

ZENIT Banking Group Announces 2015 Financial Results

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Moscow, Russia. ZENIT Banking Group, one of the leading financial institutions providing comprehensive services on the Russian market, announces its IFRS audited consolidated financial results for the year ended 31 December, 2015.

Tense macroeconomic situation had a great impact on the financial results of the Russian banking sector as a whole as well as of ZENIT Banking Group.

In particular, financial result of the Group for 2015 amounted to RUR 9.5 billion of net loss.

The main factors behind this result were the following:

- Additional provisioning amounting to RUR 9.8 billion under IFRS. The cost of risk made up 4.2% (2% in 2014), which in the current economic conditions can be regarded as an absolutely adequate level of provisions.
- Decrease of net interest income on the back of challenging market environment — harsh surge of interest expenses alongside with slower growth of interest income. Net interest income of the Banking Group shrank to RUR 5.6 billion following the results of 2015, from RUR 9.3 billion for 2014. Interest income rose significantly — from RUR 26.6 billion to RUR 32.3 billion, but at the same time interest expenses (cost of funding) saw a more sizable nominal growth — from RUR 17.4 billion to RUR 26.7 billion. As soon as cost of funding on the financial markets stabilizes, net interest income is due to stabilize too and gradually rise to the pre-2015 levels.

As well, the Group's financial result was greatly impacted by negative revaluation of derivatives at fair value through profit or loss.

“ZENIT Banking Group's financial result is an objective consequence of the actual condition of the real economy and financial markets. That said, in the current situation the Group is actively implementing its experience gained during previous crisis years, and has been sticking to a very conservative policy on risk-taking and business expansion during the past years. The Group's development priorities for many years have been assuring soundness and financial stability. Indeed, our clients support our conservative approach to business development, give adequate assessment and trust to the Group's activity even in the current macroeconomic conditions. In 2015, individual customer accounts held with the Group saw a RUR 22 billion rise (+25%)” – commented Kirill Shpigun, Chairman of the Management Board of Bank ZENIT.

At the same time, ZENIT Banking Group was carrying out work on increasing its capital in cooperation with its shareholders. In particular:

- In September 2015, within the framework of the state programme for additional capitalization of Russian banks, Bank ZENIT obtained Federal loan bonds (OFZ) to the total nominal value of RUR 9.932 billion from the State corporation Deposit insurance agency, which were included in the Bank's additional capital.
- Two long-term subordinated deposits of PJSC Tatneft amounting to RUR 5.1 billion were converted to perpetual subordinated deposits in October 2015.

As a result of these activities, as of 31 December 2015 Bank ZENIT's capital adequacy ratios under RAS (taking into account events after the balance sheet date) made up H1.1=6.93%, H1.2=7.92%, H1.0=16.00%.

Besides that, the process of increasing the Bank's share capital was launched in 2015. On 18 February 2016 an Extraordinary meeting of shareholders took a decision on increasing Bank ZENIT's charter capital by RUR 8 billion. The additional share issue is to be completed before 1 July 2016.

“The measures already taken and which are planned to rise the Bank’s capital will afford to keep capital adequacy ratios at a comfortable level. Along with that, it will enable the Bank to expand and develop its business in the mid- and long-term perspective.” – noted Kirill Shpigun.

That said, the Banking Group pays close attention to cost cutting and rising efficiency and continuously sticks to the policy of decreasing operating expenses. In 2015, the Group’s operating expenses saw just a 3.4% rise, mostly due to the foreign-exchange factor. The project on operational integration of the Group banks and further improvement of efficiency is to be implemented in 2016 in cooperation with an international consulting agency.

KEY 2015 FIGURES

- Total assets of ZENIT Banking Group decreased by 6.1% to RUR 314.8 billion.
- Loan portfolio before impairment contracted by 7.5% (RUR 17.9 billion) to RUR 222.0 billion.
- In 2015, customer accounts increased by 7.5% (RUR 13.6 billion) to reach RUR 193.8 billion.
- Net interest income fell by 39.5% to RUR 5.6 billion. Net fee and commission income went down by 5.6% to RUR 3.0 billion.
- Tier 1 capital stood at RUR 19.5 billion.

FINANCIAL RESULTS

	2015 (audited) thousands of rubles	2014 (audited) thousands of rubles
Net (losses)/revenues	(1,884,544)	9,364,210
Operating expenses	(7,498,107)	(7,248,283)
(Loss)/profit before income tax expense	(9,382,651)	2,115,927
Net (loss)/profit	(9,498,034)	1,635,894
Total assets at the end of the year	314,817,052	335,097,374

SUMMARY OF THE GROUP'S FINANCIAL ACTIVITIES

- Following the 2015 results, ZENIT Banking Group's corporate loan portfolio before impairment contracted by 9.4% and amounted to RUR 187.1 billion. Against the background of a recession in the Russian economy and deterioration of financial standing of corporate borrowers, the Group focused on the work with the current loan portfolio: monitoring of clients’ financial profiles, improving of collateral structure, the quality control of loan portfolio, working with problem loans.
- While lending to individuals was freezing across the banking system in 2015, the Group managed to increase its retail loan portfolio before impairment by 4.7% to RUR 34.9 billion. Largely this growth was due to the Group’s participation in the governmental mortgage lending programmes, including the Military mortgage programme. Following the results of the reporting year, Bank ZENIT became one of the Top-4 banks providing mortgage lending to the military men. In 2015, Bank ZENIT joined the state programme to support housing mortgage lending, which the Russian government carries out.
- The total amount of loans in respect of which the clients have at least one payment overdue for more than 90 days increased by RUR 4.6 billion to RUR 12.9 billion by the end of 2015. The

share of such loans in the gross loan portfolio rose to 5.8%. The NPL coverage ratio went up to 155.7% as of 31 December 2015 compared with 152.4% the year before. In order to maintain the high quality of its loan portfolio, the Group constantly works on fine-tuning its approaches to borrower risk assessment and improvement of collateral quality.

- The securities portfolio of ZENIT Banking Group contracted by RUR 5.4 billion (16.5%) and made up RUR 27.5 billion by the end of 2015. Corporate RUR-denominated bonds account for 40.0% of the portfolio, and a significant proportion of these are the bonds of issuers of high credit quality that are on the Bank of Russia's Lombard List. Another 47.0% are corporate Eurobonds issued by Russian companies and financial institutions. 8.2% of the securities portfolio is composed of federal loan bonds and local authorities bonds.
- Following the 2015 results, total customer accounts grew by RUR 13.6 billion (7.5%) to reach RUR 193.8 billion. Customer accounts of individuals rose by 25.3% to RUR 108.4 billion. Taking into consideration the limited opportunities for efficient placing of funds while sticking to the conservative risk approach, the Group was moderating the inflow of funds from corporate customers. Corporate customer accounts made up RUR 85.3 billion by the end of 2015, showing a 8.9% decrease compared with the previous year.
- In a complex macroeconomic environment of 2015, Bank ZENIT successfully placed 2 issues of its own exchange-traded bonds (BO-09 and BO-10) with a total nominal value of RUR 10 billion (actual value of placement made up RUR 5.6 billion). Bank ZENIT became a winner of Cbonds Awards-2015 in the “Best primary bond placement in the banking sector” nomination for the BO-09 bond issue, which was oversubscribed more than twofold.
- In addition, the Bank successfully executed five irrevocable public offers to repurchase bonds upon request of their holders in 2015. As a result of executing these offers amounting to RUR 26 billion, bonds worth RUR 24 billion remained in circulation.
- The Group's cost-to-income ratio went up to 79.4% by the end of 2015.
- ZENIT Banking Group's Total capital ratio made up 11.2%, the Tier 1 capital ratio was at 7.4% as of the end of 2015.
- Two long-term subordinated deposits of PJSC Tatneft amounting to RUR 5.1 billion were converted to perpetual subordinated deposits in 2015.
- Moody's Investors Service downgraded Bank ZENIT's Long-term foreign and local currency deposit ratings one notch to B1 from Ba3 (Outlook “Negative”) on 25 February 2015. In June 2015 Moody's agency assigned the Bank a Counterparty Risk Assessment Ba3/NP.
- Fitch Ratings agency confirmed Bank ZENIT's Long-term foreign and local currency IDRs at BB- and National Long-term rating at A+(rus) (Outlook “Negative”) on 19 October 2015. Viability rating bb-, support rating 5 and Short-term foreign currency IDR B also remained unchanged. As the agency noted in its report, ratings were confirmed due to the high financial stability of the Bank, which is supported by its wide and stable client base, adequate capitalization, comfortable liquidity level and moderate refinancing risk.
- In accordance with the new regulations of the Russian Civil Code, names of the Group subsidiary banks were changed to Joint Stock Bank Devon-Credit (Public Joint Stock Company), Public Joint Stock Company Lipetskcombank, Public Joint Stock Company Spiritbank, Joint Stock Company Bank ZENIT Sochi.

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For more information, go to www.zenit.ru

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ZENIT Banking Group was formed in 2005 following the acquisition by Bank ZENIT of a controlling stake in JSB Devon-Credit. In 2007, the Banking Group acquired Lipetskcombank and Sochigazprombank (renamed to Bank ZENIT Sochi). Spiritbank (the city of Tula) joined the Group in December 2008. According to the consolidated financial statements of ZENIT Banking Group for 2015

under IFRS, the Banking Group's Tier 1 capital amounted to RUR 19.5 bn and its assets stood at RUR 314.8 bn. The Group provides a full range of banking services in the following areas: comprehensive services for corporate clients, retail banking, Private Banking, investment banking, and interbank transactions. ZENIT Banking Group has presence in 26 Russian regions and its regional network consisted of 162 points-of-sale as of the end of 2015. The Group has extensive correspondent relationships with international banks; it cooperates with more than 100 of the financial institutions in Europe, Americas and Asia. Bank ZENIT has the following ratings assigned by the international ratings agencies: B1 (Moody's) u BB- (Fitch).