Russian banks

Facing consequences

CEEMEA Corporate Research
Maxim Miller AC
(44-20) 7742-9946
maxim.miller@jpmorgan.com
J.P. Morgan Securities plc

'CEEMEA Bank Commentary: Upgrading Turkish banks and downgrading Russia', 31 October 2014

'Russian bank sanctions: Assessing the implications', 31 July 2014

- CBR's "free market/inflation targeting" approach is leading Russian banks to finally test the integrity of their balance sheets. Apart from the increased medium-term risks for their asset quality, liquidity and sustainability of their business models, many Russian banks may have found themselves technically insolvent this week. That was purely a result of an increase in their FX-denominated assets in RUB terms. As total assets increase and equity capital remains unchanged, banks' capital adequacy ratios have to fall.
- In response, the CBR yesterday introduced new legislative measures which involve significant regulatory forbearance for the entire sector. Banks have been granted the right not to recognise any mark-to-market and FX losses and loan impairment for local accounting purposes. This maintains the status quo as of end-Q314 and, in our opinion, should prevent the entire sector from sliding into a full-blown crisis right now. The government has also announced its plan to provide RUB1trln in fresh capital to the system.
- We do not think this provides a permanent relief for the sector, however. Banks are likely to remain exposed to the markedly higher rates, the weaker currency and the likely economic slump next year. We would expect all these factors to erode bank capital until there is a material turnaround in Russia's economic woes. The announced RUB1trln recap plan is only enough to offset the immediate mathematical effect of the RUB devaluation. Potential bazooka-type recapitalization of the entire sector (which we think should total RUB5trln-10trln) may provide relatively long-term relief, but the government may not be prepared to take this step now, in our view. We note that further RUB depreciation will further increase banks' capital needs.
- We therefore believe that bank Basel3 debt should remain at distressed levels. It makes sense for investors to demand at least a low double-digit yield from this type of risk, in our view. We also remain cautious on most non-state-owned banks. They are generally more vulnerable in this environment, in our view, due to their more limited access to liquidity. Further, permanent upward repricing of funding costs by 5-10% could eventually impair the business models of many of them.
- **We are however opportunistically moving back to OW and N respectively on Sberbank and VTB's non-Basel3 bonds (offered at 10-15% YTM).** We note that Sberbank still has the best credit quality in the country. It is facing considerably lower liquidity risks and its profitability is likely to stay stronger than that of the rest of the sector. Further, it has insignificant foreign debt (c.5% of liabilities) and major foreign assets in the EU and Turkey, which reduces potential benefits from any 'strategic' default, in our view.

The big capital problem

According to our estimates, some of Russia's major banks (including VTB and Gazprombank) may breach the minimum capital adequacy requirements if the RUB/USD exchange rate stabilizes at 70-80. That would be purely a result of an increase in their FX-denominated assets in RUB terms. As total assets increase and equity capital remains unchanged, banks' capital adequacy ratios have to fall. We provide our bank-by-bank stress-test results overleaf.

In general, we estimate that at the RUB/USD exchange rate of 70 the sector's risk-weighted assets (RWA) may increase by 11-15% (resulting in a proportionate reduction in the capital adequacy ratios). As a result, we estimate the sector average Total CAR (also know as the N1 ratio) could drop to about 10.5% (from 12.2% at 1 November 2014), which is only marginally above the minimum requirement of 10%. At the same time, this could push the capital ratios of many weaker banks (such as VTB, Gazprombank and Promsvyazbank) below the minimum regulatory requirements (see Table 1 below).

Table 1: J.P. Morgan's estimates of Russian banks' regulatory capital adequacy ratios (N1 and N1.1) for different RUB/USD exchange rates before the regulatory changes on 17 December 2014*

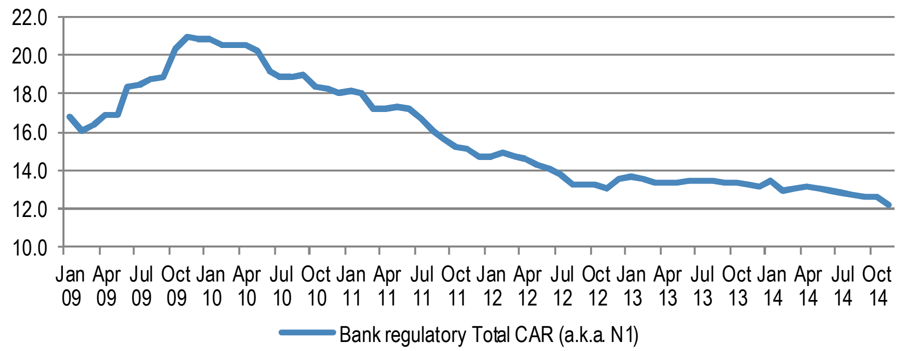
		1 Nov 2014	70 RUB/USD	80 RUB/USD	90 RUB/USD	100 RUB/USD
Sberbank	N1	11.7	10.5	9.1	7.5	5.9
	N1.1	8.4	7.6	6.5	5.4	4.2
VTB	N1	10.1	8.7	7.1	5.5	4.1
	N1.1	9.0	7.8	6.4	5.0	3.6
Gazprombank	N1	11.0	9.1	7.0	5.0	3.4
	N1.1	6.5	5.4	4.2	3.0	2.0
RSHB	N1	14.4	13.2	11.6	9.9	8.1
	N1.1	11.9	10.9	9.6	8.2	6.7
VEB	N1	14.0	11.7	9.2	6.7	4.6
	N1.1	n.a.	n.a.	n.a.	n.a.	n.a.
Bank of Moscow	N1	11.0	10.2	9.2	8.1	6.9
	N1.1	8.25	7.7	6.9	6.1	5.2
Alfa Bank**	N1	11.8	9.4	6.8	4.5	2.8
	N1.1	6.9	5.4	3.9	2.6	1.6
FC Otkritie (Nomos)	N1	11.6	10.2	8.4	6.7	5.0
	N1.1	6.3	5.6	4.6	3.7	2.8
Credit Bank of Moscow	N1	12.6	11.4	9.9	8.3	6.6
	N1.1	7.8	7.1	6.2	5.1	4.1
Promsvyazbank	N1	11.0	9.4	7.6	5.8	4.1
	N1.1	5.6	4.8	3.9	3.0	2.1
HCFB	N1	14.1	13.5	12.5	11.4	10.2
	N1.1	9.2	8.7	8.1	7.4	6.6
Russian Standard	N1	12.2	10.7	9.0	7.1	5.4
	N1.1	n.a.	n.a.	n.a.	n.a.	n.a.
Tinkoff	N1	16.8	15.7	14.2	12.4	10.6
	N1.1	11.6	10.8	9.8	8.6	7.3

Source: CBR, J.P. Morgan estimates. *The calculations only take into account the estimated increase in FX-denominated assets as a result of RUB depreciation since 1 November 2014. We assume that banks' equity capital has remained unchanged since then (i.e. banks have generated zero profits). The decline in N1 and N1.1 is therefore exactly proportionate to the estimated increase in total assets. We note that, in reality, risk-weighted assets may increase to a lesser extent than total assets. On the other hand, the assumption about the equity remaining unchanged since October 2014 may be too optimistic for some banks. **The minimum regulatory requirements for the N1 and N1.1 ratios are 10%.and 5.6% respectively. If the N1.1 ratio falls below 2%, bank gets the right to write-down Tier 2 Basel 3 debt.**

In addition to this mathematical effect, most banks are now facing potentially significant losses and capital erosion in months to come. Loan quality looks set to deteriorate as borrowers' interest expenses rise to high teens or above. Sectors exposed to domestic consumption and GDP growth (real estate, retail trade, transport and retail lending) are likely to suffer more than other sectors. On top of that, mark-to-market securities losses will likely add to the immediate pressures after the 20%-30% decline in the eurobond and local bond markets. That said, we note that most banks' balance sheets are not directly exposed to the RUB devaluation. The financial system runs a long FX position (and represents a major force that drives RUB lower, in our view).

All-in-all, the banks' capital problem looms larges and appears bigger than back in 2008-2009 (see Figure 1 below). We note that further RUB depreciation will further increase banks' capital needs.

Figure 1: Russian banks' capital position is materially worse than in 2008-2009



Source: CBR, J.P. Morgan.

Full compliance with the CBR capital adequacy regulations is normally required in the foreign debt terms and conditions and in maintenance covenants. If a violation continues for more than 30 days, an event of default can be triggered. We assume that Russia's financial authorities are aware of this risk.

What is needed?

We see various potential solutions to the bank capital problem. The first one would involve regulatory forbearance, changes in the bank regulations and waivers for the most affected banks. The second one could be a recapitalisation of the banking system with CBR or government funds. Third, debt restructuring – an extreme scenario that we believe is off the table for the big systemic banks now. Fourth, calming the turmoil in the local markets by some bold measures that go beyond manipulation of the policy rate, and potentially involve some form of capital controls.

A bazooka-type recapitalisation of the banking sector would be the best option for banks creditors, in our view. However, we believe that this kind of a solution may not be ideal for the financial authorities. They have apparently been reluctant to do that until now despite the obvious negative trend in bank fundamentals over the past four years and since the crisis began this year. The amount of fresh equity capital that the banking system may now require is significant enough to become a sensitive political issue, in our view.

We estimate that in order to compensate only for the mathematical effect of RUB devaluation discussed above, the sector may need as much as RUB1trln[1]. In order to lift the capital adequacy ratios further to more sustainable levels (which should be 13-15% , in our view), the sector may require another RUB1trln-2trln. More importantly, the likely asset impairment remains a big swing factor in the coming months. Russian banks' gross loan portfolio totalled RUB48trln at 1 November 2014 and it will likely exceed RUB50trln at end-2014. We think it is reasonable to expect the NPLs ratios to increase to at least 15-20% across the sector next year. This may require additional provisioning equivalent to about 10% of the existing portfolio or another RUB5trln. All-in-all, we think that RUB5trln-10trln may ultimately be required to solve the banks capital problem next year.

This is a significant amount and it is not clear on what terms such funds can be injected into non-state-owned banks. We therefore expect Russia's financial authorities to use a bit of everything, potentially preferring significant regulatory forbearance to major recapitalisation efforts. The risk of a big banking crisis should also encourage them to take more bold measures to calm the local money market. Massive bank debt defaults (the third option) still remains unlikely, in our view.

CBR's current solution

On 17 December 2014, the CBR has announced a number of significant temporary regulatory changes, which should considerably alleviate the current pressures on bank balance sheets. The new measures allow banks

- To use the previous quarter FX rate to value FX assets
- Not to recognise mark-to-market securities losses
- Not to create additional provisions against claims that were impaired because of the sanctions or simply restructured.
- To charge rates on consumer loans that are higher than those stipulated by the current regulations on loan rate limits (effective until end-H115)
- To charge lower risk weights on factoring and leasing operations and lower impairment provisions for investment projects.

In our opinion, regulatory forbearance of this scale essentially eliminates the negative impact of the recent market turmoil on banks. It maintains the status quo as of end-Q314 and, should, we believe prevent the entire sector from sliding into a full-blown crisis right now. It also appears to address certain specific issues facing separate banks. It is notable that the CBR has shown its readiness to incorporate the needs of consumer banks.

The authorities have also announced their intention to inject capital into banks in 2015. But no further details have been provided. Previously, the government officials have indicated that up to RUB400bn ($8bn) from the National Wellbeing Fund can

[1] RUB1trln is needed to increase sector's equity capital of RUB7.7trln by 11-15% to compensate for the 11-15% increase in RWA as a result of RUB devaluation to 70 RUB/USD.

be deployed in the form of subordinated loans among the major banks. In addition, on 18 December 2014, the government published a plan to inject RUB1trln of fresh capital into the banking system in the form of OFZs (government bonds).

What is next?

We think that the announced measures are unlikely to provide permanent relief to the banking system. Banks and their borrowers are likely to remain exposed to the markedly higher rates, the weaker currency and the likely economic slump next year. All these factors are likely to combine to erode bank capital until there is a material turnaround in Russia's economic woes. Further, the current regulatory forbearance is unlikely to remain in place indefinitely and, in our view, the longer it continues against the deteriorating macro backdrop, the more questions creditors could be asking about the ultimate endgame.

Potential bazooka-type recapitalization of the entire sector may provide a relatively long-term relief, but the government may not be prepared to take that step at the moment, in our view. As we explained above, the announced RUB1trln is only enough to offset the immediate mathematical effect of RUB depreciation.

Another risk that we note remains unaddressed is the potential for 'strategic' defaults which could be aimed at alleviating pressure on Russia's balance of payments. Although this risk is not part of our base case scenario, investors may still want to price it in for some weaker issuers which may have a business rationale for debt restructuring.

We therefore believe that bank Basel3 debt will remain at distressed levels in the near future. As such, it would make sense for investors to demand at least a low double-digit yield from this type of risk, in our view. The massive regulatory forbearance, although positive at the moment, once again demonstrates that it is only up to the CBR to decide whether the Basel3 creditors will be get paid.

We also remain cautious on the bonds of most private banks at current levels. Non-state-owned banks are generally more vulnerable in this environment due to their more limited access to liquidity. As liquidity becomes much more expensive, bank's positions could become further weakened. Further, permanent upward repricing of funding costs by 5-10% may eventually impair their business models given their reliance on term deposits for their funding, negative asset/liability repricing gaps, and competition from the liquidity rich state-owned banks. In our view, Alfa Bank does stand out as the best and safest non-state-owned institution, but it is still exposed to the same capital adequacy problems as the rest of the sector.

Nonetheless, it is true that the CBR has demonstrated its readiness to prevent a systemic banking crisis by any means necessary. This signal is strong enough for us to be comfortable with the subordinated debt of the strongest and most important institutions. Sberbank and potentially the other major state-owned banks are likely to serve as benchmarks for the CBR in its decisions regarding the amount of support/forbearance required for the sector in future. We think that the announced measures still represent an important change compared to the 'hand-off' approach that prevailed until now.

We are therefore opportunistically moving back to OW on Sberbank's senior and subordinated debt (currently offered at 10-15% YTM) and to N on VTB's non-Basel3 bonds**.** We continue to believe that Sberbank has the best credit quality in the country. It is facing considerably lower liquidity risks and its profitability is likely to stay stronger than that of the rest of the sector. Further, it has insignificant foreign debt (c.5% of liabilities) and major foreign assets in the EU and Turkey, which reduces potential benefits from any 'strategic' default, in our view. Apart from the fundamental considerations, we think that Sberbank's bonds will benefit from better investor sponsorship after what we believe was a panic sell-off in recent days.

Table 2: Russian bank bond recommendations*

Bond	Mdys	S&P	Fitch	Indicative price	Issuer	Previous Bond recommendation	Current Bond recommendation
ALFARU 8.00% '15	Ba1	BB+	BBB-	100	N	N	N
ALFARU 7.78% '17	Ba3	BB-	BB+	91	N	N	N
ALFARU 7.50% '19	Ba3	BB-	BB+	82	N	N	N
ALFARU 7.75% '21	Ba1	BB+	BBB-	78	N	N	N
GPBRU 6.50% '15	Baa3	BBB-	BBB-	99	UW	UW	UW
GPBRU 5.63% '17	Baa3	BBB-	BBB-	87	UW	UW	UW
GPBRU 4.96% '19	NA	BBB-	BBB-	87	UW	UW	UW
GPBRU 7.25% '19	Ba3	BB+	BB+	70	UW	UW	UW
GPBRU 7.50% '23	NR	NA	BB-	65	UW	UW	UW
GPBRU 7.88% '49	NR	NA	NA	65	UW	UW	UW
HCFBRU 9.38% '20	B1	NA	BB-	70	UW	UW	UW
NMOSRM 10.00% '19	B1	NA	WD	65	UW	UW	UW
PROMBK 10.20% '19	B1 /*-	NA	B+	60	UW	UW	UW
RSHB 5.30% '17	Baa3	NA	BBB-	83	UW	UW	UW
RSHB 6.30% '17	Baa3	NA	BBB-	88	UW	UW	UW
RSHB 5.10% '18	Baa3	NA	BBB-	83	UW	UW	UW
RSHB 7.75% '18	Baa3	NA	BBB-	87	UW	UW	UW
RSHB 0.00% '21	Ba3	NA	BB+	66	UW	UW	UW
RSHB 8.50% '23	NR	NA	NA	64	UW	UW	UW
RUSB 9.25% '17	B2	B+	B+	80	UW	UW	UW
RUSB 10.75% '18	B3	B-	B	39	UW	UW	UW
SBERRU 4.95% '17	Baa1	NA	BBB	92	N	N	OW
SBERRU 5.40% '17	Baa1	NA	BBB	92	N	N	OW
SBERRU 5.18% '19	Baa1	NA	BBB	85	N	N	OW
SBERRU 5.72% '21	Baa1	NA	BBB	85	N	N	OW
SBERRU 6.13% '22	Baa1	NA	BBB	87	N	N	OW
SBERRU 5.13% '22	Baa3	NA	BBB-	76	N	N	OW
SBERRU 5.25% '23	NA	NA	BBB-	69	N	N	N
SBERRU 5.25% '24	NA	NA	BBB-	72	N	N	N
AKBHC 10.75% '15	B2	NA	B+	98	N	N	N
AKBHC 14.00% '18	B3	NA	B	75	N	UW	UW
VEBBNK 5.38% '17	NA	BBB-	BBB	90	N	UW	UW
VEBBNK 5.45% '17	NA	BBB-	BBB	88	N	UW	UW
VEBBNK 6.90% '20	NA	BBB-	BBB	79	N	UW	UW
VEBBNK 6.03% '22	NA	BBB-	BBB	74	N	UW	UW
VEBBNK 5.942% '23	NA	BBB-	BBB	69	N	UW	UW
VEBBNK 6.80% '25	NA	BBB-	BBB	73	N	UW	UW
VTB 6.47% '15	Baa2	BBB-	WD	100	UW	UW	N
VTB 6.00% '17	Baa2	NA	WD	87	UW	UW	N
VTB 6.32% '18	Baa2	BBB-	WD	85	UW	UW	N
VTB 6.88% '18	Baa2	BBB-	WD	85	UW	UW	N
VTB 6.55% '20	Baa2	BBB-	WD	83	UW	UW	N
VTB 6.95% '22	Ba1	BB+	WD	71	UW	UW	N
VTB 6.25% '35	Baa2	BBB-	WD	99	UW	UW	N
VTB 9.50% '49	NR	NA	NA	70	UW	UW	UW
BKMOSC 6.699% '15	Ba1	NA	WD	100	UW	UW	UW

Source: J.P. Morgan. *Indicative prices as of 18 December 2014

Analyst Certification: The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. For all Korea-based research analysts listed on the front cover, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

Important Disclosures

- **Market Maker/ Liquidity Provider:** J.P. Morgan Securities plc and/or an affiliate is a market maker and/or liquidity provider in Sberbank, VTB, Gazprombank, Alfa Bank, VEB, Promsvyazbank, Nomos Bank, Russian Standard Bank, Home Credit & Finance Bank, Bank of Moscow, Tinkoff Credit Systems.
- **Lead or Co-manager:** J.P. Morgan acted as lead or co-manager in a public offering of equity and/or debt securities for Sberbank, Gazprombank, Alfa Bank, Promsvyazbank, Nomos Bank, Bank of Moscow within the past 12 months.
- **Other Significant Financial Interests:** J.P. Morgan owns a position of 1 million USD or more in the debt securities of Sberbank, VTB, Gazprombank, Alfa Bank, VEB, Promsvyazbank, Nomos Bank, Russian Standard Bank, Home Credit & Finance Bank, Bank of Moscow, Tinkoff Credit Systems.

Company-Specific Disclosures: Important disclosures, including price charts, are available for compendium reports and all J.P. Morgan–covered companies by visiting https://jpmm.com/research/disclosures, calling 1-800-477-0406, or e-mailing research.disclosure.inquiries@jpmorgan.com with your request. J.P. Morgan’s Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

Sberbank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	01 Aug 13	Downgrade	Neutral	SBERRU
5.717% '21	01 Aug 13	Downgrade	Neutral	XS0638572973
5.499% '15	01 Aug 13	Downgrade	Neutral	XS0524435715
5.25% '23 Sub	06 Mar 14	Initiate	Neutral	XS0935311240
6.125% '22	01 Aug 13	Downgrade	Neutral	XS0743596040
5.4% '17	01 Aug 13	Downgrade	Neutral	XS0543956717
5.18% '19	01 Aug 13	Downgrade	Neutral	XS0799357354
5.125% '22 Sub	01 Oct 13	Upgrade	Neutral	XS0848530977
5.5% '24	06 Mar 14	Initiate	Underweight	XS1032750165
5.5% '24	01 Apr 14	Upgrade	Neutral	XS1032750165
4.95% '17	01 Aug 13	Downgrade	Neutral	XS0742380412

VTB - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	05 Feb 14	Downgrade	Underweight	VTB
6.465% '15	05 Feb 14	Downgrade	Underweight	XS0491998133
6.315% '18	05 Feb 14	Downgrade	Underweight	XS0592794597
6.551% '20	05 Feb 14	Downgrade	Underweight	XS0548633659
6.875% '18	05 Feb 14	Downgrade	Underweight	XS0365923977
6.95% '22 sub	05 Feb 14	Initiate	Underweight	XS0842078536
9.5% '49	01 Jul 14	Initiate	Overweight	XS0810596832
9.5% '49	31 Oct 14	Downgrade	Underweight	XS0810596832
6% '17	05 Feb 14	Downgrade	Underweight	XS0772509484
6.25% ‘35	05 Feb 14	Downgrade	Underweight	US92909MAB63

Gazprombank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	05 Sep 14	Downgrade	Underweight	GPBRU
4.96% '19	01 Apr 14	Initiate	Underweight	XS1040726587
7.25% '19 Sub	01 Apr 14	Downgrade	Neutral	XS0779213460
7.25% '19 Sub	02 May 14	Downgrade	Underweight	XS0779213460
6.25% '14	04 Oct 12	Initiate	Neutral	XS0531270964
7.496% '23 Sub	01 Apr 14	Downgrade	Underweight	XS0975320879
6.50% ‘15	01 Apr 14	Downgrade	Underweight	XS0230577941
5.625% '17	01 Apr 14	Downgrade	Underweight	XS0783291221
7.875% ’49 sub	10 Dec 13	Downgrade	Underweight	XS0848137708

Alfa Bank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	05 Aug 11	Downgrade	Neutral	ALFARU
7.5% '19 Sub	01 Apr 14	Upgrade	Overweight	XS0832412505
7.5% '19 Sub	03 May 14	Downgrade	Neutral	XS0832412505
7.5% '19 Sub	01 Jul 14	Upgrade	Overweight	XS0832412505
7.5% '19 Sub	31 Oct 14	Downgrade	Neutral	XS0832412505
8% '15	10 Aug 11	Initiate	Neutral	XS0494933806
7.75% '21	04 Feb 14	Downgrade	Neutral	XS0620695204
7.75% '21	01 Apr 14	Upgrade	Overweight	XS0620695204
7.75% '21	03 May 14	Downgrade	Neutral	XS0620695204
7.75% '21	01 Jul 14	Upgrade	Overweight	XS0620695204
7.75% '21	31 Oct 14	Downgrade	Neutral	XS0620695204
7.875% '17	01 Apr 14	Upgrade	Overweight	XS0544362972
7.875% '17	03 May 14	Downgrade	Neutral	XS0544362972
7.875% '17	01 Jul 14	Upgrade	Overweight	XS0544362972
7.875% '17	31 Oct 14	Downgrade	Neutral	XS0544362972

VEB - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	22 Mar 13	Upgrade	Neutral	VEBBNK
6.902% '20	05 Feb 14	Downgrade	Neutral	XS0524610812
6.902% '20	06 Mar 14	Upgrade	Overweight	XS0524610812
6.902% '20	02 May 14	Downgrade	Underweight	XS0524610812
6.902% '20	29 May 14	Upgrade	Neutral	XS0524610812
6.902% '20	01 Jul 14	Upgrade	Overweight	XS0524610812
6.902% '20	17 Jul 14	Downgrade	Neutral	XS0524610812
6.902% '20	31 Jul 14	Downgrade	Underweight	XS0524610812
5.45% '17	05 Feb 14	Initiate	Neutral	XS0559800122
5.45% '17	06 Mar 14	Upgrade	Overweight	XS0559800122
5.45% '17	02 May 14	Downgrade	Underweight	XS0559800122
5.45% '17	29 May 14	Upgrade	Neutral	XS0559800122
5.45% '17	01 Jul 14	Upgrade	Overweight	XS0559800122
5.45% '17	17 Jul 14	Downgrade	Neutral	XS0559800122
5.45% '17	31 Jul 14	Downgrade	Underweight	XS0559800122
6.80% '25	05 Feb 14	Downgrade	Neutral	XS0559915961
6.80% '25	06 Mar 14	Upgrade	Overweight	XS0559915961
6.80% '25	02 May 14	Downgrade	Underweight	XS0559915961
6.80% '25	29 May 14	Upgrade	Neutral	XS0559915961
6.80% '25	01 Jul 14	Upgrade	Overweight	XS0559915961
6.80% '25	17 Jul 14	Downgrade	Neutral	XS0559915961
6.80% '25	31 Jul 14	Downgrade	Underweight	XS0559915961
5.375% 17	05 Feb 14	Initiate	Neutral	XS0719009754
5.375% 17	06 Mar 14	Upgrade	Overweight	XS0719009754
5.375% 17	02 May 14	Downgrade	Underweight	XS0719009754
5.375% 17	29 May 14	Upgrade	Neutral	XS0719009754
5.375% 17	01 Jul 14	Upgrade	Overweight	XS0719009754
5.375% 17	17 Jul 14	Downgrade	Neutral	XS0719009754
5.375% 17	31 Jul 14	Downgrade	Underweight	XS0719009754
5.942% '23	05 Feb 14	Initiate	Neutral	XS0993162683
5.942% '23	06 Mar 14	Upgrade	Overweight	XS0993162683
5.942% '23	02 May 14	Downgrade	Underweight	XS0993162683
5.942% '23	29 May 14	Upgrade	Neutral	XS0993162683
5.942% '23	01 Jul 14	Upgrade	Overweight	XS0993162683
5.942% '23	17 Jul 14	Downgrade	Neutral	XS0993162683
5.942% '23	31 Jul 14	Downgrade	Underweight	XS0993162683
6.025% '22	05 Feb 14	Downgrade	Neutral	XS0800817073
6.025% '22	06 Mar 14	Upgrade	Overweight	XS0800817073
6.025% '22	02 May 14	Downgrade	Underweight	XS0800817073
6.025% '22	29 May 14	Upgrade	Neutral	XS0800817073
6.025% '22	01 Jul 14	Upgrade	Overweight	XS0800817073
6.025% '22	17 Jul 14	Downgrade	Neutral	XS0800817073
6.025% '22	31 Jul 14	Downgrade	Underweight	XS0800817073

Promsvyazbank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	01 Jul 13	Downgrade	Underweight	PROMBK
10.2% '19 Sub	01 Jul 13	Downgrade	Underweight	XS0851672435

Nomos Bank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	01 Oct 13	Downgrade	Underweight	NMOSRM
10% 19	31 Oct 14	Downgrade	Underweight	XS0776121062

Russian Standard Bank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	01 Oct 13	Downgrade	Underweight	RUSB
9.25% '17	05 Sep 14	Downgrade	Underweight	XS0802648955
10.75% '18 Sub	05 Sep 14	Downgrade	Underweight	XS0841677387

Home Credit & Finance Bank - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	05 Sep 14	Downgrade	Underweight	HCFBRU
9.375% '20 Sub	05 Sep 14	Downgrade	Underweight	XS0846652666

Bank of Moscow - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	31 Oct 14	Downgrade	Underweight	BKMOSC
6.699% ’15	31 Oct 14	Downgrade	Underweight	XS0494095754

Tinkoff Credit Systems - J.P. Morgan Credit Opinion History

	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	06 Mar 14	Downgrade	Neutral	AKBHC
10.75% '15	31 Oct 14	Downgrade	Neutral	XS0830191234
14% 18s Sub	06 Mar 14	Downgrade	Neutral	XS0808636913
14% 18s Sub	31 Oct 14	Downgrade	Underweight	XS0808636913

The table(s) above show the recommendation changes made by J.P. Morgan Credit Research Analysts in the subject company and/or instruments over the past 12 months (or, if no recommendation changes were made during that period, the most recent change). Notes: Effective September 30, 2013, J.P. Morgan changed its Credit Research Ratings System. Please see the Explanation of Credit Research Ratings below for the new definitions. The previous rating system no longer should be relied upon. For the history prior to September 30, 2013, please call 1-800-447-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

Explanation of Credit Research Ratings:
Ratings System: J.P. Morgan uses the following issuer portfolio weightings: Overweight (over the next three months, the recommended risk position is expected to outperform the relevant index, sector, or benchmark), Neutral (over the next three months, the recommended risk position is expected to perform in line with the relevant index, sector, or benchmark), and Underweight (over the next three months, the recommended risk position is expected to underperform the relevant index, sector, or benchmark). J.P. Morgan Emerging Markets Sovereign Research uses Marketweight, which is equivalent to Neutral. NR is Not Rated. In this case, J.P. Morgan has removed the rating for this security because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating no longer should be relied upon. An NR designation is not a recommendation or a rating. NC is Not Covered. An NC designation is not a rating or a recommendation. Analysts can rate the issuer, the individual bonds of the issuer, or both. An issuer recommendation applies to all of the bonds at the same level of the issuer’s capital structure, unless we specify a different recommendation for the individual security. For CDS, we use the following rating system: Long Risk (over the next three months, the credit return on the recommended position is expected to exceed the relevant index, sector or benchmark), Neutral (over the next three months, the credit return on the recommended position is expected to match the relevant index, sector or benchmark), and Short Risk (over the next three months, the credit return on the recommended position is expected to underperform the relevant index, sector or benchmark).

Valuation & Methodology: In J.P. Morgan's credit research, we assign a rating to each issuer (Overweight, Underweight or Neutral) based on our credit view of the issuer and the relative value of its securities, taking into account the ratings assigned to the issuer by credit rating agencies and the market prices for the issuer's securities. Our credit view of an issuer is based upon our opinion as to whether the issuer will be able service its debt obligations when they become due and payable. We assess this by analyzing, among other things, the issuer's credit position using standard credit ratios such as cash flow to debt and fixed charge coverage (including and excluding capital investment). We also analyze the issuer's ability to generate cash flow by reviewing standard operational measures for comparable companies in the sector, such as revenue and earnings growth rates, margins, and the composition of the issuer's balance sheet relative to the operational leverage in its business.

J.P. Morgan Credit Research Ratings Distribution, as of September 30, 2014

	Overweight	Neutral	Underweight
Global Credit Research Universe	26%	58%	17%
IB clients*	72%	64%	56%

Note: The Credit Research Rating Distribution is at the issuer level. Please note that issuers with an NR or an NC designation are not included in the table above.
*Percentage of investment banking clients in each rating category.

Analysts' Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at http://www.optionsclearing.com/publications/risks/riskstoc.pdf

Legal Entities Disclosures

U.S.: JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC. **U.K**.: JPMorgan Chase N.A., London Branch, is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and to limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from J.P. Morgan on request. J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa**: J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. **Hong Kong**: J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong and/or J.P. Morgan Broking (Hong Kong) Limited (CE number AAB027) is regulated by the Securities and Futures Commission in Hong Kong. **Korea**: J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia**: J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHI-X. **Taiwan**: J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited (Corporate Identity Number - U67120MH1992FTC068724), having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz - East, Mumbai – 400098, is a member of the National Stock Exchange of India Limited (SEBI Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. Telephone: 91-22-6157 3000, Facsimile: 91-22-6157 3990 and Website: www.jpmipl.com. For non local research reports, this material is not distributed in India by J.P. Morgan India Private Limited. **Thailand**: This material is issued and distributed in Thailand by JPMorgan Securities (Thailand) Ltd., which is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission and its registered address is 3rd Floor, 20 North Sathorn Road, Silom, Bangrak, Bangkok 10500. **Indonesia**: PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the OJK a.k.a. BAPEPAM LK. **Philippines**: J.P. Morgan Securities Philippines Inc. is a Trading Participant of the Philippine Stock Exchange and a member of the Securities Clearing Corporation of the Philippines and the Securities Investor Protection Fund. It is regulated by the Securities and Exchange Commission. **Brazil**: Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico**: J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore**: This material is issued and distributed in Singapore by or through J.P. Morgan Securities Singapore Private Limited (JPMSS) [MCI (P) 199/03/2014 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. This material is provided in Singapore only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this document are to contact JPMSS or JPMCB Singapore in respect of any matters arising from, or in connection with, the document. **Japan**: JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. **Malaysia**: This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan**: J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia**: J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai**: JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc. Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: http://www.hkex.com.hk. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMSS and/or its affiliates may have a holding in any of