

**Credit Opinion: Promsvyazbank**

**Promsvyazbank**

*Moscow, Russia*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Negative
Bank Deposits	Ba2/NP
Bank Financial Strength	D
Senior Unsecured	Ba2
Subordinate	Ba3

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**Key Indicators**

**Promsvyazbank**

	[1]2008	2007	2006	2005	2004	Avg.
Total Assets (US\$ million)	15718.00	11946.67	6856.41	3854.35	2096.31	8094.35
Shareholders' Equity (US\$ million)	1342.69	1127.76	697.88	406.17	269.54	768.81
Return on Average Assets	0.41	1.56	1.78	2.02	2.54	1.66
Recurring Earnings Power [2]	4.20	3.21	2.99	3.23	5.16	3.76
Net Interest Margin	7.01	5.88	5.49	4.93	6.46	5.95
Cost/Income ratio (%) [3]	43.88	51.29	55.56	52.93	38.93	48.52
Problem Loans % Gross Loans	2.84	0.45	0.33	0.35	2.05	1.20
Equity % Assets	8.54	9.44	10.18	10.54	12.86	10.31

[1] As of December 31. [2] Preprovision income % average assets. [3] Non-Interest Expense % Operating Income.

**Opinion**

**SUMMARY RATING RATIONALE**

Moody's assigns a Bank Financial Strength Rating (BFSR) of D to Promsvyazbank (PSB), which translates into a Baseline Credit Assessment (BCA) of Ba2. The rating reflects: (i) the bank's entrenched market franchise in the corporate segment, along with some diversification of business to the SME and retail segments, (ii) its significant geographical expansion over recent years, with a sizeable portion of business volume now attributable to the regional network, (iii) favourable liquidity profile and sound liquidity management; and (iv) the bank's well-diversified operational income sources and strong cost-efficiency metrics.

The factors constraining PSB's ratings are: (i) the bank's low capitalisation levels that are not sufficiently commensurate with the increased risks of today's hostile economic environment; (ii) significant deterioration of PSB's asset quality exerting further negative pressure on its bottom-line profitability and capitalisation levels; (iii) the significant single-name concentration of the bank's loan book; and (iv) potential vulnerability of PSB to liquidity stresses stemming from the lack of market refinancing opportunities and the risks of significant outflow of customer funds.

PSB's Global Local Currency (GLC) deposit ratings of Ba2 (negative outlook)/ Not Prime do not incorporate any element of systemic support given the bank's relatively low social importance in the context of the overall Russian

economy. Nor do PSB's deposit ratings factor in any support from the bank's shareholders. Although such support can not be ruled out, its scope and timeliness are somewhat uncertain, in Moody's view. PSB's GLC deposit ratings, therefore, are based solely on its BCA.

### **Credit Strengths**

- Solid and sustainable market positions in corporate banking and longstanding business relationships with a variety of large corporate clients
- Diversification to retail and SME segments, as well as geographic expansion of the business over the recent years
- Entrenched positions in trade finance and factoring segments, which ensures further diversification of the bank's revenue streams
- Healthy pre-provision profitability and cost-efficiency indicators
- Fairly well-diversified funding base and sound liquidity management

### **Credit Challenges**

- The still significant single-name concentration of the bank's loan book (albeit partially compensated by adequate asset quality of the major borrowers)
- Relatively modest retail and SME franchise
- Capitalisation levels are modest and do not sufficiently address the increased risks stemming from today's hostile economic environment
- Deteriorating asset quality indicators weigh negatively on PSB's bottom-line profitability and capitalisation levels
- Sizeable outflow of customer funds as a result of potential market pressure and/or changing client sentiments can not be ruled out, although the bank has been successful in withstanding these stresses to date

### **Rating Outlook**

All of PSB's global scale ratings carry a negative outlook reflecting Moody's concerns as to the bank's historically low capitalisation level that, although acceptable in flusher times, does not comfortably address the today's increasingly tough operating conditions, especially when accompanied by decline in the banks' internal capital-generation capacity and the rapidly weakening asset quality.

### **What Could Change the Rating - Up**

As PSB's ratings carry a negative outlook, their upgrade is a remote possibility in the foreseeable future.

### **What Could Change the Rating - Down**

While running its further analysis of PSB's credit standing Moody's will primarily focus on the bank's ability (i) to maintain satisfactory financial fundamentals - in particular asset quality and liquidity - against a background of worsening economic scenarios and (ii) to raise new capital, when needed. In the event of a material weakening of any of the above-mentioned rating factors, PSB's BFSR and deposit and debt ratings are likely to be downgraded.

### **Recent Results and Company Events**

As of YE2008 PSB reported total IFRS assets of RUB462 billion (US\$15.7 billion) up from RUB293 billion (US\$11.9 billion) a year earlier, shareholders' equity increased to RUB39.4 billion (US\$1.3 billion) from RUB27.7 billion (US\$1.1 billion). PSB's net IFRS income for 2008 totalled RUB1.56 billion (US\$53 billion) compared to RUB3.7 billion (US\$151 million) for the previous reporting period.

In 2Q2008 PSB's shareholders injected to the bank new capital in the amount of RUB4.3 billion (approx. US\$183 million), followed by two subordinate loans for the total amount of US\$110 million placed by the bank's controlling shareholder in 3Q2008. In 4Q2008 another RUB4 billion (approx. US\$136 million) increase of Tier 1 capital took place, which was comprised by RUB2.1 billion of fresh capital and RUB1.9 billion transfer of an earlier provided subordinate loan.

In October and November 2008 PSB entered into agreements with the Central Bank of Russia (CBR) and the

State Agency for Deposit Insurance to bail-out and subsequently integrate into PSB two small regional banks - Yarsotsbank and Bank Nizhny Novgorod, respectively - each accounting for less than 2% of PSB's total assets.

## DETAILED RATING CONSIDERATIONS

Detailed considerations for PSB's currently assigned ratings are as follows:

### Bank Financial Strength Rating

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The factors constraining PSB's ratings are: (i) the bank's low capitalisation levels that are not sufficiently commensurate with the increased risks of today's hostile economic environment; (ii) significant deterioration of PSB's asset quality exerting further negative pressure on its bottom-line profitability and capitalisation levels; (iii) the significant single-name concentration of the bank's loan book; and (iv) potential vulnerability of PSB to liquidity stresses stemming from the lack of market refinancing opportunities and the risks of significant outflow of customer funds.

As a point of reference, the assigned BFSR is at the same level as the D outcome of Moody's bank financial strength scorecard.

### Qualitative Rating Factors (70%)

#### Factor 1: Franchise Value

Trend: Neutral

As of YE2008 PSB ranked 11th in terms of assets and 13th in terms of own capital by Interfax. The bank has been historically strong in corporate banking, having established longstanding partnership with a large number of mid- and upper-mid-size companies, and also serving some of Russian top-100 names. PSB's corporate banking activities are fairly well diversified with it offering a full range of services to its clientele; in particular, PSB is a recognised expert in factoring (ranked 2nd on Russia's market, 20% market share) and international trade finance (11% market share).

In 2008 the corporate segment remained PSB's major business line accounting for 52% of the bank's total revenues for the period, while investment banking, retail and SME contributed further 27%, 18% and 2%, respectively. The aggressive branch development having resulted in increase of a number of outlets from 255 to 297 during the first 9 months of 2008, was curbed in 4Q2008 when the bank closed a number of non-core points of sales thus limiting the total number of outlets to 257 by YE2008 (this includes 48 branches, 204 sub-branches and 5 representative offices). As regards operations offshore, PSB has a branch in Cyprus and representative offices in China, India, Ukraine and Kyrgyzstan.

PSB's investment banking business line mainly targets fee-generating products (e.g. debt origination, corporate finance, consulting) to meet the demands of its corporate clientele, while the bank's proprietary risk positions are insignificant.

We believe that PSB will be able to maintain its share of corporate banking segment going forward, while the bank's previously set up objective to expand retail operations will be out of focus in the short to medium term given the general trend to optimise expenses and curb regional expansion, as well as the understanding that the potential quality of retail loans granted nowadays by PSB (which lacks sufficient expertise in retail relative to retail competitors) is also uncertain. Some risks for PSB's maintaining its franchise may stem from potential run of corporate clientele from private to state-owned banks (less likely - to subsidiaries of foreign banks), which is a systemic risk for the Russian banking system as a whole, however, we do not see any strong evidence of this being materialised so far. We, therefore, attach a neutral trend to PSB's D score for franchise value.

#### Factor 2: Risk Positioning

Trend: Neutral

PSB is beneficially owned by brothers Dmitry and Alexey Ananievs (who together control 84.68% of the bank's shares on a parity basis) and Commerzbank (CB), which acquired its 15.32% stake at the end of 2006 and has since been maintaining its share through participation in regular capital increases. Although CB has no representatives on PSB's Board of Directors or any direct influence on the bank's strategy and management decisions, Moody's still views the presence of a foreign institutional shareholder in PSB's capital as a positive

factor raising the bank's corporate governance standards and providing additional value in the context of sharing CB's proven expertise in risk management, banking technologies and processes.

In 2008, Promsvyazbank has strengthened the oversight capacity of the Board of Directors by establishing a number of core committees under this body and introducing independent directors. Moody's notes that the risk management and control procedures at PSB are generally robust and subject to ongoing improvements involving upgrades of IT applications and risk analysis approaches. The volume of related-party business is kept at an acceptable level accounting for 2.60% of the gross loan portfolio or 22% of Tier 1 capital as at YE2008 (YE2007: 1.86% and 16%, respectively).

PSB's focus on larger corporate customers leads to significant single-party concentrations in the loan book.

As at YE2008, the 20 largest customer exposures accounted for 26% of the gross loan book or 224% of Tier 1 capital (YE2007: 26% and 217%, respectively), which was only partially mitigated by the granular allocation of exposure between these borrowers and the fact that a sizeable share of the top 20 loans was attributable to short-term trade finance lending and factoring. Servicing top-notch corporate clients remains a strategic priority for PSB, however, we note that in today's deteriorating operating environment even the corporates deemed to be financially strong may encounter prolonged financial difficulties, hence the high level of credit concentration may bear additional risks at times of distress.

The largest industry exposure - to real estate and construction sectors (considered by Moody's jointly, since we see a high correlation between the two, and both have been particularly affected by the crisis) - accounted for 16% of the total loan portfolio and 136% of Tier 1 capital at YE2008 (YE2007: 12% and 105%, respectively), which is high and raises concerns, while the credit exposure to wholesale trade (which is itself fairly well diversified) at the level of 13% and 115% (to total loan book and Tier 1 capital, respectively) looks less worrying.

PSB's proprietary trading position is historically quite modest, as a result, the plunge of Russian securities market in 2008 was withstood without any dramatic trading losses, although this was also partially due to the easing of accounting standards introduced by both international and global regulatory bodies for 2008 reporting. Indeed, PSB's securities portfolio at YE2008 made up approximately 5.0% of total assets, of which some two thirds were attributable to "financial assets at fair value through profit and loss" and the remainder - to "investments held to maturity" formed by reclassification of a number of fixed income instruments previously accounted as "assets at fair value through profit or loss". As a result of this reclassification the bank recorded just insignificant trading loss amounting to 6.5% of total operating income for the year, which figure could have been higher should the bank opted to revalue mark-to-market the whole trading book.

The unadjusted score for risk positioning is D, which we maintain together with a neutral trend.

### Factor 3: Regulatory Environment

All Russian banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's Banking System Outlook for Russia, published in September 2008, to obtain a detailed discussion on the regulatory environment.

### Factor 4: Operating Environment

Trend: Weakening

This factor is also common to all Russian banks. Moody's assigns an E+ score for the overall operating environment. Refer to Moody's Banking System Outlook for Russia, published in September 2008, to obtain a detailed discussion on the operating environment.

### Quantitative Rating Factors (30%)

#### Factor 5: Profitability

Trend: Weakening

PSB's pre-provision income is adequate with recurring earning power having increased to 4.20% in 2008 from 3.21% for the previous year. At the same time, the bottom-line profitability is on a deteriorating trend (2008: ROAA - 0.41%, ROAE - 4.65%; 2007: ROAA - 1.56%, ROAE - 17.4%) on the background of the soaring provision charges. Overall, the sources of PSB's operational profits are well-diversified. Net interest income accounts for 78% of total operating income (the same as in 2007), and fee-and-commission income provides another stable income stream (17% and 15% of total operating income in 2008 and 2007, respectively), although we are of the opinion that a further increase in the share of fee-based income can be achieved. Net interest margin grew to 7.01% in 2008 from 5.81% in 2007 along with the raising uncertainty on the local credit market.

Negative pressure on bottom-line profitability metrics is exerted by trading losses and - much more important - increasing actual and expected credit losses stemming from the deterioration of the overall quality of the borrowers. Taking into account historically strong profits-generation and adequate credit underwriting standards of PSB, we believe the bank to be able to keep itself in a profit-making category on a medium to longer term, however, the lion's portion of its profit is likely to be absorbed by credit losses, which we expect to surge further. We, therefore, adjust the B outcome for profitability generated by the scorecard to a C score, attaching to it a weakening trend.

#### Factor 6: Liquidity

Trend: Neutral

Thanks to its established positions in the corporate segment and on the wholesale money markets, both domestic and international, PSB has a fairly diversified funding base. Customer accounts made up 59% of the bank's non-equity funding as of YE2008 and were represented mostly by corporate current accounts and short-term deposits. The portion of individual accounts made up approximately one quarter of total customer funds in both 2007 and throughout 2008. PSB fairly well overcame major challenges connected with outflow of customer funds in September - November 2008, although we maintain our view that especially in Russia the customer confidence is very sensitive to market stresses, and the customer funding may fluctuate significantly following changing sentiments as regards stability of certain classes of banks, or individual banks. In general, private banks in Russia are at most risk in this respect (as distinct from state-owned banks and, to a certain extent, subsidiaries of foreign banks). The concentration of customer accounts and deposits on PSB's balance sheet remains high (the top-10 customer deposits comprised 38% of the total as at YE2008, up from 22% a year earlier) increasing the threats of sizeable withdrawals.

PSB's market funding is well diversified by instruments and sources including trade/project finance facilities, syndicated loans, Eurobonds, bilateral loans, domestic bonds etc. The major risk we see in respect of these funding sources lies with very low probability of these facilities being refinanced on the market in the short-to-medium term. This said, we note that PSB succeeded in attracting a number of market facilities during 2008: RUB5 billion, US\$150 million and EUR15 million senior debt maturing in 2013 (but with a put option exercisable in June 2009), 2013 and 2009, respectively, was issued in June-July 2008. In addition, two one-year syndicated facilities - in the amounts of US\$175 thousand and US\$280 thousand - were attracted in May and August 2008 (the first one was paid off ahead of schedule in March 2009). Thus PSB's ratio of net loans to customer deposits at YE2008 was maintained at 125%, same as a year before (128%). During 2008 PSB redeemed 3 syndicated loans for the total amount of US\$525 million, and the wholesale debt repayments scheduled for 2009 are very modest of circa US\$600 million (includes possible full payment under the above mentioned domestic bond put option).

Moody's looks favourably on PSB's liquidity profile noting that liquid assets were maintained at the level well exceeding 20% of total assets up until April 2009, while the bank's dependence on funding provided by the CBR was on a strong declining trend during the recent months reaching virtually immaterial 7% of total liabilities by 1 April 2009. The score for liquidity generated by the scorecard is C-, which we believe to be an appropriate measure of the bank's liquidity profile, given, on the one hand, its generally diversified funding structure, but on the other hand, certain reliance on wholesale market funding and sizeable corporate deposits, as well as the still moderate portion of more granular individual deposits on its balance sheet.

#### Factor 7: Capital Adequacy

Trend: Weakening

In recent years, PSB's capital adequacy, although supported by good profitability and regular capital injections, as well as Tier 2 capital instruments - subordinate loans and revaluation of property - was still modest and often lagging behind the rapid growth of the bank's business volumes. The 9th share issue in the amount of US\$182 million completed in Q2 2008 and new subordinate loans in the total amount of US\$110 million provided in 3Q 2008, as well as the recent 10th share issue completed in December 2008 in the amount of US\$145 million (this was formed almost 50/50 of cash injection and the reclassification of previously Tier 2 capital) have only just compensated for more than 50% asset growth in 2008, combined with the pressure on internal capital generation on the part of trading losses and increasing provisioning charges. As a result, Tier 1 ratio as at YE2008 was modest at 9.70% (YE2007: 9.41%) and the necessity for further capitalisation is vital, in our opinion.

Moody's has applied a number of scenarios (base and stressed) to PSB's loan book and revealed that the bank's capital adequacy may rapidly decline as soon as the overall asset quality deteriorates. So far the bank has announced its intention to strengthen its capital level only through attraction of Tier 2 capital instruments from external sources and through internal capital generation. However, in view of the limitations imposed by negative economic environment on probability and effectiveness of both of these options, as well as based on uncertainty as to the readiness and/or financial flexibility of the bank's shareholders to meet the increased capital needs by means of direct Tier 1 capital injection, we persist in our opinion that there is strong demand for higher capital cushion, and capital adequacy issues, in combination with deteriorating profitability and asset quality, now form major negative factors exerting downward pressure on PSB's ratings. We adjust downward an A score for capital adequacy generated by the scorecard to a D+ score, attaching to it a weakening trend.

#### Factor 8: Efficiency

Trend: Neutral

So far PSB has been successful in curbing its operating expenses to the level fairly good for a country-wide universal bank: the cost-to-income ratio was 44% in 2008 down from 51% in 2007 and 56% in 2006; the ratio of operating expenses to average assets was 3.29% in 2008 and 3.38% in 2007 despite the bank's rapid geographical expansion in the first half of 2008. Going forward, we expect this trend to be largely preserved given the bank's specific focus on operational efficiency for the future, similar to the majority of other Russian banks adopting cost-reduction strategies for the period of low cycle in national economy. Therefore, we believe the score for cost efficiency of B, together with a neutral trend, is a fair measure of the bank's position in respect to this factor.

Factor 9: Asset Quality

Trend: Weakening

PSB's asset quality has been historically good and supported by the relatively strong financial standing of its major corporate borrowers. At the same time, we see strong weakening trend in the quality of both corporate and retail loan books in 2008.

Corporate loans possessing the signs of impairment soared to 9% of total gross loans as at YE2008, up from just 0.83% at YE2007, with the loan loss provision (LLP) being at the level of 4.58% and 2.05%, respectively. PSB accrues impairment allowance only for the potentially unrecoverable portion of the loan. Although generally reasonable, this approach still leaves slack for superfluous optimism that may not be justified by future events. In addition, the recovery rates are subject to multiple external factors often beyond the bank's control. Therefore, Moody's does not rule out that during 2009 PSB's previously aggressively augmented loan book may further display a seriously deteriorating behaviour and material actual (rather than expected) credit losses may crystallise. We are particularly cautious about the single-party and industry concentration levels in PSB's corporate loan book, whereby a default of only a small number of large borrowers and/or the systemic problems peculiar to one particular industry (for example, real estate and construction) could lead to a significant deterioration in the bank's overall asset quality and the related financial fundamentals.

Retail loans quality is also quickly deteriorating with the share of 90+ NPLs having increased to 10.5% of gross retail loans at YE2008 from 3.9% at YE2007, being, however, fully covered by loan loss provision (12.32% and 4.63%, respectively). It appears that PSB's deeper involvement, in the recent years, in retail lending, in which the bank still lacks sufficient expertise, may potentially result in a sizeable share of non-performing loans to individuals materialising in the short to medium term. The bank has announced its intention to stall the development of retail lending for some time in the foreseeable future.

We adjust a B+ score generated by the BFSR scorecard for this factor to a C score, attaching a weakening trend to this score.

### **Global Local Currency Deposit Rating (Joint Default Analysis)**

PSB's Ba2 (negative outlook) /Not Prime global local currency deposit ratings are directly linked to the bank's BCA and do not incorporate any element of government support, given that the bank's systemic importance for the Russian banking system and economy is relatively modest.

The likelihood of support, in case of need, from the bank's shareholders cannot be ruled out; however, the timeliness and scope of such support are uncertain. Therefore, parental support has not been factored into PSB's ratings to date.

### **Notching Considerations**

PSB's senior unsecured debt ratings are at the same level as its GLC deposit rating, while the bank's subordinated debt ratings are notched off its GLC deposit rating.

### **Foreign Currency Deposit Rating**

The Ba2 (negative outlook) /Not Prime foreign currency deposit ratings of PSB factor in the foreign currency transfer risk. PSB's Ba2 (negative) /NP foreign currency deposit ratings are at the same level as its GLC deposit ratings and are not constrained by Russia's country ceiling for foreign currency deposits.

### **Foreign Currency Debt Rating**

PSB's senior unsecured foreign currency obligations are rated Ba2 (negative outlook) and the bank's subordinated foreign currency obligations are rated Ba3 (negative outlook).

ABOUT MOODY'S BANK RATINGS

## Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

## Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

## National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

## Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

## Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

## About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating Factors

Promsvyazbank

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
<b>Qualitative Factors (70%)</b>						<b>E+</b>	
<b>Factor: Franchise Value</b>						<b>D</b>	<b>Neutral</b>
<b>Market Share and Sustainability</b>			x				
<b>Geographical Diversification</b>				x			
<b>Earnings Stability</b>					x		
<b>Earnings Diversification [2]</b>							
<b>Factor: Risk Positioning</b>						<b>D</b>	<b>Neutral</b>
<b>Corporate Governance [2]</b>				x			
- Ownership and Organizational Complexity							
- Key Man Risk				x			
- Insider and Related-Party Risks				x			
<b>Controls and Risk Management</b>				x			
- Risk Management				x			
- Controls			x				
<b>Financial Reporting Transparency</b>		x					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information			x				
<b>Credit Risk Concentration</b>					x		
- Borrower Concentration					x		
- Industry Concentration		x					
<b>Liquidity Management</b>			x				
<b>Market Risk Appetite</b>			x				
<b>Factor: Operating Environment</b>						<b>E+</b>	<b>Weakening</b>
<b>Economic Stability</b>					x		
<b>Integrity and Corruption</b>					x		
<b>Legal System</b>				x			
<b>Financial Factors (30%)</b>						<b>B-</b>	
<b>Factor: Profitability</b>						<b>B</b>	<b>Weakening</b>
<b>PPP % Avg RWA - Basel I</b>	3.98%						
<b>Net Income % Avg RWA - Basel I</b>			1.43%				
<b>Factor: Liquidity</b>						<b>C-</b>	<b>Neutral</b>
<b>(Mkt funds-Liquid Assets) % Total Assets</b>				12.62%			
<b>Liquidity Management</b>			x				
<b>Factor: Capital Adequacy</b>						<b>A</b>	<b>Weakening</b>
<b>Tier 1 ratio (%) - Basel I</b>	10.07%						
<b>Tangible Common Equity / RWA - Basel I</b>	10.07%						
<b>Factor: Efficiency</b>						<b>B</b>	<b>Neutral</b>
<b>Cost/income ratio</b>		50.24%					
<b>Factor: Asset Quality</b>						<b>B+</b>	<b>Weakening</b>
<b>Problem Loans % Gross Loans</b>		1.21%					
<b>Problem Loans % (Equity + LLR)</b>	6.81%						
<b>Lowest Combined Score (9%)</b>						<b>C-</b>	
<b>Economic Insolvency Override</b>						<b>Neutral</b>	
<b>Aggregate Score</b>						<b>D</b>	
<b>Assigned BFSR</b>						<b>D</b>	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information  
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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