

### Research Update:

## Bank Soyuz Russia National Scale Rating Raised To 'ruBBB'; Global Ratings Affirmed; Outlook Stable

#### Primary Credit Analyst:

Victor Nikolskiy, Moscow (7) 495-783-4010;victor\_nikolskiy@standardandpoors.com

#### Secondary Contact:

Maria Malyukova, Moscow (7) 495-783-4135;maria\_malyukova@standardandpoors.com

### Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Bank Soyuz Russia National Scale Rating Raised To 'ruBBB'; Global Ratings Affirmed; Outlook Stable

## Overview

- Russia-based Bank Soyuz remains under "financial recovery" status and under the management of the Russian government's State Corporation Deposit Insurance Agency (DIA).
- The bank's stand-alone credit profile benefits from substantial ongoing explicit financial support from the DIA, mainly in the form of funding and capital injections.
- We are affirming the 'B-' long-term and 'C' short-term counterparty credit ratings on the bank, while raising the Russia national scale rating to 'ruBBB' from 'ruBBB-'.
- The stable outlook reflects our expectation that the DIA will continue to provide funding support to Bank Soyuz.

## Rating Action

On Sept. 27, 2010, Standard & Poor's Ratings Services raised its Russia national scale rating on Bank Soyuz to 'ruBBB' from 'ruBBB-' and affirmed its 'B-' long-term and 'C' short-term counterparty credit ratings. The outlook is stable.

## Rationale

The raising of the Russia national scale rating reflects an improvement in the bank's financial profile, in particular its funding and capital, due to substantial ongoing funding and capital support from the Russian government's State Corporation Deposit Insurance Agency (DIA). Bank Soyuz's creditworthiness is still, however, constrained by the bank's weak asset quality, uncertainties about future business development in a risky, volatile, and increasingly competitive operating environment, and still weak profitability.

Although the bank is no longer under temporary administration, it remains under financial recovery status and is managed by the DIA, a government agency that is responsible for depositor protection in Russia. The aim of the DIA is to manage the bank back to financial and operational health by 2014. Bank Soyuz is currently owned by the DIA (50.00000001%), and Ingosstrakh Insurance Co. (BBB-/Negative/--; Russia national scale 'ruAA+') (49.99999997%).

In July 2010, the DIA finalized the purchase of Russian ruble (RUB) 20 billion

of investment assets from Bank Soyuz, covering the latter's problem loans. Although this eased the bank's asset quality problems, the status of the loan portfolio remains weak, with about 40% of loans in some form of delinquency as of July 7, 2010. These efforts to improve the bank's asset quality, together with substantial funding and capital injections, have led to a two-notch improvement in the bank's stand-alone credit profile (SACP). We believe that the DIA will continue to support the bank financially and thus consider this to be "ongoing" support. Accordingly, the counterparty ratings no longer incorporate any uplift above the bank's SACP.

We remain concerned about Bank Soyuz's future business development and business prospects. We consider the bank's ambition to double in size over the next three years to be a risky strategy, particularly given tough competition for creditworthy borrowers in Russia and the bank's need to strengthen its risk management procedures and controls. However we take certain comfort from the fact that the DIA will continue to closely monitor the bank and be involved in its development for at least three years.

The bank's funding and liquidity have improved due mainly to ongoing and substantial support from the DIA (about 50% of total liabilities). In addition, the bank maintains a liquid asset cushion of about 30% of total assets and does not have any significant debt redemptions until 2014.

After a capital increase in March 2010 and an asset transfer in July 2010, the bank's risk-adjusted capital ratio (as calculated by Standard & Poor's) was an adequate 8.4% before adjustments for concentration risk and a moderate 6.5% after adjustments (see "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions", published on April 21, 2009, on RatingsDirect), which positively compares with similarly rated peers.

## Outlook

The stable outlook reflects our expectation that the DIA will continue to provide funding support to Bank Soyuz. It also incorporates our expectation that, over the medium term, the current shareholders will support and develop the bank as a universal bank, while addressing its currently weak financial indicators, particularly asset quality and profitability. We further expect that the bank will be able to accumulate sufficient resources to redeem DIA funding at maturity, and that this would be achieved through raising stable corporate and retail deposits.

We could take positive rating actions on Bank Soyuz if the bank improves its asset quality indicators and manages to post recurrent material core earnings in line with the earnings of its peers, while showing robust earnings capacity and sustainable business growth.

We could take negative rating actions if we observe any reversal of a demonstrated trend of improving asset quality, or if the bank's business growth creates risk that is not commensurate with its current capitalization

or if the bank's liquidity comes under pressure.

## Related Criteria And Research

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- How Standard & Poor's Uses Its 'CCC' Rating, Dec. 12, 2008
- Group Methodology, April 22, 2009
- Bank Rating Analysis Methodology Profile, March 18, 2004
- Updated Assumptions For Problem Assets And Credit Costs For Banks In Russia, May 18, 2010

## Ratings List

Upgraded; ratings affirmed

	To	From
Bank Soyuz		
Russia National Scale Rating	ruBBB/--/--	ruBBB-/--/--
Counterparty Credit Rating	B-/Stable/C	
Certificate Of Deposit	B-/C	
Senior Unsecured	B-	

### Additional Contact:

Financial Institutions Ratings Europe;FIG\_Europe@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Copyright © 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies,

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).