

Rating Action: Pivdennyi Bank, JSCB

MOODY'S ASSIGNED E+ FSR, B2/NP FOREIGN CURRENCY DEPOSIT RATINGS TO PIVDENNYI BANK

First Time Ratings

London, 13 July 2006 -- Moody's Investors Service has assigned B2 long-term/Not Prime short-term foreign currency deposit ratings and an E+ financial strength rating (FSR) to Pivdennyi Bank. The outlooks on all ratings are stable.

According to Moody's, the bank's B2/Not Prime foreign currency deposit ratings and E+ FSR reflects the bank's strong regional corporate and retail banking franchise, recently announced diversification strategy into retail banking, an established track record of balanced growth and profitability, good financial fundamentals and acceptable asset quality. The ratings also factor in the bank's evolving nature of corporate governance and credit risk management practices, somewhat lower liquidity compared to its peers and challenges faced by the bank when expanding outside of its home market. The factors constraining Pivdennyi ratings at its current level include (i) the regional nature of its franchise, (ii) risk management and integration challenges associated with recent acquisition of Regional Investment Bank in Latvia, (iii) unseasoned nature of the bank's retail lending and (iv) the need to improve credit risk management practices in the view of the bank's rapid expansion outside of its home market.

In Moody's opinion, Pivdennyi ratings may be upgraded in the future due to a combination of the following factors: (i) meaningful improvement of the bank's current market position outside of its home market, (ii) successful implementation of its diversification strategy into retail banking, (iii) strengthening the risk management function and (iv) improvement in corporate governance practices. The bank's ratings may come under downwards pressure if the bank's market share will be materially eroded, if credit and operational risks in its Latvian subsidiary will meaningfully increase, or if the bank's asset quality, profitability and efficiency are to deteriorate significantly.

Headquartered in Odessa, Ukraine, Pivdennyi Bank had total assets of UAH 2.2 bn (Euro 0.37 bn) at end-2005 and posted a net profit of UAH 28.7 mn (Euro 4.9 mn) at end-2005.

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