

Russian Federation  
Credit Analysis

**Absolut Bank**

Ratings

**Absolut Bank**

**Foreign Currency**

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

**National**

Long-Term	BBB(rus)
Outlook	Stable

Individual Support	D 5
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**Sovereign Risk**

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

\* IDR – Issuer Default Rating

Financial Data

**Absolut Bank**

	31 Dec 05	31 Dec 04
Total Assets (USDm)	962.4	505.5
Total Assets (RUBm)	27,699.8	14,027.0
Equity (RUBm)	2,966.5	2,136.5
Net Income (RUBm)	403.9	346.3
ROA (%)	1.94	3.07
ROE (%)	15.83	18.44
Total Capital	13.46	18.80
Adequacy Ratio (%)		

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■ Rating Rationale

- The ratings of Absolut Bank (“Absolut”) reflect the risks associated with its rapid growth, its sizeable exposure to Moscow’s real estate and construction sectors and certain weaknesses in the operating environment. However, they also take into account the bank’s reasonable performance, sound asset quality to date and adequate capitalisation. Market risk is relatively limited and liquidity is well managed.
- Performance is currently respectable, though revenues are concentrated on corporate lending and trade finance, where margins are falling. Absolut is addressing this by diversification into new segments. Its cost-to-income ratio is low, but is increasing due to margin compression; rising costs could put additional pressure on this.
- Credit exposure has been growing extremely rapidly (2005: 98%). Concentration by obligor is currently high but is expected to fall to an acceptable level after the coming capital injection in March-April 2006, and as a result of the growing focus on retail/small business lending. Credit risk has grown substantially, partially due to higher exposure to the potentially cyclical and volatile real estate and construction sectors in Moscow, but seems to be well managed. Lending to individuals is growing fast, albeit from a low base. Loan impairment has been low to date.
- Funding is predominantly short-term, but its good diversification and prudent policies contribute to Absolut’s strong liquidity.
- Market risk is not significant, as the bank’s securities and foreign exchange (“FX”) operations are limited; interest rate risk also seems small.
- Capitalisation has declined due to rapid asset growth; Fitch Ratings views the bank’s medium-term target capital adequacy ratio (“CAR”) of 12%-14% as only adequate given risks of very rapid growth and sizeable credit exposure to the real estate and construction sectors.

Support

- Although the bank’s owners have backed the bank in the past, their ability to do so in the future is difficult to assess, and support therefore cannot be relied upon.

■ Rating Outlook and Key Rating Drivers

- The Outlooks on the Long-term IDR and the National Long-term rating are Stable.
- Successful further business diversification into new products and regions could put upward pressure on the ratings. Although Absolut’s management track record is positive and planning is good, the strategy involves very rapid growth in new areas.
- In Fitch’s view, downward pressure on the ratings is unlikely.

■ Profile

- Absolut is 92%-controlled by five experienced, Moscow-based entrepreneurs. A 7.5% stake was acquired by the International Financial Corporation (“IFC”) in H205.
- Absolut is a medium-sized Russian bank (the 39th-largest Russian bank by assets at end-2005). Its operations are still concentrated in Moscow, although its expansion into the regions is under way. Corporate lending (including trade finance) constitutes its core business, but the bank is also building up its retail banking operations, including mortgages, small to medium-sized enterprise (“SME”) finance and car loans.

■ Profile

- **A medium-sized Russian bank**
- **Owned by five individuals and IFC**
- **Main businesses are trade finance and lending to medium-sized companies**
- **Strategy implies rapid growth through retail products, especially mortgages, and regional expansion**

Although established in 1993, Absolut only started to grow at a rapid pace in 1999 and 2000, predominantly by attracting third-party business. The bank's four core business areas are corporate, international (trade finance), retail banking (to individuals and companies with sales of less than USD20 million per year) and financial markets.

**Corporate and International businesses:** Absolut had approximately 260 corporate borrowers (excluding small businesses) at end-2005 (end-2004: 180). Among the bank's main customers are leading Moscow companies in the trading, real estate and development, retail, insurance, manufacturing and service sectors. Trade finance is an area of particular focus and has been growing rapidly over the past few years, with the total amount of credit lines opened for Absolut by its foreign counterparties totalling c.USD500m at end-2005 (end-2004: c.USD200m). In general, management views its corporate and international businesses as "cash cows", generating funds to invest in the development of retail business and creating cross-selling opportunities.

**Retail business:** The number of individuals and small entities borrowing from Absolut grew rapidly in 2005 from 4,020 and 52 to 10,032 and 112, respectively, thanks to the introduction of competitive services and the development of delivery channels (see *Network* below). The bank has focused its retail product lines on mortgages, car and SME loans, and also offers credit and debit cards, settlements, deposits, FX, safekeeping, asset management and other general services. Absolut believes there is potential for growth in Russia's relatively undeveloped mortgage lending sector, due to its good knowledge of the real estate market and its good relations with some of the major developers and realtors, who are its customers. The bank ranked sixth in Russia in 2005 in terms of mortgages issued, and aims to remain a major player in this rapidly growing market (see *Credit Risk*).

**Financial markets:** Absolut's main financial market activities include interbank deposits, FX trading and securities brokerage operations.

**Network:** Most of Absolut's operations are currently concentrated in Moscow, where it has a head office and three branches. Facing intensifying competition

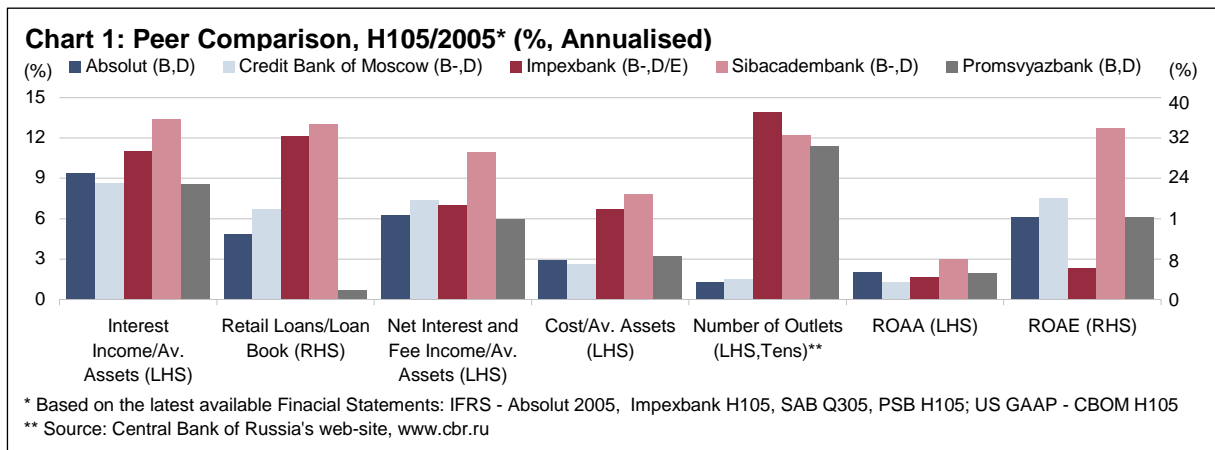
in the capital, Absolut began expansion to exploit the economic upturn in the Russian regions. Absolut's approach is relatively conservative at present. The bank opened 10 offices in the region around Moscow in 2004 and 2005, which should be followed by a further 10 outlets by end-2006. A branch in St Petersburg, the second-largest Russian city, was opened in August 2005 and there are plans to support it with two additional offices in 2006. Absolut is also planning to open another 18 similar regional networks between 2006-2008, each comprising a local branch and several offices. Target cities for 2006 include Ufa, Kazan, Tyumen and possibly Perm, which, in management's view, are attractive in terms of good economic potential and relatively low competition. Overall capital expenditure in 2006 is expected to total approximately USD15m.

**Ownership:** Absolut is 92%-owned by five individuals, three of which are founders of the bank. Their other main ventures include numerous property development projects in Moscow and the surrounding region (currently a considerably larger source of income for the owners than the bank). Absolut is run on a stand-alone basis, with the aim of maximising shareholders' returns, and reported operations with related parties have been low. However, all five shareholders are only voting members of the Supervisory Council and take part in approving the largest exposures (see *Credit Risk*). -In 2005, the IFC purchased a 7.5% stake in Absolut through a new share issue. IFC's participation on the supervisory council, with a veto on strategically important decisions (like amendments to the charter, mergers and acquisitions, related-party transactions, non-profile investments, etc.), should help Absolut to improve corporate governance.

■ Performance

- **Current performance is respectable**
- **Reliant on income from corporate lending and trade finance operations**
- **Low cost-to-income ratio, though costs rising due to expansion**

Russian GDP growth was 7.1% in 2004, and Fitch estimates growth of 6.4% in 2005. Strong growth has 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, although this is mitigated by still relatively high rates on retail and small business loans. The strong performance of Russian financial markets during the last few years has created opportunities for banks to make significant trading gains. Year-end inflation was



11.7% in 2004 and 10.9% in 2005, and Russia has not been deemed “hyper-inflationary” for IFRS reporting purposes since 2003.

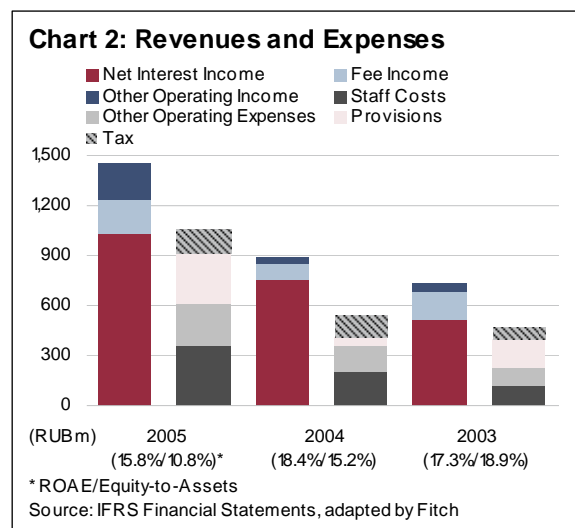
Chart 1 compares the performance of Absolut with its peers: Moscow-based Impexbank, Credit Bank of Moscow (“CBOM”) and Promsvyazbank (“PSB”) and regional Sibacadembank (“SAB”). All five banks are of medium size and are focused on developing their retail businesses, although PSB launched its retail programme only in H205. Absolut and CBOM are focusing on specific products whereas Impexbank, PSB and SAB are pursuing a greater number of market niches. Absolut’s, CBOM’s and PSB’s interest earned on assets is relatively low. The first two are not involved in the highly profitable but very risky consumer finance market while PSB’s revenues come primarily from lower yielding corporate business. Impexbank’s and SAB’s greater exposure to retail markets has enabled them to generate higher margins, but their performance has been burdened with substantial operating costs which are necessary to support much larger branch networks. SAB’s supreme profitability has been helped by lower competition in the regions where it operates. However, Absolut’s relatively low cost base has enabled it to deliver an ROA above those of its Moscow peers.

Profitability in 2004 was helped by a downward revision of loan loss reserves ratio while 2005 numbers were significantly hit by a growth in reserves (see below). At the same time core performance was respectable in both periods.

**Revenue:** Corporate lending and trade finance are the main revenue contributors generating most of the bank’s interest and fee income. Profits from corporate lending are suffering from a depreciating interest rate environment and therefore falling net interest margins. However, net interest income has been increasing (see Chart 2) on the back of growing business volumes (see *Credit Risk* below). The bank’s trade finance business has withstood a fall in

interest rates thanks to a reduction in the cost of supplied funds and has benefited from higher business volumes. The share of trade finance income as a proportion of net interest and fee income in 2005 was sizeable at 10% and 55% respectively. Settlement and cash transactions contributed another 36% of net fee income. Other operating income rose sharply in 2005 to account for 15% of revenues, mainly due to large gains from FX and securities trading, as well as FX translation (see *Annex*).

**Non-Interest Expenses:** The growth of Absolut’s branch network, and an expansion of business volumes, led to a 70% increase in operating expenses in 2005 compared with 2004. Staff costs grew by 70% driven by salary increases and a 56% rise in staff numbers. The costs-to-assets ratio was almost unchanged, but weaker interest revenue generation caused the cost-to-core income (net interest and fee) ratio to rise to a still very competitive 49% in 2005, up from 42% in 2004. The bank’s planned expansion is likely to lead to an increase in costs, particularly those relating to staff and fixed assets, although the recently improved budgeting system should contain this to some extent.



The loan loss provisioning (“LLP”) charge was a high 36% of net income before tax and provisions in 2005 as a result of the very rapid loan book growth while asset quality remained sound (see *Loan Loss Experience and Reserves*).

**Prospects:** Recently undertaken initiatives to expand the bank’s product line and geographical presence should help to diversify and increase revenue streams, which is important given margin pressure and intensifying competition in the home region. The bank’s ability to control costs and preserve asset quality will be crucial; however, given its tough budgetary system and sound risk management (see *Credit Risk*), Fitch believes that Absolut’s performance should remain reasonable in the medium-term.

■ Risk Management

- **Sound asset quality to date but credit exposure is growing very rapidly**
- **Concentration by borrower is falling**
- **Large exposure to real estate and construction sectors in Moscow**
- **Market risk does not appear significant**

**Credit Risk** is by far the most significant type of risk Absolut faces. According to calculations under Basel guidelines, credit-related on- and off-balance sheet items contributed 89% of risk-weighted assets at end-2005.

Credit decisions are to date centralised in head office, but a gradual shift of authority to branches for less significant amounts is expected. All corporate credit applications are considered by a corporate credit committee (“CC”) headed by the bank’s chairman and authorised to approve exposures up to USD2m (set to increase to USD10m by end-2006). Similar bodies have been established to approve different kinds of loans: SME loans up to USD0.2m, residential mortgage loans up to USD0.3m, car loans up to USD0.2m and limits on credit cards up to USD10,000. The main CC makes the final credit decision on all loans above the limits of smaller CCs; this body includes Absolut’s five individual shareholders (see *Ownership*) and the chairman. Minor individual limits were given to respective departments’ heads to facilitate underwriting of small loans.

Total credit exposure grew by a rapid 98% in 2005, and is expected to reach USD1.5 billion at end-2006, which represents approximately 100% growth on end-2005 numbers. Credit risk is concentrated by borrower, and at end-2005 exposure to the bank’s 20 largest obligors was equal to a high 32% of the total or 247% of equity (end-2004: 47% and 253%

respectively). However, taking into account the coming capital injection (see *Capital*), the latter ratio would be 158%. The concentration should fall further as the share of retail lending increases. Credit risk was 80% booked on-balance sheet at end-2005 while the remainder related to letters of credit and guarantees issued. Management expects off-balance instruments to grow more slowly than loans, decreasing their share in total credit exposure to about 11% by end-2006.

Credit risk is concentrated on companies in the trade sector (34% of the loan book), and in the real estate and construction sectors (20% and 8% respectively). The trade sector is typically represented by medium-sized and large Moscow companies coming from a broad range of industries – consumer goods, clothes, metals and pharmaceuticals. Notably, 29% of exposure to trade companies was represented by trade finance operations, a business line in which Absolut is particularly strong. Real estate and construction are notoriously cyclical and highly leveraged sectors in Russia. However, Absolut has a good knowledge of this sector and its lending criteria are prudent. This helped the bank avoid credit losses in mid-2004, when the industry was hit hard by liquidity problems. In addition, 11% of the bank’s exposure to real estate and construction companies at end-2005, although classified as such in the IFRS accounts, actually related (in Fitch’s view) to services and manufacturing. The loan agreement with the IFC caps exposures for real estate trading, construction finance and mortgages on unfinished homes at 20% of total credit risk.

The loan book’s mix at end-2005 was 85% to the corporate sector, 3% to SMEs and 12% to individuals. Absolut would like to gradually increase the share of high-yielding SME lending and lending to individuals, to give a respective split of 50%-15%-35% by end-2008. Mortgages are viewed as the bank’s speciality in retail lending and Absolut is planning to increase their share to USD216m or 16% of the loan book by end-2006 (end-2005: USD67m and 10% respectively). This appears to be achievable considering the current loan issuance of USD10m per month (see *Funding*). Typical mortgages have tenors of 10-20 years, an average size of about USD50,000 and a typical loan-to-value ratio of 80%. Car loans and SME lending, although important for the bank’s strategy, are not yet significant (end-2005: 3% of the loan book), but are set to grow rapidly to 8% of the total portfolio by end-2006.

Around 61% of lending was in foreign currencies, mainly USD, at end-2005. The vast majority of such loans are to corporates whose revenues are USD-denominated and mortgages, as real estate in

Moscow is mainly priced in USD. In line with the general market trend, the maturity profile of Absolut's loan book has been lengthening and 28% of loans had maturities in excess of one year at end-2005 (end-2004: 18%).

**Loan Loss Experience and Reserves:** Reserve coverage of gross loans has fallen steadily in recent years, to 4.1% at end-2005 from 6.8% at end-2003. This reflects improving asset quality, based on borrowers' longer track record with the bank. The level of impaired loans (i.e. where full and timely repayment is not expected) was a low 0.8% of gross loans at end-2005. Rapid loan growth could conceal potential impairment, and there are risks associated with the high levels of customer concentration in the loan book relative to equity. However, loan loss reserve coverage of impaired loans was a high 5x at end-2005, and the share of retail loans, particularly mortgages and car loans, which are deemed to be less risky, is growing. Moreover the bank has only ever written off about USD0.5m of credit exposures.

**Other On-Balance Sheet Items** consist primarily of cash and cash equivalents (including correspondent accounts and obligatory reserves with the Central Bank of Russia) and interbank placements. The former are historically large (19% of total assets at end-2005), reflecting Absolut's prudent liquidity policy and covenants imposed by a number of loan agreements (see *Liquidity* below). Interbank lending is viewed as a revenue-generating business; tenors are typically less than one month and the share in assets is usually low (end-2005: 7%). The securities portfolio contains government securities and blue chips and comprised just 6% of total assets or 54% of equity at end-2005.

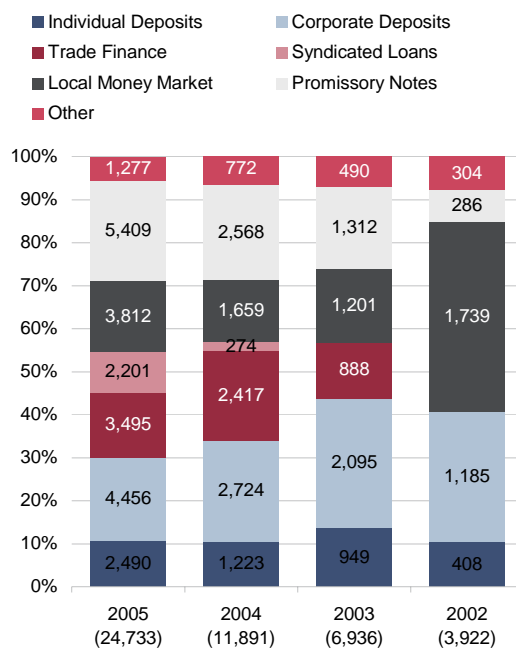
**Market Risk:** The limits committee assigns interbank and securities limits and is headed by the bank's chairman. Limit proposals for banks and securities issuers are prepared by the risk analysis department. The bank's asset and liability management committee is responsible for managing interest rate, liquidity and FX risk. Liquidity policy is implemented by the treasury. Deposit rates are fixed, but the bulk are short-term (see *Funding*), and re-pricing occurs regularly upon maturity. Interest rate risk has thus been immaterial so far: at end-2005, Absolut estimated that a 1% drop in interest rates at that date would, if not addressed, have resulted in a potential loss equivalent to 7.1% of 2005 pre-tax profits. The limits for investments in debt securities and equities are prudent. The bank's FX policy is also conservative with small intra-day trading limits (up to 15% of end-2005 equity) and an almost flat target open currency position (end-2005: its long position in USD was equal to 15% of equity).

■ **Funding and Capital**

- **Capitalisation adequate, but needs to be supported to sustain rapid asset growth**
- **Liquidity is well managed thanks to diversified and lengthening funding and prudent policies**

**Funding:** Absolut has diversified its funding base well during the past three years (see Chart 3), with no single source contributing more than 25% of the total. Customer accounts remain concentrated: the 20 largest creditors accounted for 48% of total accounts at end-2005, but just 14% of non-equity funding. Retail deposits made up 36% of all customer accounts and were largely from wealthy individuals. Notably, these funds were sufficient to finance all lending to individuals at end-2005. The bank is forecasting further growth of this funding source, targeting mass retail customers through its growing branch network. Promissory notes are either held by customers of the bank (typically 25%) or acquired by financial institutions (the remaining 75%) to be used as tradable financial instruments. A number of international financial institutions provide Absolut with funding in the form of trade finance lines, syndications and funds to support special lending programmes, including mortgages and SME loans. A significant proportion of local money market funding (approximately 25%) is represented by the lora accounts of smaller Russian banks, which use Absolut's better access to international settlements.

**Chart 3: Non-Equity Funding (RUBm)**



Source: IFRS Financial Statements

Interbank funding is not significant and almost matches interbank lending on the asset side.

Absolut expects that the mortgage portfolio, which is currently financed by equity and a USD15m, eight-year IFC loan, will be funded with similar placements by international financial institutions (up to USD50m-USD75m overall), then secured interbank loans and, from H206, securitisation (when the loan book reaches USD100m). A USD20-50m issue of short-term notes and a debut eurobond issue (approximately USD100m, with a tenor of three years) are planned for H106. In addition Absolut plans to attract a USD100-150m syndicated loan with IFC and EBRD's participation in H206. A number of subordinated loans worth USD40m (tenors of 8-10 years) should be placed during 2006 to support Tier 2 capital. The short-term maturity profile of Absolut's funding to date (only 15% of liabilities had a tenor exceeding one year at end-2005) should be extended by the borrowings mentioned above.

**Liquidity:** At end-2005, Absolut ran positive cumulative gaps across almost all time bands, which is reflective of its internal policy. The bank is also obliged to keep at least a 20% ratio of liquid to total assets. Liquid assets should fully cover short-term (up to one month) liabilities, as covenanted in its agreements with international financial institutions.

**Capital:** Absolut's CAR at end-2005 was a moderate 13.5% (end-2004: 18.8%). Tier 1 capital comprised 77% of the total, with Tier 2 consisting of subordinated deposits due to shareholders (maturity seven to nine years) and a fixed assets revaluation reserve. The free capital to assets ratio was only 6.4% at end-2005; however, Absolut's liquidity has been particularly strong to date.

Absolut's ongoing expansion is likely to put further pressure on its capital adequacy. To assist the bank in its development, no dividend payments are planned for 2006. In addition, current shareholders are planning to finalise a new USD60m capital injection by March-April 2006 (58% of end-2005 equity), part of which will be made through conversion of the subordinated deposits. This, aided by reasonable internal capital generation (2005: 16%) and plans to attract subordinated loans from international financial institutions, should help Absolut meet the target medium-term CAR value of 12%-14% at end-2006 despite estimated rapid asset growth (2006: 83%). Given very rapid growth and sizeable exposure to the real estate and construction sectors, this level, although above a 12% covenant imposed by a number of international funding agreements, is only adequate.

Balance Sheet Analysis  
ABSOLUT BANK

	31 Dec 2005				31 Dec 2004		31 Dec 2003		31 Dec 2002	
	Year End USDm Original	Year End 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
<b>A. LOANS</b>										
1. Private	81.9	2,357.0	8.51	1,444.5	532.0	3.79	331.6	3.88	220.4	4.07
2. Corporate	553.9	15,941.8	57.55	12,039.7	8,137.6	58.01	5,424.8	63.41	2,612.6	48.24
3. Loan Impairment	26.0	748.3	2.70	583.7	419.1	2.99	391.5	4.58	253.3	4.68
<b>TOTAL A</b>	<b>609.8</b>	<b>17,550.5</b>	<b>63.36</b>	<b>12,900.5</b>	<b>8,250.5</b>	<b>58.82</b>	<b>5,364.9</b>	<b>62.71</b>	<b>2,579.7</b>	<b>47.63</b>
<b>B. OTHER EARNING ASSETS</b>										
1. Loans and Advances to Banks	66.5	1,914.2	6.91	1,329.8	745.4	5.31	568.3	6.64	1,423.4	26.28
2. Government Securities	22.7	652.5	2.36	341.7	30.9	0.22	41.0	0.48	81.4	1.50
3. Trading Assets	32.7	940.8	3.40	632.7	324.5	2.31	0.0	0.00	0.0	0.00
4. Other Securities and Investments	n.a.	n.a.	-	n.a.	0.0	0.00	628.2	7.34	127.8	2.36
5. Equity Investments	n.a.	n.a.	-	n.a.	24.4	0.17	12.0	0.14	12.0	0.22
<b>TOTAL B</b>	<b>121.9</b>	<b>3,507.5</b>	<b>12.66</b>	<b>2,316.4</b>	<b>1,125.2</b>	<b>8.02</b>	<b>1,249.5</b>	<b>14.61</b>	<b>1,644.6</b>	<b>30.37</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>731.6</b>	<b>21,058.0</b>	<b>76.02</b>	<b>15,216.9</b>	<b>9,375.7</b>	<b>66.84</b>	<b>6,614.4</b>	<b>77.31</b>	<b>4,224.3</b>	<b>78.00</b>
<b>D. TANGIBLE FIXED ASSETS</b>	<b>41.7</b>	<b>1,199.7</b>	<b>4.33</b>	<b>1,003.1</b>	<b>806.4</b>	<b>5.75</b>	<b>83.2</b>	<b>0.97</b>	<b>39.4</b>	<b>0.73</b>
<b>E. NON-EARNING ASSETS</b>										
1. Cash and Due from Banks	185.1	5,329.0	19.24	4,526.2	3,723.4	26.54	1,837.2	21.47	1,107.6	20.45
2. Other	3.9	113.1	0.41	117.3	121.5	0.87	20.4	0.24	44.4	0.82
<b>F. TOTAL ASSETS</b>	<b>962.4</b>	<b>27,699.8</b>	<b>100.00</b>	<b>20,863.4</b>	<b>14,027.0</b>	<b>100.00</b>	<b>8,555.2</b>	<b>100.00</b>	<b>5,415.7</b>	<b>100.00</b>
<b>G. DEPOSITS &amp; MONEY MARKET FUNDING</b>										
1. Due to Customers	241.3	6,945.7	25.07	5,446.5	3,947.2	28.14	3,044.6	35.59	1,593.4	29.42
2. Deposits with Banks	330.4	9,508.4	34.33	6,929.2	4,350.0	31.01	2,088.7	24.41	1,739.0	32.11
3. Other Deposits	243.3	7,002.7	25.28	4,912.1	2,821.4	20.11	1,312.3	15.34	285.6	5.27
<b>TOTAL G</b>	<b>815.0</b>	<b>23,456.8</b>	<b>84.68</b>	<b>17,287.7</b>	<b>11,118.6</b>	<b>79.27</b>	<b>6,445.6</b>	<b>75.34</b>	<b>3,618.0</b>	<b>66.81</b>
<b>H. OTHER FUNDING</b>										
1. Long-term Borrowing	16.9	487.7	1.76	311.9	136.1	0.97	0.0	0.00	0.0	0.00
2. Subordinated Debt	15.0	431.7	1.56	382.4	333.0	2.37	353.5	4.13	222.5	4.11
<b>TOTAL H</b>	<b>31.9</b>	<b>919.4</b>	<b>3.32</b>	<b>694.3</b>	<b>469.1</b>	<b>3.34</b>	<b>353.5</b>	<b>4.13</b>	<b>222.5</b>	<b>4.11</b>
<b>I. NON-INTEREST BEARING</b>	<b>12.4</b>	<b>357.1</b>	<b>1.29</b>	<b>330.0</b>	<b>302.8</b>	<b>2.16</b>	<b>136.7</b>	<b>1.60</b>	<b>81.6</b>	<b>1.51</b>
<b>J. TOTAL LIABILITIES</b>	<b>859.3</b>	<b>24,733.3</b>	<b>89.29</b>	<b>18,311.9</b>	<b>11,890.5</b>	<b>84.77</b>	<b>6,935.8</b>	<b>81.07</b>	<b>3,922.1</b>	<b>72.42</b>
<b>K. EQUITY</b>										
1. Common Equity	103.1	2,966.5	10.71	2,551.5	2,136.5	15.23	1,619.4	18.93	1,493.6	27.58
<b>TOTAL K</b>	<b>103.1</b>	<b>2,966.5</b>	<b>10.71</b>	<b>2,551.5</b>	<b>2,136.5</b>	<b>15.23</b>	<b>1,619.4</b>	<b>18.93</b>	<b>1,493.6</b>	<b>27.58</b>
<b>L. TOTAL LIABILITIES &amp; EQUITY</b>	<b>962.4</b>	<b>27,699.8</b>	<b>100.00</b>	<b>20,863.4</b>	<b>14,027.0</b>	<b>100.00</b>	<b>8,555.2</b>	<b>100.00</b>	<b>5,415.7</b>	<b>100.00</b>
Exchange Rate		USD1 = RUB 28.7825			USD1 = RUB 27.7487		USD1 = RUB 29.4545		USD1 = RUB 31.7844	

Income Statement Analysis

ABSOLUT BANK

	31 Dec 2005		31 Dec 2004		31 Dec 2003		31 Dec 2002	
	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	1,853.5	12.18	1,158.1	14.49	766.9	14.15	488.2	14.20
2. Interest Expense	817.1	5.37	397.5	4.97	251.2	4.64	132.6	3.86
<b>3. NET INTEREST REVENUE</b>	<b>1,036.4</b>	<b>6.81</b>	<b>760.6</b>	<b>9.51</b>	<b>515.7</b>	<b>9.52</b>	<b>355.6</b>	<b>10.34</b>
4. Net Fees & Commissions	203.5	1.34	95.5	1.19	173.6	3.20	159.9	4.65
5. Other Operating Income	215.4	1.42	35.4	0.44	45.2	0.83	8.1	0.24
6. Personnel Expenses	358.4	2.36	209.1	2.62	117.7	2.17	101.1	2.94
7. Other Operating Expenses	254.4	1.67	150.4	1.88	110.7	2.04	98.5	2.86
<b>8. PRE-IMPAIRMENT OPERATING PROFIT</b>	<b>842.5</b>	<b>5.54</b>	<b>532.0</b>	<b>6.65</b>	<b>506.1</b>	<b>9.34</b>	<b>324.0</b>	<b>9.42</b>
9. Loan Impairment Charge	329.2	2.16	27.6	0.35	138.2	2.55	115.4	3.36
<b>10. OPERATING PROFIT</b>	<b>513.3</b>	<b>3.37</b>	<b>504.4</b>	<b>6.31</b>	<b>367.9</b>	<b>6.79</b>	<b>208.6</b>	<b>6.07</b>
11. Other Income and Expenses	35.7	0.23	-25.9	-0.32	-30.4	-0.56	n.a.	-
<b>12. PUBLISHED PRE-TAX PROFIT</b>	<b>549.0</b>	<b>3.61</b>	<b>478.5</b>	<b>5.98</b>	<b>337.5</b>	<b>6.23</b>	<b>208.6</b>	<b>6.07</b>
13. Taxes	145.1	0.95	132.2	1.65	67.7	1.25	18.4	0.54
<b>14. FITCH COMPREHENSIVE INCOME</b>	<b>403.9</b>	<b>2.65</b>	<b>346.3</b>	<b>4.33</b>	<b>269.8</b>	<b>4.98</b>	<b>190.2</b>	<b>5.53</b>
<b>15. PUBLISHED NET INCOME</b>	<b>403.9</b>	<b>2.65</b>	<b>346.3</b>	<b>4.33</b>	<b>269.8</b>	<b>4.98</b>	<b>190.2</b>	<b>5.53</b>

Ratio Analysis

ABSOLUT BANK

		31 Dec 2005	31 Dec 2004	31 Dec 2003	31 Dec 2002
		Year End	Year End	Year End	Year End
		RUBm	RUBm	RUBm	RUBm
		Original	Original	Original	Original
<b>I. PERFORMANCE</b>					
1. Net Interest Margin	%	6.81	9.51	9.52	10.34
2. Loan Yield	%	11.19	16.18	n.a.	n.a.
3. Cost of Funds	%	4.54	4.32	4.72	3.93
4. Costs/Average Assets	%	2.94	3.18	3.27	4.22
5. Costs/Income	%	42.11	40.33	31.10	38.12
6. Pre-impairment Operating ROAA	%	4.04	4.71	7.25	6.85
7. Operating ROAA	%	2.46	4.47	5.27	4.41
8. Pre-impairment Operating ROAE	%	33.02	28.33	32.52	25.58
9. Operating ROAE	%	20.12	26.86	23.64	16.47
<b>II. CAPITAL ADEQUACY</b>					
1. Internal Capital Generation	%	15.83	18.44	17.23	14.84
2. Core Capital/Total Assets	%	10.71	15.23	18.93	27.58
3. Tier 1 Regulatory Capital Ratio	%	10.31	14.80	17.20	28.00
4. Total Regulatory Capital Ratio	%	13.46	18.80	21.00	32.20
5. Free Capital/Equity	%	79.11	76.66	107.52	111.34
<b>III. LIQUIDITY (year end)</b>					
1. Liquid Assets/Deposits & Money Mkt Funding	%	26.85	34.84	24.78	29.74
2. Loans/Deposits	%	252.68	209.02	176.21	161.90
<b>IV. ASSET QUALITY</b>					
1. Loan Impairment Charge/Gross Loans (av.)	%	2.44	0.38	3.22	5.04
2. Total Credit Impairment/Pre-impairment Operating Profit	%	39.07	5.19	27.31	35.62
3. Loan Impairment/Gross Impaired Loans	%	486.86	555.10	606.04	12,061.90
4. Impaired Loans Gross / Loans Gross	%	0.80	0.90	1.10	0.10
5. Impaired Loans Net/Eligible Capital	%	-20.04	-16.08	-20.19	-16.82
6. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.	n.a.

Spread Sheet Annex  
ABSOLUT BANK

	RUBm	30 Dec 2005 Original	31 Dec 2004 Original	31 Dec 2003 Original	31 Dec 2002 Original
<b>1. EQUITY</b>					
1. Ordinary Share Capital		1,339.6	1,284.9	1,284.9	1,284.9
2. Share Premium Reserve		772.1	573.1	573.1	573.1
3. Other Equity Reserves		854.7	278.5	-238.6	-364.4
<b>TOTAL (1+2+3)</b>		<b>2,966.4</b>	<b>2,136.5</b>	<b>1,619.4</b>	<b>1,493.6</b>
<b>2. DISTRIBUTIONS</b>					
1. Dividends		n.a.	n.a.	162.3	220.9
<b>3. NET INCOME IN US\$ MLN</b>		<b>14.0</b>	<b>12.5</b>	<b>9.2</b>	<b>6.0</b>
<b>4. ANALYSIS OF OTHER OPERATING INCOME</b>					
1. Securities gains, net		95.6	-9.4	-10.7	108.3
2. FX gains, net		97.6	26.6	32.0	37.4
3. Other		22.2	18.5	23.9	22.4
<b>TOTAL (1+2+3)</b>		<b>215.4</b>	<b>35.7</b>	<b>45.2</b>	<b>168.1</b>
<b>5. OFF-BALANCE SHEET CREDIT RELATED COMMITMENTS ("CRC")</b>					
1. Import letters of credit		3,834.3	1,975.3	1,393.2	755.3
2. Guarantees issued		698.1	873.1	568.6	336.8
3. Provision for losses on CRC		20.7	56.4	30.4	n.a.
<b>TOTAL (1+2+3)</b>		<b>4,511.7</b>	<b>2,792.0</b>	<b>1,931.4</b>	<b>1,092.1</b>
<b>6. INDEPENDENT AUDITORS</b>					
PricewaterhouseCoopers					
<b>7. PRESENTATION OF ACCOUNTS</b>					
International Financial Reporting Standards					

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Absolut Bank: March 2006