

Russia
Credit Analysis

Promsvyazbank

Ratings

Promsvyazbank

Foreign Currency

Long-Term IDR*	B+
Short-Term	B
Outlook	Stable

Individual	D
Support	5

Sovereign Risk

Foreign Long-Term IDR*	BBB+
Local Long-Term IDR*	BBB+
Outlook	Stable

* IDR – Issuer Default Rating

Financial Data

Promsvyazbank

	30 Jun 06*	31 Dec 05
Total Assets (USDm)	4,730.9	3,854.4
Total Assets (RUBm)	128,157.5	110,938.0
Equity (RUBm)	12,905.1	11,858.5
Operating Profit (RUBm)	1,429.2	2,262.2
Published Net Income (RUBm)	1,102.9	1,709.9
Comprehensive Income (RUBm)	1,100.5	2,539.9
Operating ROAA (%)	2.39	2.68
Operating ROAE (%)	23.09	23.17
Internal Capital Generation (%)	17.78	26.02
Tier 1 Ratio (%)	10.10	12.02

* reviewed by auditors

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■ Rating Rationale

- The ratings of Promsvyazbank ('PSB') reflect significant balance sheet concentrations and risks inherent in the bank's rapid loan growth which may also put pressure on liquidity and capitalisation levels. However, Fitch Ratings also acknowledges the broadening of PSB's franchise and regional coverage, improved funding profile and reduced related-party exposures and non-core assets, as well as improvements in the Russian operating environment. The ratings are also supported by the bank's acceptable profitability and asset quality to date.
- PSB's 2004-H106 profitability was broadly in line with that of peers as the costs of investments in the retail franchise, network development and IT modernisation have been reasonably well managed and in FY05 margins have been additionally supported by potentially volatile securities trading gains.
- Lending has grown rapidly, mainly in the corporate sector. Around 45% of end-H106 loans were originated outside the Moscow region, although branch approval authority is relatively low. From H205 the bank introduced mass retail products and aims to have a retail lending portfolio of around USD500 million by end-2006, mainly in the form of car and general purpose loans.
- Asset quality has been acceptable; however, significant borrower concentration (the top 20 accounted for c.2.4x end-H106 equity) leaves PSB vulnerable to the performance of its largest customers. To some extent, this is mitigated by a good industry portfolio diversification.
- Liquidity is potentially vulnerable because of concentrations in customer funding. However, PSB's increased access to wholesale funding sources could further diversify and lengthen its liabilities.
- Capitalisation has declined on the back of rapid lending growth, and subordinated borrowings have been received to maintain the total capital ratio above the covenanted 12%. In September 2006, PSB has received the regulator's approval for a new equity issue, which will be partially bought by Germany's Commerzbank ("Commerz", rated 'A'); the deal is expected to finalise by end-2006 and give Commerz a 15.3% stake.

Support

- If in difficulty, PSB would turn in the first instance to its majority shareholders for support. However, in Fitch's opinion, they may not have the necessary resources or willingness to provide assistance at all times. Support from the Russian authorities also cannot be relied upon.

■ Rating Outlook and Key Rating Drivers

- The purchase by Commerz of a 15% stake would likely result in a change in PSB's Outlook to Positive, while the acquisition of a controlling stake could result in a significant upgrade of PSB's IDR, possibly to investment grade, reflecting the greater probability of support being made available to PSB in case of need.

■ Profile

- PSB is one of the top six Russian privately held banks. It is majority owned by the Ananiev brothers, who are well-connected businessmen. Commerz may seek to gain control over the bank in the mid-term.
- PSB mainly serves large and mid-sized corporate clients. It has over 120 points of sale across Russia to facilitate an ongoing regional diversification and franchise expansion into retail and SME segments.

■ Profile

- **One of the largest private banks in Russia, majority owned by two brothers**
- **Serves corporate customers and their employees; mass retail is also being developed**
- **Commerzbank plans to buy 15% stake and interested in control**

Origins: PSB was established in 1995. The bank survived the Russian financial crisis in 1998 and has developed rapidly since 2002, targeting large corporates and their workforce from different industry sectors.

Franchise: The bank's original franchise was within the telecom and IT industries, and its **core corporate clientele** now includes large enterprises in the telecommunication, energy, transportation, pharmaceutical and agri-business sectors of the economy. Business with certain large customers, e.g. from telecommunication and finance sectors, as well as related party business, can be significant, although these have decreased in importance (see also *Ownership and Management*). The bank has a broad and developing range of services, which helps it to remain profitable in this highly competitive segment (see *Performance*). Since 2005, PSB is also targeting **SME customers** (defined as enterprises with annual revenues of up to USD20m and staff of up to 250 people), which accounted for c.14% of loans at end-H106. **The retail segment** has been growing fast, mainly in the regions, following the launch of mass loan and deposit products in April 2005. At end-H106, retail accounted for 7% of loans and 13% of liabilities. Fitch understands that lending is growing primarily through third party clients, while deposits are mainly provided by the workforce of corporate customers. Although expanding quickly, retail is likely to remain a relatively small proportion of PSB's balance sheet in the mid-term, with loans to individuals forecast to comprise c.14% of the portfolio and deposits from individuals 13% of liabilities by end-2007.

Since 2004, the bank has rapidly developed its **network**. At end-Q306, PSB's network covered four of Russia's seven federal districts, with 38 branches, 84 sub-branches and six representative offices established. Business generated by regional branches is growing and at end-H106 it accounted for 46% of loans and 36% of customer deposits. PSB aims to achieve nationwide coverage by end-2009, penetrating all cities with a population of at least 1 million. During 2006, PSB has modernised its IT platform, which should improve the accountability of the growing network and provide capacity for further customer growth.

Ownership and Management: PSB's majority shareholders and founders, the Ananiev brothers, appear well-connected in both business and government circles in Russia. In 2005, one of the brothers started to pursue political ambitions, and in September 2006 he

was appointed to the upper house of the Russian parliament (the Federation Council). Their other joint assets (individually smaller than the banking business but growing organically and through acquisitions) are in the media, IT, insurance and manufacturing sectors, as well as investment property. PSB has lending relationships with these companies. However, the share of related party business has declined and at end-H106, this accounted for 5% of loans, 4% of liabilities and 4% of operating revenues. The shareholders also seem to be separating their banking and non-banking interests; e.g. investment property previously held on PSB's balance sheet was fully sold (to shareholders) in 2004-2005, and the number of managers holding positions in both PSB and related party companies has fallen. The Ananiev brothers currently hold a 99.7% stake, following the repurchase of a 3.65% stake from Slovenia-based Nova Ljubljanska Banka (IDR 'A-') in October 2006; they plan to buy out another minority (Rostelecom, a part of Svyazinvest group) shortly. The above precedents a new share issue (see also *Capital*) which is already approved by regulators and will be bought both by the majority shareholders and Commerz. The transaction could be finalised by end-2006, and Commerz would obtain a 15.3% stake in PSB as a result. Fitch does not expect that Commerz (in its minority role) will be represented in either the supervisory or management board; the former includes both majority shareholders, two senior managers from their non-banking businesses and PSB's CEO.

Fitch understands that Commerz is interested in ultimately acquiring a controlling stake in the bank, although no agreement to this effect has yet been signed with PSB's majority owners. Fitch notes that, should Commerz become a controlling shareholder, the business mix of PSB may undergo substantial changes.

■ Performance

- **Sound performance, supported by broad service offering in highly competitive corporate sector**
- **Costs under control, despite substantial investments in network and systems**

Operating Environment: Russian GDP growth was 7.1% in 2004 and 6.4% in 2005 and is forecasted by Fitch to be 6% for 2006. This has contributed to an increase in demand for banking services from both corporates and households, while also helping to support banks' asset quality. At the same time, increasing competition between banks has resulted in a gradual tightening of margins, especially in corporate lending, although this is mitigated by still relatively high rates on retail and small business loans. The strong performance of Russian financial markets during the past few years has created opportunities for banks to make significant trading gains. Year-end inflation was 11.7% in 2004, 10.9% in 2005 and forecasted by Fitch at 9% for 2006. Russia is rated 'D' on Fitch's Banking System Indicator and '3' on Fitch's Macro-Prudential

Indicator, reflecting a relatively low-quality banking system and a relatively high vulnerability of the sector to systemic crisis.

Presentation of Accounts: The analysis below is based on H106 IFRS accounts reviewed by auditors (annualised where applicable for comparison), while previous periods are audited.

Table 1 compares key performance indicators of PSB with some of the largest privately-owned Russian bank groups which possess strong corporate franchises and developed networks. Rosbank has a more developed retail lending business than competitors, and retail funding is more substantial for Rosbank and Alfa than PSB or MDM. PSB's interest margin lagged that of its peers in 2005, although operating revenues were supported by a larger share of potentially volatile trading gains on securities. A fast expanding network caused PSB's efficiency ratios to weaken somewhat in 2005, although these are still reasonable and broadly in line with peers (Rosbank's ratios are higher due to its greater retail focus and the impact of integration with the OVK Group).

Revenues: PSB's interest and fee margins are under some pressure due to high competition in the core corporate segment, although a higher lending rate (due to a gradual shift of focus away from large corporates) and higher loans/assets ratio boosted interest income in H106. These effects more than offset payments, booked to interest expense, which were made to the bank's bondholders to compensate them for covenant changes (see also *Capital*), and resulted in interest margin improvements in H106. Fee income is stable and recurring, and has grown as a result of service range diversification. In H106, fee income was derived from, *inter alia*, trade finance services (24% of fees) and plastic card business (14%); investment banking (1.4%) is at present mainly a customer acquisition channel rather than revenue driver. The share of volatile trading gains declined in H106, reflecting less market opportunities rather than changes in management's approach.

Operating Expenses: The cost base grew rapidly between 2004-H106, reflecting the bank's network expansion. PSB plans further network growth to over 300 points of sales across Russia, although network expansion costs are expected to fall in 2006-2007. Fitch has been informed that PSB's points of sale could reach break even within 9-18 months, depending on their type.

Profitability and Prospects: PSB's profitability was acceptable between 2004-H106, notwithstanding substantial investments in its network and systems and high competition in the bank's core client segment. However, the bank is becoming more aggressive in its risk management approaches to sustain performance levels. Fitch expects a marginal decline of profitability in 2006-2007 as the result of funding diversification and the under-utilisation of the growing branch network.

■ Risk Management

- **Adequate credit risk management and low loan losses in core corporate segment ...**
- **... but substantial concentrations remain**
- **Retail lending is developing rapidly, although still relatively small**
- **Moderate market risks**
- **Acceptable liquidity undermined by customer concentration**

The credit risk management function has evolved to reflect PSB's expanding franchise. The increasing branch network has brought some authority delegation, although at end-H106 only a small portion of the loan portfolio was approved by credit committees ('CC') at branch level, reflective of relatively small authority limits (the largest limits equal to RUB150m for a single borrower and RUB2bn (15% of IFRS equity) for a branch portfolio), as well as the focus of the regional branches on retail and SME products. The CC in the head office, chaired by the CEO, approves all long-term loans and loans above the branch limits. Maximum borrower exposure is limited only by the regulatory limit of 25% of capital (end-H106: RUB3.4bln). PSB has relatively strict collateral requirements (in the form

Table 1: Peer Analysis

Fitch ratings (IDR/Individual/Support) (%)	PSB			Alfa ¹	Rosbank ¹	MDM ^{1,2}
	H106	2005	2004	2005	2005	2005
Cost of Funds	5.4	4.7	4.2	4.2	6.9	3.5
Net Interest/Average Assets	5.0	4.3	5.7	4.8	5.7	5.3
Loans/Assets	70.4	60.0	59.5	58.2	52.8	58.0
Net Interest/Operating Revenues	72.6	62.5	67.6	58.1	61.8	67.3
Fees/Operating Expenses	25.8	22.8	27.0	36.5	27.8	25.4
Cost/Income	53.6	52.9	38.9	53.6	67.5	49.5
Pre-Impairment Operating ROAA	3.2	3.2	5.2	3.8	3.0	3.3
Equity/Assets	10.1	10.7	13.2	8.7	10.7	15.9
LLR/Pre-impairment Operating Profit	25.5	17.3	32.0	16.3	19.4	10.0
Total Assets, RUBbn	128.2	110.9	58.2	273.3	213.1	160.6

¹ Data given for Alfa Banking Group, Rosbank Group and MDM Financial Group, respectively. Measurement currency is USD for Alfa, RUB for other entities.

² MDM's end-2004 assets, and hence 2005 ratios, are calculated net of a transaction which caused temporary year-end asset growth.

Source: IFRS accounts, adapted by Fitch

of immovable property with substantial haircuts applied) although some clients may receive unsecured short-term loans, due to either high competitive pressure or the customer's longstanding relationship with the bank.

The end-H106 loan portfolio remained mainly short term (with 64% of loans contractually maturing within a year from the reporting date) and RUB-denominated (55% of loans; the majority of FX borrowers have foreign revenues). PSB continues to maintain an industry-diversified lending profile with sub-sectors softly capped at 15% of the portfolio. Borrower concentrations are gradually declining although they remain high, relative to equity, even by CIS standards (see Table 2). Reported related party lending was within the EBRD covenants at end-H106 (which prescribe a gradual decline of related party exposures to 25% of IFRS consolidated equity by end-2007). Fitch notes that some of PSB's borrowers are highly leveraged companies, with PSB being their major and/or sole creditor. **Corporate lending** growth was sourced roughly 50/50 from Moscow and other regions in 2005, the latter mainly attributable to mid-sized corporates and SME lending. PSB offers a diversified range of services: besides traditional working capital financing (a major product), the bank also extends factoring, leasing, trade finance, investment banking and asset management services. **Investment banking and asset management** services are provided at head office, act as a new customer origination channel and are expected to develop as a revenue-generating businesses in the mid to long term. PSB is mainly engaged in RUB bond placements (remaining within the top 10 originators in Russia for the past three years, providing services to companies within the Svyazinvest group, Russian Railways and IzhMash among others) and brokerage services. Capital market transactions are performed within issuer and position limits set by the head office CC and asset and liability committee ('ALCO', chaired by the CEO), respectively. **Trade finance** has developed rapidly since 2002 and includes post-finance and ECA-covered facilities. At end-H106, PSB had around USD720 of unsecured limits, and the segment remains one of PSB's priorities in the mid-term. **Investment loans** are mainly extended for business modernisation and/or new projects (but borrowers usually have another existing business to provide collateral and cover interest payments). Grace periods (up to three years) on repayment of principal can be provided for such loans, although Fitch has been informed that the amount of loans with effective grace periods at end-H106 was not significant. Since end-2004 **SME loans** have been standardised and issued using the bank's own funds and utilising a USD30m five-year line from the EBRD (from September 2005) and USD20m seven-year KfW line (from September 2006). The bank aims to increase the share of SME lending to 25% of the loan portfolio by end-2007 from the current 14% level. **Retail lending**, actively offered since April 2005, has grown as a result of car and

Table 2: Loan Portfolio

	H106	2005	2004
Composition (%)			
Loans to Individuals	7	3	2
Loans to Corporate Entities			
Trade and Services	16	16	13
Real Estate and Construction	16	16	20
Agribusiness	15	14	14
Finance, Leasing and Insurance	8	9	6
Telecommunications	5	4	6
Machinery	5	9	12
Information Technology	5	5	8
Energy	4	3	2
Other	19	21	17
Gross Loans (%)	100	100	100
Gross Loans (RUBm)	92,339	68,256	36,576
Concentrations (%)			
Top 20 Borrowers/Equity	237.1	219.4	212.3
Related Party Borrowers/Equity	34.8	43.5	56.3
Quality (%)			
LLR Coverage of Corporate Loans	2.3	2.5	5.4
LLR Coverage of Retail Loans	2.5	2.0	8.9
Net Charge-Offs/Loans	1.2	0.6	0.1

Source: IFRS accounts, adapted by Fitch

general purpose consumer loans, which comprised 34% and 45%, respectively, of end-H106 loans to individuals (see Table 2). PSB also offers mortgages and credit card facilities, although these segments are of less priority. PSB's retail loan review procedures for its core products are relatively conservative, with proper borrower analysis done at branch level and collateral always required. The quality of the portfolio remains good, although the speed of portfolio growth could mask problems which could transpire as the loan book seasons. Since 2006, PSB has also offered express lending (to finance consumer purchases; approved by automated self-developed scoring system) and aims to increase this to USD25m (or 5% of the retail portfolio) by end-2006 from USD9m (or 4% of the retail portfolio) at end-H106. In light of limited experience in mass retail lending, the portfolio carries significant credit risks, although its share in total loans will remain relatively moderate in 2006-2007.

Loan Loss History and Reserves: The bank has a relatively strong credit risk function, reflected in a good loan loss history from at least 2003, with the highest credit losses occurring in the agribusiness industry (around 5% of loans issued; mainly due to loans financing acquisition of land plots in 2002/3) and real estate and construction sectors (around 3% of loans issued; due to the cyclical nature of the industry), while losses in other segments were generally less than 1.5%. Consequently, the decline of portfolio provisioning rates in 2005 appears justified (see Table 2). However, due to the penetration of new client segments and regions and the delegation of additional authority to the branches, PSB will need to closely monitor its credit risks and it will be important for the bank to maintain adequate capitalisation to absorb any unexpected future losses. Fitch also notes that the quality of PSB's portfolio is vulnerable to the debt service of certain customers, due to significant portfolio concentrations.

The **securities portfolio** accounted for 15% of end-H106 assets, and its share is gradually declining on the back of loans/assets ratio growth. Credit risk is managed by ALCO which sets instrument-specific portfolio limits. PSB is mainly engaged in debt instruments with the largest exposures allowed for Russian sovereign and top tier Russian banks and corporates. Operations with equity are relatively small with the largest exposure limited to the equivalent of 4% of end-H106 IFRS equity. **Other on-balance sheet items** at end-H106 included cash equivalents (5%), bank deposits (5%) mandatory balances with the Central Bank of Russia (1.5%) and property (2%). Bank placements can be done up to one month and serve short-term liquidity purposes mainly; operations are done within counterparty limits, approved by the ALCO. These limits are moderate, and at end-H106 they equivalent up to 4% of IFRS end-H106 equity for Russian privately held banks and up to 11% of IFRS equity for investment-grade banks. Fixed assets are growing on the back of regional expansion; the bank prefers to purchase premises for newly opened outlets, although they are not at present a substantial burden on PSB's capital.

Market risk is managed by the ALCO, which sets all major limits, while the treasury, back-office and financial departments perform daily monitoring. **FX risk** on proprietary trading is regulated through stop-loss limits, established at 10% currency depreciation. Structural FX mismatches are managed within prudential limits set by the Central Bank of Russia (10% single currency and 20% aggregate open FX exposure) and at end-H106, PSB's short FX position accounted for 8% of IFRS equity. **Interest rate risk** is considerable given competitive pressure in PSB's core lending segment (although the interest spread between earning assets and interest-bearing liabilities remained a healthy 6% in H106). Floating rate liabilities mainly relate to foreign bank trade financing, which is onlent to customers with floating rates (although margins in this business are tending to decline). Interest rates are managed by limiting interest rate mismatches within time baskets. The planned IT upgrade will result in more sophisticated risk management (to establish price ranges on different products) and provide more flexibility to branches in setting prices on products without compromising margins. **Pricing risk on PSB's securities position** is potentially high due to Russian market volatility; it is managed through setting instrument, issuer and stop-loss limits.

Liquidity risk is also managed by the ALCO and monitored by the treasury (immediate liquidity) and financial department (longer-term liquidity) though gap analysis. Due to the substantial share of demand customer accounts (see *Funding*), ALCO establishes limits on the negative gap between assets and liabilities with contractual maturities up to one month (end-H106: 10% of total liabilities). At end-H106 PSB was marginally above the ALCO limit, due to prepayment

of the outstanding USD127m principal of one of the Eurobond issues and an imminent syndication loan inflow. As mitigating factors, the bank maintains a liquidity cushion in the form of cash equivalents and trading securities of Russian blue chips (end-H106: RUB20bn) and closely works with major funding clients to project substantial fluctuations on their accounts. However, in light of significant customer concentrations (see *Funding*), liquidity can be potentially vulnerable.

■ Funding and Capital

- **Improved access to long-term sources of funding; but liabilities remain predominantly short-term**
- **Rapid lending growth has put pressure on capitalisation which is supported through subdebt issuance**
- **RUB4.2bn equity contribution expected by end-2006**

Funding: At end-H106, PSB's funding base mainly consisted of corporate clients (including certificates of deposits and promissory notes issued – 47%), retail depositors (13%), tied financing from foreign banks (16%), long-term instruments (syndication, bonds; 14%) and subordinated debt (3.5%). PSB is also a net creditor on the local interbank market, which is a source of short-term liquidity as well as a result of PSB's clearing operations for smaller CIS banks. **Corporate customers** provide mainly short-term funding and remain relatively concentrated: the top 10 customers accounted for 15% of end-H106 liabilities, and the majority of this is provided by one group of customers. **Retail depositors** are growing rapidly from a low base and to a large extent represent the employees of corporate customers, obtained through salary projects. At end-H106, customer accounts were mainly RUB-nominated (72%) and short-term (at end-H106 64% of accounts had a contractual maturity of one month or less; 97% – of one year or less). In 2005-H106 PSB has increased its borrowings on the **foreign debt and interbank markets**, attracting three one-year syndications with a total value of USD530m and placing a five-year Eurobond of USD200m. In 2005 PSB attracted a RUB1.5bn (around USD54m) 'six+four' years **subordinated loan** from the EBRD to support its network development plans, and in H106 PSB received a 5.5 year USD30m subordinated deposit from IFD Kapital. Other subordinated deposits were provided by related parties. At end-H106, long-term (more than one year remaining maturity) funding instruments equated to 22.5% of PSB's liabilities. The bank aims to further diversify and lengthen its funding base. In August 2006, the bank privately placed a six-year USD45m subordinated deposit with foreign private investors; and plans to publicly offer Eurobonds and subordinated debt in Q406.

Capital: PSB's capitalisation declined in 2005-H106 on the back of rapid growth in risk-weighted assets, and

at end-H106 was no more than adequate, with a Tier 1 ratio of 10.1% and total capital ratio of 14.1%. PSB's capital should also be considered in light of significant loan concentrations, reduced LLR cover and still significant (albeit reduced) related party loans. With effect from end-H106, PSB has renegotiated its Eurobond capitalisation covenant such that the total, rather than Tier I, ratio must be above 12%. Through 2006, PSB's total capitalisation was supported by subordinated debts (see *Funding*) and in August 2006,

PSB's shareholders approved a new RUB4.2bn share issue which should be bought by end-2006 by both Commerz and current shareholders (see also *Profile*). PSB expects to retain FY06 profits and receive a new capital contribution, (possibly in Q307) to support its capitalisation close to the 12% total capital minimum covenanted level through 2007.

Balance Sheet Analysis

PROMSVYAZBANK

	30 Jun 2006				31 Dec 2005		31 Dec 2004		31 Dec 2003	
	6 Months - Interim	6 Months - Interim	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	RUBm	Assets	RUBm	RUBm	Assets	RUBm	Assets	RUBm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
A. LOANS										
1. Private	235.3	6,374.4	4.97	4,292.2	2,210.0	1.99	560.1	0.96	622.2	1.49
2. Corporate	3,150.8	85,353.1	66.60	73,772.7	62,192.2	56.06	32,778.9	56.35	22,161.9	52.93
3. Government	22.6	611.5	0.48	1,144.1	1,676.7	1.51	956.2	1.64	1,172.7	2.80
4. Other	4.8	128.8	0.10	1,152.7	2,176.6	1.96	2,281.1	3.92	2,238.7	5.35
5. Loan Impairment	78.0	2,113.3	1.65	1,881.8	1,650.2	1.49	1,973.3	3.39	1,201.6	2.87
TOTAL A	3,335.4	90,354.5	70.50	78,479.9	66,605.3	60.04	34,603.0	59.49	24,993.9	59.70
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	120.6	3,267.1	2.55	3,939.3	4,611.4	4.16	1,116.5	1.92	2,398.7	5.73
2. Government Securities	244.9	6,633.6	5.18	6,886.7	7,139.7	6.44	1,403.3	2.41	2,940.7	7.02
3. Trading Assets	460.2	12,466.7	9.73	11,824.9	11,183.0	10.08	8,741.5	15.03	2,945.2	7.03
4. Derivatives	9.4	254.9	0.20	188.3	121.6	0.11	57.5	0.10	18.0	0.04
5. Other Securities and Investments	0.4	11.3	0.01	10.5	9.7	0.01	413.0	0.71	2,246.9	5.37
6. Equity Investments	2.3	62.9	0.05	62.9	62.9	0.06	62.9	0.11	62.9	0.15
TOTAL B	837.8	22,696.5	17.71	22,912.4	23,128.3	20.85	11,794.7	20.28	10,612.4	25.35
C. TOTAL EARNING ASSETS (A+B)	4,173.2	113,051.0	88.21	101,392.3	89,733.6	80.89	46,397.7	79.76	35,606.3	85.05
D. TANGIBLE FIXED ASSETS	95.4	2,583.4	2.02	2,535.7	2,488.0	2.24	933.6	1.60	559.6	1.34
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	444.2	12,033.2	9.39	15,069.3	18,105.4	16.32	10,061.1	17.30	5,286.2	12.63
2. Other	18.1	489.9	0.38	550.5	611.0	0.55	777.5	1.34	415.4	0.99
F. TOTAL ASSETS	4,730.9	128,157.5	100.00	119,547.8	110,938.0	100.00	58,169.9	100.00	41,867.5	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	1,518.7	41,140.9	32.10	35,378.5	29,616.1	26.70	19,732.0	33.92	14,606.5	34.89
2. Due to Customers - Term	1,050.5	28,458.4	22.21	28,457.5	28,456.5	25.65	12,785.6	21.98	10,441.6	24.94
3. Deposits with Banks	204.2	5,530.8	4.32	5,212.0	4,893.1	4.41	2,365.6	4.07	3,078.6	7.35
TOTAL G	2,773.4	75,130.1	58.62	69,047.9	62,965.7	56.76	34,883.2	59.97	28,126.7	67.18
H. OTHER LIABILITIES										
1. Derivatives	6.5	176.0	0.14	97.2	18.3	0.02	40.6	0.07	46.6	0.11
TOTAL H	6.5	176.0	0.14	97.2	18.3	0.02	40.6	0.07	46.6	0.11
I. OTHER FUNDING										
1. Long-term Borrowing	1,283.1	34,757.8	27.12	33,125.9	31,494.0	28.39	13,398.0	23.03	6,743.1	16.11
2. Subordinated Debt	148.7	4,028.7	3.14	3,677.1	3,325.5	3.00	1,248.7	2.15	442.4	1.06
TOTAL I	1,431.8	38,786.5	30.26	36,803.0	34,819.5	31.39	14,646.7	25.18	7,185.5	17.16
J. NON-INTEREST BEARING	40.8	1,106.1	0.86	1,191.1	1,276.0	1.15	934.0	1.61	711.4	1.70
K. TOTAL LIABILITIES	4,252.5	115,198.7	89.89	107,139.1	99,079.5	89.31	50,504.5	86.82	36,070.2	86.15
L. EQUITY										
1. Common Equity	442.8	11,995.8	9.36	11,428.3	10,860.7	9.79	7,479.3	12.86	5,662.6	13.53
2. Minority Interest	5.0	135.5	0.11	151.7	167.8	0.15	186.1	0.32	134.7	0.32
3. Revaluation Reserves	30.5	827.5	0.65	828.8	830.0	0.75	0.0	0.00	0.0	0.00
TOTAL L	478.4	12,958.8	10.11	12,408.7	11,858.5	10.69	7,665.4	13.18	5,797.3	13.85
MEMO: CORE CAPITAL	447.8	12,131.3	9.47	11,579.9	11,028.5	9.94	7,665.4	13.18	5,797.3	13.85
MEMO: ELIGIBLE CAPITAL	447.8	12,131.3	9.47	11,579.9	11,028.5	9.94	7,665.4	13.18	5,797.3	13.85
M. TOTAL LIABILITIES & EQUITY	4,730.9	128,157.5	100.00	119,547.8	110,938.0	100.00	58,169.9	100.00	41,867.5	100.00
Exchange Rate		USD1 = RUB 27.0895			USD1 = RUB 28.7825		USD1 = RUB 27.7487		USD1 = RUB 29.4545	

Income Statement Analysis

PROMSVYAZBANK

	30 Jun 2006		31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	RUBm	Earning Assts	RUBm	Earning Assts	RUBm	Earning Assts	RUBm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	Original
1. Interest Income	5,847.0	11.53	7,115.9	10.45	4,650.6	11.34	3,069.5	10.71
2. Interest Expense	2,847.7	5.62	3,487.3	5.12	1,796.3	4.38	1,097.8	3.83
3. NET INTEREST REVENUE	2,999.3	5.92	3,628.6	5.33	2,854.3	6.96	1,971.7	6.88
4. Net Fees & Commissions	569.9	1.12	700.4	1.03	444.1	1.08	195.6	0.68
5. Other Operating Income	560.9	1.11	1,479.8	2.17	926.9	2.26	367.7	1.28
6. Personnel Expenses	1,099.2	2.17	1,534.4	2.25	671.7	1.64	313.7	1.09
7. Other Operating Expenses	1,113.8	2.20	1,540.2	2.26	973.1	2.37	608.0	2.12
8. PRE-IMPAIRMENT OPERATING PROFIT	1,917.1	3.78	2,734.2	4.02	2,580.5	6.29	1,613.3	5.63
9. Loan Impairment Charge	463.1	0.91	450.8	0.66	793.7	1.94	458.4	1.60
10. Other Credit Impairment and Provisions	24.8	0.05	21.2	0.03	31.9	0.08	35.0	0.12
11. PUBLISHED PRE-TAX PROFIT	1,429.2	2.82	2,262.2	3.32	1,754.9	4.28	1,119.9	3.91
12. Taxes	326.3	0.64	552.3	0.81	486.9	1.19	383.9	1.34
13. Currency Translation Differences	-2.5	0.00	0.0	0.00	0.0	0.00	0.0	0.00
14. Other Gains/(Losses) not in Published Net Income	0.0	0.00	830.0	1.22	0.0	0.00	0.0	0.00
15. FITCH COMPREHENSIVE INCOME	1,100.4	2.17	2,539.9	3.73	1,268.0	3.09	736.0	2.57
16. Total Gains/(Losses) not in Published Net Income	-2.5	0.00	830.0	1.22	0.0	0.00	0.0	0.00
17. PUBLISHED NET INCOME	1,102.9	2.18	1,709.9	2.51	1,268.0	3.09	736.0	2.57

Ratio Analysis

PROMSVYAZBANK

		30 Jun 2006	31 Dec 2005	31 Dec 2004	31 Dec 2003	
		6 Months - Interim	Year End	Year End	Year End	
		RUBm	RUBm	RUBm	RUBm	
		Original	Original	Original	Original	
I. PERFORMANCE						
1. Net Interest Margin	%		5.92	5.33	6.96	6.88
2. Loan Yield	%		11.35	10.79	11.45	10.66
3. Cost of Funds	%		5.38	4.73	4.23	3.48
4. Costs/Average Assets	%		3.70	3.64	3.29	2.78
5. Costs/Income	%		53.58	52.93	38.93	36.36
6. Pre-Impairment Operating ROAA	%		3.21	3.23	5.16	4.86
7. Operating ROAA	%		2.39	2.68	3.51	3.38
8. Pre-impairment Operating ROAE	%		30.90	28.01	38.34	33.75
9. Operating ROAE	%		23.04	23.17	26.07	23.43
II. CAPITAL ADEQUACY						
1. Internal Capital Generation	%		17.74	26.02	18.84	15.40
2. Core Capital/Total Assets	%		9.47	9.94	13.18	13.85
3. Tier 1 BIS Capital Ratio	%		10.10	12.00	14.50	15.10
4. Total BIS Capital Ratio	%		14.10	16.55	16.80	16.50
5. Free Capital/Equity	%		79.58	78.49	81.84	50.95
III. LIQUIDITY (year end)						
1. Liquid Assets/Deposits & Money Mkt Funding	%		34.25	57.06	52.52	30.96
2. Loans/Deposits	%		129.82	114.69	106.41	99.78
IV. ASSET QUALITY						
1. Loan Impairment Charge/Gross Loans (av.)	%		1.17	0.88	2.62	2.41
2. Total Credit Impairment/Pre-impairment Operating Profit	%		25.45	17.26	31.99	30.58
3. Loan Impairment/Gross Impaired Loans	%		934.26	349.32	265.23	459.68
4. Impaired Loans Gross / Loans Gross	%		0.25	0.71	2.09	1.04
5. Impaired Loans Net/Eligible Capital	%		-15.56	-10.68	-16.04	-16.22
6. Net Charge-offs/Gross Loans (av.)	%		1.17	0.55	0.07	0.02