	**5,057**	**(9,199)**	**4,189**
Income tax expenses	(1,874)	(82)	(1,083)
Income (loss) after taxes	**3,182**	**(9,282)**	**3,105**

Source: ROSBANK Group IFRS statements

Table 3. Key ratios

	2014	2015	2016
Capital adequacy			
Tier-1 CAR	13.5%	13.8%	15.8%
N1.2	7.6%	8.5%	9.5%
Capital generation, bps	37	-112	42
ACGR, bps	n/a	n/a	50
Leverage	9.1%	9.6%	10.8%
NIM	5.2%	3.7%	4.4%
CTI	60.7%	73.5%	66.0%
Risk profile			
NPL90+, % of loan portfolio	n/a	n/a	9.1%
Problem debt share in loan portfolio	n/a	n/a	10.8%
10 largest borrowers' (borrower groups') share in loan portfolio	n/a	n/a	14.8%
Concentration on high-risk sectors (% of core capital)	n/a	n/a	7.6%
Concentration on affiliated parties (% of core capital)	n/a	n/a	46.2%
Funding and liquidity			
Share of the largest funding source in total liabilities	31.7%	35.5%	33.3%
Share of regulatory funding in total liabilities	4.4%	2.1%	0.0%
Share of the largest client's (group of clients) funds, excluding funds borrowed from the Bank of Russia and raised via repo transactions	n/a	n/a	4.3%
Share of 10 largest clients' (client groups') funds, excluding funds borrowed from the Bank of Russia and raised via repo transactions	n/a	n/a	13.3%

Source: ACRA

(C) 2017
Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.