

# MOODY'S

## INVESTORS SERVICE

### CREDIT ANALYSIS

## Promsvyazbank

Moscow, Russia

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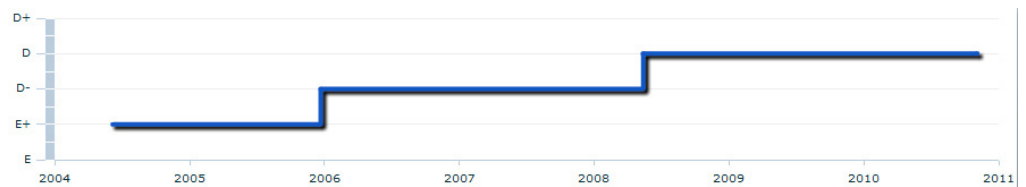
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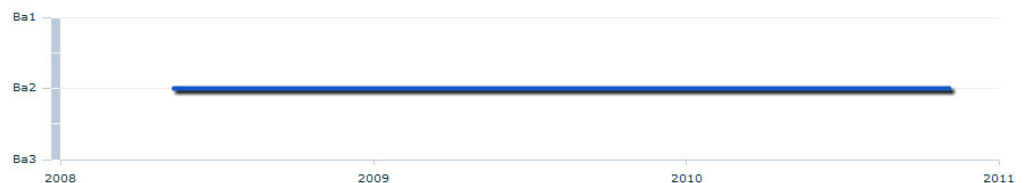
This Credit Analysis provides an in-depth discussion of credit rating(s) for Promsvyazbank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

### Summary Rating Rationale

#### Rating History – Bank Financial Strength Rating



#### Rating History – Long-term Deposit Rating



Moody's assigns a Bank Financial Strength Rating (BFSR) of D to Promsvyazbank (Promsvyazbank), 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 its business to SME and retail segments, (ii) its significant geographical coverage, with a sizeable portion of business volume attributable to the regional network, (iii) favourable liquidity profile and sound liquidity management, and (iv) the bank's well-diversified operating income streams and sound cost management.

The factors constraining Promsvyazbank's ratings are: (i) the bank's historically modest capital levels, (ii) the deterioration of its asset quality during the crisis times, which continues to exert negative pressure on the bank's bottom-line profitability and capital levels, and (iii) the significant single-name concentration of the bank's loan book.

Promsvyazbank's Global Local Currency (GLC) deposit ratings of Ba2 / Not Prime do not incorporate any element of systemic support given the bank's relatively low market shares in the context of the overall Russian banking market. Nor do Promsvyazbank's deposit ratings factor in any support from the bank's shareholders. Although, in Moody's view, such support cannot be ruled out, its scope and timeliness are uncertain. Promsvyazbank's GLC deposit ratings, therefore, are based solely on its BCA of Ba2.

The outlook on Promsvyazbank's BFSR and deposit and debt ratings was changed to stable from negative in November 2010, reflecting stabilisation of the bank's asset quality metrics (after their significant deterioration in late 2008-2009), which ultimately helped the bank to improve profitability. This, in turn, eased pressure on the bank's capital. We also note the bank's improving liquidity profile, with substantial growth of its core customer funding base in the past two years, accompanied by reduced dependence on wholesale liquidity market sources.

An upgrade of Promsvyazbank's BFSR and deposit ratings is unlikely to materialise in foreseeable future. For any upgrade to be warranted, we would expect to observe improved diversification of Promsvyazbank's business (in terms of geographical location of clients, contribution of different business segments to overall results and more granular single-name concentrations), accompanied with a sustainable strong financial fundamentals, including more solid capital cushion to bolster the bank's business diversification and expansion.

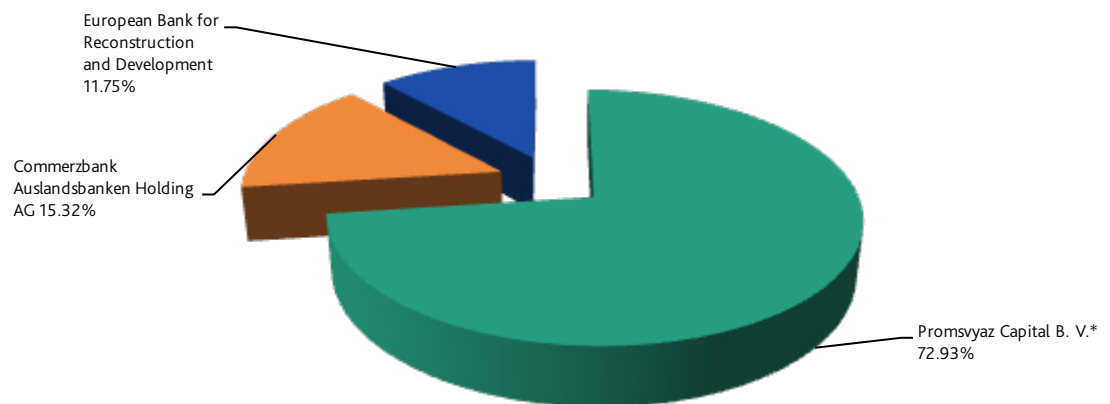
Moody's may consider a downgrade of Promsvyazbank's ratings in case of a significant worsening of the bank's asset quality and/or profitability metrics, especially if these negative trends are not offset by capital support from shareholders. That said, we believe that the chances of this negative scenario materialising have declined recently, mainly thanks to the somewhat improved economic environment in Russia.

## Shareholder Structure

Promsvyazbank was established and is now controlled by brothers Dmitry and Alexey Ananiev. In 2006, Commerzbank AG acquired a 15.32% stake in the bank and since then has been maintaining this share of ownership through a number of subsequent capital injections. In early 2010, EBRD became another minority shareholder of Promsvyazbank having acquired an 11.75% stake.

EXHIBIT 1

### Shareholder structure, H1 2010



\* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

## Key Issues

- » Although some improvements in Russia's economic situation have been observed recently, **the recovery remains fragile**, and negative pressure on banks' asset quality and profitability metrics will remain in the medium-term.
- » **Low demand for credit, and fierce competition** for high-quality borrowers may potentially compel banks to compromise their margins and relax credit underwriting requirements; these factors also lead to suppressed net interest margins thus eroding operational profits. As a large privately owned bank, Promsvyazbank faces especially stiff competition on the part of state-owned giants.
- » **Promsvyazbank's capital levels are modest** and the bank overly relies on internal capital generation; although the shareholders make periodic capital injections to the bank and the latter also arranges for regular placement of Tier 2 capital instruments, these contributions have never been ample.
- » Although major deteriorating trends have bottomed out, **elevated loan loss provisions may still be required in 2011** (especially as related to loans with the original terms revised) thus continuing to exert negative pressure on bottom-line profitability.
- » **High single-borrower concentration remains a concern**, albeit Promsvyazbank's credit risk concentration levels are generally on a par with those of peers'.

## Analysis of Rating Considerations

### Discussion of Qualitative Rating Drivers

#### Franchise Value

##### MARKET SHARE AND SUSTAINABILITY

*One of the largest privately controlled banks in Russia*

As of 30 June 2010, Promsvyazbank was one of the top four privately controlled Russian banks by total IFRS assets, far outpaced by the leader – Alfa-Bank – but close to the two other peers, Bank Uralsib and MDM Bank.

EXHIBIT 2

#### Top privately owned banks in Russia – peer group of Promsvyazbank

Bank name	Moody's ratings (BFSR/long-term deposit rating/ short-term deposit rating)	IFRS reporting as at 30 June 2010 and for H1 2010	
		Total assets, RUB million	Total equity, RUB million
1 ABH Financial Limited (Alfa-Bank and its subsidiaries)	D/Ba1/NP (stable outlook)	704,361*	89,936*
2 Promsvyazbank	D/Ba2/NP (stable outlook)	436,232	42,489
3 Bank Uralsib	D-/Ba3/NP (negative outlook)	416,659**	60,450**
4 MDM Bank	D/Ba2/NP (stable outlook)	366,428	62,113

Note: \*IFRS reporting currency of ABH Financial Limited is the US dollar, the data (total assets of USD22.579 billion and total equity of USD2.883 billion) have been recalculated based on the Central Bank of Russia's official exchange rate of 31.1954 RUB/USD established as at 30 June 2010.

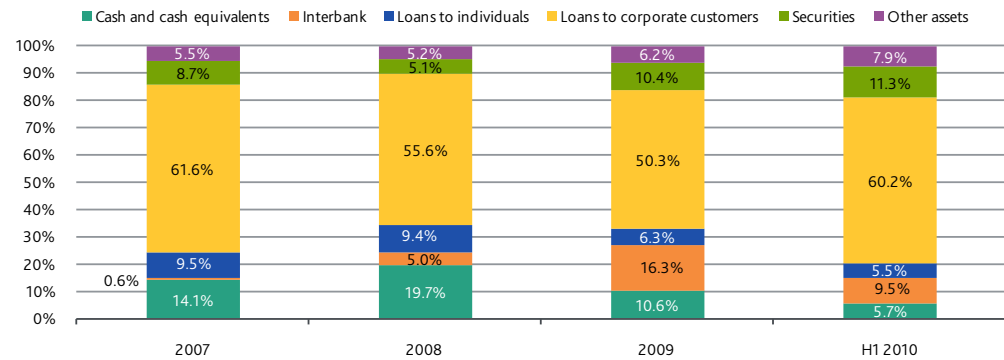
\*\* The latest public available data as at YE2009

*Captures sizeable share of corporate banking market and seeks to further diversify to SME segment*

Promsvyazbank has been historically strong in conventional commercial banking. Its investment banking business line mainly targets fee-generating products (e.g. debt origination, corporate finance, consulting) to meet the demand of the bank's corporate clients.

EXHIBIT 3

### Promsvyazbank's Asset Structure



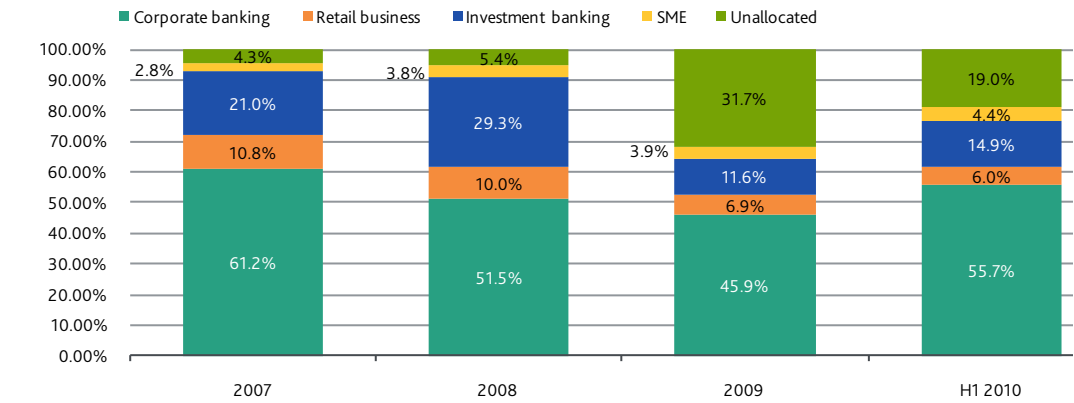
The corporate segment accounted for 55.7% of Promsvyazbank's total assets and contributed 54.3% of its total operating revenue in H1 2010. Throughout the global financial crisis the bank has been able to establish and maintain close partnership relations with a significant number of large and upper-mid-sized companies. Promsvyazbank's corporate banking activities are, in their turn, fairly well diversified internally, with the bank offering a full range of services to its corporate clients and being a recognised leader in a number of niche products. For example, Promsvyazbank holds circa one third of Russia's total factoring market; the bank also enjoys an 11% market share in international trade finance business.

Promsvyazbank has also embarked on a strategy of accelerated growth of SME lending, as the bank's management claims they are satisfied with the performance of the SME loans extended post-crisis. Although the share of the SME segment in Promsvyazbank's total assets is not material – currently at 4.4%, it generates 11% of the bank's operating revenue (data for H1 2010). The share of SME lending in the total loan book is expected to increase to circa 15% in a three-year time horizon.

Going forward, we believe that, despite the stiff competition with other large players, and especially with state-owned banks, Promsvyazbank will be able not only to retain, but also to entrench own market shares in its traditional niches.

EXHIBIT 4

## Assets by business segments



## Geographical Diversification

*Countrywide presence bolsters long-term strategic plans for diversification to SME and retail*

Promsvyazbank maintained its widespread distribution network throughout the crisis: the bank runs its operations from the Moscow-based head office and 250 points of sales (including 48 full-scale branches) in Russia. In terms of the overseas footprint, the bank has two points of presence in Cyprus (i.e. a branch and a retail sub-branch) as well as representative offices in China, India and Ukraine.

## Earnings Stability

*The share of earnings from retail banking is gradually increasing, but remains relatively modest*

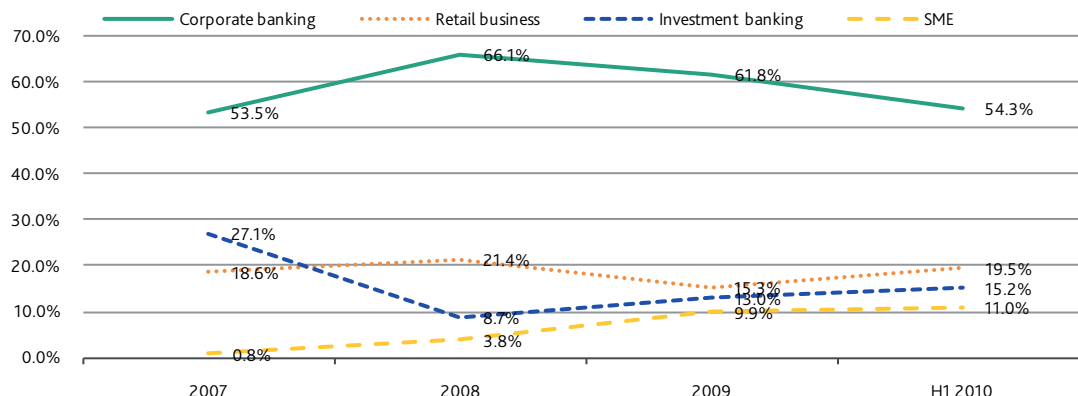
Moody's generally considers revenues flowing from granular retail and SME banking to be more predictable and stable, thus securing the institution's earnings stability in the longer term.

Corporate banking earnings have historically been dominant in Promsvyazbank's total operating revenue, as shown on Exhibit 5 below. The share of operating income earned in retail and SME segments has just started to slowly increase, against the background of a revival of new lending after a two-year stagnation, and accounted for 19.5% and 11% of the total, respectively, in H1 2010. During the crisis SME and retail lending recorded a loss on a post-provision basis due to the elevated level of losses on elder generations of loans (i.e. issued prior to 2008).

SME lending was resumed on a relatively active basis in early 2010, while retail lending, having undergone a significant revamp during the past 2 years, is reopened *en mass* in 2H2010. Similar to the expected growth of SME lending discussed above, Promsvyazbank's strategic plans incorporate a significant increase in the share of retail loans, approximately to 25% of the total loan book on a three-year time horizon (from 11% at H1 2010). This mainly encompasses the development of consumer lending products. In our opinion, Promsvyazbank is at risk of being missing this aggressive growth target, because of the fierce competition for highly marginal retail segment; however, we anticipate that in the longer term the share of Promsvyazbank's earnings from the SME and retail segment will increase.

EXHIBIT 5

## Operating revenue by business segments



On the liability side, we note that Promsvyazbank has augmented the share of retail deposits in its funding base, building upon its expanded geographical presence and recognised brand name. The bank's retail deposits almost doubled in 2009 and continued to grow in 2010, accounting for 37% of total customer accounts at H1 2010 (up from 23% at YE2008).

## Risk Positioning

## CORPORATE GOVERNANCE

*Involvement of institutional shareholders – together owning a blocking stake – bodes well for the bank's corporate governance culture*

Brothers Dmitry and Alexey Ananiev control 72.93% of the bank's shares on a parity basis, while Commerzbank AG and EBRD, with their respective 15.32% and 11.75% stakes, together own a blocking stake. In mid-2010, a new composition of the board of directors was approved, whereby the oversight by institutional shareholders was strengthened through the introduction of their representatives on the board, while independent directors are also involved.

EXHIBIT 6

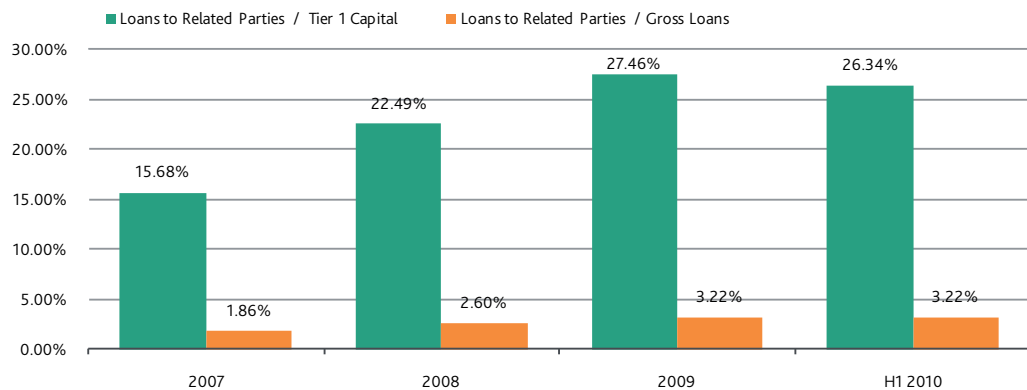
## Board of Directors – composition

Name	Status/Position	Background and selected working experience
Mr Alexey Ananiev	Chairman of the Board	Chairman of the Advisory Council of Tekhnoserv
Mr Maxim Litvinov	Deputy Chairman of the Board	Vice-President, Head of Strategy Development Department of PromSvyazCapital
Mr Artem Konstandian	Board member	President and the Chairman of the Management Board from September 2010
Mr Vladislav Zabelin	Board member	President of PromSvyazCapital (PSC)
Mr Yury Baev	Board member	Deputy Chairman of the Advisory Council of Tekhnoserv
Mr Wilhelm Nüse	Board member	Representative of Commerzbank Auslandsbanken Holding AG
Mr Ilkka Salonen	Board member	Representative of European Bank for Reconstruction and Development
Mr Paul Ostling	Independent Board member	CEO of Phoenix – Neftegaz Services
Mr Tam Basunia	Independent Board member	Chairman of Spice Factory and Voice Connections

The risk management and control procedures at Promsvyazbank are generally robust and subject to ongoing improvements involving upgrades of IT applications and risk analysis approaches. Notwithstanding the generally healthy corporate governance structures, we observe some credit exposure to related-party lending (see Exhibit 7), which, although not extremely high compared to the majority of peers, are unfavourable by international standards.

EXHIBIT 7

### Related-party exposure to total gross loans and Tier 1 capital



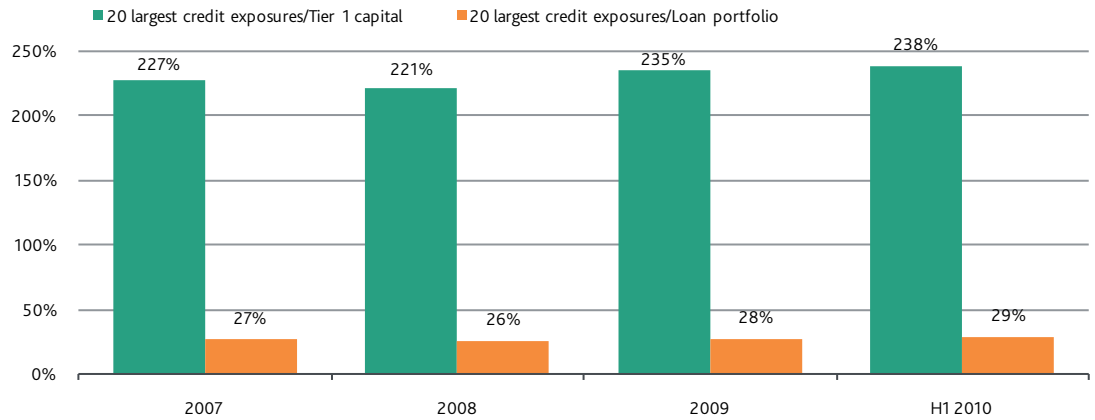
### Credit Risk Concentration

*Credit risk concentration remains high by international standards*

Promsvyazbank's focus on larger corporate customers, on the background of a general lack of risk sharing culture on Russia's financial market (which is reflected in insufficient development of bank syndication deals), inevitably leads to a significant single-party credit risk concentration. As at H1 2010, the 20 largest customer credit exposures (including off-balance and debt instruments) accounted for 29% of the bank's gross loan book or 238% of Tier 1 capital. Servicing mid-sized and large corporate clients remains a strategic priority for Promsvyazbank; however, the lessons learnt from the crisis demonstrate that in a hostile operating environment even those companies deemed to be financially strong may encounter prolonged financial difficulties, hence the high level of credit concentration may bear abnormal risks.

EXHIBIT 8

### 20 Largest Credit Exposures (Including Debt Instruments and Off-Balance-Sheet Items) to Total Gross Loans and Tier 1 Capital

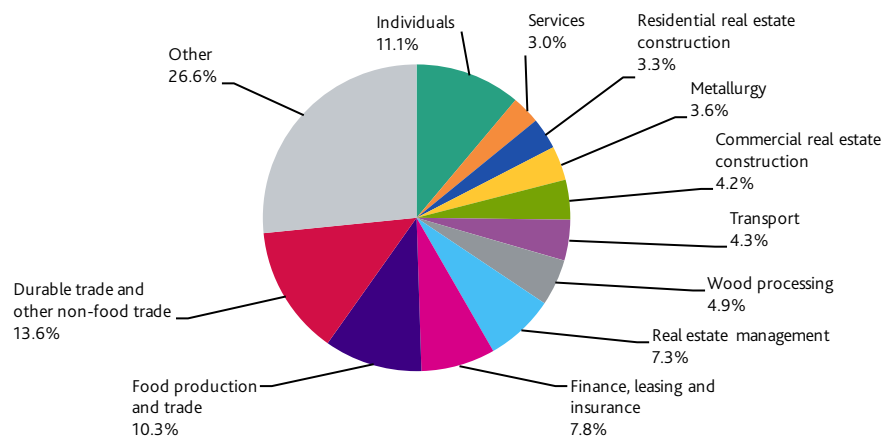


The industrial diversification of Promsvyazbank's loan book is good; however, the exposure to long-term construction projects remains a concern. Residential and commercial real estate construction together accounted for 7.5% of the loan book and 61% of Tier 1 capital at 30 June 2010. Finance, leasing and insurance (7.8% of total loan book and 64% of Tier 1 capital at H1 2010) are other segments in which the bank may encounter an elevated level of problems, as the clients operating in these segments may be exposed to risky financial operations and speculation, while leasing business, albeit experiencing a certain downturn, is secured by tangible collateral.

On the contrary, we do not have any unfavourable view on Promsvyazbank's formally high exposure to trading companies (23.9% of the total loan book for food and non-food trade combined), as the trade sub-sectors in the bank's loan book are fairly well diversified, and these loans are commonly of shorter durations, while many are also a part of trade finance and factoring transactions.

EXHIBIT 9

### Industry Breakdown of Loan Book as at H1 2010



## Liquidity Management

*Substantial shift to customer funding over the past two years*

Over the crisis period, Promsvyazbank experienced a significant surge of customer funding, which helped the bank to improve its net loan-to-deposit ratio from 131% at YE2008 to 102% at H1 2010 thus also refinancing a significant portion of its wholesale funding coming due. Furthermore, Promsvyazbank continues to enjoy comfortable access to wholesale liquidity markets both domestically and abroad, while the contingency liquidity plans are underpinned by a large variety and good diversification of committed liquidity lines and other external funding sources.

## Market Risk Appetite

*Take some market risk*

In 2009 and 2010 Promsvyazbank made some investments in real estate and construction projects accounting for 15% of the bank's Tier 1 capital at H1 2010. The objective is to dispose these assets at a premium in late 2010-early 2011, which we consider to be quite an opportunistic engagement.

Aside from the above-mentioned transaction, Promsvyazbank's market risk appetite has been historically contained. Its proprietary securities book is mainly aligned with liquidity management objectives, whereby the bank maintains a portfolio of predominantly fixed-income (and mostly repo-able) instruments to maintain optimal balance between liquidity and profits-generation. Similar to the majority of other large Russian banks in 2009-early 2010, Promsvyazbank's ability to maintain an ample liquidity cushion, coupled with the growth of securities market indices, led to an increase in the share of its securities portfolio as a proportion of the total assets: this accounted for 11% at H1 2010 up from 10% at YE2009 and 5% at YE2008). The majority of these investments are marked-to-market, which may lead to some trading losses (albeit unrealised if no sale materialises) if market indices fall sharply. On the other hand, the recent deterioration of global financial markets in May-June 2010 led to just a 1.6% (RUB0.7 billion) downward revaluation of Promsvyazbank's trading book, which was offset by RUB1.9 billion interest income received for H1 2010.

## Regulatory Environment

Substantial state and central bank support was crucial for stabilising the Russian banking system during the crisis. We note that support measures will likely be withdrawn gradually, with several support programmes remaining in place during 2010/2011 to safeguard the recovery. While the regulatory environment remains weak by international standards, there have been some improvements.

For further discussion of the regulatory environment, please refer to [Moody's Banking System Outlook on Russia](#) published in October 2010. Also, for additional details of the new regulatory initiatives see Moody's Special Comment "[Credit Implications of Proposed Regulatory Changes for Russian Banks](#)", published in October 2010.

## Operating Environment

In October 2010, Moody's changed the outlook for the Russian banking system to stable from negative, reflecting the improving operating environment in Russia, the banking system's sizeable capital and loan-loss provisioning buffers, and its improved liquidity profile.

We note that the fundamental credit conditions within that system have become more sustainable following the recent financial crisis. Moody's expects slow, but positive economic growth to continue in the near-to-medium term, which will improve the outlook for banks' asset quality and profitability.

Importantly, in Moody's opinion, Russian banks have a sufficiently large buffer of accumulated loan-loss provisions and capital to cope with the still-weak asset quality; the rating agency's assessment is that current loan-loss allowances and capital levels are sufficient to absorb expected credit losses.

System liquidity has improved, with solid inflows of retail customer deposits following deposit outflows that occurred at the height of the crisis. The banks currently hold a sizeable cushion of liquid assets to absorb any renewed market stress.

Moody's cautions that despite the stable system outlook, the Russian banking system remains weak in a global context. The Russian banking sector suffered significantly in the crisis in 2008 and 2009 because of its fundamental weaknesses. While system-wide credit conditions have returned to a sustainable level, the system remains vulnerable to external shocks. Moody's considers that recent proposals to further tighten regulation have the potential to address fundamental weaknesses of the system in the longer term.

For a detailed discussion of the operating environment in Russia, please refer to [Moody's Banking System Outlook on Russia](#) published in October 2010.

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## Discussion of Quantitative Rating Drivers

### Profitability

*Decline in new provisioning charges sets the scene for financial performance recovery, but the margins are suppressed*

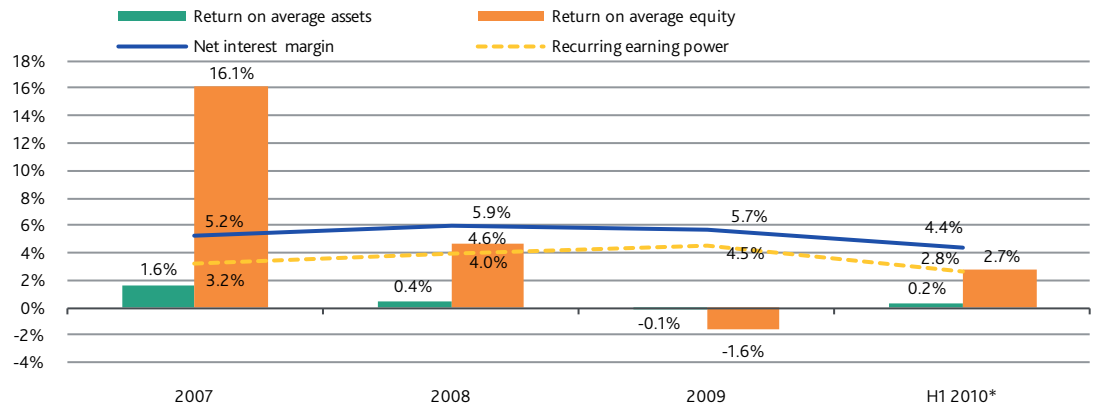
Promsvyazbank was loss-making in 2009 (USD21 million loss for the year) due to a surge in loan loss provisioning charges. At the same time, operational earnings – measured as a ratio of pre-provision income to average assets – were strong, with this metric reaching 4.5% in 2009 against the background of a widened net interest margin (NIM, 5.7% in 2009) and trading gains stemming from extremely volatile markets.

Operational profitability has changed dramatically in 2010; volatile income sources have virtually evaporated, while the NIM has been consistently narrowing against the backdrop of declining lending rates and the lag in the concurrent downward re-pricing of liabilities. Thus NIM, which remains a key contributor to Promsvyazbank's operational profits, narrowed to 4.4% in H1 2010, and the ratio of pre-provision income to average assets narrowed to 2.8% in the same period, in the absence of any additional volatile income streams. We believe that these weakening trends were close to bottoming-out at mid-2010, although their substantial improvement might prove a challenging task. Promsvyazbank is seeking to address this challenge by an accelerated expansion of high-margin SME and retail lending, which may prove successful only in the longer term.

More positively, we believe that the bulk of the negative impact on profitability on the part of credit losses occurred in 2009 and Q1 2010, while by mid-2010, on the background of declining loan loss provisioning charges, Promsvyazbank was able to return to bottom-line profits (USD18 million) and is likely to show a positive financial result for FYE 2010.

EXHIBIT 10

## Dynamics of profitability metrics

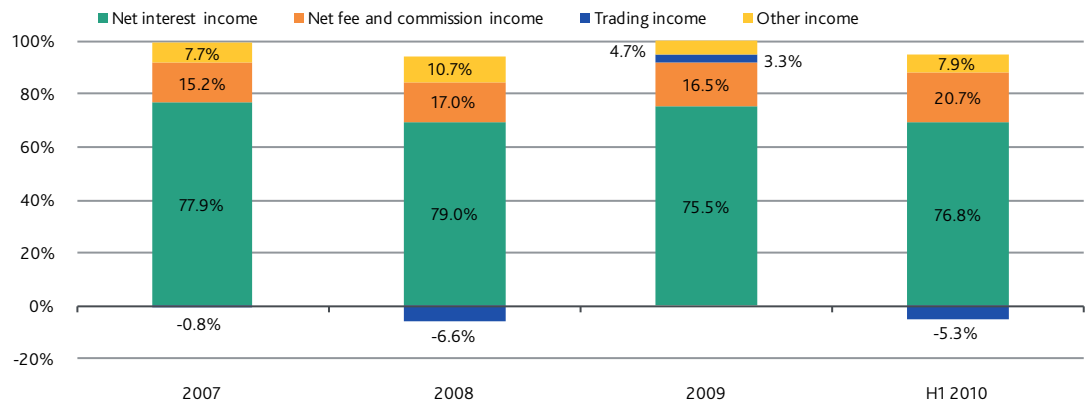


\*annualized

Overall, the sources of Promsvyazbank's earnings are well-diversified. Net interest income accounts for three quarters of total operating income, and net fee-and-commission income provides another stable income stream, having increased its share of operating income to 20.7% in H1 2010 from 16.5% in 2009<sup>1</sup>, although we note a decline in the nominal volume of fee-based income year-on-year and believe the contribution of the latter could have been stronger

EXHIBIT 11

## Structure of Operating Income



## Liquidity

*Share of customer funding increased, but liability structure remains diversified in terms of sources*

Thanks to its established positions in the corporate segment and on the wholesale money markets, both domestic and international, Promsvyazbank is benefiting from a diversified liability structure. In 2009 and H1 2010 the bank was augmenting its corporate and – even more so – retail deposit base, which together have largely replaced wholesale market borrowings. However, the negative aspect of this shift is reflected in a higher cost of funding, which is a significant constraint in the context of the weakening profitability metrics discussed above. In addition, customer accounts have shorter duration

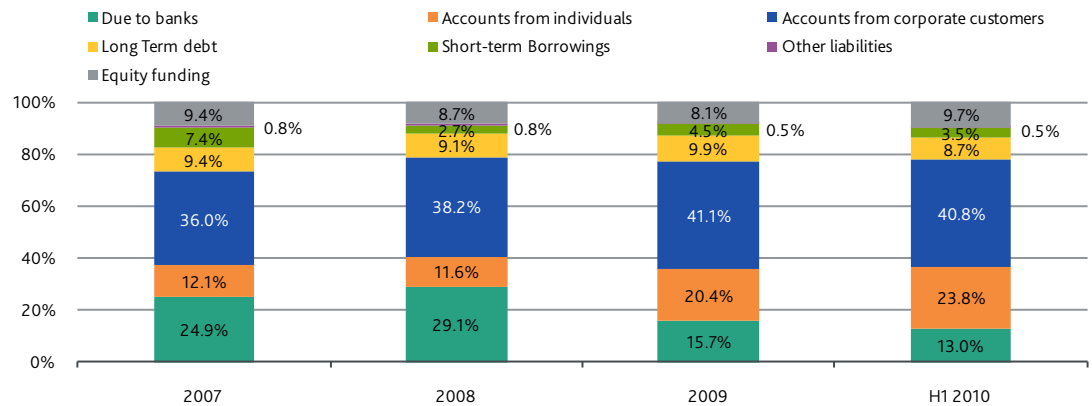
<sup>1</sup> Operating income does not include net result on sale/purchase of interests in subsidiaries.

compared to wholesale market funding, which may, as new lending progresses, constitute a shortage from the asset-liability management point of view.

Therefore, over a medium term perspective we expect to see a deceleration of customer funding growth with a subsequent activation by Promsvyazbank of new market borrowings, domestically and/or abroad, subject to the pace of growth in new lending.

EXHIBIT 12

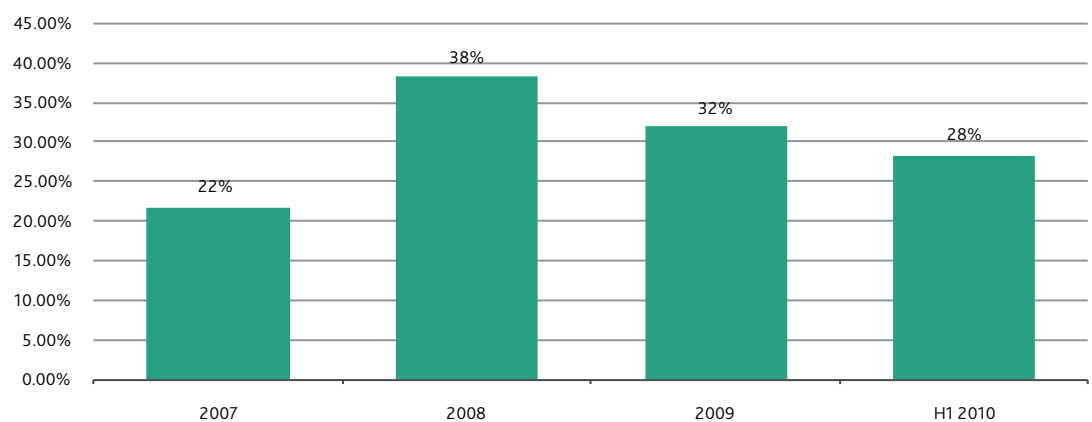
## Funding Structure



As to the structure of customer funding, we observe a still material (albeit consistently improving) level of concentration on large customer accounts and deposits, with the top-10 customer deposits comprising 28% of the total as at H1 2010.

EXHIBIT 13

## Ten largest customer deposits to total customer accounts



## Capital Adequacy

*Capital cushion remains modest, fresh injections may be required to meet new lending expansion plans*

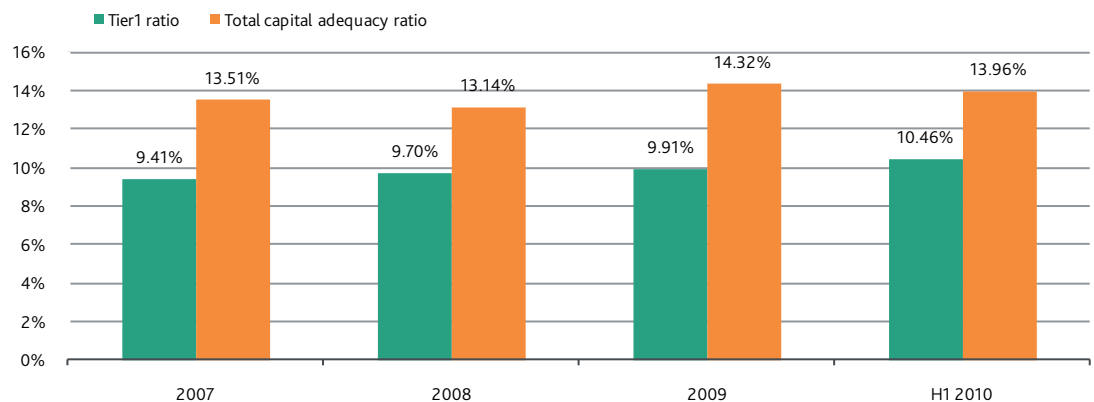
Promsvyazbank's capital adequacy has been historically modest. The bank's Basel I Tier 1 ratio and total capital adequacy ratio (CAR) were 9.91% and 14.32%, respectively, at YE2009. New capital injected by shareholders (including EBRD as a new shareholder) in February 2010 totalling RUB5.4 billion (including RUB1.5 billion transfer from Tier 2 to Tier 1 capital) boosted Promsvyazbank's

capital levels, and provided some leeway to include more Tier 2 capital to the total CAR computation. (As a matter of reference, in July 2010, Promsvyazbank placed in the market USD200 million subordinated Eurobonds, following the earlier placement of another USD200 million subordinated Eurobonds in late 2009).

As a result, at H1 2010 Promsvyazbank reported a Tier 1 ratio and total CAR of 10.46% and 13.96%, respectively (were the fresh Tier 2 capital issuance closed in early July 2010 included in calculation, the CAR would have stood at 15.6%). This could be considered a comfortable cushion in more benign times; however, we caution that the hostile economic environment may continue to generate losses, although, as discussed above, the bank is likely to have already absorbed the major portion of these losses. We also note that Promsvyazbank has embarked on a business growth strategy that will inevitably require additional capital whereas internal capital generation has somewhat weakened.

These factors being considered, the bank is likely to require a new fresh capital injection (most likely in the form of core capital) in the medium term. Promsvyazbank's owners proved to be supportive of the bank in the past (and this also appears true as regards Promsvyazbank's minority institutional shareholders); however, we avoid extrapolation of any historical behaviour of banks' private shareholders to the future, as the owners may have competing investment priorities.

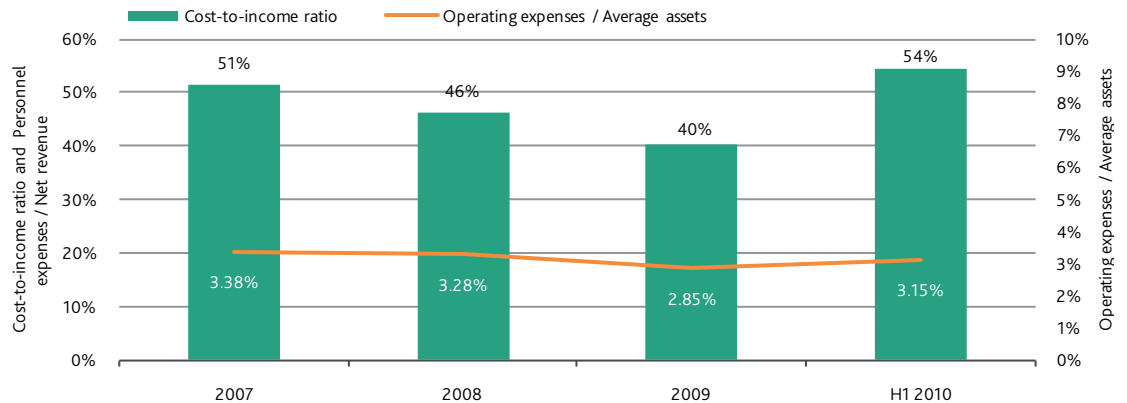
EXHIBIT 14

**Total CAR and Tier 1 Capital Levels****Efficiency***Strong cost-management*

Promsvyazbank has managed its cost base very effectively during the crisis times, if we take into account the bank's countrywide profile and its diversified product mix. However, in H1 2010, its cost-to-income ratio surged to 54% from 40% in 2009, due to an increase of staff costs against the backdrop of a diminished operating income. Concurrently, the ratio of operating expense to average assets grew to a still reasonable 3.15% (annualised) in H1 2010 from 2.85% in 2009. Going forward, we derive comfort from Promsvyazbank's long-standing history and culture of effective cost-control.

EXHIBIT 15

## Efficiency Metrics



## Asset Quality

*Weakening asset quality trend has stabilised in 2010, and no new significant problems have emerged; improving coverage by loan loss reserves*

Similar to the whole banking sector, throughout 2009 we witnessed the dramatic deterioration of the quality of Promsvyazbank's corporate and retail loan books. However, by mid-2010 the weakening trend had largely stabilised, while the bank continued to build up loan loss reserves.

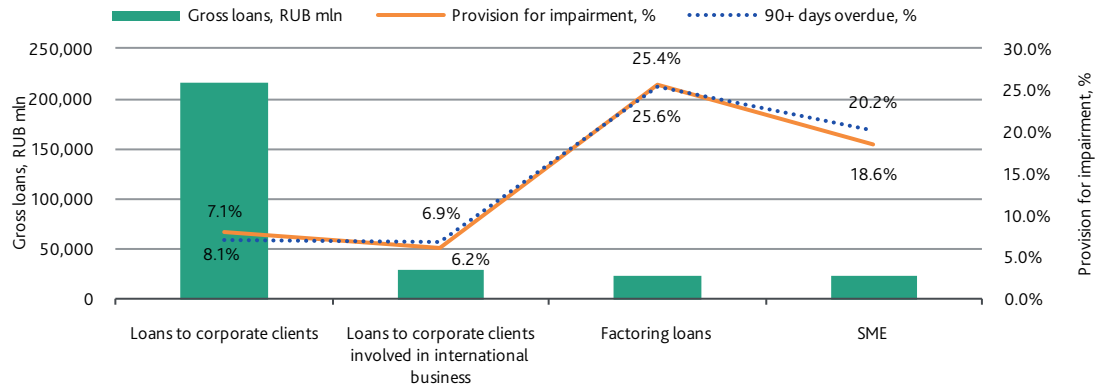
The share of 90+ days overdue corporate loans (loans to SME reported separately) declined to 8.59% at H1 2010, down from 9.25% at YE2009. Although the decline in percentage terms was attributable to an increase of the total corporate loan portfolio (in nominal terms, 90+ days overdue corporate loans grew slightly in this period), we note the considerable slowdown of the deterioration trend and the absence of any sizeable new delinquent loans. During the same period, loan loss reserves for corporate loans increased slightly in nominal value, while in percentage terms declined to 9.40% of the gross corporate loan book from 9.79% reported at the beginning of 2010.

Loans with original terms revised accounted for 17.5% of Promsvyazbank's total gross loans as of mid-2010, down from 26% at YE2009. We opine that these loans carry higher chances of migrating to the problem loan category, although our recent review of the bank's 20 largest corporate exposures did not reveal any new significant deterioration at least in this part of the loan portfolio (which accounts for 29% of the bank's total loan book). We are also satisfied that the ratio of interest and fee income received in cash (as per IFRS Cash Flow Statement) to those accrued (as per IFRS P&L Statement) has improved to 91% in H1 2010 from 83% in 2009, thus indirectly evidencing the decreased number of borrowers who are not able to serve their obligations.

In the SME segment (reported by Promsvyazbank separately and representing less than 10% of the bank's total gross loans extended to legal entities), 90+ days overdue loans accounted for 20.2% and 17.11% of the total SME loan book as at H1 2010 and YE2009, respectively, against the loan loss reserves of 18.63% and 18.10% at the respective dates.

EXHIBIT 16

Corporate loan book by types of loans, provision for impairment and 90+ days overdue, H1 2010

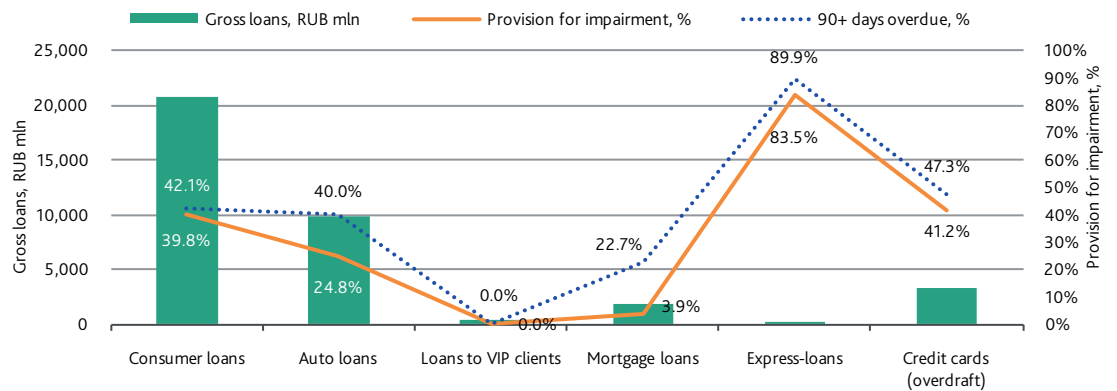


Retail lending quality indicators deteriorated rapidly in 2009. At YE2008, 90+ days overdue delinquent loans soared from 10.6% of gross retail loans to 33.8% at YE2009, and further to 40.9% at mid-2010 due to the stagnation of any new retail lending against the background of accelerated repayments by borrowers of high credit quality. By 30 June 2010, the gross retail loan book had shrunk by 27% compared to YE2008.

With regard to the legacy retail loan book, we derive some comfort from the adequate level of loan loss reserves accumulated by Promsvyazbank (33.95% of gross retail loan book at H1 2010, up from 27.24% at YE2009). However, taking into account the bank's strategic intention to expand retail lending going forward, we point out that the new loan vintages will require close monitoring by the bank's risk management, because we have not yet observed any strong success in Promsvyazbank's past engagements in lending to individuals.

EXHIBIT 17

Retail loan book by types of loans, provision for impairment and 90+ days overdue, H1 2010



## Discussion of Support Considerations

## Exhibit 18. Mapping the BFSR to the Baseline Credit Assessment (BCA)

The discussions of qualitative and quantitative rating drivers presented in this report form the analytical basis for assigning a Bank Financial Strength Rating (BFSR) of D to **Promsvyazbank**.

BFSRs are Moody's opinions on the intrinsic safety and soundness of a bank enterprise and, in effect, address the susceptibility of a particular institution to financial distress.

The BFSR array of ratings is not on Moody's traditional rating scale (Aaa, Aa, etc.). However, there is a useful method for translating BFSRs to Moody's traditional scale – the baseline credit assessment – which, in effect, measures a bank's stand-alone default risk assuming there is no systemic or other external support.

**Promsvyazbank's** D BFSR maps to a baseline credit assessment of Ba2. In the absence of external support factors, its deposit ratings are Ba2.

**BFSR/Baseline Credit Assessment Mapping for Promsvyazbank**

BFSR	Baseline Credit Assessment (BCA)
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
C+	A2
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
<b>D</b>	<b>Ba2</b>
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

## Company Annual Statistics

## Promsvyazbank

As Reported - Consolidated Financials	31-Dec-2009 Russian Ruble (Millions) Basel I IFRS	31-Dec-2008 Russian Ruble (Millions) Basel I IFRS	31-Dec-2007 Russian Ruble (Millions) Basel I IFRS	31-Dec-2006 Russian Ruble (Millions) Basel I IFRS
<b>BALANCE SHEET</b>				
<b>ASSETS</b>				
Cash and Balances with Central Bank	50,007.03	90,788.31	23,189.22	20,255.24
Loans due from banks and other financial institutions	76,621.45	22,928.34	23,099.75	13,427.57
Securities and Investments	48,991.86	23,447.58	25,936.62	25,445.73
Financial Assets held for trading	41,608.04	14,378.16	25,577.55	25,282.77
Other financial assets designated at fair value through profit or loss (FVTPL)	143.80	30.66	171.96	154.78
Financial Investments/ Investment Securities	7,240.02	9,038.76	187.11	8.18
Available for sale securities	35.08	158.71	187.11	8.18
Investment securities (held to maturity)	7,204.94	8,880.05	-	-
Loans and advances to Customers (Gross) - Net of Allowance for Loan Losses	266,421.58	300,413.05	208,425.34	116,471.78
Loans to Customers (Gross)	305,267.38	318,923.19	213,562.90	118,952.10
Allowance for loan losses	38,845.80	18,510.14	5,137.56	2,480.33
Property, plant and equipment, net	23,207.94	21,413.22	11,222.21	3,677.92
Other assets	1,215.39	454.20	316.63	122.55
Total assets	471,211.38	461,801.03	293,245.40	180,536.94
<b>LIABILITIES</b>				
Due to Customers	289,548.84	229,610.96	141,000.96	85,349.91
Due to Banks and other Financial Institutions	73,808.08	134,327.23	73,089.83	46,964.28
Other financial liabilities at fair value through profit and loss	1,252.22	614.86	156.15	70.88
Short-term Borrowings	20,986.97	12,327.09	21,827.66	8,726.70
Senior Bonds, Notes and Other Long-term Borrowings	27,520.16	28,855.58	17,615.29	11,950.51
Other liabilities - Total	2,141.36	3,497.13	2,225.26	1,556.96
Subordinated Debt (IFRS)	17,748.36	12,593.60	9,648.00	7,541.81
Total liabilities	433,006.00	421,826.44	265,563.15	162,161.07
<b>CAPITAL/SHAREHOLDERS' EQUITY</b>				
Minority interest	265.34	525.71	0.00	-
Common shares	24,438.34	24,549.75	15,112.73	11,038.64
Retained earnings - Total	11,147.63	11,773.41	10,211.76	6,507.23
Accumulated other comprehensive income	2,354.07	3,125.70	2,357.76	830.00
Unrealized gains /(losses) on securities	0.16	-66.64	0.00	-
Asset revaluation reserves	2,353.91	3,192.35	2,357.76	830.00
Total capital / shareholders' equity	38,205.38	39,974.58	27,682.25	18,375.88
Total liabilities, mezzanine and shareholders' equity	471,211.38	461,801.03	293,245.40	180,536.94

**Promsvyazbank**

	31-Dec-2009 Russian Ruble (Millions) Basel I IFRS	31-Dec-2008 Russian Ruble (Millions) Basel I IFRS	31-Dec-2007 Russian Ruble (Millions) Basel I IFRS	31-Dec-2006 Russian Ruble (Millions) Basel I IFRS
<b>As Reported - Consolidated Financials</b>				
<b>INCOME STATEMENT</b>				
Interest income	54,599.93	42,781.99	23,691.78	13,554.54
Interest expense	28,998.32	20,812.22	11,558.81	6,633.72
Net interest income (expense)	25,601.61	21,969.77	12,132.97	6,920.82
Net fee and commission income (IFRS)	5,605.23	4,724.34	2,373.07	1,533.93
Income from Trading activities / Gains (Losses) on financial instruments through profit and loss (IFRS)	1,114.18	-1,842.84	-123.91	868.37
Net income arising from investment securities/financial investments (IFRS)	-	-	-	-57.65
Gross dividends from investment securities (IFRS)	1.94	3.18	10.70	-
Non-interest income	1,470.64	2,960.29	1,224.08	480.80
Foreign Exchange Income	375.89	2,142.57	915.45	358.06
Other income	1,094.75	817.72	308.64	122.74
Total non-interest income	8,192.00	5,844.97	3,483.94	2,825.46
Personnel Expense (IFRS)	7,577.38	6,512.92	4,367.72	2,848.87
Administrative and Other Operating Expense (IFRS)	4,532.16	5,173.06	2,926.84	1,881.00
Other operating (non-interest) expense	1,523.35	1,154.98	715.51	659.30
Depreciation and Amortization	1,019.37	753.39	460.77	314.70
Insurance Expense - reported under other operating expense	503.97	401.59	254.75	344.61
Loan Loss Provisions (IFRS)	20,818.25	13,258.17	2,586.89	891.76
Total other operating expenses / charges	13,632.89	12,840.95	8,010.07	5,389.18
Share of associates profit/Joint venture profit (IFRS)	149.02	434.68	0.00	-
Non-recurring charges / unusual items (as reported) (IFRS)	117.09	7.99	-	7.78
Pre-tax income (loss)	-625.60	2,142.30	5,019.95	3,457.55
Income tax (benefit) expense	0.25	580.65	1,315.43	862.08
Net Profit (Loss) After-tax Before Unusual Items	-625.85	1,561.65	3,704.52	2,595.47
Net income (loss)	-625.85	1,561.65	3,704.52	2,595.47
Net income (loss) after unusual items adjustments	-625.85	1,561.65	3,704.52	2,595.47
Minority interest expense (income)	-	0.00	0.00	-1.50
Income available / (Loss attributable) to common shareholders	-625.85	1,561.65	3,704.52	2,596.97
<b>RATIOS</b>				
<b>ASSET QUALITY</b>				
Loan Loss Provisions / Gross Loans	6.82%	4.16%	1.21%	0.75%
Loan Loss Provisions / Pre-Provision Profit	103.26%	88.54%	34.01%	20.47%
Allowance for Loan Losses / Gross Loans	12.73%	5.80%	2.41%	2.09%
Problem Loans & Leases / Gross Loans	21.27%	7.58%	0.72%	0.42%
Problem Loans & Leases / Shareholders' Equity + Loan Loss Reserves	84.26%	41.34%	4.68%	2.37%

**Promsvyazbank**

	31-Dec-2009 Russian Ruble (Millions) Basel I IFRS	31-Dec-2008 Russian Ruble (Millions) Basel I IFRS	31-Dec-2007 Russian Ruble (Millions) Basel I IFRS	31-Dec-2006 Russian Ruble (Millions) Basel I IFRS
<b>As Reported - Consolidated Financials</b>				
<b>PROFITABILITY</b>				
Return on Average Assets (after Tax before Unusual Items)	-0.14%	0.41%	1.56%	1.44%
Return on Average Shareholders' Equity (after Tax before Unusual Items)	-1.60%	4.62%	16.09%	14.12%
Net Income / Average RWA - Basel I	-0.17%	0.48%	1.73%	1.64%
Pre-Provision Income / Average RWA - Basel I	5.53%	4.61%	3.56%	2.76%
<b>CAPITALIZATION</b>				
Tier 1 Capital / RWA - Basel I	9.91%	9.70%	9.41%	11.10%
Total Capital / RWA - Basel I	14.32%	13.14%	13.51%	16.38%
TCE / RWA - Basel I	9.83%	9.56%	9.41%	11.10%
Shareholders' Equity / Total Assets	8.11%	8.66%	9.44%	10.18%
<b>EFFICIENCY</b>				
Cost / Income Ratio	40.34%	46.17%	51.29%	55.29%
<b>LIQUIDITY AND FUNDING</b>				
(Market Funds - Liquid Assets) / Total Assets	-5.72%	13.09%	17.15%	9.02%
Total Liquid Assets / Total Assets	35.71%	27.77%	24.57%	32.67%

Source: Moody's

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