

Russian Federation
Credit Analysis

Promsvyazbank

Ratings

Promsvyazbank

Foreign Currency

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

Individual	D
Support	5
Support Rating Floor	NF

Sovereign Risk

Foreign Long-Term IDR*	BBB+
Local Long-Term IDR*	BBB+
Outlook	Stable
Country Ceiling	A-

* IDR – Issuer Default Rating

Financial Data

	30 Jun 07	31 Dec 06
Total Assets (USDm)	8,539.0	6,856.4
Total Assets (RUBm)	220,443.9	180,536.9
Eligible Capital (RUBm)	19,342.1	17,545.8
Reported Equity (RUBm)	20,172.1	18,375.8
Operating Profit (RUBm)	2,402.6	3,515.2
Published Net Income (RUBm)	1,796.3	2,595.5
Comprehensive Income (RUBm)	1,796.3	2,595.5
Operating ROAA (%)	2.40	2.41
Operating ROAE (%)	24.93	23.25
Internal Capital Generation (%)	18.64	17.17
Basel I Tier 1 Ratio (%)	9.70	11.10
Basel I Total Capital Ratio (%)	13.40	16.38
Free Capital/Equity	64.40	79.97

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■ Rating Rationale

- The ratings of Promsvyazbank (PSB) reflect the high borrower concentration which puts pressure on capitalisation and risks inherent in the bank's continuous rapid loan growth. However, they also take into account the bank's broadening customer franchise and regional expansion, healthy bottom-line performance and good asset quality to date.
- The bottom-line results were sound in 2006 and H107 despite notable reduction of trading gains, supported by healthy core interest and fee earnings. In the future the performance might come under pressure, driven by planned investments in the branch network, but otherwise should stay reasonable.
- The loan book continued to grow rapidly in 2006 and H107, driven by loans to corporate clients. However, retail loans grew at a faster pace from a low base, reaching 11% of the loan book at end-H107. As a result, the loan concentration levels have fallen, but remained substantial by both national and international standards. Although asset quality remained reasonable with very low levels of overdue loans, these may increase in the future, in Fitch's view, as the retail book continues to grow and season.
- Market risk appetite is moderate and the bank intends to control its exposures fairly tightly.
- The funding base structure is well balanced (prime sources are corporate customer balances and international funding), although it remains largely short-term. Liquidity is well managed, with positive cumulative liquidity gaps and adequate holdings of liquid assets.
- Capitalisation has been supported by equity injections, subordinated debt placements and sound internal capital generation. Further expected equity injections and subordinated debt placements should maintain the Total capital ratios at 14% at end-2007, a level viewed by Fitch as only adequate, given some pressure arising from loan concentration and continued rapid growth of the balance sheet.

Support

- If in difficulty, PSB would turn 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.

■ Rating Outlook and Key Rating Drivers

- PSB's further franchise expansion, leading to declining loan book concentrations, if supported by adequate capitalisation, may put upward pressure on the ratings. Downward pressure on the ratings might arise from capital tightening resulting from either asset quality problems or rapid loan book growth.

■ Profile

- PSB is one of the largest Russian privately held banks. It is majority-owned by the Ananiev brothers, who are well-connected businessmen. The German Commerzbank AG (IDR 'A'), currently holds 15% in the bank but is not involved in strategic or operational management. PSB mainly serves large and mid-sized corporate clients. It runs over 150 points of sale across Russia to facilitate ongoing regional diversification and franchise expansion into the retail and SME segments.

■ Profile

- **One of the largest private banks in Russia, majority owned by two brothers**
- **Core business focuses on serving corporate customers and their workforce**
- **Implements a growth strategy through active penetration into mass retail and SME segments in key Russia regions**
- **Minority stake is held by Germany's Commerzbank**

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

Franchise: PSB is a private commercial bank holding roughly 1.3% of the system's assets at end-H107 (ranked 12th). 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. Trade finance and factoring businesses also feature among the bank's core market competences. The retail business has been expanding to date through the active servicing of employees of the bank's core corporate clients which represented about 50% of loans and up to 80% of card accounts at end-H107. Investment banking has also been growing in importance, forming an additional fee income stream for the bank. PSB is mainly engaged in RUB bond placements and brokerage services.

The bank has developed its network rapidly since 2004. At end-H107, PSB's network covered 30 of Russia's 86 regions, with 151 outlets and 325 ATMs. Regional branches contribute a substantial chunk of the bank's business (see *Credit Risk* and *Funding Base*), helping the bank to increase its diversification and extend client base.

Strategy: PSB's current strategic focus envisages a diversification of its business franchise through the development of mass market retail and SME banking businesses. The retail loan offer will include a broad range of products, such as mortgages, car loans, credit cards and instant cash loans. Special attention will be paid to the development of individual deposit and debit card packages, as the bank increasingly seeks to broaden its funding base. To support its retail franchise expansion, PSB intends to substantially expand its network to 220 outlets by end-2007 and to 312 by end-2009, covering all major cities in Russia. The roll-out of low-cost retail mini-offices specialised in individual customer services

should help to boost the bank's recognition and facilitate customer acquisition. PSB expects to operate 530 mini-offices (not in the above figure) and expand its ATM network (adding multi-functional terminals) to over 1,000 by end-2009. Management expects the share of retail business to reach c.20% and 30% of loan book and deposit base by end-2009, up from a modest 11% and 14% at end-H107. PSB has contracted a high-profile international consulting firm to assist with the development of the bank's long-term strategic outlook.

Ownership, Corporate Governance and the Wider Group: 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, Dmitriy Ananiev, 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 business relationships with these companies. However, the share of related-party asset exposure (including loans, securities holdings and investments, net of reserves) was moderate at end-H107 (22% of PSB's equity), having declined substantially since end-2005 (44%). At end-2006 the Ananiev brothers held an 84.7% stake¹ through six shell companies that were ultimately controlled by a Dutch-based holding company. Another 15.3% of voting shares were acquired by Commerzbank AG (IDR: 'A') in 2006 with the intention of further increasing its stake to a controlling one. However these plans were frozen in 2007, as the parties did not reach an agreement over the stake's final valuation, Fitch was informed. Currently, the foreign shareholder is not represented on either the supervisory or management board and is not involved in any form of operational or strategic control of the bank. The supervisory board currently consists of the Ananiev brothers themselves, the bank's CEO and two directors representing companies controlled by the bank's majority shareholders.

At end-H107 PSB consolidated a number of investment and leasing companies, of which the largest, securities brokerage firm Atna Capital Management Investments Ltd. incorporated in Cyprus, accounted for less than 1% of the bank's consolidated assets.

¹ In 2006 the brothers bought out minority shares from OJSC Rostelecom (0.3%) and Nova Ljubljanska Banka, Slovenia (3.6%).

■ Performance

- **Healthy profitability despite past competitive pressures in the corporate segment and intensive branch network expansion**
- **Improving quality of earnings**
- **Profitability might decline due to infrastructure investments, but should remain reasonable**

Operating Environment: Russian GDP growth was 6.4% in 2005 and 6.7% in 2006. Fitch forecasts growth of 6.5% in 2007. The current strength of the Russian economy is largely driven by high commodity prices, although the consumer and construction sectors, among others, are also expanding rapidly. Strong growth has also contributed to an increase in demand for banking services from both corporates and households, while also helping to support asset quality. At the same time, increasing competition between banks has resulted in a gradual tightening of margins, especially in corporate lending. This is mitigated, however, by relatively high rates on retail and small business loans. The strong performance of the Russian financial markets over the last few years has created opportunities for banks to make significant trading gains. Year-end inflation was 10.9% in 2005 and 9% in 2006, and Fitch forecasts 9.7% for 2007. 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 the relatively high vulnerability of the sector to systemic crisis, respectively.

The table below compares PSB's performance with that of its close peers with similar business profiles

and of approximately similar size. PSB's net interest revenue generation was sound, supported by healthy loan yield, although peers were achieving moderately better results, partly due to larger high-yielding retail loan books. The operating expenses (see cost/income ratio) and impairment charges seem reasonable when compared with the larger MDM bank, which has a similar branch network. Overall, Fitch considers PSB's performance to be healthy, also considering past margin compression (Line I.1 in Ratios Analysis) in the bank's core corporate segment and reduced opportunities to gain from market operations. The timely refocusing of strategy towards retail lending, recent stabilisation of corporate margins (especially on foreign currency loans) and increase in the loan-to-assets ratio helped to sustain the bank's bottom-line profitability. During H107 the bank retained almost USD70m in net profit, almost 60% up from H106.

Revenues: Fitch notes a further improvement of PSB's earnings quality, with interest income and fee and commission income now contributing 92% of total net revenues at end-H107 (2005: 74%). The reliance on volatile trading gains continued to decline further, reflecting fewer market opportunities rather than changes in management's approach. The net interest margin remained a good 5.8% in both 2006 and H107, despite continuous growth of funding costs driven by the lengthening of the funding base (see *Liabilities*).

Expenses: The cost base grew rapidly (76% yoy) in 2006, driven by the bank's network expansion, intensive investments in IT and operations infrastructure needed to support the bank's retail penetration strategy. However these have been fairly well managed as the increase in scale compensated

Table 1: Performance Comparison

As a percentage of average earning assets	PSB (B+/Positive, D)			Rosbank (BB-/RWP, C/D)		MDM Bank (BB/Stable, C/D)	
	H107	2006	2005	Q107	2006	H107	2006
1. Net interest revenues	5.8	5.8	5.3	7.4	7.6	6.0	6.6
2. Net fees and commission revenues	1.1	1.2	1.0	2.6	2.3	1.0	1.0
3. Net other operating revenues	0.6	1.2	2.2	0.3	1.0	1.0	1.1
4. Total net revenues	7.5	8.2	8.5	10.3	10.9	8.0	8.7
5. Personnel expenses	2.0	2.4	2.2	2.7	3.3	2.6	3.0
6. Other operating expenses	1.7	2.2	2.3	2.6	2.9	1.1	1.5
7. Pre-impairment operating profit	3.8	3.6	4.0	5.1	4.7	4.3	4.2
8. Impairment charges	1.0	0.7	0.7	1.2	2.0	1.1	0.9
9. Pre-tax profits	2.8	2.9	3.3	3.8	2.7	3.2	3.3
10. Net profit	2.1	2.2	2.5	2.8	1.8	2.5	2.8
11. Loan yield (%)	11.4	12.0	10.8	16.0	16.8	12.3	11.7
12. Cost of funds (%)	5.5	5.1	4.7	5.8	5.7	5.4	4.3
13. Cost/Income (%)	49.3	55.1	52.9	50.9	56.7	45.7	51.5
13. Total assets (USDm)	8,539.0	6,856.4	3,854.4	10,525.3	11,159.3	11,562.4	9,234.7
14. Assets growth rate (yoy) (%)	55*	78	84	-7	38	51*	65

* Annualised growth rate

Source: Banks' IFRS statements adapted by Fitch

for heavy investments. This was also evidenced by an improvement in the cost/income ratio excluding the securities trading gains, which has declined from 71% at end-2005 to 53% at end-H107, according to Fitch's calculation.

Prospects: Fitch does not rule out the possibility of a decline in the bank's bottom-line profit in the near-term, which might be driven by continued heavy investments in infrastructure and branch network expansion. However this should remain fairly reasonable, supported by the growing shares of retail and SME lending and the increasing scale of operations. The favourable credit environment, coupled with the bank's relatively less aggressive retail lending underwriting practices should also prove favourable for the bank's performance. That said, international funding is likely to be more expensive and harder to obtain in the near-term, which could pressure margins and make it harder to achieve scale.

■ Risk Management

- **High concentrations, although declining due to the growing retail loan book and regional diversification**
- **Industry-diversified lending profile**
- **Sound asset quality and reserve coverage**
- **Fairly tight control of market risk**

Credit Risk: The credit risk management function has evolved to reflect PSB's expanding franchise. The increasing branch network has brought some authority delegation, at end-2006 some 46% of the loan portfolio was approved by credit committees (CC) at branch level, reflective of the growing volume of retail and SME business. The branches however had relatively small authority limits. The CC at the head office, chaired by the CEO, approves all long-term loans and loans in excess of the branch limits. The maximum borrower exposure is limited only by the regulatory limit of 25% of capital. PSB has relatively strict collateral requirements (to which it applies substantial haircuts) although some longstanding clients may receive unsecured short-term loans and overdrafts (estimated at less than 5% of loan book).

The loan book continued to grow rapidly in 2006 (75% yoy) and further by 36% in H107, volume-wise driven by loans to large and medium-sized corporate clients. The retail loans grew from a low base since end-2004 when the bank commenced its new strategy, reaching 11% at end-H107 (2005: 3%). The SME lending (to companies with annual sales below USD20m) made up 16% of gross loans at end-2006 (H107: 13%), having grown by 115% during

the year. PSB continues to maintain an industry-diversified lending profile with sub-sectors softly capped at 15% of the portfolio (see table below). The retail loan book mostly comprised high-ticket unsecured non-purpose cash loans (c.60%) and car loans (c.30%). The bank uses rather strict individual borrower assessment methodology, requiring official salary confirmation (except for express loans – below 5% of the retail loan book) and down-payment for secured products. The bank uses a scoring model only for express loans currently, which was developed in-house and implemented in 2005.

Table 2: Loan Portfolio and Asset Quality

Composition (%)	H107	2006	2005
Loans to individuals	11	10	3
Loans to corporate entities			
Wholesale and retail trade	19	19	14
Real estate and construction	11	12	16
Food production	8	7	6
Agriculture	6	7	9
Finance, leasing and insurance	8	6	9
Other	48	49	46
Concentrations (%)			
Top 20 borrowers/equity	208	184	219
Related party borrowers/equity	16	21	44
Asset quality (%)			
Total loan impairment	0.3	0.3	0.4
Loan impairment reserve	2.1	2.1	2.4
Loan impairment coverage	618.6	625.4	710.4

Source: PSB

The borrower concentration levels fell in 2006 due to the growing, inherently granular, retail and SME segments. Nonetheless, at end-H107, the top 20 borrowers still accounted for a substantial 208% of PSB's equity capital, which is somewhat higher than at other large banks rated by Fitch. The agency expects credit concentration to continue to decline as the bank acquires more retail and SME customers and grows its capital base (Fitch was informed that the Board has approved a two-year concentration reduction plan only recently with a target for top 20 loans/equity of about 130% by end-2009). Related-party lending was reduced to 16% of equity capital at end-H107 due to certain loan repayments (2005: 44%). This was within the EBRD covenant that restricts exposure to related-party to 25% of equity capital.

The end-H107 loan portfolio remained mainly short-term (with 68% of loans contractually maturing within a year from the reporting date) and half of these were RUB-denominated (the majority of foreign currency borrowers have FX revenues). About half of the loan book was originated outside Moscow, in the regions, which in Fitch's opinion is beneficial for the bank's business diversification.

Loan Loss Experience and Reserves: The bank has a relatively strong credit risk function, reflected in a good loan loss history, with the highest credit losses occurring in the agribusiness industry (in 2002/3) and the real estate and construction sectors. At end-H107 and 2006 overdue loans (in arrears for more than one day) stood at 0.3% of gross loans, only marginally above the 2005 level of 0.4% (see table 2). The loan impairment reserve coverage was strong, 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.

Other on-balance-sheet items at end-H107 included cash equivalents and deposits with the Central Bank of Russia (8% of assets), Nostro accounts and short-term deposits with other banks (4%) and interbank deposits and direct repurchase agreements (3%). Bank placements can be made up to one month and serve for short-term liquidity purposes mainly; operations are done within counterparty limits, approved by the ALCO. The largest exposures were with highly-rated foreign financial institutions. **Off-balance-sheet** credit exposure was equal to a sizeable 23% of the net loan book, with uncommitted approved credit lines comprising nearly 40% of this. The bank establishes total single credit exposures taking into account these instruments.

Market Risk: At end-H107 securities holdings comprised 10% of PSB's assets falling from 17% at end-2005. These were mainly held for liquidity purposes but also for realising short-term trading gains. Russian state RUB-denominated bonds and eurobonds accounted for 53% of these. Another 44% was held in a well-diversified portfolio of Russian banks' promissory notes and corporate/municipal bonds. Fitch notes that PSB held promissory notes of a second tier bank amounting to 10% of its equity at end-2006. Equity investments were negligible, about 3% of end-H107 equity. The bank controls its market risk rather tightly; the total portfolio limits did not exceed 30% of equity for corporate fixed-income investments and 11% for equity investments, respectively. All market risk limits are set up by the ALCO or the credit committee (for fixed-income exposure) in conjunction with the risk management division. The bank utilises an online monitoring and deal authorisation system, in addition to which a set of stop-loss and VaR limits are in place.

In managing its FX risk, management intends to keep PSB's unconsolidated open FX position at less than 3% of total equity (which is substantially lower

than the Central Bank of Russia guidelines that cap single open FX positions at 10% of equity capital). PSB routinely uses over-the-counter currency derivatives (currency forwards and swaps) with Russian banks to reduce its on-balance-sheet position. At end-H107 the bank reported a conservative consolidated open short USD position of 6% of equity. The majority of currency speculation at the bank is done on behalf of its clients (importers/exporters), while proprietary trading was only 20% of total operations on the FX market. PSB sets intraday trading limits per dealer, the largest of which was a sizable 15% of the bank's equity, however complemented by rather tight stop-loss limits. Overall the FX gains contributed only a minor share of operating income/loss over the last four years.

Liquidity and Interest Rate Risk: Liquidity risk is also managed by the ALCO and monitored by the treasury (immediate liquidity) and financial department (longer-term liquidity) through gap analysis. Due to the substantial share of demand customer accounts (see *Funding*), the ALCO establishes limits on the negative gap between assets and liabilities with contractual maturities up to one month (2.5% of total liabilities below 30 days). As mitigating factors, the bank maintains a liquidity cushion in the form of cash equivalents and trading securities of the Russian government and some leading corporates (see above) and closely works with major funding clients to project substantial fluctuations on their accounts. At end-H107 the bank reported no net cumulative negative liquidity gaps (securities' portfolio classified as on demand), which Fitch considers to be a strong liquidity profile. However the planned increase in the retail lending business, especially long-term mortgages and car loans, may place some pressure on liquidity if not addressed properly. PSB faces no large loan repayments in 2007, with the first largest one (USD200m) occurring July-2008. Furthermore, substantial part of the bank's on-demand balances was covered by liquid assets.

Interest rate sensitivity is presently limited due to the relatively small fixed income portfolio and only minor share of floating-rate liabilities (c.15% of total liabilities) that mainly relate to foreign bank trade financing. PSB attempts to offset floating rate exposures by on-lending to customers with tenors only slightly exceeding the terms of these instruments' re-pricing. Interest spread risk is managed by limiting interest rate mismatches within a particular time bracket.

■ Funding and Capital

- **Balanced funding structure; but liabilities remain predominantly short-term**
- **Focus on funding lengthening**
- **Adequate capitalisation, but rapid asset growth and loan concentration put some pressure on the bank's capital ratios**

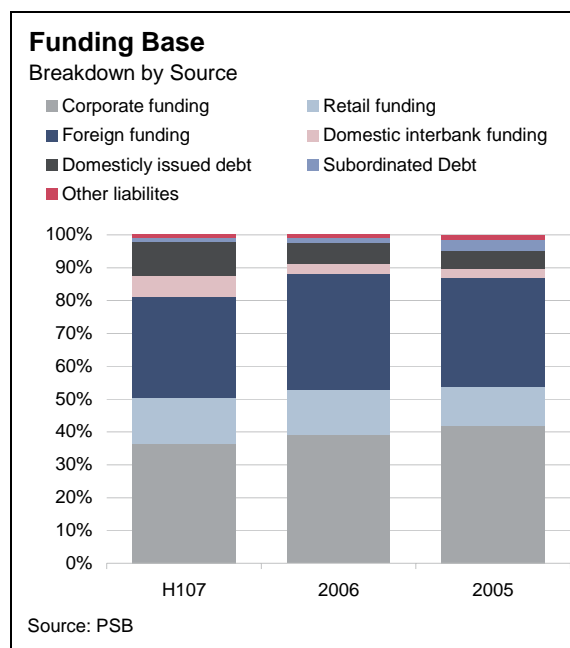
Funding: At end-H107, corporate customers' accounts and deposits, as well as non-resident funding, dominated the non-equity base. The two sources accounted for 37% and 31% of the funding base, respectively (see chart below) and were also the largest growth contributors volume-wise in 2006 and H107. Fitch notes, however, that some 30% of foreign funding represented back-to-back trade finance facilities, a business likely to be less affected by prevailing financial market conditions. Corporate customers provide mainly short-term funding and remain relatively concentrated: the top 20 customers accounted for 15% of end-2006 liabilities (H107: 16%), and about a third of this was provided by one group of customers who also placed a small (USD30m) subordinated deposit with PSB in 2006. Retail depositors are growing rapidly from a low base and to a large extent represent the employees of corporate customers, obtained through salary projects (H107: 14%).

Fitch positively views the continuous lengthening of PSB's funding base; long-tenor (above 1 year) funding instruments made up 23% of liabilities at end-H107 (2006: 16%, 2005: 20%). The bank aims to further diversify and lengthen its funding base, mainly through an increased share of customer funding, while international funding is capped at 40% of liabilities to control refinancing risk. In H107 PSB placed 5-year RUB-denominated bonds (RUB4,5bn) and in Q307 PSB raised USD100m through privately placed subordinated notes maturing in 2018. Both placements helped to lengthen the funding base further.

Related-party funding was negligible, both in 2006 and H107. At end-H107 funds attracted in the regions contributed a larger (36%) proportion of customers' funding than a year before, which Fitch

considers to be beneficial for the diversification of the non-equity base.

Capital: Despite continued rapid balance-sheet growth, the capital adequacy ratios changed only marginally in 2006, with a minor decline in the Tier 1 Basel I capital ratio at end-2006 and virtually flat Total capital ratio. The levels were sustained through shareholders' equity injections (USD122m), retained earnings (USD100m) and a subordinated debt placement. However in H107 the capital ratios (see Ratios Analysis) have come under pressure driven by rapid asset growth and lack of fresh equity injections. Management anticipates Tier 1 and Total capital ratios not to fall below 10% and 14% by end-2007 (based on forecasted annual increase of 59% in RWA), taking account of anticipated USD160m of fresh equity capital (to be injected by end-October 2007) and privately placed subordinated notes (see above). Furthermore a Eurobond covenant established a minimum Basel I total capital ratio of 12%. However, high borrower concentration and continued fast growth of assets are exerting some pressure on the bank's capitalisation, which Fitch considers to be only adequate. Shareholders plan to retain all earnings in at least the medium term.



Balance Sheet Analysis
PROMSVYAZBANK

	30 Jun 2007				31 Dec 2006		31 Dec 2005		31 Dec 2004	
	6 Months - Interim USDm Original	6 Months - Interim RUBm Original	As % of Assets Original	Average RUBm Original	Year End RUBm Original	As % of Assets Original	Year End RUBm Original	As % of Assets Original	Year End RUBm Original	As % of Assets Original
A. LOANS										
1. Private	715.9	18,481.3	8.38	15,109.7	11,738.0	6.50	2,210.0	1.99	560.1	0.96
2. Corporate	5,494.9	141,858.6	64.35	124,243.3	106,628.0	59.06	62,192.2	56.06	32,778.9	56.35
3. Government	25.6	659.7	0.30	622.9	586.1	0.32	1,676.7	1.51	956.2	1.64
4. Other	48.0	1,240.4	0.56	944.2	648.0	0.36	2,176.6	1.96	2,281.1	3.92
5. Loan Impairment	131.7	3,399.3	1.54	2,939.8	2,480.3	1.37	1,650.2	1.49	1,973.3	3.39
TOTAL A	6,152.8	158,840.7	72.05	137,980.3	117,119.8	64.87	66,605.3	60.04	34,603.0	59.49
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	518.8	13,392.7	6.08	10,482.4	7,572.1	4.19	4,611.4	4.16	1,116.5	1.92
2. Government Securities	449.6	11,607.8	5.27	10,971.9	10,336.0	5.73	7,139.7	6.44	1,403.3	2.41
3. Trading Assets	384.8	9,933.6	4.51	12,423.2	14,912.8	8.26	11,183.0	10.08	8,741.5	15.03
4. Derivatives	2.6	66.8	0.03	50.4	34.0	0.02	121.6	0.11	57.5	0.10
5. Other Securities and Investments	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	395.4	0.68
6. Equity Investments	7.7	199.4	0.09	181.2	163.0	0.09	72.6	0.07	80.5	0.14
TOTAL B	1,363.5	35,200.3	15.97	34,109.1	33,017.9	18.29	23,128.3	20.85	11,794.7	20.28
C. TOTAL EARNING ASSETS (A+B)	7,516.2	194,041.0	88.02	172,089.4	150,137.7	83.16	89,733.6	80.89	46,397.7	79.76
D. TANGIBLE FIXED ASSETS	278.0	7,177.9	3.26	5,427.9	3,677.9	2.04	2,488.0	2.24	933.6	1.60
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	686.4	17,719.3	8.04	21,591.0	25,462.7	14.10	18,105.4	16.32	10,061.1	17.30
2. Other	58.3	1,505.7	0.68	1,382.2	1,258.6	0.70	611.0	0.55	777.5	1.34
F. TOTAL ASSETS	8,539.0	220,443.9	100.00	200,490.4	180,536.9	100.00	110,938.0	100.00	58,169.9	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	1,908.6	49,273.3	22.35	46,009.8	42,746.3	23.68	29,616.1	26.70	19,732.0	33.92
2. Due to Customers - Term	1,995.6	51,518.4	23.37	47,061.0	42,603.6	23.60	28,456.5	25.65	12,785.6	21.98
3. Deposits with Banks	584.3	15,085.3	6.84	13,415.5	11,745.7	6.51	4,893.1	4.41	2,365.6	4.07
4. Other Deposits and Short-term Borrowings	15.7	404.4	0.18	718.6	1,032.7	0.57	n.a.	-	n.a.	-
TOTAL G	4,504.2	116,281.4	52.75	107,204.9	98,128.3	54.35	62,965.7	56.76	34,883.2	59.97
H. OTHER LIABILITIES										
1. Derivatives	5.3	135.8	0.06	103.4	70.9	0.04	18.3	0.02	40.6	0.07
TOTAL H	5.3	135.8	0.06	103.4	70.9	0.04	18.3	0.02	40.6	0.07
I. OTHER FUNDING										
1. Long-term Borrowing	2,893.6	74,702.4	33.89	64,782.7	54,863.0	30.39	31,494.0	28.39	13,398.0	23.03
2. Subordinated Debt	287.5	7,421.7	3.37	7,481.8	7,541.8	4.18	3,325.5	3.00	1,248.7	2.15
TOTAL I	3,181.1	82,124.1	37.25	72,264.5	62,404.8	34.57	34,819.5	31.39	14,646.7	25.18
J. NON-INTEREST BEARING	67.0	1,730.5	0.79	1,643.8	1,557.1	0.86	1,276.0	1.15	934.0	1.61
K. TOTAL LIABILITIES	7,757.6	200,271.8	90.85	181,216.5	162,161.1	89.82	99,079.5	89.31	50,504.5	86.82
L. EQUITY										
1. Common Equity	749.2	19,342.1	8.77	18,443.9	17,545.8	9.72	10,860.7	9.79	7,479.3	12.86
2. Minority Interest	n.a.	n.a.	-	n.a.	n.a.	-	167.8	0.15	186.1	0.32
3. Revaluation Reserves	32.2	830.0	0.38	830.0	830.0	0.46	830.0	0.75	0.0	0.00
TOTAL L	781.4	20,172.1	9.15	19,273.9	18,375.8	10.18	11,858.5	10.69	7,665.4	13.18
MEMO: CORE CAPITAL	749.2	19,342.1	8.77	18,443.9	17,545.8	9.72	11,028.5	9.94	7,665.4	13.18
MEMO: ELIGIBLE CAPITAL	749.2	19,342.1	8.77	18,443.9	17,545.8	9.72	11,028.5	9.94	7,665.4	13.18
M. TOTAL LIABILITIES & EQUITY	8,539.0	220,443.9	100.00	200,490.4	180,536.9	100.00	110,938.0	100.00	58,169.9	100.00
Exchange Rate		USD1 = RUB 25.8162			USD1 = RUB 26.3311		USD1 = RUB 28.7825		USD1 = RUB 27.7487	

Income Statement Analysis
PROMSVYAZBANK

	30 Jun 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	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	9,926.7	11.54	13,554.5	11.30	7,115.9	10.45	4,650.6	11.34
2. Interest Expense	4,914.8	5.71	6,633.7	5.53	3,487.3	5.12	1,796.3	4.38
3. NET INTEREST REVENUE	5,011.9	5.82	6,920.8	5.77	3,628.6	5.33	2,854.3	6.96
4. Net Fees & Commissions	906.2	1.05	1,496.2	1.25	700.4	1.03	444.1	1.08
5. Other Operating Income	475.5	0.55	1,387.0	1.16	1,479.8	2.17	926.9	2.26
6. Personnel Expenses	1,724.6	2.00	2,848.9	2.38	1,534.4	2.25	671.7	1.64
7. Other Operating Expenses	1,426.1	1.66	2,548.1	2.12	1,540.2	2.26	973.1	2.37
8. PRE-IMPAIRMENT OPERATING PROFIT	3,242.9	3.77	4,407.0	3.67	2,734.2	4.02	2,580.5	6.29
9. Loan Impairment Charge	960.8	1.12	830.2	0.69	450.8	0.66	793.7	1.94
10. Other Credit Impairment and Provisions	-120.5	-0.14	61.6	0.05	21.2	0.03	31.9	0.08
11. OPERATING PROFIT	2,402.6	2.79	3,515.2	2.93	2,262.2	3.32	1,754.9	4.28
12. Other Income and Expenses	n.a.	-	-57.6	-0.05	n.a.	-	n.a.	-
13. PUBLISHED PRE-TAX PROFIT	2,402.6	2.79	3,457.6	2.88	2,262.2	3.32	1,754.9	4.28
14. Taxes	606.3	0.70	862.1	0.72	552.3	0.81	486.9	1.19
15. Other Gains/(Losses) not in Published Net Income	0.0	0.00	0.0	0.00	830.0	1.22	0.0	0.00
16. FITCH COMPREHENSIVE INCOME	1,796.3	2.09	2,595.5	2.16	2,539.9	3.73	1,268.0	3.09
17. Total Gains/(Losses) not in Published Net Income	0.0	0.00	0.0	0.00	830.0	1.22	0.0	0.00
18. PUBLISHED NET INCOME	1,796.3	2.09	2,595.5	2.16	1,709.9	2.51	1,268.0	3.09

Ratio Analysis
PROMSVYAZBANK

		30 Jun 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004	
		6 Months - Interim	Year End	Year End	Year End	
		RUBm	RUBm	RUBm	RUBm	
		Original	Original	Original	Original	
I. PERFORMANCE						
1. Net Interest Margin	%		5.82	5.77	5.33	6.96
2. Loan Yield	%		11.36	12.02	10.79	11.45
3. Cost of Funds	%		5.48	5.14	4.73	4.23
4. Costs/Average Assets	%		3.14	3.70	3.64	3.29
5. Costs/Income	%		49.28	55.05	52.93	38.93
6. Pre-Impairment Operating ROAA	%		3.23	3.02	3.23	5.16
7. Operating ROAA	%		2.40	2.41	2.68	3.51
8. Pre-impairment Operating ROAE	%		33.65	29.15	28.01	38.34
9. Operating ROAE	%		24.93	23.25	23.17	26.07
II. CAPITAL ADEQUACY						
1. Internal Capital Generation	%		18.64	17.17	26.02	18.84
2. Core Capital/Total Assets	%		8.77	9.72	9.94	13.18
3. Eligible Capital/Regulatory Weighted Risks	%		9.72	11.10	12.02	14.46
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%		9.72	11.10	12.02	14.46
5. Basel I Tier 1 Capital Ratio	%		9.70	11.10	12.00	14.50
6. Basel I Total Capital Ratio	%		13.40	16.38	16.55	16.80
7. Free Capital/Equity	%		64.40	79.97	78.49	81.84
III. LIQUIDITY (year end)						
1. Liquid Assets/Deposits & Money Mkt Funding	%		29.69	44.67	57.06	52.52
2. Loans/Deposits	%		157.59	137.22	114.69	106.41
IV. ASSET QUALITY						
1. Loan Impairment Charge/Gross Loans (av.)	%		1.37	0.89	0.88	2.62
2. Total Credit Impairment/Pre-impairment Operating Profit	%		25.91	20.24	17.26	31.99
3. Loan Impairment/Gross Impaired Loans	%		618.62	625.39	710.37	265.23
4. Impaired Loans Gross / Loans Gross	%		0.34	0.33	0.35	2.09
5. Impaired Loans Net/Eligible Capital	%		-14.73	-11.88	-12.86	-16.04
6. Net Charge-offs/Gross Loans (av.)	%		0.06	0.00	1.18	0.07

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