

# Financial results under IFRS for 2007

## Key financial indicators:

- net profit for 2007 amounted to 3.7 billion roubles, having risen by 43% in comparison with 2006;
- total assets in comparison with 31 December 2006 rose by 62% and amounted to 293.2 billion roubles;
- shareholders' equity in comparison with 31 December 2006 rose by 51% and amounted to 28 billion roubles;
- capital adequacy ratio (calculated in accordance with the recommendations of the Basel Committee on Banking Supervision) amounted to 13.51%.

## Other financial indicators:

- net interest income in comparison with 2006 increased by 76% and amounted to 12.2 billion roubles;
- net fees and commission income increased by 55% to 2.4 billion roubles;
- operating income rose by 60% to 15.6 billion roubles;
- general and administrative expenses rose by 49% to 8.0 billion roubles;
- net provision charge for impairment losses accounted to 16.6% of operating income (in 2006 — 9.2%);
- pre-tax profit grew by 45% to 5.0 billion roubles;
- loans to customers, net of allowance for impairment losses, increased by 79% to 208 billion roubles;
- customer deposits and current accounted rose by 65% to 141 billion roubles, which accounts for 53% of the Bank's total liabilities (the same proportion as on 31 December 2006).

## Key financial metrics:

- return on average equity amounted to 17.4% (in comparison with 17.3% in 2006);
- return on average assets amounted to 1.6% (in comparison with 1.8% in 2006);
- net interest margin in 2007 reached 6.2%, having increased from 5.9% in 2006;
- cost-to-income ratio dropped to 51.3% in comparison with 55.3% in 2006;
- a comparatively low level of gross loans' coverage by allowance for impairment losses was retained — 2.4% of gross loans (2006 — 2.1%), which is indicative of a good quality loan book;
- the aggregated amount of large loans (i.e. those exceeding 10% of shareholders' equity) accounted for 11% of gross loans, down from 14% as at year-end 2006;
- the aggregate share of the ten biggest customers in the total volume of customer deposits and current accounts dropped from 24.6% to 21.6%;
- the share of retail business in the Bank's revenues increased during 2007 from 14% to 19%;
- Tier 1 capital adequacy ratio at year-end 2007 was 9.41% (calculated in accordance with the Basel methodology).

## Overview of Promsvyazbank's financial results for 2007

### NET INTEREST INCOME

The increase in net interest income by 76% in comparison with 2006 is primarily attributed to the growth of interest income on customer loans (89% of gross interest income in 2007, 88% - in 2006). Interest received on debt instruments in the Bank's trading book was the second biggest source of interest income, accounting for 6% of the total. Interest expense grew more slowly than interest income, as a result of which net interest margin increased from 5.9% to 6.2%. The main part of interest expense (40%) was paid on customer deposits (in 2006 — 38%) that were followed, in declining order of significance, by interbank deposits (including credit resources extended to the Bank for trade and project financing), accounting for 22% of the Bank's interest expense; own securities issued (22%); and other borrowed funds (14%). In comparison with 2006, there had been no significant changes in the structure of the Bank's interest expense.

### NET NON-INTEREST INCOME

Net fees and commissions were the main source of non-interest income in both 2006 and 2007. At the same time, the sources of fee and commission income themselves in 2007 became more diversified: the Bank received the biggest income from documentary operations (19% of the total, in comparison with 22% during the previous year), while there was an increase in the relative significance of money transfers fees, commissions for operations with cash and commission for servicing plastic cards. Other sources of fee and commission income included foreign currency operations (11% of gross fee and commission income in 2007) and banknote operations (8%). It should be noted that, in 2007, Promsvyazbank incurred a net loss on securities trading in the amount of 124 million roubles (in comparison with a net profit in the amount of 868 million roubles in 2006). This was a consequence of the fall of the financial markets in the second half of 2007, when the bank adopted a

resolution to reduce the size of its securities trading portfolio. Even so, overall there was a strong growth of operating income thanks to a substantial increase in the loan book, as well as implementation of measures to raise the level of fee and commission income.

### LOAN IMPAIRMENT ALLOWANCE

Impairment allowance on customer loans more than doubled in 2007 and, as of 31 December 2007, amounted to 5.1 billion roubles. This was a consequence of the provision charge of 2.7 billion roubles less written off uncollectible accounts in the total amount of 43 million roubles. The total charge for impairment losses was also affected by reversal of impairment losses for off-balance sheet credit-related commitments (113 million roubles).

### OPERATING EXPENSES

General and administrative expenses increased by 49% to 8.0 billion roubles as a consequence of the rise in the numbers of the Bank's staff (from 5,007 at the end of 2006 to 7,076 as of 31 December 2007) and of expenditures connected with expansion of the sales network, which constitutes an integral part of the growth strategy of Promsvyazbank. In spite of the rise in overheads, in 2007 the Bank's cost-to-income ratio improved from 55.3% to 51.3%.

### LOANS TO CUSTOMERS

Gross loans to customers grew by a strong 80% in 2007. Loans to corporate clients remained the basis of gross loans; however, in spite of a 64% growth (excluding SME loans), their share of gross loans dropped from 90% to 82% owing to the even faster growth of loans to private individuals and small and medium-sized enterprises (SME). The Bank's strategic focus on developing international business and factoring was manifested in an increase from 29% to 34% of the aggregate share of these client segments

in the corporate loan book. During 2007, the Bank managed to maintain the high quality of its loans to legal entities, as evidenced by a comparatively low level of loan impairment allowance coverage (2.1% at the end of both 2006 and 2007). At the same time, the expansion by Promsvyazbank on to the retail lending market was accompanied in 2007 by a growth in the overall volume of loans with indications of impairment, which engendered a corresponding increase in the loan impairment allowance coverage of retail loans from 2.2% to 4.7%.

#### TRADING SECURITIES

The share of the trading book in the Bank's total assets dropped from 14% to 9% following a strategic decision to reduce the Bank's potential exposure to the financial markets in times of their volatility. As of 31 December 2007, the Bank's trading book consisted mainly of Russian Government federal bonds (OFZ), the share of which, over the year, increased from 32% to 50% of the total. The proportion of equity instruments was comparatively small, 2.5% of the total (as of the end 2006 — 5%).

#### CUSTOMER FUNDING

Current accounts and deposits from customers grew intensively in 2007, increasing by 65% to 141 billion roubles, equivalent to 53% of the Bank's total liabilities. The fastest growth (68%) was demonstrated by funds of corporate customers (that accounted for 75% of the total). During 2007, the volume of term deposits of corporate customers increased by 115%. Thanks to an 82% growth in the volume of term deposits of corporate customers in the second half of 2007 alone, the Bank succeeded in compensating for the drop in funding which was initially planned to be raised from Eurobond issuances (the availability of which dropped markedly owing to the global financial crisis). In addition to this, the volume of promissory notes and deposit certificates issued by the Bank (which the Bank views as alternative methods for raising term funding from customers) increased by 132% — to

23 billion roubles as of 31 December 2007. The volume of current accounts and deposits of individuals increased to 35 billion roubles, that is, by 59%, while the market average increase in the volume of this type of funding in Russia in 2007 amounted to 35% (calculated on the basis of the data from the Central Bank of the Russian Federation).

#### MARKET FUNDING

Funding sourced by Promsvyazbank from the financial markets includes Eurobonds, domestic bonds, syndicated loans, subordinated borrowings and other borrowed funds. In 2007, the aggregated volume of such funding increased by 61% — to 47 billion roubles, which corresponds to 18% of the Bank's total liabilities (a level similar to that at the close of 2006). It is syndicated loans that made up the lion's share (20 billion roubles), followed by senior and subordinated loan participation notes (Eurobonds) in a total volume of 18 billion roubles. The syndicated loans mature between 2008 and 2012 and Promsvyazbank believes that replacement loans will be viable at maturity due to underlying volumes of client-based trade finance activities. Senior Eurobonds are longer-term, maturing in October 2010 and 2011. Subordinated bonds are even longer-term: the earliest subordinated debt redemption is in December 2011.

#### CAPITAL

In 2007, shareholders' equity increased by 51% or, in absolute terms, by 9.3 billion roubles. This increase occurred due to: (a) a new share issue (4.1 billion roubles); (b) the Bank's adherence to a policy of full profit retention (3.7 billion roubles); as well as (c) revaluation of fixed assets, net of deferred tax (1.5 billion roubles). In determining the level of capital, the Bank bears in mind the need for a balance between the interests of shareholders, striving to increase the target return on average equity, and the interests of creditors in maximising capital as a cushion for covering potential unforeseen losses. As of 31 December 2007, total capital adequacy ratio of Promsvyaz-

bank was 13.51%, well in excess of the minimum level recommended by the Basel Accord.

EVENTS OCCURRED AFTER  
THE REPORTING DATE

In May 2008, the Bank of Russia registered a report on an additional issue of 26 875 ordinary shares of Promsvyazbank. The additional share issue was by closed subscription in the interests of existing shareholders of the Bank, without any change in the ownership structure. As a result of the share placement, the Bank received an equity injection in the total amount of 4.3 billion roubles.