

**ANNUAL REPORT**  
**2008**



OUR 2008 ANNUAL REPORT IS ILLUSTRATED WITH MINIATURES FROM THE ILLUMINATED CHRONICLES – THE UNIQUE MANUSCRIPT OF THE 16TH CENTURY AND THE MOST IMPORTANT CHRONOGRAPHIC WORK OF THE MEDIEVAL RUSSIA.

CHRONICLES ARE PRICELESS DOCUMENTS OF THE PAST, AND ARE OFTEN OUR ONLY GUIDES THROUGH THE HISTORY. THEY RECOUNT BLESSED HOLIDAYS AND TERRIBLE MISFORTUNES, TALES OF THE GOOD AND THE EVIL, BIRTH AND DEATH, AND LIVES OF OUR DISTANT ANCESTORS. CHRONICLES ARE THE LINK BETWEEN THE PAST, THE PRESENT AND THE FUTURE. THE ILLUMI-

NATED CHRONICLES NARRATE THE HISTORY OF OUR PEOPLE AS INEXTRICABLY LINKED WITH THE HISTORY OF THE STATE, AND THE HISTORY OF THE STATE AS INEXTRICABLY LINKED WITH THE WORLD HISTORY.

CHRONICLES GUIDE US THROUGH YEARS. THE PRESENT ANNUAL REPORT IS PART OF THE CHRONICLES OF PROMSVYAZBANK, A RELATIVELY YOUNG BANK WITH ONLY A 14-YEAR HISTORY. THE LIFE OF OUR BANK IS INTERTWINED WITH THE LIFE OF OUR COUNTRY, ITS SUCCESSES AND ITS FUTURE. EVERY YEAR OF OUR OPERATIONS IS A CONTRIBUTION TO RUSSIA'S ECONOMIC DEVELOPMENT AND PROSPERITY.

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PRINCE DMITRY IOANNOVICH DISPATCHES CHARTERS TO RUSSIAN CITIES, 1368  
*Miniature from The Illuminated Chronicles, 16th century*



- CHAIRMAN'S ADDRESS
- PRESIDENT'S ADDRESS

# CHAIRMAN'S ADDRESS

## Dear Shareholders, Clients and Partners of Promsvyazbank,

2008 was undoubtedly one of the most difficult years in the past decade. However, Russia's banking system, which was first to face the shock of the international financial crisis, stood the test and avoided high-profile bankruptcies and wide-scale retail deposit outflow.

PSB has not been spared by the crisis: in October, the Bank experienced a deposit outflow (at rates comparable with the market average). However, we soon overcame the situation and were able to reverse the trend through increased engagement with customers and improved product range. Despite difficult market environment, we managed to meet our key targets, stabilize our liquidity position and ensure a significant growth of the deposit base.

In 2008, PSB not only honored all its obligations to customers and partners but also became the first privately owned bank to provide financial support to several troubled regional banks, and acquire stakes in their capital. With the support of the Bank of Russia and the Deposit Insurance Agency, PSB participated in the financial rehabilitation of Yarsotsbank and Nizhny Novgorod Bank. The two banks were subsequently consolidated into the Banking Group Promsvyazbank; this will undoubtedly produce positive synergies for the Group members.

PSB mission and goals remain unchanged: we strive to become the number one privately-owned bank in Russia. However, realistically assessing the difficult economic situation, we have updated our plans and moved the time horizon for achieving this goal by two to three years. Nonetheless, in 2008, we took another step forward by moving up yet again in the rankings of major Russian banks.

In spite of all the measures being taken, 2009 will indeed be a difficult year for the national and global economies alike, as well as for PSB. Both the Bank and our clients will face limited funding availability in Russia and abroad, as well as fewer opportunities for investment in business development. We will need all our strengths to get through the current crisis with as little damage as possible. However, the times of crisis also create new opportunities, including for our organization. By shifting focus from growing our business to strengthening our position, we will centre on improving the quality and consistency of our services and efficiency of internal procedures, as well as on enhancing corporate governance, whose high standards have already been recognized by financial market participants.

We greatly value our cooperation with international financial institutions, which is of

particular importance during the global crisis. To a considerable extent, our confidence in PSB's ability to overcome the current turmoil is based on our successful partnership with Commerzbank, one of the leading European financial institutions. Since becoming a PSB shareholder, Commerzbank has participated in all PSB additional share issues on a pro-rata basis, including two share issues in 2008.

I would like to thank all PSB clients and partners for their trust and cooperation, and assure you that the Bank will do everything it can to facilitate successful development of your business, which, in turn, will contribute to Russia's revival and prosperity.

Chairman of the Board of Directors  
A.N. Ananiev

# PRESIDENT'S ADDRESS

## Dear Shareholders, Partners and Colleagues,

2008 will go down in history mainly as the year of the global financial crisis. As opposed to the 1998 shock, the current crisis is much broader and deeper, while recovery for anyone – a country, a company or an individual – to a large extent depends on the ability to make prompt and right decisions. At the same time, the current turmoil has made it clear once again that long-lasting client relationships based on mutual trust and the spirit of partnership, which PSB has always been relying on in its operations, help us to meet the toughest challenges.

Despite the difficult situation in the fourth quarter, PSB reported positive financial results for the year. Sufficient financial strength helped the Bank to promptly adapt to the changed market environment, while focusing on enhancing risk management and maintaining adequate liquidity. In 2008, PSB total assets increased by 57%, and gross loans grew by 49%. To a large extent, we owe the positive annual financial results to the support of our shareholders: in 2008, PSB Tier 1 capital increased by 46% to RUB 36.8 billion, while total capital (in accordance with the requirements of the Basel Accord) increased by 37% to RUB 49.9 billion. PSB has a strong liquidity position. Timely measures adopted by PSB resulted in the growth of our client base and a significant inflow of corporate and retail

deposits. Our clients consider PSB a trustworthy bank.

Corporate Banking remains our priority segment. In 2009, we need to ensure the growth of corporate funding and increase profitability, while focusing on the fee and commission income. Development of our SME business will also be important in 2009. As for Retail Banking, priority will be given to development of settlement and commission-based products, bank cards, and services to VIP clients. In International Business we will need to maintain business volumes despite a significantly deteriorated market environment.

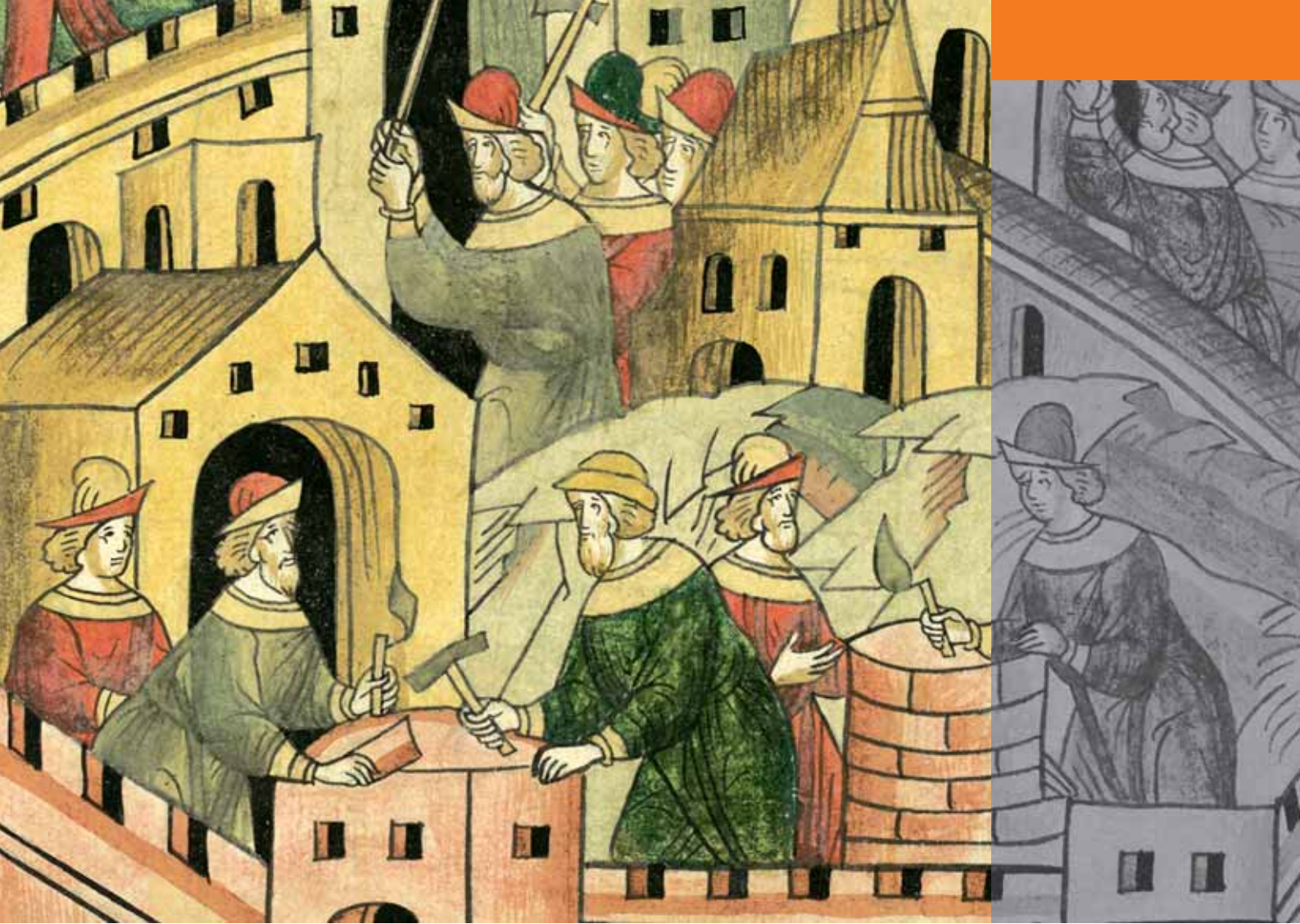
Maintaining satisfactory liquidity, preserving adequate capitalization and profitability will be our key objectives in 2009. The key emphasis will be on attracting funding. Despite the crisis, we have not stopped lending, and reliable clients still enjoy access to our financing. At the same time, we now pay particular attention to the loan quality and the controls over the level of overdue loans. In 2009, we intend to maintain full-scale business activity while keeping risk at acceptable levels. This will be driven by higher operating efficiency, which, in turn, is impossible to achieve without a critical review of all existing operating procedures and cost

optimization. The quality of customer service is equally important.

In our 14 years of operations in Russia we have gained a vast experience, including working in challenging economic conditions. And if each and every one of us works with the highest possible efficiency and remains optimistic, our joint efforts will help to minimize losses to the

Bank, its shareholders and partners and lay a solid foundation for growth in the years to come.

President and Chairman  
of the Management Board  
A.A. Levkovskiy



URBAN DEVELOPMENT IN MOSCOW, 16TH CENTURY  
*Miniature from The Illuminated Chronicles, 16th century*



■ KEY FINANCIALS

■ KEY EVENTS 2008

# KEY FINANCIALS



URBAN DEVELOPMENT IN MOSCOW,  
16TH CENTURY  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

## ASSETS, RUB BILLION

2006	180.5
2007	293.2
2008	461.8

## LOANS TO CUSTOMERS, RUB BILLION

2006	116.5
2007	208.4
2008	300.4

## SHAREHOLDERS' EQUITY, RUB BILLION

2006	18.4
2007	27.7
2008	40.0

## REVENUE BY BUSINESS SEGMENT, RUB BILLION

	2006	2007	2008
CORPORATE BANKING	9.7	14.9	27.1
INVESTMENT BANKING & FINANCIAL MARKETS	4.6	7.5	14.1
RETAIL BUSINESS	2.4	5.2	9.5
SME	0	0.2	1.1

## OPERATING INCOME & GENERAL AND ADMINISTRATIVE EXPENSES, RUB BILLION

2006	OPERATING INCOME	9.7
	GAE	5.4
2007	OPERATING INCOME	15.6
	GAE	8.0
2008	OPERATING INCOME	28.2
	GAE	12.4

■ OPERATING INCOME  
■ GAE

## PROFIT FOR THE YEAR, RUB BILLION

2006	2.6
2007	3.7
2008	1.6

# KEY EVENTS 2008

<b>JANUARY</b>	PSB places US\$ 100 million 10 non-call 5 subordinated notes due 2018	<b>OCTOBER</b>	Retail deposit outflow from the banking system
<b>MARCH</b>	PSB launches 3 new products (PSB-Turnover, PSB-Overdraft and PSB-Transport) under its small and medium-sized business lending program		Access to financing dries up for most Russian corporates and banks
<b>APRIL</b>	PSB receives a 12-month US\$ 175 million syndicated loan		Launch of government anti-crisis measures to support the Russian banking sector
<b>MAY</b>	PSB increases capital by RUB 4.3 billion, following an additional share issue		Accelerated consolidation of the Russian banking sector through merging troubled regional banks with major nationwide banks
	Moody's upgrades PSB credit rating to Baz / D (Outlook: Stable)		Preliminary agreement is reached on integrating Yarsotsbank into the Banking Group Promsvyazbank
	PSB opens its first retail sub-branch in Cyprus		Fitch changes PSB rating outlook from Positive to Stable; Standard & Poor's changes PSB rating outlook from Stable to Negative
<b>JUNE</b>	The Banking Group Promsvyazbank is established, Volgoprombank is integrated into the Group	<b>NOVEMBER</b>	Liquidity situation eases in major banks
	Standard & Poor's upgrades PSB long-term credit rating to BB- (Outlook: Stable)		Economic growth slows down, companies in most industries face aggravated financial problems
<b>JULY</b>	PSB places a 5-year US\$ 150 million Eurobond issue with a put option after 3 years		Agreement is reached on integrating Nizhny Novgorod Bank into the Banking Group Promsvyazbank
<b>AUGUST</b>	PSB receives a 10-year US\$ 70 million subordinated loan from its controlling shareholder Promsvyaz Capital B.V.	<b>DECEMBER</b>	Following an additional share issue, PSB total capital increases by RUB 4 billion, including RUB 1.93 billion from conversion of a subordinated loan received from the controlling shareholder earlier
	PSB raises a 12-month US\$ 280 million syndicated loan, with a 1-year extension option		PSB completes the acquisition of 51.3% shares of Yarsotsbank and 85.1% shares of Nizhny Novgorod Bank
	Net capital outflow from Russia; fall of major stock-exchange indices		PSB repays a US\$ 200 million syndicated loan
<b>SEPTEMBER</b>	PSB raises a 10-year US\$ 40 million subordinated loan from the controlling shareholder Promsvyaz Capital B.V.		
	Liquidity crunch in the Russian banking sector		



**RUSSIAN POPULATION**

*Miniature from The Illuminated Chronicles, 16th century*

# 3

- GENERAL INFORMATION  
ABOUT THE BANK
- PSB BRANCH NETWORK
- BANKING GROUP PROMSVYAZBANK
- 2008 RESULTS AND 2009 STRATEGY
- MANAGEMENT DISCUSSION  
AND ANALYSIS

# GENERAL INFORMATION ABOUT THE BANK



**RUSSIAN  
POPULATION**  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

**PSB IS ONE OF RUSSIA'S LEADING PRIVATELY OWNED BANKS, SUCCESSFULLY OPERATING SINCE 1995. PSB IS A UNIVERSAL COMMERCIAL BANK WITH A COUNTRY-WIDE BRANCH NETWORK, WHICH OFFERS A BROAD RANGE OF BANKING PRODUCTS TO RETAIL AND CORPORATE CLIENTS.**

The development and adoption of Fundamentals of Our Business was one of the key events in the Bank's life in 2008. The document represents a set of principles and rules underlying PSB business, organization and corporate culture development. The Fundamentals is a key governance document helping our staff to take right decisions and assess business results based on shared criteria. Fundamentals cover the most important aspects of PSB operations as an integrated organization.

## **PROMSVYAZBANK MISSION**

**We contribute to the prosperity of Russia and wellbeing of our employees and shareholders, while offering financial solutions to our clients, investors and partners.**

### **WE ARE HERE TO WORK FOR OUR COUNTRY**

We ensure a productive use of money. We know what needs to be done, and when and how it needs to be done, to turn money into capital. We know the price of money and are developing a capital management culture in Russia through our operations. By helping to manage capital,

we generate new opportunities for Russia. Reliable capital allocation translates into Russian citizens' certainty for tomorrow and, consequently, in stronger Russia. We are here to work for Russia.

### **WE HELP PEOPLE GAIN CERTAINTY ABOUT THEIR FUTURE**

Clients choose us and entrust us with their money because of our reputation as a reliable partner. Our professionalism and technologies enable us to offer a full range of banking services. Our products and services allow people to pursue education, buy homes, increase savings, develop own business and provide for the future of their children. We are here to work for everyone.

We assume reasonable risks and provide development and growth opportunities to businesses of any scale.

### **WE TAKE PRIDE IN OUR WORK AND OUR BANK**

Our Bank is special. We do not merely serve our clients. We help them to find the best financial solutions for the implementation of their plans.

We value the ability of our employees to find and implement solutions, which are optimal to our clients and beneficial to the Bank. On the back of this approach, our work allows us to create new opportunities for our clients, partners, shareholders, investors, ourselves, our colleagues and, therefore, for the country we live and work in.

### PROMSVYAZBANK FUTURE

Our Bank is an innovative leader. Using advanced technologies and superior management practices, we continue to relentlessly and consistently solidify our positions both on the Russian and international financial markets.

### PROMSVYAZBANK VALUES

We grew up in different families and have different life and professional experience. We are many and we are different. Thousands of people cannot breathe, think and act in a uniform way. However, we are all united by our core values.

**REPUTATION.** We value our reputation earned over years of hard work. Our clients know that Promsvyazbank stands for reliability and good faith. We are appreciative of such attitude and understand that our reputation is our capital. We are convinced that money management must be ethical, and money itself must work for creative purposes.

**INTEGRITY.** In our operations, we make all efforts to show respect for others and ourselves. We offer our clients, partners and investors

transparent terms of cooperation. We do not want and will not lie to each other, as our work together is based on trust. In complex situations and in the face of difficult choices we find fair solutions reflecting interests of all parties concerned.

**STRONG CLIENT RELATIONS.** We develop long-lasting relations with our clients. We will make all efforts to turn our new customers into long-term partners who will recommend us to their families, friends and partners. We highly value the trust of our clients and do everything in our power to justify it.

**TEAM SPIRIT.** Our team is a living body. Our relations are based on mutual respect, assistance and support. Our hard-working employees are conscientious and well-informed in performing their functions. We enjoy working together on solving complex issues and achieving outstanding results.

**PATRIOTISM.** Our work contributes to the growth of Russia's material and spiritual wealth. We see ourselves as part of a large country and contribute to its development. We take care of the place we live in – our country, our city, our home. We take care of the place we work in – our Bank.

**FAMILY.** We are convinced that family strengthens both the society and the country. Respect for family, care for the loved ones, children and parents are the responsibility of each one of us. Our work enhances wellbeing of our families, while our soulfulness supports and inspires them.

## PSB SHAREHOLDERS

### SHAREHOLDERS (BENEFICIAL OWNERS):

#### DMITRY ANANIEV

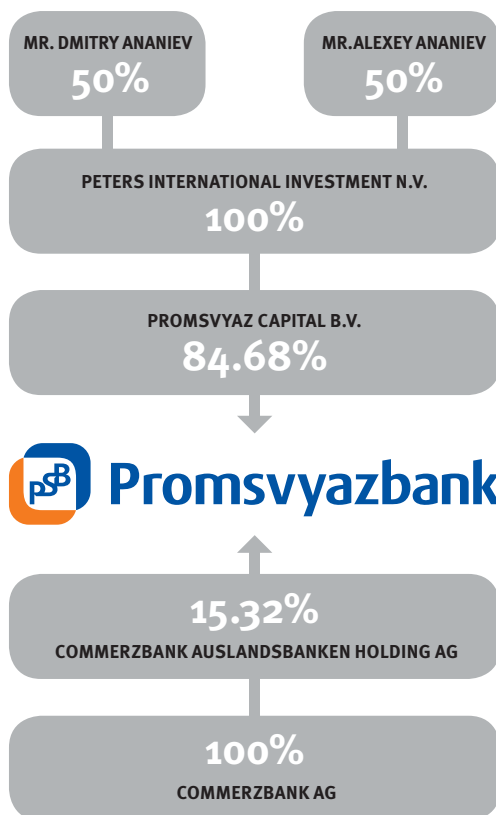
- Member of the National Banking Council since September 2008;
- Chairman of the Federation Council Committee on Financial Markets and Currency Circulation since 2007;
- Member of the Federal Council, the Upper Chamber of the Russian Parliament, representing Yamalo-Nenetsk Autonomous Region, since 2006;
- Chairman of PSB Board of Directors from 2001 to September 2006.

#### ALEXEY ANANIEV

- Chairman of PSB Board of Directors since September 2006;
- PSB Board member since 2001;
- Chairman of TechnoServ Advisory Council since 1996;
- Head of TechnoServ Group of Companies since 1992.

COMMERZBANK AUSLANDSBANKEN HOLDING AG (Germany), a subsidiary of Commerzbank AG, has been PSB shareholder since 2006. Commerzbank is the second largest German bank and one of the leading European banks servicing more than 9 million clients in 50 countries. Since becoming a PSB shareholder, Commerzbank participated in all PSB additional share issues, including the 9th and the 10th issues in 2008.

### OWNERSHIP STRUCTURE



### CONSOLIDATED COMPANIES

PSB consolidated financial statements under IFRS include the following principal subsidiaries of the Bank (as at December 31, 2008):

COMPANY	JURISDICTION	AREA OF OPERATIONS	% CONSOLIDATION
OOO "UK Promsvyaz"	Russian Federation	Asset Management	100%
OOO "Open Leasing Company"	Russian Federation	Leasing	100%
Promsvyaz Finance PLC	Ireland	Special purpose vehicle (SPV) for Eurobond issuance	100%
PSB Finance S.A.	Luxemburg	SPV for Eurobond issuance	100%
OAo "Volgoprombank"	Russian Federation	Commercial Bank	95.5%
OAo "Yarsotsbank"	Russian Federation	Commercial Bank	51.3%
OAo "Nizhny Novgorod Bank"	Russian Federation	Commercial Bank	85.1%

**PSB HISTORY**

- 1995** PSB established
- 1996** PSB opens two regional branches  
Obtains FX operations license
- 1997** PSB starts reporting under IFRS
- 1998** PSB is No. 63 Russian bank by assets
- 1999** PSB joins VISA and MasterCard payment systems  
PSB IFRS financials audited by independent auditors KPMG
- 2000** Fitch assigns international credit rating to PSB, starting level: CCC+  
PSB is No.44 Russian bank by assets
- 2001** RUB 150 million debut issue of RUB bonds  
PSB opens representative office in Kyrgyzstan
- 2002** PSB opens a branch in Cyprus and a representative office in Kiev, Ukraine  
PSB is No. 21 Russian bank by assets  
PSB On-line banking launched
- 2003** PSB receives a first US\$ 30 million syndicated loan from Western banks  
PSB joins international factoring association Factors Chain International (FCI)
- 2004** PSB opens a representative office in Beijing, China  
US\$ 100 million debut Eurobond issue  
First-time credit ratings assigned by Moody's (B1) and Standard & Poor's (B-)  
PSB expands client base despite banking crisis in Russia  
PSB is among Top 1000 World Banks, according to The Banker
- 2005** PSB is one of the Best Central and Eastern European Companies, according to Euromoney  
The number of regional branches reaches 29
- 2006** German Commerzbank Auslandsbanken Holding AG acquires 15.32% of PSB shares  
PSB opens a representative office in Delhi, India
- 2007** PSB controlling shareholder Promsvyaz Capital B.V. acquires 95.07% stake in Volgoprombank  
PSB is No. 441 globally by shareholders' equity, according to The Banker  
PSB launches a new SME business segment
- 2008** The Banking Group Promsvyazbank is established, Volgoprombank is integrated into the Group  
PSB successfully overcomes liquidity crunch in the Russian interbank market  
Agreements on integrating Yarsotsbank and Nizhny Novgorod Bank into the Banking Group Promsvyabank are reached  
PSB is No. 11 Russian bank by assets

## PSB INTERNATIONAL CREDIT RATINGS, AS AT APRIL 1, 2009

### FITCH RATINGS

Long-Term Issuer Default Rating in foreign currency	“B+”
Short-term Issuer Default Rating in foreign currency	“B”
Individual	“D”
Support	4
Outlook	Negative
Last review date	March 2009

### MOODY'S INVESTORS SERVICE

Long-term bank deposits in local and foreign currency	“Ba2”
Short-term bank deposits in local and foreign currency	Not Prime
Bank Financial Strength Rating	“D”
Outlook	Negative
Last review date	March 2009

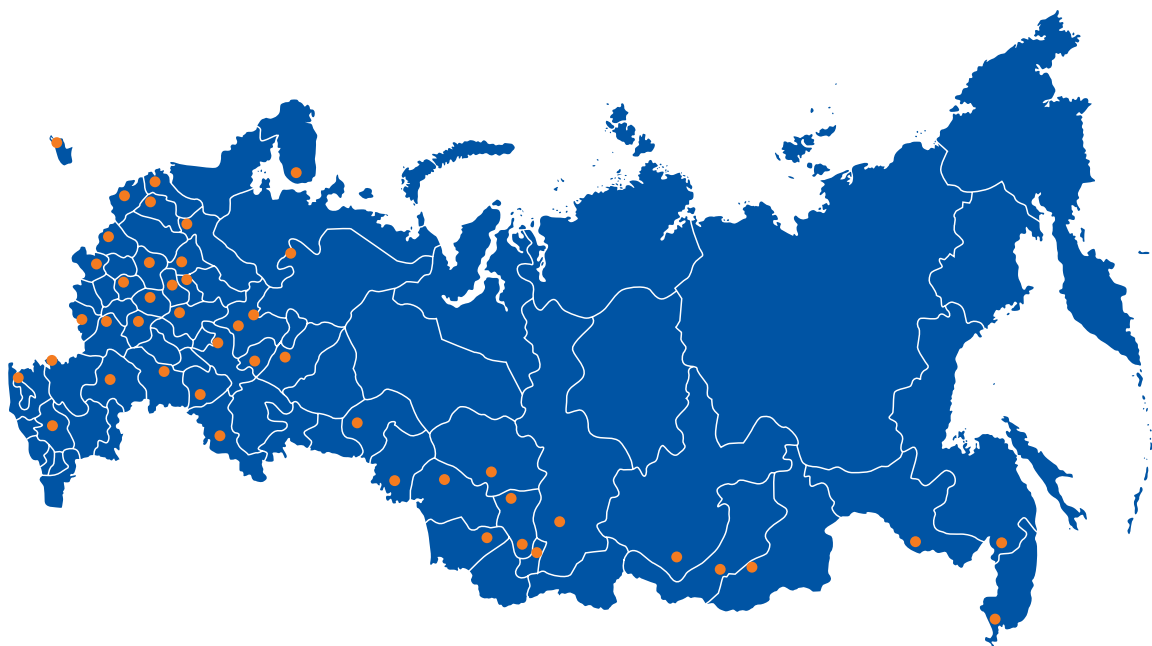
### STANDARD & POOR'S

Long-term counterparty credit rating	“BB-”
Short-term counterparty credit rating	“B”
Outlook	Negative
Last review date	October 2008

The negative outlook means that a rating agency intends to review PSB's rating once again within the next year with respect to possible rating downgrade. Negative outlooks reflect the rating

agencies' concerns about the potential impact of the financial crisis and economic downturn in Russia on the creditworthiness of Russian borrowers.

# PSB BRANCH NETWORK



## PSB BRANCH NETWORK IN RUSSIA

Abakan	Izhevsk	Orenburg	Tambov
Barnaul	Irkutsk	Penza	Tver
Belgorod	Kaliningrad	Perm	Tomsk
Blagoveshchensk	Kemerovo	Pskov	Tula
Bryansk	Kirov	Rostov-on-Don	Tyumen
Veliky Novgorod	Krasnodar	Ryazan	Ulan-Ude
Vladivostok	Krasnoyarsk	Samara	Ufa
Vladimir	Lipetsk	Saint Petersburg	Khabarovsk
Volgograd	Moscow*	Saratov	Chelyabinsk
Vologda	Moscow region*	Smolensk	Chita
Voronezh	Nizhny Novgorod	Sochi*	Yaroslavl
Ekaterinburg	Novosibirsk	Stavropol	
Ivanovo	Omsk	Syktvykar	

\* Sub-branches in Moscow and the Moscow region; a representative office in Sochi; branches in other cities

China



Ukraine



India



Kyrgyzstan



Cyprus



## PSB INTERNATIONAL NETWORK:

**Cyprus** (branch and a retail sub-branch)  
**Beijing**, China (representative office)  
**Bishkek**, Kyrgyzstan (representative office)  
**Delhi**, India (representative office)  
**Kiev**, Ukraine (representative office)

Country-wide branch network is one of the key priorities for PSB strategic development.

## NETWORK DEVELOPMENT

Since the opening of its first branch in 1996, PSB has been consistently expanding its regional footprint. A nation-wide branch network is one of PSB key competitive advantages enabling the Bank to achieve its strategic objectives, including development of retail and SME product offerings.

Today, PSB branches operate in all economically developed regions of Russia, and a relatively dense network covers Moscow and the Moscow region. In many regions PSB branches have a considerable share of the financial services market and are among top 5 regional banks. This enables the Bank to pursue major nationwide objectives. Further network development is one of PSB strategic objectives.

As at the end of 2008, PSB network consisted of 252 points of sale in more than 90 communities across Russia. In 2008, the Bank opened 5 new branches in Stavropol, Penza, Syktyvkar, Tver and Lipetsk, a representative office in Sochi and 53 sub-branches. As at YE 2008, PSB had about 1,000 ATMs.

Virtually in all regions of its operations, PSB has a branch, one or more sub-branches and other types of outlets, which offer a wide range of banking services.

The financial crisis had certainly affected PSB plans on its network development. In late 2008, the Bank closed some smaller inefficient points of sale. PSB will continue to optimize its network in 2009, with some projects put on hold and some existing inefficient outlets closed.

#### PSB NETWORK IN RUSSIA DECEMBER 31, 2008

Branches	47
Sub-branches	164
Other types of outlets	40
Representative office	1
<b>Total</b>	<b>252</b>

In the past few years PSB was rapidly developing its regional business. Regional branches proved their efficiency even in the challenging macroeconomic environment. The size of the loan portfolio attributable to the regional branches increased by over RUB 50 billion to RUB 159.1 billion during 2008, despite the slower loan portfolio growth rate compared to previous years.

The share of PSB total loan portfolio attributable to the regional branches was 50% in 2008, down a little from 52% in 2007. While lending to large regional clients increased in 2008, these loans were not included in the branch statistics due to the centralization of the lending process in H2 2008 amid the economic and financial crisis.

#### NETWORK IN MOSCOW AND THE MOSCOW REGION

As at 31 December 2008, PSB network in Moscow and the Moscow region consisted of 52 sub-branches, including 34 sub-branches in Moscow.

#### PSB INTERNATIONAL NETWORK

PSB foreign representative offices in Kiev (Ukraine), Bishkek (Kyrgyzstan), Beijing (China) and Delhi (India), as well as its branch in Cyprus support the Bank business development.

Established in 2002, the Cyprus branch operates under the Cyprus law and is licensed both by the Bank of Russia and the Central Bank of Cyprus. Operating under a dual regulators' control, the branch offers a wide range of banking services to more than 4,000 corporate and retail clients. It is the only branch of a Russian bank offering comprehensive banking services in the European Union. With deposit interest rates at the same levels as in Russia and flexible fees on settlement services, the branch is highly competitive both in Cyprus and the European market. A state of the art processing center ensures prompt payments and settlements, including in Russian rubles. Accounts in any currency are covered by the Cypriot deposit insurance system. Importantly, the branch opening hours are longer than those of local banks.

The branch currently ranks 5th by assets among 29 foreign banks operating in Cyprus. The branch total assets are US\$ 1.2 billion. In 2008, PSB opened a retail sub-branch in Limassol, launched retail services and installed an ATM.

# BANKING GROUP PROMSVYAZBANK

ARRIVAL OF SURO-  
ZHANIN GUESTS  
(MERCHANTS  
FROM THE AZOV  
SEA), 1356  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*



## VOLGOPROMBANK

In June 2008, PSB shareholders approved the resolution on setting up the Banking Group Promsvyazbank, which would include OAO Volgoprombank, one of Russia's major regional banks. PSB principal shareholder Promsvyaz Capital B.V. had acquired a majority stake in Volgoprombank in 2007 and held a 95.489% share in Volgoprombank as at YE 2008.

Established in 1990, Volgoprombank is a major commercial bank in the Volgograd region, with RUB 7.8 billion in assets and RUB 1.2 billion in equity as at YE 2008. Prior to its transformation into a commercial bank, Volgoprombank had been a state-owned bank formerly known as the Volgograd Regional Directorate of USSR's Promstroibank.

At the time of integration into the Group and based on Q2 2008 results, Volgoprombank ranked 294th by total assets in Interfax-100 ranking. In just six months, the bank significantly improved its position and by the end of 2008 moved up to No. 248 in the Interfax ranking.

As at 31 December 2009, Volgoprombank had more than 10,000 corporate and 15,000 retail clients. The bank's own funding base consists of RUB 1.2 billion in retail deposits and RUB 1.3 billion in corporate funding. The bank issued more than 10,000 international payment cards and had 32 ATMs in Volgograd and the Volgograd region.

Volgoprombank's regional network includes 13 sub-branches in the city of Volgograd and the surrounding region.

Thanks to the acquisition of Volgoprombank, the Banking Group Promsvyazbank increased its market share in the region to about 11%.

At the height of the financial crisis in the fall of 2008, PSB was the first privately owned bank to participate in the state-backed program for the rescue of troubled banks and the Russian banking sector consolidation. This reflects a high level of regulators' trust in PSB, as well as the Bank's financial strength and the quality of its management.

Acquisition of smaller banks creates significant competitive advantages for PSB and the Group in the regional markets: while the regional banks receive support from one of Russia's biggest and most reliable banks, the Group is able to expand its regional network, acquire a new client base and capitalize on the regional experience.

## YARSOTSBANK

In October 2008, PSB shareholders approved the resolution on integrating the Yaroslavl Commercial Bank for Social Development («Yarsotsbank») into the Banking Group Promsvyazbank. At YE 2008, PSB completed the acquisition of a 51.3% stake in Yarsotsbank.

Yarsotsbank was established in 1990. Its predecessor was the state-owned Zhilsotsbank. Yarsotsbank is a major bank in the Yaroslavl region, with RUB 5.2 billion in assets and RUB 606.8 million in equity as at YE 2008.

The bank has a branch in Rybinsk and 9 outlets in Yaroslavl and Rybinsk. Yarsotsbank

has 112 ATMs and has issued 230,000 cards of the Russian Golden Crown payment system. Yarsotsbank has officially partnered with the Yaroslavl City Mayor's Office in promoting plastic cards as a convenient means of payment in the city's economy. The bank services 212,000 retail clients and over 10,000 corporate clients, including the city's and the region's large enterprises, Yaroslavl City Mayor's Office and universities.

In September-October 2008, Yarsotsbank experienced a run on bank deposits, fuelled by rumors about the bank's insolvency. If continued, panic could have inflicted irreparable damage on the bank and its clients. To support Yarsotsbank, on the initiative and with the assistance of the Bank of Russia, PSB provided financing to Yarsotsbank, which enabled the troubled bank to meet all its obligations to clients and counterparties.

### NIZHNY NOVGOROD BANK

In November 2008, an agreement was reached to integrate Nizhny Novgorod Bank into the Banking Group Promsvyazbank. At the end of December, PSB completed the acquisition of 85.13% stake in Nizhny Novgorod Bank.

The bank was established in 1990 by several major Nizhny Novgorod enterprises. An important advantage of Nizhny Novgorod Bank is its network of 10 sub-branches in the city and the surrounding region. As at YE 2008, the bank had RUB 4.5 billion in assets and RUB 712 million in equity. Nizhny Novgorod Bank has issued approximately 7,200 international payment system cards and has 47 ATMs and cash dispensing points. The bank services approximately 15,000 retail and 5,000 corporate clients.

One of the largest banks in the region, Nizhny Novgorod Bank has been traditionally servicing the real sector. The effect of the global financial crisis on the Russian economy, instances of unfair competition and shrinking volumes of corporate client settlement opera-

tions resulted in a run on the bank deposits. Deposit outflow in October-November 2008 amounted to RUB 2.4 billion (53% of the bank's total customer liabilities). The free fall of the stock market prices made it impossible for the bank to offset this by partially selling securities held as a liquidity cushion.

On 24 November 2008, Nizhny Novgorod Bank received an interbank loan from PSB. On 26-28 November, the bank paid back accounts payable owed to the government and corporate clients, resumed its operations in full, and met all its obligations to corporate and retail clients.

The financial rehabilitation of Nizhny Novgorod Bank was implemented in cooperation between PSB, the Bank of Russia and the State Deposit Insurance Agency.

### PLANS FOR 2009

Yarsotsbank and Nizhny Novgorod Bank held extraordinary general shareholders' meetings in February and March 2009, which resolved on the banks' integration into the Banking Group Promsvyazbank. Measures to be implemented at the Group members, include:

- Expand product range with successful PSB products, such as factoring for corporate clients, and retail and SME products;
- Set up quality management systems to monitor customer service quality;
- Optimize organizational structure and review employee incentives programs;
- Move to PSB IT platforms;
- Adapt corporate graphic design to PSB corporate style.

In 2009, after completing the integration of Yarsotsbank and Nizhny Novgorod Bank into the Banking Group Promsvyazbank and implementing the above measures, PSB will consider the merger of the Group members with PSB.

# 2008 RESULTS AND 2009 STRATEGY

RETURN OF THE EXPEDITION, WHICH DISCOVERED GOLD AND SILVER ORES, 1491  
 Miniature from *The Illuminated Chronicles*, 16th century



PSB ADAPTED ITS STRATEGY TO THE CHANGING MARKET ENVIRONMENT ALREADY IN MID-2008. MEASURES IMPLEMENTED BY PSB, AS WELL AS SAFETY MARGIN GAINED OVER YEARS ALLOWED THE BANK TO REPORT OVERALL GOOD RESULTS FOR 2008.

## 2008 KEY RESULTS

### ECONOMIC AND INDUSTRY ANALYSIS.

#### KEY 2008 ISSUES AND RISKS

2008 was the most challenging year for the Russian banking sector and the entire Russian economy in the past decade.

The deepening financial crisis with concurrent economic and political challenges in H2 2008 intensified the inherent structural problems of the Russian economy. As a result, Russian banks faced a severe recession.

Key negative factors, which affected Russia's banking sector on the back of the global financial crisis include:

- Shutdown of capital markets resulted in the significant growth of funding costs for private banks;
- Capital outflow and the stock market meltdown resulted in losses from securities transactions, falling market capitalization of major banks and the decreased value

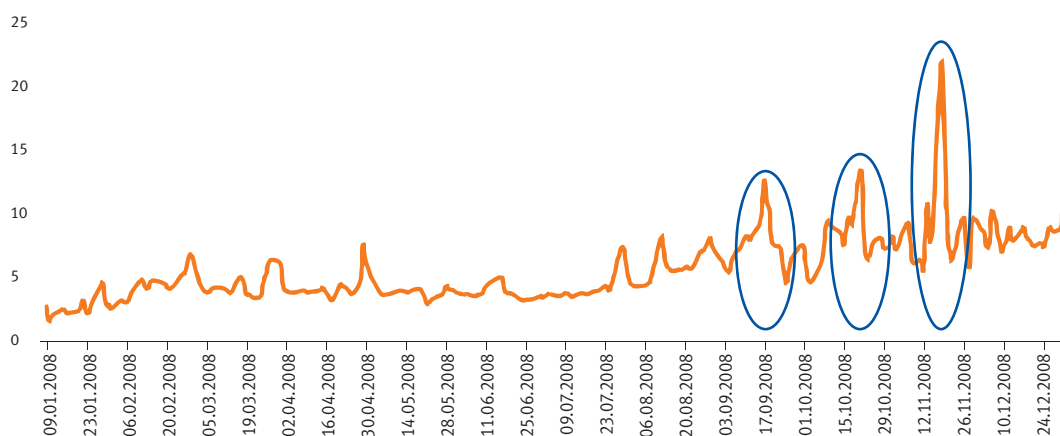
of securities used by corporates as loan collateral. This resulted in the confidence crisis in the financial markets;

- Rising inflation and consequent tightening of the monetary policy resulted in the higher refinancing rate and a limited liquidity in H1 2008;
- Significant RUB devaluation in Q4 2008 made it difficult for borrowers to service foreign currency-denominated loans;
- Growing unemployment, shrinking real household disposable incomes and decreased bank lending resulted in a major slump in domestic demand;
- Slumping demand, primarily for industrial products, and practically unavailable market funding for companies, which had relied on debt refinancing, resulted in defaults on corporate bonds and loans, as well as increased leverage and worsened creditworthiness.

The credit crunch and unpredictable situation in capital markets in 2008 were the biggest challenges for the Russian banking sector, including PSB. This resulted in a higher dependency of banks on government funding and an increased competition with state-owned banks.

Credit crunch hit the market in September – November 2008, accompanied by extremely high volatility of interbank loan rates.

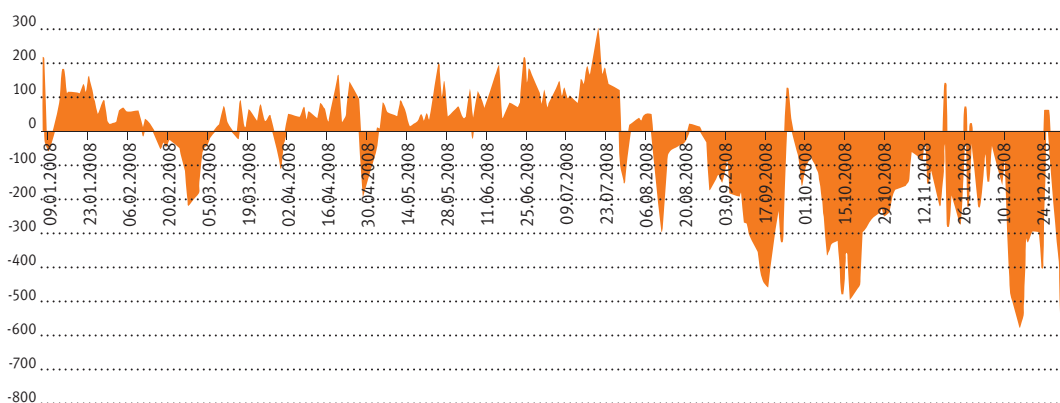
INTERBANK LOAN RATES (MIACR) FROM JANUARY 01, 2008 TO JANUARY 01, 2009, ANNUAL RATES FOR RUB LOANS, %



Net balance of liquidity provision / absorption operations by the Russian Central Bank (CBR) had a downward trend in 2008, as CBR

was forced to fill liquidity gaps in the banking sector throughout the second half of the year.

NET BALANCE OF LIQUIDITY PROVISION / ABSORPTION BY CBR FROM JANUARY 01, 2008 TO JANUARY 01, 2009, RUB BILLION



Liquidity situation improved in November – December 2008 on the back of the massive state support. Despite a certain lack of consistency in the government anti-crisis measures, they certainly helped to stabilize the situation and prevented the banking system from collapse. The announced government support measures included:

- Lowered mandatory reserve requirements;
- Raised limit on deposit insurance to RUB 700 thousand;
- Provision of more than RUB 950 billion subordinated loans to the banking sector;
- CBR is enabled to purchase corporate bonds and shares from banks in open market operations;
- Deposit Insurance Agency assumes responsibility for financial rehabilitation of economically significant banks and receives RUB 200 million for the purpose;
- Provision of uncollateralized loans to banks at CBR auctions;
- Extension of the CBR Lombard List to include shares and commercial paper by Russian issuers;

- Placement of temporarily available funds of the federal budget and state-owned corporations in bank deposits;
- Support to the Russian securities market via provision of RUB 175 billion funds to state-owned VEB (Vneshekonombank) to purchase Russian securities and corporate bonds;
- Government decision to buy troubled mortgages from Russian banks through the Agency for Housing Mortgage Lending and to boost the Agency's capital.

However, despite the measures taken by the Government the financial crisis developed into an economic crisis. This means that the key challenges for the Russian banks in 2009 will include asset quality and losses due to additional loan provisioning. Whether or not the banks are able to survive the crisis will depend on their ability to cope with these challenges.

#### ANTI-CRISIS MEASURES

PSB adapted its strategy to the changing market environment already in mid-2008. Equity investments had been reduced in advance, which allowed the Bank to minimize securities portfolio losses.

In the fall of 2008, PSB implemented additional anti-crisis measures and established clear priorities for the business segments:

- Accumulation of additional liquidity cushion;
- Reduction of lending volumes, abandonment of the most risky operations;
- Tightened loan underwriting standards, revised credit limits;
- Changed corporate and retail product mix;
- Review of the branch network efficiency and current staffing numbers;
- Focus on providing services to key corporate clients;
- Increased loan and deposit interest rates;
- Revised fees and commissions;
- Increased provision coverage of loans.

#### 2008 RESULTS

Measures implemented by PSB, as well as safety margin gained over years allowed the Bank to report overall good results for 2008. In 2008, PSB moved up in Russian banks rankings - from 12th to 11th place by assets and from 14th to 12th place by capital (under RAS).

In 2008, PSB loan portfolio (under IFRS) increased by 49% to RUB 319 billion, with the growth rate of 12% in H2 2008 overall, despite a 3% decrease in Q4 2008 following the implementation of anti-crisis measures.

Overall, corporate lending demonstrated strong growth in 2008. In particular, PSB solidified its positions in factoring and international financing. In 2008 PSB became a number one player on the Russian factoring market with 23.5% market share; was among top 3 banks in international financing with a 11% market share; and among top 10 banks by volume of corporate lending and funding.

In 2008, SME loan portfolio and credit card lending demonstrated a strong growth.

Despite the growth of overdue loans due to negative developments in the Russian economy, PSB does not consider the current level of overdue loans as alarming. To control further growth of overdue loans, PSB has implemented a range of measures, including a stronger monitoring of loan repayment schedules and case by case review of each borrower, which may lead to a request for an increased collateral or an agreement on a new repayment schedule acceptable to both parties, etc.

In 2008, PSB was the leader in inter-dealer bond REPO transactions; one of top 10 bond market operators on the Moscow Interbank Currency Exchange (MICEX). The Bank also strengthened its position among top 5 operators in the secondary market for RUB-denominated bonds, and a No. 1 operator in the federal loan bond (OFZ) market.

PSB managed to stabilize its liquidity position and finish the year with positive results. As at 1 January 2009, PSB had ample liquid assets. The quick liquidity ratio N2 was 75% (with the required minimum of 15%), while highly liquid assets stood at RUB 81 billion. The Bank received support from its shareholders, including Commerzbank, through their participation in additional share issues.

Measures implemented by PSB ensured a significant inflow of both corporate and retail deposits. The number of PSB corporate clients reached 70 thousand and retail clients - 950 thousand. Current accounts and deposits of corporate clients (non-financial organizations) increased by 53% year-on-year, and those of retail clients by 51%. PSB received two syndicated loans of US\$ 175 million and US\$ 280 million, and was the only bank in Eastern Europe to have successfully accomplished two Eurobond issues totaling US\$ 250 million.

PSB continued to expand and optimize its branch network. The Bank opened five branches in Stavropol, Penza, Syktyvkar, Tver and Lipetsk, and a first retail sub-branch in Cyprus. At the same time, it closed some inefficient points of sale (e.g. in shopping centres and car dealerships).

PSB continued to work toward its goal to become one of the most technologically advanced banks in Russia. In 2008, all PSB branches connected to online-banking PSB-Retail, and the number of users increased two-fold to 61 thousand people. The number of corporate clients using e-banking PSB On-Line was up 1.5 times to 33 thousand companies in 2008.

In 2008, PSB completed brand restyling. In line with the new corporate style, PSB updated its promotion materials, replaced signage and revamped both interior and exterior design at its offices and branches.

## OPPORTUNITIES IN TIMES OF CRISIS

### PSB STRATEGY FOR 2009

PSB key objectives in 2009 are to ensure the highest possible stability and efficiency of its operations, preserve shareholder value and serve the interests of creditors and depositors. The main focus will be on profitability, liquidity and capitalization adequate to the difficult market conditions. However, PSB long-term strategy — to become Russia's No. 1 privately owned bank in 2012-2015 — remains unchanged.

Key focus for all PSB business segments will be on asset quality and acceptable levels of overdue loans. PSB does not plan to significantly grow its business in 2009.

The Bank will continue to develop as a universal financial institution. Further development of business areas with proven strong performance,

i.e. factoring, trade finance and SME lending, is fundamental to achieving its objectives.

Given the lack of long-term resources in 2009, the main focus will be on promotion of short-term lending products for each client segment.

In 2009, the emphasis will be on enhancing risk management, ensuring adequate funding and maintaining a balanced portfolio of assets and liabilities.

A thorough monitoring of overdue loans implies their timely identification and early efforts to improve client payment discipline and debt collection efficiency.

PSB will pursue a balanced cost optimization policy to ensure its business profitability, while preserving the basis for further growth.

The Bank considers the current situation as an opportunity to optimize business processes, improve client service, foster talents and maintain the team's positive spirit.

PSB will pay particular attention to developing and promoting its brand driven by value propositions for each target client group.

The focus of Corporate Banking will be on funding and short-term high-margin lending products, such as factoring. PSB will strive to maintain leading positions in factoring and international finance. It will give a stronger emphasis to control and minimization of overdue loans, as well as to commission-based products, including settlement services. Comprehensive approach to client service and cross sales with Investment and Retail Banking will be key success factors.

SME lending is one of PSB priorities for 2009. High margins and efficient risk management are the main growth drivers in the segment. PSB will continue to offer a broad product range to its clients, primarily medium-sized companies, including deposit products and settlement services. PSB intends to increase commission income through offering clients bundled services.

Consumer loans and credit card loans under payroll schemes and loyalty programs will be PSB priorities in Retail lending in 2009, in addition to commission-based settlement services. Stricter control procedures, including an improved scoring system, and tighter loan underwriting standards will help to efficiently

control overdue loans increase. In addition, PSB will continue to thoroughly monitor loan repayments and will restructure loans in case borrowers have been laid-off or had their salary reduced.

In order to improve efficiency and quality of client service, PSB will continue to promote on-line banking PSB-Retail, and develop new products and partnership programs (banking insurance, co-branding, affinity cards issued in cooperation with charity and non-profit organizations). The focus will be on attracting retail funding through offering a broad range of deposit products, high service quality, as well as development of efficient services to VIP clients through Private Banking.

Investment Banking, including securities market operations and cooperation with financial institutions, is another key component of PSB long-term development strategy. In 2009, the main emphasis of securities market operations

will be on optimizing profitability and risks. Securities portfolio will be enhanced with liquid instruments and will serve an additional source of liquidity. Investment Banking will be looking for new sources of fee and commission income, participate in loan restructuring deals and optimize settlement services. Other priorities will include increasing funding from federal and local authorities and state-owned corporations, and refinancing or substituting international borrowings with domestic funding.

#### SALES CHANNELS

In 2009, PSB will continue to optimize its branch network. New outlets will be opened in cities and regions with the biggest business potential, while inefficient outlets will be closed. The key focus will be on reducing costs of sales and costs of service through optimization of business processes, centralization of back-office functions and development of on-line banking services and partner sales channels.



RETURN OF THE EXPEDITION,  
WHICH DISCOVERED GOLD AND  
SILVER ORES, 1491

*Miniature from The Illuminated  
Chronicles, 16th century*

# MANAGEMENT DISCUSSION AND ANALYSIS



THE COUNCIL OF  
PRINCES DMITRY  
IOANNOVICH AND  
VLADIMIR  
ANDREYEVICH  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

AMID DETERIORATING CONDITIONS IN THE RUSSIAN ECONOMY AS A WHOLE AND ITS FINANCIAL SECTOR IN PARTICULAR, IN H2 2008 PSB CONTINUED TO GROW FASTER THAN ITS COMPETITORS, WHICH ALLOWED THE BANK TO MOVE UP IN THE RUSSIAN BANKS RANKING TO 11<sup>TH</sup> PLACE BY ASSETS.

## 2008 KEY FINANCIAL HIGHLIGHTS:

- Total assets grew by 57% to RUB 462 billion;
- Total shareholders' equity rose by 44% to RUB 40 billion;
- Operating income increased by 81% to RUB 28.2 billion;
- Cost-to-income ratio dropped to 43.8%, an improvement from 51.3% in 2007;
- Net provision charge for impairment losses totaled RUB 13.7 billion or 48.6% of operating income, up from 16.6% in 2007;
- Profit for the year amounted to RUB 1.6 billion, a decline of 58% against 2007;
- Total capital adequacy ratio as at 31 December 2008 was 13.14%, slightly down from 13.51% posted at YE 2007;
- Tier 1 capital ratio was 9.70%, up from 9.41% at YE 2007.

Weaker bottom line reflected a significant deterioration of the Russian economy and the financial sector in H2 2008, which caused worsening loan quality and a corresponding increase in provisioning for impairment – the key negative P&L driver for PSB in 2008. In addition, given a de-facto shutdown of both global and domestic capital markets, lack of liquidity in the banking sector and credit crunch in the economy, as well as a free fall of main stock market indices, PSB's primary focus was on maintaining low-margin liquid assets at significantly higher levels than prior to the crisis, which unavoidably affected the financial result.

At the same time, the strong growth of operating income, rooted in PSB's expanding customer base, represented the key positive P&L driver, which brought about a material improvement of the cost-to-income ratio. Another positive driver included enhanced overheads controls and modernized accounting systems; combined with measures aimed at increasing productivity, these resulted in revenues significantly outpacing expenses (81% and 55% annual growth, respectively).

Based on H1 2008 results, the management reviewed PSB asset growth plans, which brought the assets growth rate in H2 2008 down to 21% from 30% in H1 2008. However, in 2008 PSB grew faster than its competitors, which allowed it to improve the ranking position and become No. 11 bank by assets in Russia. Shareholders' equity was boosted by two share issues in the total amount of RUB 8.3 billion, placed among the existing shareholders. Amid the exacerbating global financial crisis in H2 2008, the possibilities of expanding the shareholder base and raising capital in the international capital market weakened. Coupled with the continued policy of full profit retention, the two share issues at PSB led to a slightly improved tier 1 capital ratio.

#### OTHER FINANCIAL HIGHLIGHTS:

- Net interest income rose by 81% to RUB 22.0 billion;
- Net fee and commission income doubled to RUB 4.7 billion, with its share in operating income increasing to 16.7%, up from 15.2% in 2007;
- Loans to customers, net of allowance for impairment losses increased by 44% to RUB 300.4 billion, which made up 65% of total assets (down from 71% at YE 2007);
- Customer deposits and current accounts rose by 63% to RUB 230 billion and accounted for 54% of total liabilities (up one percentage point from YE 2007).

The share of net interest income in operating income remained at a high 78% as PSB focused on its core business – customer lending – and reduced both the volume and the duration of its fixed income portfolio in times of increased financial market volatility. As PSB priorities in H2 2008 were on attracting customer funding and increasing the liquidity cushion, this resulted in a reduced share of loans and an increased share of customer deposits on the Bank's balance sheet. Deposits of state and local authorities were the fastest-growing funding component (five-fold growth in 2008). PSB also demonstrated its ability to compensate for the reduced access to international funding by the inflow of corporate term deposits, which doubled in 2008. Similarly, the growth in retail deposits at PSB (by 51% to RUB 53 billion) significantly outpaced the 15% Russian market average (as calculated from CBR data).

#### KEY FINANCIAL METRICS:

- Return on average equity of 4.6% (2007: 17.4%);
- Return on average assets of 0.4% (2007: 1.6%);
- Net interest margin of 6.7%, up from 6.2% in 2007;
- Liquid assets made up 28% of PSB balance sheet at YE 2008, up from 23% at YE 2007;
- Net loans to customer deposits ratio declined to 131%, from 148% at YE 2007;
- Non-performing loans (NPL) totaled RUB 8.9 billion, or 2.8% of gross loans before impairment charge, up from 0.7% at YE 2007;
- Coverage of gross loans by allowance for impairment increased to 5.8% from 2.4% in 2007, reflecting higher credit risks amid the economic downturn;
- NPL coverage by total impairment allowance declined to 208% from 365% at YE 2007;
- The aggregate amount of large loans (i.e. those exceeding 10% of shareholders' equity) accounted for 15.2% of gross loans, up from 11.4% at YE 2007;
- The aggregate amount of ten largest customer deposits and current accounts accounted for 38.3% of total customer deposits and current accounts, up from 21.6% at YE 2007.

## OVERVIEW OF 2008 FINANCIAL RESULTS

### NET INTEREST INCOME

Net interest income increase by 81% year-on-year was mainly driven by the strong growth of interest income from loans to customers (92% of total interest income in 2008 against 89% in 2007). Interest income from financial assets at fair value through profit or loss was the second biggest source of interest income, with a share in the total interest income at just 3%.

Interest expense grew at a slower pace than interest income, which resulted in a net interest margin increase to 6.7% from 6.2%. The biggest share of interest expense (47%) was attributable to current accounts and deposits from customers (40% in 2007) followed by

deposits and balances from financial institutions (25%), including resources provided to PSB for financing its clients' trade and project finance deals; own securities issued (19%) and other borrowed funds (8%). The sharp decline of the latter (to 8% from 14%), mostly comprised of syndicated loans with floating rates, was due to lower LIBOR rate in 2008 compared with 2007.

#### NET NON-INTEREST INCOME

The sources of fee and commission income, which in line with PSB strategy represent the bulk of non-interest income, remained well diversified and included documentary operations (23% of the total fee and commission income), money transfer fees (19%), servicing of plastic cards (16%), foreign currency operations (12%), operations with cash (11%), and banknote operations (6%).

PSB posted a RUB 1.8 billion net loss on trading securities (2007: net loss of RUB 124 million), attributable to the financial markets meltdown in 2008 as the Bank reduced its trading book and realized losses. However, interest income on securities and reverse repos in the amount of RUB 2.4 billion overcompensated for the trading loss. In addition, thanks to increased exchange rate volatility in 2008, PSB posted net foreign exchange (FX) gain of RUB 2.1 billion, combining net FX trading gain and net FX translation gain.

#### LOAN IMPAIRMENT ALLOWANCE

The loan impairment allowance increased more than threefold and as at 31 December 2008 amounted to RUB 18.5 billion. This increase was due to additional provisioning of RUB 13.2 billion net of a RUB 529 million write-offs.

#### OPERATING EXPENSES

General and administrative expenses increased by 55% to RUB 12.4 billion, driven by growth in employee compensation (in 2008, PSB headcount increased to 9.7 thousand employees from 7 thousand as at YE 2007), advertising and marketing expenses, costs of communications and information, and business development-related expenses.

Concurrently, PSB management implemented cost control measures, including a phase-by-phase implementation of the SAP-based management system and optimization of the branch network and staffing numbers. Operating expenses increased at a slower pace than revenues (55% and 81%, respectively), leading to an improved cost-to-income ratio at 43.6%, down from 51.3% in 2007. Other indicators indicating the improved operating efficiency include

a higher assets-per-employee ratio, as well as a low (2.7%) cost-to-assets ratio, unchanged from previous year.

#### LOANS TO CUSTOMERS

Gross loans to customers continued to grow rapidly in 2008 (up 49%). Loans to corporate clients (up 42% in 2008) accounted for the bulk of the loan book, yet the share shrank from 83% to 78% of gross loans, following even faster growth of loans to retail and SME customers. Keeping loan quality under control in times of an economic downturn and borrowers' inability to refinance maturing obligations became the main issue in lending in 2008. The proportion of loans overdue 90 days and more increased as follows: in corporate loans – from 0.15% to 1.37%, in SME loans – from zero to 1.89%, and in retail loans – from 3.94% to 10.54%. Furthermore, the level of restructured loans also increased, namely to 2.4% in corporate loans and 1.3% in SME loans.

#### TRADING SECURITIES PORTFOLIO

PSB trading securities were down from 9% to merely 3% of total assets, as the Bank continued to reduce dependency on the financial markets amid high volatility and reclassified trading securities in the amount of RUB 6.8 billion as investments held to maturity, aiming to decrease the impact of negative foreign exchange revaluation on the financial result. As at 31 December 2008, listed Russian corporate bonds comprised the bulk of the trading securities portfolio (44% of the total, up from 19% in 2007). PSB did not hold any material equity investments.

#### CUSTOMER FUNDING

In 2008, current accounts and deposits from customers rose sharply by 63% to RUB 230 billion, or 54% of total liabilities. Funding from corporate clients (68% of the total) was up 53% year-on-year. Particularly noteworthy was PSB's ability to compensate for the reduced access to international funding by increasing term deposits inflow from corporate customers (up 98% in 2008). Deposits from state and local authorities were the fastest-growing funding component, having grown five-fold from the previous year level. The growth in retail deposits at PSB (by 51% to RUB 53 billion) significantly outpaced the 15% Russian market average (as calculated from CBR data).

#### MARKET FUNDING

Funding from foreign financial institutions and market borrowings includes Eurobonds, RUB-denominated bonds, syndicated loans and

other borrowings. The total volume of such funding rose in 2008 by 37% to RUB 60 billion, or 14% of the total PSB liabilities (4 percentage points lower than in 2007). Unsubordinated and subordinated loan participation notes (Eurobonds) accounted for the bulk of market funding at RUB 26.8 billion, followed by syndicated loans (RUB 22 billion). The syndicated loans mature in 2009-2012, and as at the end of Q1 2009, PSB successfully repaid two syndicated loans in the total amount of US\$ 375 million, with no recourse to refinancing. Unsubordinated Eurobonds mostly have longer maturities, falling due in October 2010 and 2011, as well as in July 2013. The nearest subordinated loan maturity is in December 2011.

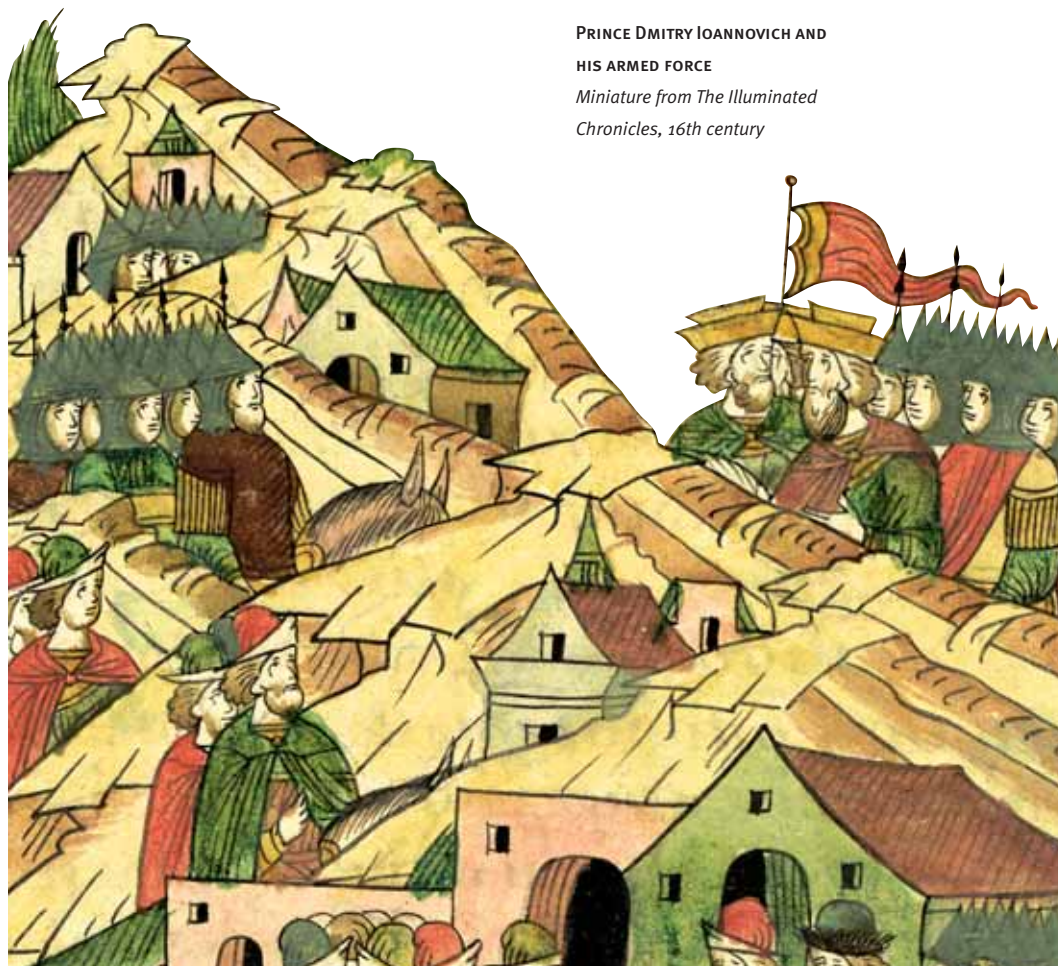
#### SHAREHOLDERS' EQUITY

In 2008, shareholders' equity increased by 47%, or by RUB 12.3 billion. The increase was mainly driven by: (a) two additional share issues totaling RUB 8.3 billion; (b) shareholders' commitment to full profit retention (RUB 2.7 billion); and (c) fixed assets revaluation net of deferred tax (RUB 768 million).

#### SUBSEQUENT EVENTS

In January-February 2009, PSB reduced deposits received from the Bank of Russia from RUB 57.5 billion to RUB 27.2 billion.

On 9 March 2009, PSB repaid in advance a US\$ 175 million syndicated loan. As per the terms of the loan agreement, the loan was due on 24 April 2009.



PRINCE DMITRY IOANNOVICH AND  
HIS ARMED FORCE

*Miniature from The Illuminated  
Chronicles, 16th century*



**HANDICRAFT AND TRADE QUARTER**

*Miniature from The Illuminated Chronicles, 16th century*

# 4

- CORPORATE BANKING
- STATE FINANCING
- SMALL AND MEDIUM ENTERPRISES
- INTERBANK COOPERATION
- INVESTMENT BANKING
- RETAIL BUSINESS
- PRIVATE BANKING

# CORPORATE BANKING



HANDICRAFT AND  
TRADE QUARTER  
Miniature from  
*The Illuminated  
Chronicles*,  
16th century

## CORPORATE LENDING DEMONSTRATED A STRONG OVERALL GROWTH. PSB SOLIDIFIED ITS POSITIONS IN FACTORING AND INTERNATIONAL FINANCE

### CORPORATE LENDING

Corporate lending is one of PSB key areas of operation.

PSB Corporate Banking provides services to clients with an annual turnover of more than RUB 540 million. PSB offers clients a wide range of lending products: loans and lines of credit, including those with drawdown limit and debt ceiling, overdrafts, promissory notes, and bank guarantees. These products enable clients to meet their financing needs for day-to-day operations, investments, working capital and business development.

In 2008, PSB promptly reacted to the deteriorating market environment amid the global financial crisis. Specifically, the Bank enhanced monitoring of the situation in various industries, established strategic sector priorities, tightened loan underwriting criteria, while conducting a frequent and thorough

analysis of the loan portfolio. Priority was given to companies with a positive credit history at the Bank, which operate in sectors less vulnerable to the crisis. All these measures aimed at maintaining a high loan portfolio quality.

Customer focus and efficient credit risk management allowed PSB to strengthen its position in corporate lending in Russia.

In the corporate loan portfolio (excluding factoring and international financing), loans and credit lines stood for the biggest share at 84.2%; domestic bank guarantees accounted for 13.5 %, and overdrafts - for 2.3 %.

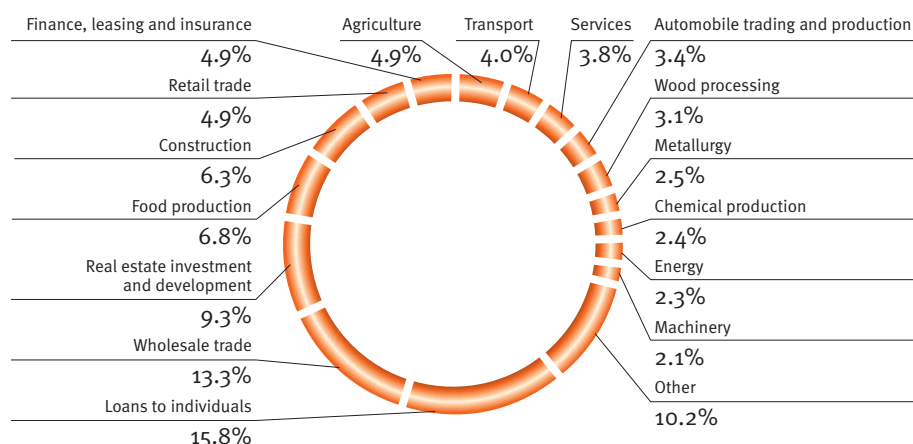
Lending to the real sector of the economy remained a key priority for PSB Corporate Banking. As at 31 December 2008, loans to real sector companies accounted for about 80%. PSB significantly expanded cooperation with trans-

### SHARE OF BUSINESS SEGMENTS IN PSB TOTAL ASSETS \*

	2007	2008
CORPORATE BANKING	61.2%	53.5%
INVESTMENT BANKING AND FINANCIAL MARKETS	21.0%	26.8%
RETAIL BANKING	10.8%	10.7%
SME	2.8%	3.8%
OTHER	4.3%	5.2%

\* According to IFRS financial statements

## INDUSTRY BREAKDOWN OF CORPORATE LOAN PORTFOLIO



\*According to IFRS financial statements. Includes Corporate Banking and SME segment

port, telecom and services companies. Due to heightened risks, lending to companies in financial, agricultural and mining sectors declined.

The share of foreign currency-denominated loans in total corporate loan portfolio increased from 44% to 56%. The growth was driven by the increased attractiveness of assets in foreign currencies following the RUB devaluation, while the Bank was managing the portfolio currency structure using varying interest rates. At the same time, the Bank considered all factors that could support its ability to service debt during the period of weak ruble.

The maturity profile of the corporate loan portfolio remained well balanced: the share of short-term loans with maturity of up to one year reached 42.4% of the total corporate loan portfolio.

The structure of the regional loan portfolio reflected the scale of PSB operations in Russia's regions. With 30.7% share of the portfolio, PSB branches in the Siberian Federal District stood for the biggest share, driven by local branches' broad-based efforts to generate new and develop existing client business. The Central and Northwestern Federal Districts also accounted for significant shares of the portfolio.

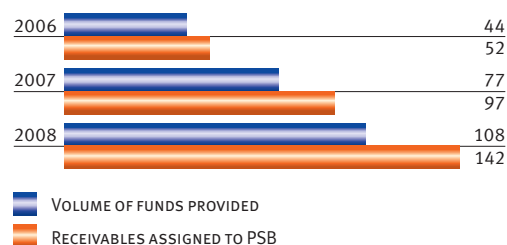
In June 2008, PSB confirmed its status as an authorized bank for the Federal Customs Service. PSB head office and 38 branches across Russia are authorized to issue bank guarantees for customs duty payments. The Bank intends to continue a mutually beneficial cooperation with major customs brokers, forwarders and bonded warehouse owners in the area of bank guarantees.

## FACTORING

In 2008, PSB continued to expand its factoring business. During credit crunch factoring becomes

one of the few financing instruments available for trading and manufacturing companies. While adhering to its traditionally conservative approach to assessment of potential risks, PSB continued to provide factoring services to corporate clients without suspending its services for a single day. The volume of accounts receivable assigned to PSB in 2008 reached RUB 142 billion, up 47%. The volume of funds provided by PSB to its clients was up 40% year-on-year, to RUB 108 billion.

### VOLUME OF ASSIGNED RECEIVABLES, RUB BILLION

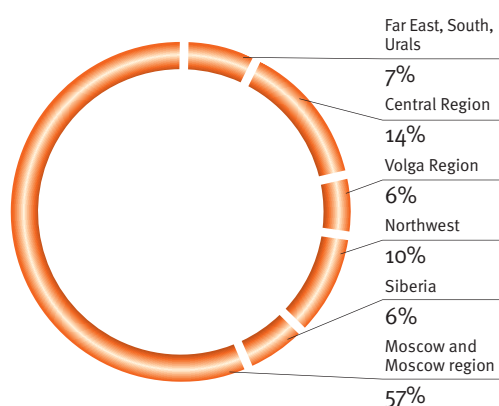


As at 1 January 2009, PSB factoring portfolio was RUB 22.4 billion.

In 2008, PSB entered into 505 factoring agreements, of which 345 were generated by the Bank's regional branch network. The number of regional branches providing factoring services increased to 46 in 2008. Based on the 2008 annual results, the share of branches in the total volume of assigned receivables stood at 43%. Branches in the Central, Northwestern, Siberian and Volga Federal Districts had the largest factoring volumes. Overall, about 700 thousand deliveries to 4,900 debtors were turned over to PSB for factoring.

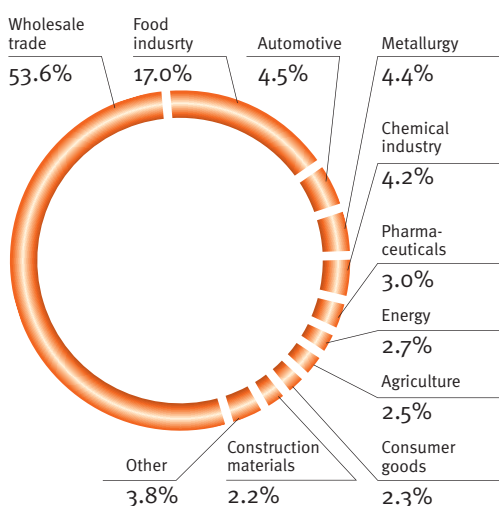
In 2008, the industry breakdown of PSB factoring portfolio remained essentially unchanged. As before, the portfolio was dominated by wholesale trading companies and manufacturers.

## REGIONAL BREAKDOWN OF ASSIGNED RECEIVABLES



Due to higher risks amid the economic crisis, the share of clients in industries that are more vulnerable to crisis (e.g. construction, metallurgy, fuels and lubricants) declined.

## INDUSTRY BREAKDOWN OF ASSIGNED RECEIVABLES



In 2008, PSB continued to develop international factoring operations. The share of export transactions in PSB total factoring portfolio increased to 11.4% as at YE 2008, from 8.7% a year earlier. In import factoring, the Bank issued 20 guarantees totaling RUB 360 million. According to Factors Chain International (of which PSB has been the member since 2003 and full member since 2007), PSB 2008 market share was 74% in export factoring and 73% in import factoring. PSB continued to actively cooperate with factoring companies and banks in Germany, Denmark, Canada, China, Slovenia, Taiwan, Turkey, Ukraine, France, the Czech Republic, South Korea, etc.

According to an independent rating agency Expert RA survey, PSB market share in factoring increased to 23.5% in 2008. Thus, the Bank became a leading factoring supplier in Russia. PSB remained a No. 1 bank by the volume of receivables and maintained its leading position in international factoring.

## INTERNATIONAL FINANCE

In 2008, the volume of PSB international finance transactions totaled US\$ 3.4 billion, reflecting a 41.6% year-on-year growth. Short- and medium-term (up to 3 years) trade finance deals accounted for US\$ 3.0 billion of the total, while long-term (up to 10 years) project finance deals, in which export credit agencies were often involved, accounted for remaining US\$ 402 million.

Despite further deepening of the global financial crisis throughout 2008 and its negative impact on the Russian economy, international finance products remained in demand as they allowed PSB clients to import commodities, machinery and equipment and press ahead with their investment projects.

## INTERNATIONAL FINANCE PORTFOLIO GROWTH, US\$ MILLION

2001	19
2002	103
2003	308
2004	595
2005	823
2006	1461
2007	2400
2008	3400

The growth of international finance volumes in 2008 was mainly driven by a significant growth numbers in the first three quarters. Crisis notwithstanding, PSB was able not only to upkeep the positive trend in Q4 2008 but also to maintain its leading position in international finance among Russian banks. This was particularly noteworthy given the scarcity of financial resources, higher costs of borrowing and shorter maturities.

Trade finance instruments are universal and can be used for deliveries of commodity inputs in manufacturing, consumer goods, machinery and high-tech equipment, or even for football transfers. PSB's broad client base in international finance includes leading companies in wholesale, retail, machine-building, metallurgy, chemical and petrochemical industries and food production.

Thanks to PSB's broad range of trade finance instruments, which include standard products (such as foreign currency-denominated commercial letters of credit (L/Cs) with post-financing and guarantees) and innovative products (such as RUB-denominated L/Cs with post-financing, and trade credits), in 2008, PSB clients not only gained access to financial resources enabling them to pay their foreign suppliers, but also significantly increased

the volume of purchases from the Russian subsidiaries of international manufacturers.

Long-term financing (mainly under guarantees of export credit agencies) enabled PSB clients to purchase complex engineering equipment, machinery and vehicles for upgrading their existing facilities and supporting business development. PSB cooperates with 20 export credit agencies in Europe, Asia and North America.

In 2008, international finance instruments provided by PSB helped to implement a significant number of projects in the transport, food, manufacturing, oil, forest, and metallurgy industries. In July 2008, under the federal program for aviation development, PSB provided a US\$ 9.25 million 5-year international finance loan to Region-Avia Group of companies, for the acquisition of seven Embraer-120 planes, and helped Transaero airlines to increase its fleet of Boeings.

In addition, PSB continued to provide project financing to the wood processing industry. PSB arranged a 14 million 7-year loan facility to finance a sawmill construction and equipment purchase for the Transles wood processing plant in the Krasnoyarsk region, which was launched at the end of 2008. Financing had been raised under PSB's agreements with several German banks and with the involvement of Euler-Hermes, a German export credit agency.

PSB can offer its clients comprehensive solutions in both trade and long-term financing. For instance, in 2008, PSB arranged a US\$ 88 million trade finance loan to PRODIMEX Holding for the purchase of raw sugar in Brazil. Besides that, PSB has participated in several of the company's investment projects since 2006 and provided financing for purchases of modern sugar plant equipment and agricultural machinery.

SELECTED LONG-TERM PROJECT FINANCE DEALS

 LLC «Intertechelectro-New Generation» Construction of Noyabrsk Combined-cycle Power Plant <b>€25 000 000</b>	 InterLeasing Acquisition of Equipment <b>€3 200 000</b>	 Moscow Region Resorts Resort & SPA Renovation <b>€10 030 000</b>	 ПРОДИМЕКС PRODIMEX Financing of Equipment and Agricultural Machinery Purchase <b>\$8 400 000</b>	 Регион АВИА RegionAvia Airplane Fleet Upgrade <b>\$9 250 000</b>	 OJSC «Rosdorleasing» Acquisition of Railway Tank-cars <b>\$24 000 000</b>
 ТРАНСАЭРО Transaero Airplane Fleet Upgrade <b>\$114 000 000</b>	 Трансфлот Transflot Fleet Upgrade <b>\$12 320 000</b>	 ООО ТРАНСЛЕС TRANSSLES Construction of, and Equipment for Woodworking Enterprise <b>€14 000 000</b>	 SACE Purchase of Imported Equipment for Production of Heat-insulating Slabs and Self-adhesive Membrane <b>€8 800 000</b>	 RIMSCO Fleet Upgrade <b>\$4 000 000</b>	

SELECTED TRADE FINANCE DEALS

 БТК Home Appliances and Electronic Devices Deliveries Financing <b>\$14 000 000</b>	 ЕВРОПЛАСТ EUROPLAST Financing of PET Granulate Deliveries <b>\$47 000 000</b>	 Фвросеть EUROSET Financing of Mobile Phone Deliveries <b>\$95 500 000</b>	 КРИОГЕНМАШ CryogenMash Export Contract Financing <b>€12 500 000</b>	 МИР MIR Financing of Household and Electronic Appliance Deliveries <b>\$19 900 000</b>	 МАШИ ГРУПП MAXI Group Pre-export Financing of Rolled Metal Deliveries <b>\$55 700 000</b>
 New Line Техника New Line Technics Financing of Agricultural Machinery Deliveries <b>€11 000 000</b>	 ОПТИФУД OPTIFOOD Financing of Foodstuffs Deliveries <b>\$48 000 000</b>	 ПРОДИМЕКС PRODIMEX Financing of Raw Sugar Deliveries <b>\$88 000 000</b>	 ОРБК RBK Financing of PVC Deliveries <b>\$19 000 000</b>	 РК ТЕЛЕКОМ RK Telecom Financing of Telecommunication Equipment Deliveries <b>\$22 700 000</b>	 РЕГЕНТ REGENT Financing of Stretch Film Deliveries <b>\$38 600 000</b>
 «РАЗГУЛАЙ» Group OJSC Financing of Raw Sugar Deliveries <b>\$67 730 000</b>	 СВЯЗНОЙ SVYAZNOY Financing of Mobile Phone Deliveries <b>\$90 000 000</b>	 спортмастер SportMaster Financing of Sportswear and Sports Gear Deliveries <b>\$100 000 000</b>	 ТАГАЗ TAGAZ Financing of Vehicle Set Deliveries <b>€108 400 000</b>	 ТЕХНОСЕРВ TECHNOSERV Financing of IT Equipment Deliveries <b>\$30 000 000</b>	 ЭЛЬДОРАДО ELDORADO Financing of Household and Office Appliance Deliveries <b>\$121 000 000</b>
 fly FLY Financing of Mobile Phone Deliveries <b>\$158 000 000</b>	 joint fruit company JFC Financing of Fruit Deliveries <b>\$35 687 000</b>	 merlion MERLION Financing of PC Component Deliveries <b>\$95 000 000</b>	 OCS OCS Financing of IT Equipment Deliveries <b>\$77 100 000</b>	 ТРБ TRB Pre-export financing of Oil Product Deliveries <b>\$108 500 000</b>	

# STATE FINANCING



MEETING OF  
PRINCE YURY  
DOLGORUKIY  
WITH PRINCE  
SVYATOSLAV  
OLGOVICH, 1147  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

## CLIENTS BENEFIT FROM A ONE-STOP SHOP APPROACH OFFERED BY PSB, WHICH ALLOWS PARTIES TO DEVELOP A LONG-TERM RELATIONSHIP.

The developments in 2008, which ranged from a robust economic growth to the collapse of global and national financial markets and economic downturn, proved PSB strategy to establish a separate Government Relations Department, responsible for providing the full spectrum of banking services to public authorities and state-owned corporations. Unlike most other Russian banks, PSB management started implementing this strategy already in 2007.

Today, this business segment offers services both on the asset and the liability side of the balance sheet, including attracting temporarily available funds of state and local authorities, state-owned corporations, and municipal and federal contractors; offering settlement and cash services to new public-sector clients; and providing loans to executive agencies and private-sector contractors involved in government contracts, public-sector procurements, etc.

The «one-stop shop» approach offered by PSB to its clients among local and regional authorities seems to be well understood and appreciated. Such an approach allows PSB to objectively assess clients' needs, and for both parties to develop long-term relationships, accommodate mutual economic interests, exer-

cise comprehensive control over subordinated agencies, and monitor the implementation of local development projects.

In 2008, PSB achieved meaningful practical results in the area. In particular, PSB signed general agreements with the Russian Ministry of Finance and the Housing and Utility Reform Fund regarding placements of temporarily available federal budget funds with PSB. The Bank is also an authorized bank for the city of Moscow, a number of regional and local administrations and state-owned corporations. Cooperation between the Bank and state and local authorities helped to attract new clients (mainly as depositors) from among state-owned enterprises, government and municipal contractors. In 2008, state financing portfolio reached RUB 42.27 billion. As at 31 December 2008, current accounts from state and local authorities totaled RUB 20.7 billion.

### CURRENT ACCOUNTS AND DEPOSITS FROM STATE AND LOCAL AUTHORITIES, RUB MILLION

01.01.2008		4021
01.04.2008		4721
01.07.2008		6999
01.10.2008		19509
01.01.2009		20665

In mid-2008, PSB launched the lending program to state and local authorities and extended loans in the total amount of US\$ 400 million to the city of Yaroslavl, Rostov municipal area in the Yaroslavl region, and the city of Ulan-Ude. With the financial crisis deepening in the autumn of 2008, the Bank had to review its public lending program.

PSB currently provides financing to approximately 20 projects in 15 Russian regions, including Bryansk, Volgograd, Vologda, Kaliningrad, Kirov, Omsk, Orenburg, Samara, Saratov, Tomsk and Tula. In addition, PSB has signed cooperation agreements with the regional administrations of Vladimir, Ivanovo, Samara and Sverdlovsk, which potentially provide PSB with the status of a strategic partner in a respective

region and aim at developing long-term partner relationships with the view to achieve the administrations' social and economic objectives. PSB's lending program helps the Bank to attract new clients from among municipal contractors and public sector organizations.

In summary, 2008 may be considered as a pilot year for PSB's GR business segment. The Bank proved the efficiency of its approach to business development and objective-setting, put in place and tested internal business processes and procedures (from initiating a proposal to achieving financial results). GR faces a bold and ambitious agenda in 2009, as the entire branch network will get involved in business development. This will allow the Bank to offer services to public authorities in all Russian regions.

MEETING OF  
PRINCE YURY  
DOLGORUKIY  
WITH PRINCE  
SVYATOSLAV  
OLGOVICH, 1147  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*



# SMALL AND MEDIUM ENTERPRISES



CONSTRUCTION UNDER THE SUPERVISION OF AN ITALIAN ARCHITECT ALEVIZ FRYAZIN (ALOISIO THE NEW)  
Miniature from *The Illuminated Chronicles*, 16th century

HAVING LAUNCHED AT THE END OF 2007 A NEW SME LENDING PROGRAM, BY THE END OF 2008 PSB BECAME ONE OF RUSSIA'S LEADING BANKS BY THE VOLUME OF SME LOAN PORTFOLIO.

## SME LOAN PORTFOLIO

Launched in September 2007, during 2008, PSB lending program for small and medium enterprises (SMEs) was implemented in all PSB branches across the country. PSB staff in the SME business segment reached 600.

By the end of the year, SME product range encompassed 7 lending products and 3 deposit products.

PSB offers its clients standard loans, including uncollateralized ones, and special products catering to the individual needs of borrowers, such as loans for acquisition/upgrade of plant and equipment, transport vehicles and special machinery. The key advantages of PSB lending products are a flexible approach to collateral, fast decision-making and the possibility to obtain long-term financing at competitive rates.

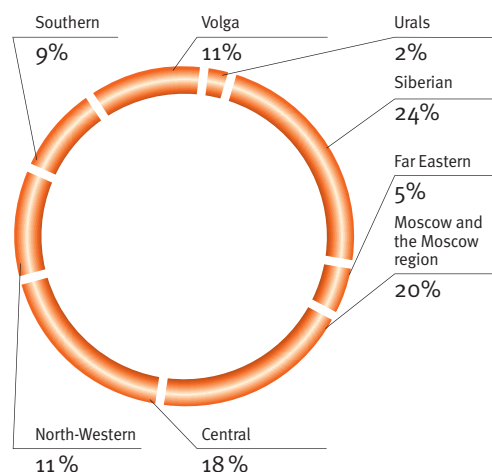
### SME LOAN PORTFOLIO IN 2008, RUB MILLION

1 Q		10 866
2 Q		15 179
3 Q		19 053
4 Q		18 886

In 2008, PSB provided RUB 20,089 million in SME loans, which reflects a 132% year-on-year

growth. The number of SME clients reached 6,500. Totally, 5,768 loans were issued, with the average loan amount of RUB 3.5 million and the average loan maturity of 2.1 years. As at YE 2008, the share of regional SME clients in the loan portfolio reached 80%, reflecting a strong client demand for the Bank's lending products all over Russia.

### SME LOAN PORTFOLIO IN 2008, BY FEDERAL DISTRICT



With a 47% share in SME loan portfolio, one- and two-year loans were most popular among clients. Such loans are usually raised for

small investments in transport vehicles and equipment. These were followed by loans with maturities of up to one year (28%), commonly used to finance working capital. Loans with maturities of over two years represented 26% of the total: these are typically used to finance entrepreneurs' investment projects.

The range of SME products is not limited to lending alone, as PSB also offers its clients settlement and cash services, promissory notes and deposit products specifically tailored to SME audience. Deposits with possibilities to make additional contributions/withdrawals

allow SMEs to effectively manage working capital depending on their business specifics. As at YE 2008, funding from the SME segment reached RUB 3.3 million.

Having become one of Russia's top 5 banks by SME loan portfolio in 2008, PSB intends to further expand its portfolio in 2009, with a particular focus on loan quality. The Bank expects to achieve this goal by expanding product offering, introducing special terms for regular clients and developing partnership programs, including cooperation with regional Funds for SME Support.



**CONSTRUCTION  
UNDER THE  
SUPERVISION  
OF AN ITALIAN  
ARCHITECT ALEVIZ  
FRYAZIN (ALOISIO  
THE NEW)**

*Miniature from  
The Illuminated  
Chronicles,  
16th century*

# INTERBANK COOPERATION



VASILY II, THE GRAND PRINCE OF MOSCOW, MEETS WITH LITHUANIAN DUKES, POLISH AND CZECH KINGS AND THE CARDINAL OF ROME, 1430

*Miniature from The Illuminated Chronicles, 16th century*

THROUGHOUT THE YEARS, PSB HAS BEEN ONE OF THE MOST ACTIVE PLAYERS IN THE INTERBANK MARKET AND THE RUBLE-DENOMINATED PAYMENT SERVICES MARKET, AS WELL AS A WELL-ESTABLISHED PARTICIPANT IN TRADE FINANCE AND INTERNATIONAL CAPITAL MARKETS.

Despite turbulent financial markets, PSB continued broad-based cooperation with Russian and foreign financial institutions. PSB foreign representative offices in Kiev (Ukraine), Bishkek (Kyrgyzstan), Beijing (China) and Delhi (India), as well as a branch in Cyprus have traditionally supported such cooperation.

Provision of settlement services to correspondent banks remains an important area for PSB business development. The Bank's reputation of a highly reliable partner, its cutting-edge IT infrastructure and individual approach to each partner drive its long-term partner relationships. PSB correspondent bank network includes banks in Russia, CIS and other countries. The growth of correspondent account balances in 2008 and a continued expansion of correspondent bank network reflected PSB partners' strong confidence in the Bank. As at YE 2008, the number of correspondent banks increased by 33 to 351, while the number of correspondent accounts opened by PSB reached 912.

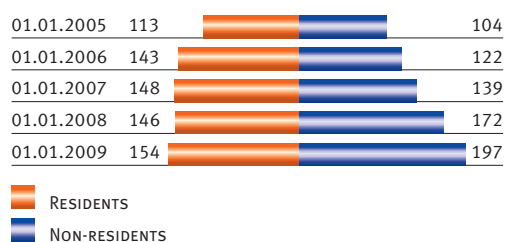
Differentiated fees, a choice of telecommunication system, and long office hours have

helped PSB to remain one of the most active banks in the interbank market and a provider of settlement services to correspondent banks for many years. A proven track-record and a positive image allowed the Bank to boost the scale and geography of its business operations through opening ruble Loro accounts and offering settlement services to major international financial institutions. In 2008, Commerzbank AG (Germany) appointed PSB its correspondent bank for RUB settlement operations.

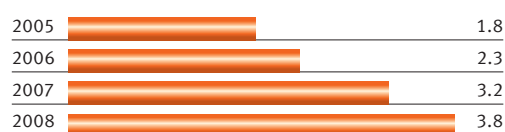
In December 2008, PSB signed an agreement with the Customs Clearing System (OOO "Tamozhennaya Platyozhnaya Systema"), under which PSB was appointed a settlement agent for customs duty settlements between the System members.

For a number of years, PSB has actively promoted cooperation with Russian and CIS financial institutions in the area of trade finance. As a result, the volume of trade finance operations was up 30% to US\$ 155 million in 2008, from US\$ 115 million a year earlier.

## GROWTH IN THE NUMBER OF CORRESPONDENT BANKS



## AVERAGE MONTHLY LORO ACCOUNT BALANCES, RUB BILLION



PSB maintained and expanded its correspondent Nostro account network for clients' settlement operations in foreign currency. As at YE 2008, PSB correspondent network consisted of 50 accounts in key currencies in leading international and CIS banks. PSB correspondent banks appreciate the quality of PSB foreign currency settlement processing. In 2008, for the fourth year running, Deutsche Bank awarded PSB its 2007 US\$ STP Excellence Award for operational excellence in international settlements. In addition, the Dresdner Kleinwort awarded PSB with a diploma in recognition of its superior work in the field of international settlements.

Thanks to its vast international experience in the area and partner confidence in PSB business model, the Bank was able to continue mutually beneficial cooperation with international financial institutions in trade and project finance, despite economic slowdown in Q4 2008. Cooperation with over 140 financial institutions around the world helped the Bank to increase its funding base and enhance its capability to finance client operations with the help of unsecured loan facilities and bilateral agreements. In 2008, the total volume of opened credit lines reached US\$ 2 billion. The total volume of international finance deals was up 44.3% to US\$ 3.4 billion.

PSB places a great emphasis on cooperation with international financial institutions. The European Bank for Reconstruction and Development (EBRD) remains an important partner. Such cooperation gains special significance amid the financial crisis. EBRD has been supporting PSB operations in the areas of trade finance, SME lending, etc. In 2008, EBRD awarded PSB as the Most Active Trade Finance Bank in Russia in 2007, and in

early 2009 PSB received another EBRD award as the Most Active Issuing Bank under the Trade Facilitation Program in 2008 in Russia.

## PSB IN CAPITAL MARKETS

Despite the challenging global economic environment in 2008, PSB raised two syndicated loans for the total amount of US\$ 455 million:

- In April 2008, PSB raised a 12-month syndicated loan in the total amount of US\$ 175 million at Libor+1%. The lead managers included Bayerische Landesbank, Calyon, HSBC, Oversea-Chinese Banking Corporation Limited, as well as UniCredit Markets & Investment Banking represented by Bayerische Hypo- und Vereinsbank AG. The loan proceeds were used to finance PSB clients' foreign trade transactions. With a US\$ 25 million oversubscription, the book was allocated between 19 financial institutions;
- In August 2008, PSB successfully raised a 12-month syndicated loan facility in the total amount of US\$ 280 million with a one-year rollover option. The interest rate was Libor+1.2%. Commerzbank AG, Emirates NBD, ICICI Bank Limited (Bahrain Branch), ING Bank N.V. and Raiffeisen Zentralbank Oesterreich AG acted as the Initial Mandated Lead Arrangers of the facility. The book was 60% oversubscribed; the syndicate involved 31 banks from Asia, the Middle East and North Africa, Europe, and North America.

In 2008, PSB timely repaid three syndicated loans in the total amount of US\$ 525 million. The latest repayment for the amount of US\$ 200 million was carried out at the end of 2008, amid severe liquidity crisis in the Russian financial market. All the three loans were repaid using PSB own liquid assets, without recourse to external financing.

In the fixed-income market, PSB successfully placed two Eurobond issues in 2008:

- In January 2008, PSB placed US\$ 100 million 10 non-call 5 subordinated notes due 2018. The notes bear interest at 12.5% rate per annum. The proceeds from the issue were used to redeem the outstanding US\$ 100 million notes from the private placement in July 2007. Lead Managers of the issue were ABN AMRO and HSBC;
- In July 2008, seizing a temporary market opportunity, PSB successfully placed two Eurobond issues. EUR 15 million 8-month

notes were placed in a private placement arranged by HSBC. In addition, the Bank placed a 5-year 10.75% US\$ 150 million Eurobond issue with a put option after 3 years. The Lead Managers for the issue were ABN AMRO, HSBC and VTB Bank Europe. Both issues were placed under the Medium Term Note program registered in 2007.

### OPERATIONS ON THE FOREIGN EXCHANGE AND MONEY MARKET

In 2008, foreign exchange (FX) and money market operations were performed, for the first time, by the Bank's independent unit – FX and Money Market Division. The experience was successful: despite the difficult situation in the banking sector, extreme volatility and credit crunch, the results of PSB FX and money market operations significantly exceeded the targets set for the year.

PSB dealing has traditionally been active in the domestic FX and interbank markets, as reflected in the results of the annual competition organized by the Moscow International Currency Association. PSB ranked 7th in the Best 2008 FX Desk nomination, and 8th in the Best 2008 MM (interbank loan market) Desk nomination, while PSB Head of Deposit Operations Evgeny Voroshnin was yet again recognized as one of the Best MM dealers.

The crisis of confidence, which aggravated in H2 2008, resulted in a significant decrease of PSB

share in the interbank market in 2008. However, going forward, the Bank intends to restore the volume of operations to pre-crisis levels, also considering the CBR support to the Russian banking system. In accordance with the Federal Law On Additional Support Measures for the Russian Financial System, the Bank of Russia included PSB in the list of 14 banks entitled to partial compensation of losses on the interbank market until YE 2009.

According to IFRS financial statements, interest income from placements with banks and other financial institutions in 2008 amounted to RUB 871 million. A visible presence in the interbank market and flexible approach to FX transactions with corporate partners resulted in increased volumes of FX operations, while higher volatility boosted operational margin. Commission income from foreign currency operations reached RUB 675 million. Operations with derivatives also generated a significant income for the Bank. Yet, the launch of the segment's services to corporate clients can be regarded as the main achievement in 2008.

Operations with cash and banknote operations have been important sources for the Bank's fee and commission income in the last five years. In 2008, commission income for operations with cash and on banknote operations were RUB 989 million. Heightened risks in the Russian banking sector and considerable RUB devaluation in H2 2008 drove the burst of activity in this market segment.



ARRIVAL OF SUROZHANIN GUESTS (MERCHANTS FROM THE AZOV SEA), 1356  
Miniature from *The Illuminated Chronicles*, 16th century

# INVESTMENT BANKING



DELIVERY OF STONES FOR THE CONSTRUCTION OF THE MOSCOW KREMLIN, 16TH CENTURY  
 Miniature from *The Illuminated Chronicles*, 16th century

PSB OFFERS ITS CLIENTS THE FULL RANGE OF INVESTMENT BANKING PRODUCTS. THE BANK CONTINUED TO DEVELOP ITS INVESTMENT BANKING BUSINESS DESPITE DIFFICULT MARKET CONDITIONS, AND DURING THE PEAK OF THE 2008 CRISIS SUCCESSFULLY PLACED SEVERAL BOND ISSUES, INCREASED BROKERAGE SERVICES SALES AND MINIMIZED LOSSES ON SECURITIES PORTFOLIO THANKS TO A CONSERVATIVE INVESTMENT STRATEGY.

Investment business is a key component of the Bank long-term development.

### DEBT MARKET OPERATIONS

In 2008, despite massive deterioration of the global market conditions and a virtually

complete shutdown of the Russian debt market in H2 2008, PSB arranged 8 bond issues with the total nominal value of RUB 17.4 billion. Importantly, three issues were successfully placed despite extremely challenging market conditions in August 2008.

Since 2003, PSB has maintained its leadership as public bond issue arranger and underwriter, despite stiff competition. According to Bloomberg, in 2008, PSB ranked 10th among arrangers of RUB bond issues. According to Cbonds bond market information agency, in 2005 – 2008, PSB ranked 11th among arrangers by the number of issues, with a placement participation quota of RUB 39.36 billion. In 2005 – 2008, PSB arranged 36 issues and underwrote 98 issues.

 Tomsk Region RUB Bonds Series 34034 RUB 1 400 000 000 Arranger April 2008	 Promsvyazbank RUB Bonds Series 6 RUB 5 000 000 000 Arranger June 2008	 POLYPLAST RUB Bonds Series 1 RUB 1 000 000 000 Arranger June 2008	 RIATO RUB Bonds Series 1 RUB 507 500 000 Arranger June 2008
 PENOPLEX Finance RUB Bonds Series 02 RUB 2 500 000 000 Arranger July 2008	 Sibirtelecom RUB Bonds Series 8 RUB 2 000 000 000 Arranger August 2008	 SYNTERRA RUB Bonds Series 01 RUB 3 000 000 000 Arranger August 2008	 Ashinskiy metallurgical works RUB Bonds Series 1 RUB 2 000 000 000 Arranger August 2008

By 2009, despite the shutdown of the debt capital markets and falling Russian corporate bond prices, PSB remained one of the most aggressive fixed-income traders in both RUB and FX segments.

In the public foreign currency borrowings market, PSB acted as a lead co-arranger (jointly with Credit Suisse) of two AK Transneft Eurobond issues totaling US\$ 1.65 billion, and co-arranged a US\$ 100 million foreign currency-denominated credit notes issue for ZAO Sibir Service Company.



In July 2008, PSB acted as a broker in the additional ordinary share issue of Far East Shipping Company (FESCO Transport Group), raising more than RUB 15 billion of additional capital for the company through public placement.

In addition, the Bank expanded ruble-denominated investment product range, by arranging commercial paper issues, creating a full-fledged infrastructure for mortgage-backed bond issuance and restructuring public liabilities.

In 2008, the Investment Department team was expanded to include top financial market professionals with experience in Eurobond trading, REPO transactions and fixed-income sales. PSB increased the number of published

industry research and special company reports, while the citation quality and frequency of PSB analytical research also grew in 2008.

## OPERATIONS IN THE SECURITIES MARKETS

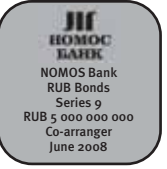
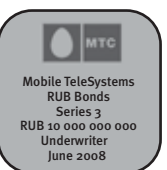
PSB operates on all major trading platforms (MICEX, RTS, over-the-counter market), working with a wide range of instruments, including corporate bonds, sub-federal and municipal bonds, commercial papers, Eurobonds, shares,

FX credit notes and promissory notes.

During the first 10 months of 2008 and based on the full-year results, PSB was the leader in the inter-dealer bond REPO market.

In 2008, the Bank was invariably among top-10 MICEX bond market operators; improved its position among top-5 RUB bond secondary market operators, and was No.1 in the Russian federal bond market.

In 2008, PSB placed a strong focus on co-underwriting operations. The Bank focused on enhancing the resilience of its portfolio to extreme market volatility. This was achieved through the diversification of fixed-income investment instruments, with a focus on the most developed and promising industries. PSB participated in 24 issues totaling more than RUB 11.2 billion, which reflected a 33% year-on-year growth in the number of issues and a three-fold increase in the total issue volume.



In the equity market, PSB adhered to a conservative strategy and active asset management. PSB equity investments have traditionally been very limited (not exceeding 1% of the securities portfolio), which allowed the Bank to minimize losses from negative asset revaluation.

The Investment Banking strategy was tested by the crisis and, considering minimal losses, was recognized as efficient. PSB considers further development of this business segment as an integral component of its value creation.

The key objective for PSB Investment Banking is to expand the product range and offer quality services adapted to current market conditions to corporate clients and partner banks. This will allow the Bank to boost revenue both through sales of investment product and cross sales with other business segments.

Another important objective for the Investment Banking is an efficient management of own securities portfolio with a view to ensure increased return on investments and maintain sufficient liquidity as required by the Bank's Treasury.

### BROKERAGE

Despite high volatility on the equities and debt markets, broker services remained popular with both PSB corporate and retail clients. The number of active clients in 2008 exceeded 1,000, mainly driven by the inflow of clients of insolvent competitors.

Amid high volatility, PSB focused on better service quality and a broader product range. In 2008, PSB undertook a considerable effort to promote on-line brokerage services, which resulted in the increased number of on-line service users by 17%.

To boost revenues and improve client service, PSB offered an expanded range of fees, focusing, as in previous years, on asset management companies managing pension money and military mortgages in the stock market.

In 2008, PSB promptly reacted to ongoing changes in the Russian stock market. Due to the increased FX market volatility, the Bank's import and export revenue hedging services were in high demand by the clients, as were services in the RTS Futures and Options Market (FORTS).

PSB emphasizes professional client advisory services ensuring efficiency of investments appropriate in the current market environment.

Investment advisory, which PSB now offers as an individual product, was very popular with the clients amid high market volatility.

Throughout the year, PSB maintained its position as one of the strongest market players both in terms of service range and the trading turnover.

### CUSTODY SERVICES

With one of Russia's largest custodies, PSB has been offering its clients a full range of depository and related services for all types of securities since 1998. Using up-to-date technologies, PSB ensures a high level of reliability and safety of securities in deposit, offers an individual approach to each client, and promptly responds to clients' needs. The custody news feed on the PSB website promptly informs clients of all material events at issuers whose securities are serviced by the custody.

The Bank's custody services over 1,300 corporate and retail clients, both residents and non-residents (including financial organizations), as well as Russian depositories (11), and asset management companies (40), including mutual fund and non-state pension funds. Over 500 shares, bonds, promissory notes, certificates of deposit, and international financial instruments (Eurobonds, ADRs, GDRs) are currently deposited with PSB custody.

The market value of securities held in customer accounts exceeds RUB 7 billion. The custody has 109 nominal holder accounts with 40 registrars and other depositories, including Russia's leading depositories – the National Depository Center and Depository Clearing Company, as well as the international clearing center Clearstream Banking in Luxemburg. The custody services are fully equipped with special communication facilities for data exchange with clients and superior depositories. PSB custody acts as payment agent for 10 issuers (Sibirtelecom, Kriogen-Finance, Euroset Trading House, Synterra and others).

PSB was the first financial institution to have its custody certified in 2007 by the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD), a self-regulated organization (2007). PSB custody has been assigned the highest reliability rating (AAA) by Infrastructural Institute Fund (INFI) and PARTAD since 2005.

# RETAIL BUSINESS



RUSSIAN ARTISTS  
DECORATE A CATHE-  
DRAL IN MOSCOW,  
16TH CENTURY  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

TODAY, PSB HAS MORE THAN 900 THOUSAND RETAIL CUSTOMERS. THE BANK'S NEAR-TERM PRIORITIES INCLUDE IMPROVING THE QUALITY OF ITS SERVICES AND STRENGTHENING ITS POSITION AMONG MARKET LEADERS IN RETAIL BANKING.

## RETAIL LENDING

During the first three quarters of 2008, PSB continued to expand its retail lending operations. By the end of Q3 2008, the retail loan portfolio was up 1.7 times to RUB 50.9 billion. The number of borrowers also increased 1.6 times to more than 180,000. Introduction of new products and efforts taken by PSB branch network were the key growth drivers. According to 2008 results, retail loan portfolio exceeded RUB 1 billion at 17 branches, and RUB 1.5 billion at 4 branches in Volgograd, St. Petersburg, Omsk and Rostov.

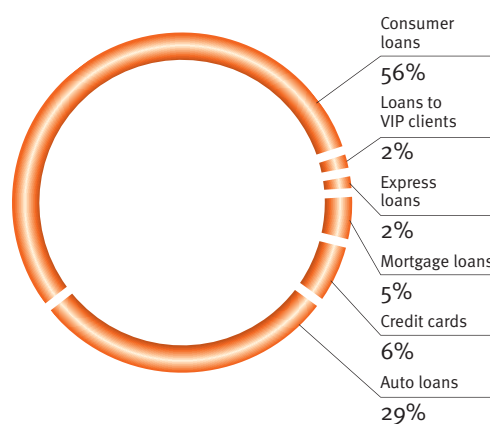
### RETAIL LOAN PORTFOLIO GROWTH, RUB MILLION

1 Q	34 910
2 Q	43 987
3 Q	50 905
4 Q	50 378

Consumer loans dominated the retail loan portfolio, with more than 74 thousand loans totaling RUB 18.2 billion. PSB's focus was on providing standard loans with lowest levels of risk. Auto loans demonstrated robust growth,

with more than 13 thousand loans granted in 2008. As at 1 October 2008, the auto loan portfolio was up 1.5 times to RUB 15.2 billion.

### RETAIL LOAN PORTFOLIO STRUCTURE AS AT DECEMBER 31, 2008



With the economic crisis unfolding in Q4 2008, PSB reviewed its retail lending strategy. The main task was modification of the lending process and credit underwriting in order to minimize risks, and adaptation of the product range to the new market environment.

PSB also reviewed its client strategy, shifting focus toward servicing existing clients with a good credit history with the Bank, as well as employees of big corporate clients. Loan limits and maturities were reduced, while priority was given to commission-based products. Auto loan and mortgage programs were significantly trimmed back.

To minimize risks associated with new lending, the decision-making function was transferred from branches to the HQ level, while underwriting standards were considerably tightened.





In 2009, the Bank will continue managing risks and returns on the existing loan portfolio, further improve the lending process, develop a new product range based on advanced technologies, continue to develop loyalty programs, increase profitability of operations through commission income from cross sales.

### PAYMENT CARDS

Payment cards are one of the promising areas of the retail business development. In 2008, PSB issued approximately 200,000 new payment cards, which reflects a 45% growth year-on-year. As at YE 2008, the total number of active cards (at least two transactions per month) was 623,500, with the bulk of cards (73%) issued under payroll projects.

PSB has gained considerable experience in payroll project implementation. In 2008 alone, the Bank implemented 2,300 payroll projects, while the total number of Russian companies serviced by PSB in this segment exceeds 4,000. A large ATM network allows clients to withdraw their salaries commission-free at convenient hours and in convenient locations. In 2008, PSB expanded the network by installing 279 new ATMs. As at 31 December 2008, the total number of ATMs reached 985, including 25 ATMs with the cash-in function. The number of POS-cash terminals was 361.





#### ATM NETWORK GROWTH, UNITS

2005		325
2006		508
2007		706
2008		985

Total average balances on card accounts were up 22.5% to RUB 5.34 billion in 2008.

Throughout 2008, PSB issued 70,000 credit cards with grace periods and cash-back function, whereas the Bank returns to clients 0.5% of amount spent with their cards. PSB began issuing such cards back in 2007, and their total number as at 31 December 2008 exceeded 84 000.

#### 2008 CREDIT CARD LOAN PORTFOLIO GROWTH, RUB MILLION

01.04.2008		682
01.07.2008		1420
01.10.2008		2373
01.01.2009		3168

In June 2008, PSB launched its first co-branding project through joint issuance of credit cards with Transaero Airlines. Co-branded cardholders join Transaero Privilege program, receiving bonus miles for booked Transaero flights and for credit card transactions, as well as complimentary «welcome» miles for the first credit card transaction. Accumulated miles can be used for booking a free flight or upgrading the cabin class. A particular feature of the card, which distinguishes it from other co-branded bank-airline credit cards, is the possibility to earn miles not only by making purchases with the card, but also by withdrawing cash. Therefore, PSB clients can make various purchases with the card, withdraw cash and receive rewards, including free Transaero Airlines tickets to destinations around the world.

In 2008, merchant acquiring turnover was up 56% to RUB 7.8 billion. The number of POS terminals at retail outlets increased by 2,571 to 5,311. PSB has offered acquiring services since 2000, using proprietary processing center, and acts as a certified acquirer for VISA and Master Card payment systems.

In 2008, PSB implemented own merchant acquiring project, enabling the Bank to service EMV-compatible VISA chip cards in its ATM and merchant acquiring networks. EMV standard is a set of requirements for chip cards and card-servicing equipment (ATMs, terminals, etc.), developed by three payment systems – Europay/MasterCard and Visa.

## DEPOSITS AND COMMISSION-BASED PRODUCTS

### DEPOSITS

PSB retail deposits were up 51% in 2008 – three times the average market growth (according to CBR). As at YE 2008, retail deposits totaled RUB 53.4 billion, while the number of retail depositors reached approximately 295 thousand.

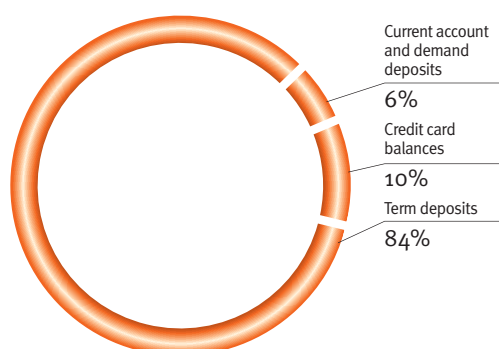
In March 2008, PSB introduced a new range of term deposits – My Benefit, My Savings, My Choice, My Status and My Pension, which offered the clients more diverse, attractive and flexible terms reflecting their needs. In addition, PSB launched two seasonal deposits in 2008 – Sunny Days and In the Christmas Mood, which proved to be popular among both existing and new clients. The total volume of Sunny Days deposits was RUB 2.9 billion, while the volume of Christmas Mood deposits exceeded RUB 6.6 billion in just 2 months since it was introduced.

Reflecting the market demand, in December 2008, PSB introduced a new type of term deposit (My Multi-choice), which enabled clients to open an account in three different currencies at the same time (RUB, euros and USD), and carry out debit, credit and conversion operations.

### VOLUME OF RETAIL FUNDING IN 2008, RUB MILLION

1 Q	36 925
2 Q	47 480
3 Q	49 003
4 Q	53 391

### RETAIL IN FUNDING STRUCTURE, YEAR-END 2008



### COMMISSION-BASED PRODUCTS

In 2008, PSB placed a strong focus on developing commission-based products. As of August 2008, 12 sub-branches in Moscow and Moscow region and 14 branches in the regions began selling mandatory pension insurance services of Promregionsvyaz National Pension Fund. As at YE 2008, the number of mandatory pension insurance contracts generated by the network was 4,927, with the bulk of contracts concluded at the year-end.

PSB also achieved significant results in settlements services for retail clients. In 2008, PSB entered into 122 new agreements, which authorize the Bank to handle retail client payments on behalf of these organizations. All PSB outlets also improved processing of Western Union money orders by eliminating paper forms, which saves a lot of time to clients.

# PRIVATE BANKING

ARRIVAL OF SURO-  
ZHANIN GUESTS  
(MERCHANTS FROM  
THE AZOV SEA),  
1356  
*Miniature from  
The Illuminated  
Chronicles, 16th  
century*



LONG-TERM FINANCIAL SOLUTIONS FOR WEALTH PRESERVATION IN CONJUNCTION WITH EXCELLENT CUSTOMER SERVICE ENSURE THE MOST EFFECTIVE USE OF THE BANK'S PRODUCTS FOR ITS CLIENTS' WEALTH ACCRETION.

Established in 2008, PSB Private Banking provides private wealth management services to high net worth individuals. At YE 2008, the department managed over RUB 20 billion of individual VIP clients' capital.

High net worth individual services program includes both standard banking services and wealth management services in Russia and abroad. The program was developed in order to assist VIP clients with structuring, saving and investing their capital, as well as financing their current needs and family projects.

Leaning on the experience of leading international financial institutions in the area of private banking and wealth management, PSB pursues its key objective: full client satisfaction. Long-term financial solutions for wealth preservation in conjunction with excellent customer service ensure the most effective use of the Bank's products for its clients' wealth accretion.

VIP account managers (personal financial advisors) consolidate knowledge, experience and

efforts of the Bank team members in order to reach the established goals. To offer the most effective solutions, personal financial advisors supply clients with updated information on investment structure, develop individual financial management strategies and coordinate prompt execution of VIP clients' instructions.

In August 2008, PSB opened its first VIP office in the centre of Moscow, on Slavyanskaya Square. Long office hours, professional staff and a pleasant setting offer a high degree of comfort to VIP clients.

PSB key 2009 objective in the segment is to move from offering separate VIP products and services toward comprehensive wealth management solutions. In addition, the Bank plans to open new VIP offices in Moscow and St. Petersburg.



CONSTRUCTION OF A DITCH RUNNING FROM THE BOROVIKSKAYA TOWER, 1493  
*Miniature from The Illuminated Chronicles, 16th century*

# 5

- RISK MANAGEMENT
- INTERNAL AUDIT AND CONTROL
- ANTI-MONEY LAUNDERING
- MONITORING OF FINANCIAL  
MARKET OPERATIONS

# RISK MANAGEMENT



CONSTRUCTION OF  
A DITCH RUNNING  
FROM THE BORO-  
VITSKAYA TOWER,  
1493

*Miniature from  
The Illuminated  
Chronicles,  
16th century*

**JOINTLY WITH OTHER ORGANIZATIONAL UNITS, PSB RISK MANAGEMENT PROMPTLY REACTED TO THE DETERIORATING ECONOMIC CONDITIONS IN THE COUNTRY AND DEVELOPED A NUMBER OF ANTI-CRISIS MEASURES, WHICH ALLOWED THE BANK TO MAINTAIN RISKS AT ACCEPTABLE LEVELS AND MINIMIZE POTENTIAL LOSSES.**

2008 was characterized by strong turbulence and volatility in the currency, stock, debt, commodity and other markets. High uncertainty about the future development of the global economy had a direct effect on Russia, creating challenges in many areas of the economy and logically driving enhancement of risk management in business processes.

Jointly with other organizational units, PSB Risk Management promptly reacted to the deteriorating economic conditions in the country and developed a number of anti-crisis measures allowing to maintain risks at reasonable levels and minimize potential losses.

In addition, the Bank continued to implement the risk management culture and principles based on best practice and recommendations of the Basel Committee on Banking Supervision. This effort was particularly relevant amid the global financial turmoil. As the current situation calls for review of the existing methodology related both to risk management and business

processes, in 2008, the Bank adopted a number of new regulations and improved the existing ones.

Continuing to pay great attention to the automation of risk management processes, PSB launched implementation of Kamakura Risk Manager risk management system in 2008. The system will integrate market and credit risks management, assets and liabilities management, and transfer pricing modules.

PSB identifies credit, market, liquidity and operating risks as its key risks. In addition, PSB assesses and monitors other types of risk and takes measures for their mitigation.

## CREDIT RISK MANAGEMENT

### CREDIT RISK MANAGEMENT IN CORPORATE LENDING

In corporate lending, 2008 tested the resilience of the Bank's individual and portfolio credit risk management models. 2008 diminished

risk appetite and stimulated the improvement of existing and the development of up-to-date credit risk management tools, including anti-crisis risk management tools.

The Bank accumulated data for the transition toward quantitative (statistical) credit risk assessment models. To improve identification of potential problems at the initial stages of the lending process (at the stage of borrower's creditworthiness analysis), PSB consolidated statistical data on defaults and collected information about the causes of payment arrears. PSB also paid particular attention to processes designed to ensure completeness and accuracy of data needed for a portfolio approach to risk management.

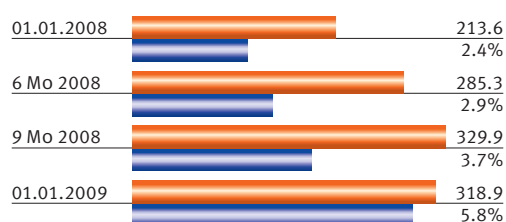
PSB finalized the development of models for the internal rating-based approach to corporate borrowers, including assessment of default probability. PSB adjusted the models based on the resulting corporate client ratings.



The collected data on overdue loans by industry allowed Risk Management Department to make recommendations on shifting the focus in lending depending on borrowers' industry and update approaches to portfolio credit risk management. In addition, PSB developed a set of criteria to assess industry risk and implemented an industry rating methodology.

As the crisis intensified, PSB launched a detailed daily monitoring of its loan portfolio, for early-stage identification of loan impairment. PSB thoroughly analyzed dynamics of client payments and loan collateral portfolios, and re-valued collateral based on its changed value.

PSB is strongly focused on managing problem assets, which is particularly relevant amid the market turmoil. PSB main objective in this area is prevention and minimization of material losses. In addition to measures already in place, in 2009, PSB intends to more actively involve local branches in managing problem

#### IMPAIRMENT ALLOWANCE TO GROSS LOANS



 LOANS TO CUSTOMERS, RUB BILLION  
 IMPAIRMENT ALLOWANCE, %

assets through better organizational, material, technical and methodological support of their operations in the debt collection area, as well as to use extrajudicial mechanism for collateral repossession as provided for in the amended Russian legislation.

#### CREDIT RISK MANAGEMENT IN SME LENDING

In 2008, PSB significantly improved SME credit risk assessment and implemented a set of risk mitigation measures:

- Established risk concentration limits, product limits and individual limits;
- Updated internal borrower credit rating procedures;
- Introduced risk management positions at branches and lending centers, who report to the Risk Management in the head office and are responsible for PSB units' compliance with SME lending procedures and assessment of credit risks while setting limits. In addition, PSB instituted monitoring specialist positions who report to the Credit Support unit;
- Developed operating procedures for SME credit committees in limit setting, problem loan management, and monitoring, which allowed for the optimization of the decision-making process;
- Implemented a system of regular on-site audits of lending operations quality at SME units;
- Renewed the management reporting system used to assess the loan portfolio quality.

PSB promptly reacted to market changes in Q4 2008 by adjusting its SME lending policy. PSB tightened lending criteria and requirements to borrowers, financial position of enterprises and collateral. In addition, PSB identified priority customer groups and industries least vulnerable to market turbulence; reviewed portfolio, shifting focus toward higher-margin products, shorter average maturities and un-collateralized loans.

#### CREDIT RISK MANAGEMENT IN RETAIL LENDING

In 2008, PSB improved the retail loan application review process. All applications are now collected in a single system, which automatically requests information on each borrower from a credit bureau as of February 2008. PSB significantly upgraded its scoring models for credit cards with grace period and

implemented measures for mitigating risks on interlinked credit card products through automatic repayment of overdue credit card debt, whereas funds are automatically transferred from a card with positive balance to a card with grace period.

In retail lending risk management, PSB uses «vintage» analysis and other statistical methods in addition to the regular update of its existing scoring models based on the credit history database and the Bank's own default statistics. To improve efficiency in this area, in 2008 PSB completed implementation of the SAS credit risk management solution, with an integrated retail loan portfolio risk-reporting module. The module is expected to mitigate risks through enhanced efficiency and day-to-day monitoring of risk dynamics by product and business unit (including branches and sub-branches).

To decrease the level of overdue loans and improve risk management efficiency, PSB has developed an interaction process between the head office and regional branches on risk monitoring and mitigation. The process includes data analysis on credit product risk levels at each branch, analysis of causes of default and overdue debt build-up, as well as development of common measures to improve the situation.

To mitigate credit risks and minimize potential losses due to the deepening economic crisis, PSB adopted in Q4 2008 a more conservative retail lending policy. New rules in the credit approval process take into account, among others, industry risks of a client's employer, and impose higher requirements on client creditworthiness. In addition, as of Q3 2008, PSB paid particular attention to monitoring long overdue loans, which may be related to the economic crisis, and implemented measures to prevent overdue loan growth.

In 2009, PSB plans to further enhance its retail lending process through introduction of borrower scoring in the consumer loan segment and revamp the existing scoring cards. PSB will also implement a set of measures aimed at reducing potential losses due to the economic crisis, improving overdue debt collection efficiency, including upgrade of the debt collection software based on Siebel application.

## CREDIT RISK MANAGEMENT IN OPERATIONS WITH FINANCIAL INSTITUTIONS

The key instruments to understanding credit risk level in operations with financial institutions (FI) are internal credit rating models that are based on best practice and use a broad range of quantitative and qualitative indicators. To minimize credit risks, PSB has set up and regularly reviews limits on operations with counterparty banks, related to individual instruments, bond and Eurobond issuances. Regular monitoring of counterparty credit quality and a moderately conservative limit-setting policy allowed PSB to minimize losses from operations with financial institutions, despite the challenging domestic and global market conditions.

In late 2008, PSB concluded an agreement with the Bank of Russia on partial compensation of losses from operations with banks whose licenses have been revoked. PSB drafted and agreed with the Bank of Russia a set of limits for interbank lending operations, which became a part of the agreement.

## MARKET RISK MANAGEMENT

PSB market risk management is based on a structured system of limits, including interest rate, equity and currency risk limits. The Assets and Liabilities Management Board Committee sets market risk limits, take decisions with regard to specific details of risky transactions, identifies the strategy and tactics of PSB market risk management. In 2008, PSB Risk Management further developed the market risk management system based on the methodology for market risk stress testing, adopted in April 2008.

To mitigate the impact of interest rate fluctuations on financial results, PSB continuously tests assets and liabilities for interest rate risk exposure. This allows the Bank to identify securities with the highest level of exposure to interest rate risk and set efficient stop-loss limits for open positions. The trading portfolio sensitivity to interest rate risk is assessed based on PVBP (Price Value Basis Point) indicator both for individual securities and the portfolio as a whole. To manage interest rate risk on trading positions in 2008 PSB used:

- Securities position limits;
- PVBP limits for each key debt trading portfolio;
- One-day and medium-term stop-loss limits.

PSB currency risk exposure is calculated for all open FX positions (OFP) and managed in accordance with the Bank of Russia requirements for open position limits. In addition, to manage currency risk, PSB applies VaR (Value-at-Risk) methodology both to the total OFP and to positions in all key currencies. In 2008, PSB managed currency risk exposure within the following limits:

- Total OFP and key currency OFP size limits;
- VaR limit;
- One-day and medium-term stop-loss limits.

### LIQUIDITY RISK MANAGEMENT

PSB has an efficient and responsive liquidity risk management system in place, which the Bank continued to improve in 2008. PSB has established key liquidity management procedures and requirements, set bottom limits for liquid and highly liquid assets, as well as liquidity gap limits. PSB manages its liquidity using up-to-date methods of stress testing, economic forecasting and statistical analysis.

In 2008, PSB adopted a liquidity risk limit system developed in line with the best international practice and recommendations of the Basel Committee on Banking Supervision.

The limits system is the first step toward a maximum efficient liquidity management. PSB continues to develop realistic cash-flow modeling and liquidity stress testing methodologies, based on Kamakura Risk Management application.

### OPERATING RISK MANAGEMENT

As part of PSB operating risk management, PSB collects, registers and analyzes data on operating risks. The existing operating risk assessment methodology (self-assessment of operating risk) allows PSB to monitor such risks both at the level of subdivisions and individual business processes, as well as develop efficient recommendations for risk minimization.

In 2008, PSB decided to develop and implement a fraud risk management system. To this end, PSB has built a separate database on both internal and external fraud events.

PSB approach to the identification of key risk indicators allows it to efficiently monitor the level of operating risk at key subdivisions and assess the probability of operating risk events occurring throughout the Bank. In the short term, this will allow PSB to transit toward advanced operating risk assessment approaches, in line with Basel II requirements.

### COUNTRY RISK MANAGEMENT

International operations remain one of PSB key focus, both in servicing its customers and performing its own operations. A thorough analysis of macroeconomic indicators and development trends, the assessment of regulatory base and international business practices in individual countries ensure comfortable cooperation with foreign companies. Established country limits represent reasonable restrictions allowing the Bank to minimize the default risk of the Bank's partners, arising out of economic, political or social disruption in their home countries.

HANDICRAFT AND  
TRADE QUARTER  
MINIATURE FROM  
*The Illuminated  
Chronicles,*  
16th century



# INTERNAL AUDIT AND CONTROL



GRAND PRINCE  
IVAN I FORTIFIES  
MOSCOW, 1335  
Miniature from  
*The Illuminated  
Chronicles*,  
16th century

PSB has developed an efficient internal control system to ensure legal and regulatory compliance, accuracy of financial reporting, efficiency of operations, as well as accommodation of rights and legitimate interests of Bank depositors, creditors and other counterparties.

PSB internal control system includes checks designed for timely identification of failures to comply with internal policies and procedures, a system of approval and delegation of authority, checks of compliance with the established limits and subsequent control over elimination of any identified irregularities. The internal control system efficacy is monitored by the Internal Audit and Control Department (IACD), which reports to the Board of Directors.

IACD performs internal audits of the Bank operations, issues recommendations with regard to their improvement, and assists the Bank management in ensuring its efficiency. IACD audits all organizational units in the head office and branches, as well as all transactions.

In accordance with the resolution of the Board of Directors, internal audit and control divisions were set up in 6 PSB branches in 2008, with the objective to enhance internal branch control. These divisions perform audit of respective sub-branches and other geographically close regional branches.

Such set-up of the internal audit and control system enables PSB to identify risks both in separate organizational units and the Bank as a whole.

# ANTI-MONEY LAUNDERING

PSB anti-money laundering system is set up in accordance with the provisions of the Russian Federal Law of August 7, 2001 On Combating Money Laundering and Financing of Terrorism, recommendations of the Bank of Russia and recommendations of the Financial Action Task Force (FATF).

The System aims at:

- Excluding the possibility that PSB products and services are used by criminal structures in their money-laundering schemes and operations;
- Minimizing reputational, financial and legal risks for PSB.

The Bank has developed and agreed with the Bank of Russia a set of relevant compliance rules, including:

- Client and beneficiaries identification and scrutiny;
- Ensuring that existing and potential clients are not listed among individuals involved in terrorist activities and financing of terrorism;

- Timely identification of operations subject to mandatory control, as well as operations that fall under doubtful operations, and sharing such information with the Federal Service for Financial Monitoring;
- Continuous anti-money laundering training of bank employees.

PSB has been consistently improving its Know Your Customer policy, paying particular attention to potential client identification, allowing the Bank to manage its reputational risks and counter the use of its products and services in money laundering schemes. In 2008, PSB rejected 672 client applications to open a bank account, in compliance with the existing legislation. Relations with 1,730 client were terminated based on regular monitoring results.

Short-term objectives include the expansion of the functional capacity of PSB anti-money laundering software, enhanced reliability of transaction identification systems and programs and improved procedure for data exchange between PSB head office and branches.

# MONITORING OF FINANCIAL MARKET OPERATIONS

In accordance with the Russian securities legislation, PSB introduced a system of financial market operations monitoring. The Monitoring Service is headed by the controller qualified in accordance with the applicable criteria of the Federal Service for Financial Markets (FSFM).

The key objectives of the Service include:

- Compliance monitoring of the Bank's operations in the securities market with the Russian legislation, regulations issued by FSFM and other relevant authorities, best practice of self-regulated professional participants of the securities market, as well as PSB internal financial market regulations;
- Identification, assessment and prevention of license and other risks associated with PSB operations in the securities market.

In the course of the prevention control, internal bank documents are reviewed for identification of risks and compliance with legislation requirements. Consulting and methodological support is provided to the Bank's divisions.

In 2008, the Bank's Monitoring Service conducted 25 audits and checks at PSB head office and sub-branches in Moscow. Based on the audit results, the Service developed suggestions and recommendations for elimination of irregularities.

The Bank Monitoring Service priorities include enhancement of functional capabilities of the Bank's securities transaction software; improvement of monitoring methodology; and development of measures aimed at preventing use of insider information and price manipulation in the securities markets.



LAYING A GARDEN IN SADOVNICHESKAYA SLOBODA ABOVE THE MOSCOW RIVER, 1495  
*Miniature from The Illuminated Chronicles, 16th century*



- IT DEVELOPMENT
- CORPORATE GOVERNANCE
- BRAND
- PSB ORGANIZATIONAL STRUCTURE
- ORGANIZATIONAL DEVELOPMENT  
AND HUMAN RESOURCES
- SPONSORSHIP AND CHARITY
- ENVIRONMENTAL POLICY

# IT DEVELOPMENT



CRAFTSMAN LAZAR  
SERBIN MOUNTS  
THE TOWER CLOCK  
IN THE KREMLIN,  
1404  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

## PSB IS AMONG RECOGNIZED LEADERS IN TECHNOLOGY AND IT SUPPORT OF ITS BANKING OPERATIONS.

PSB has always strived to use the latest banking technologies and IT-solutions and considers itself one of the most technology-intensive banks in Russia. In 2008, despite financial crisis, PSB not only pursued implementation of its ongoing projects but also launched a number of new sophisticated IT projects, which were unique for Russia.

### IT BUSINESS SUPPORT

In 2008, PSB began transition toward world-class IT-platforms: Misys Summit, a consolidated front-office system for financial markets, and Kamakura Risk Manager, a risk management system. The launch of Misys Summit is expected in early 2010. The platform is designed to ensure full automation of securities transactions and their accounting. Kamakura Risk Manager is a combination of portfolio management, market risk management and other valuation and funds allocation technologies.

In addition, in 2008, PSB launched middle-office automation program in its Retail and SME lending segments. The program will enable PSB to replace a number of existing systems with one centralized solution based on the documentation management system Documentum developed by EMC.

Implementation of mySAP ERP system is underway. In 2008, PSB launched Accounting

and Cost Control sub-systems in all its branches, as well as Payroll and HR in the head office and two branches (implementation in all branches is expected in Q3 2009). In addition, PSB launched Fixed Assets Accounting project. A set of reports on market risks was developed using the corporate data repository SAP BW. In addition, in 2008 PSB determined the standards for the Bank system integration: SAP NetWeaver (PI) for business processes, and Informatica PowerCenter for data.

PSB continued expanding Oracle-developed Siebel CRM system. In the framework of debt collection program in Retail Banking and SME, PSB automated its overdue debt management and introduced Avaya Proactive Contact 4.0 call system, which was later integrated with Siebel CRM for the first time in the Russian market.

### CLIENT-FRIENDLY SOLUTIONS

The number of corporate clients connected to PSB On-Line internet banking, PSB's main remote access platform for corporate clients, exceeded 33,000 in 2008, reflecting a 150% year-on-year growth. In addition, a traditional «client – bank» system is in place for clients with no Internet access (currently more than 1.5 thousand clients).

In 2008, PSB completed implementation of PSB-Retail, the online banking system for

retail clients. The system has been successfully introduced in all outlets across Russia. The number of retail clients registered with the system exceeded 61 000 in 2008, doubling from a previous year. PSB-Retail continued to expand by including new products and services.

In particular, a lending segment of PSB-Retail was introduced in the Moscow region's points of sale, with expansion throughout the entire network planned for Q1 2009. The module streamlined and shortened the time of lending procedures at PSB offices.



# CORPORATE GOVERNANCE



LAYING A GARDEN  
IN SADOVNICHES-  
KAYA SLOBODA  
ABOVE THE MOS-  
COW RIVER, 1495  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

ACCORDING TO EUROMONEY ANNUAL SURVEY, IN 2008, FOR THE FOURTH YEAR RUNNING PSB RANKED AMONG EMERGING EUROPE BANKS WITH THE BEST CORPORATE GOVERNANCE. THE SURVEY CRITERIA INCLUDED TRANSPARENCY, STABILITY OF OWNERSHIP STRUCTURE, FINANCIAL DISCLOSURE, GOVERNANCE STRUCTURE, AND SHAREHOLDER RELATIONS.

## KEY PRINCIPLES

PSB corporate governance system is underpinned by efficient cooperation between governing bodies at all levels: the General Shareholders' Meeting, the Board of Directors, the President and the Management Board.

Compliance with the Russian legislation and regulations on corporate governance, protection of shareholders' and stakeholders' rights, supervision of financial and economic operations, and timely disclosure of operating results are the key principles of PSB corporate governance. In addition, PSB follows the Bank of Russia's and the Federal Service for Financial Markets' recommendations, as well as corporate governance principles adopted by the Organization for Economic Cooperation and Development and the Basel Committee on Banking Supervision.

## 2008 CHANGES

In 2008, PSB significantly enhanced its corporate governance system.

### BOARD COMPOSITION

PSB reviewed the size and composition of the Board of Directors and carried out independent directors' selection and invitation process. To this end, PSB had developed independent director criteria based on the strictest requirements of both Russian and international regulators and stock exchanges. In 2008, three independent directors joined the PSB Board of Directors. Remuneration of the independent directors is resolved by the General Shareholders' Meeting.

#### ADOPTION OF NEW AND REVIEW OF EXISTING INTERNAL DOCUMENTS

In 2008, PSB developed and adopted the Information Disclosure Policy and Insider Trading Policy.

In addition, the General Shareholders' Meeting approved amendments to PSB's Charter and adopted the updated regulations on the Bank's governing bodies and Internal Audit Commission.

The Bank's internal documents are available in Russian on PSB website, section: About Promsvyazbank – General Information (<http://www.psbank.ru/about/3/>).

#### DISCLOSURE

In keeping with the Information Disclosure Policy, PSB set up a Disclosure group responsible for the supervision of information disclosure by the Bank's divisions, with a view to pursue a coordinated communications policy.

#### GENERAL SHAREHOLDERS' MEETING

In addition to the Annual General Shareholders' Meeting on 2007 financial results, PSB held two Extraordinary General Shareholders' Meetings in 2008 (on 9 April and 30 June), to approve PSB's capital increase through additional share issues.

#### BOARD OF DIRECTORS

In 2008, the Board of Directors was expanded to 9 members and as at 31 December 2008 was composed as follows:

ALEXEY ANANIEV (1964) – *Chairman of PSB Board since 2006 (member of the Board since 2001) and Chairman of Tekhnoserv Advisory Council.*

ALEXANDER LEVKOVSKIY (1972) – *President and Chairman of the Management Board since 2001.*

MAXIM LITVINOV (1970) – *Deputy Chairman of the Board since September 2008 (member of the Board since June 2007), Director for Investments of PromSvyazCapital.*

VLADISLAV ZABELIN (1975) – *Member of the Board since 2008, President of PromSvyazCapital since December 2008.*

SERGEY KHARITONOV (1966) – *Member of the Board since November 2006, First Deputy Chairman of Tekhnoserv Advisory Council.*

PAVEL KHOKHRYAKOV (1972) – *Member of the Board since June 2007, PromSvyazCapital President in 2004 – 2008.*

SERGEY SHCHEBETOV (1966) – *Independent member of the Board since June 2008, Managing Partner of Trifecta Capital Partners.*

PAUL OSTLING (1948) – *Independent member of the Board since June 2008, President of Kungur Oilfields Equipment & Services. Mr. Ostling has 20+ years of experience with Ernst&Young.*

TAM BASUNIA (1945) – *Independent member of the Board since June 2008, Chairman of Spice Factory and Voice Connections. Mr. Basunia has 20+ years of experience with PriceWaterhouseCoopers.*

#### BOARD COMMITTEES

To ensure in-depth analysis of issues pertaining to the competences of the Board of Directors, PSB established the following Board Committees:

**AUDIT COMMITTEE** analyzes and develops recommendations to the Board in respect of vital financial and economic issues, as well as monitors the accuracy and completeness of the Bank's financial reports. Only independent directors serve on the Audit Committee:

P. Ostling, S. Shchebetov and T. Basunia, Head of the Committee.

**COMPENSATION AND REMUNERATION COMMITTEE** ensures awareness of the Board members of the Bank's HR policy and supports their practical involvement in the policy control. Only independent directors serve on the Compensation and Remuneration Committee: T. Basunia, S. Shchebetov and P. Ostling, Head of the Committee.

**STRATEGY COMMITTEE** assesses PSB strategic development concepts, programs and plans, monitors implementation of the Bank's development strategy based on key indicators and proposals for strategy amendments with a view to improve efficiency of PSB operations, taking into account trends in the global capital markets, results of PSB operations and situation in the Russian banking sector. To ensure a proper balance of interests, the Committee is composed as follows: executive member of the Board, PSB President A. Levkovskiy; Chairman of the Board A. Ananyev; independent director S. Shchebetov; and two members of the Management Board – A. Volchenko and A. Konstantin. The Committee is headed by the non-executive director M. Litvinov.

## MANAGEMENT BOARD

PSB Management Board, as at 31 December 2008:

ALEXANDER LEVKOVSKIY (1972) – *PSB President and Chairman of the Management Board since 2001 (member of the Management Board since 1996).*

DMITRY SENNIKOV (1957) – *Member of the Management Board since 1995, PSB First Vice-President.*

ARTEM KONSTANDIAN (1974) – *Member of the Management Board since August 2005, PSB First Vice-President.*

IRINA MOROZOVA (1963) – *Member of the Management Board since 2000, PSB Chief Accountant.*

ALEXANDRA VOLCHENKO (1976) – *Member of the Management Board since August 2007, Senior Vice-President, CFO.*

ALEXEY FEDOTKIN (1976) – *Member of the Management Board since October 2007, Senior Vice-President, Head of Corporate Banking.*

TATIANA KUZMINA (1968) – *Member of the Management Board since August 2008, Vice-President, Head of Legal Department.*

NATALIA NEVERKEVICH (1974) – *Member of the Management Board since October 2007, Head of Internal Audit and Control Department.*

In January 2009, the Management Board was expanded to 9 members and joined by:

KONSTANTIN BASMANOV (1974) – *Member of the Management Board, Senior Vice-President, Head of Sales Network.*

## MANAGEMENT BOARD COMMITTEES

To address issues of PSB day-to-day operations, PSB has established several Management Board Committees:

- Credit Committee;
- Small Credit Committee;
- SME Credit Committee;
- Assets and Liabilities Committee;
- Problem Assets Committee;
- Small Problem Assets Committee;
- Retail Problem Assets Committee;

- Tariff Committee;
- Budget Committee;
- Technology Committee;
- Business Development Committee.

Overview of the Committees and their functions is available in Russian on PSB website: About Promsvyazbank – Board & Management – Committees (<http://www.psbank.ru/about/322/1087/>).

## CORPORATE GOVERNANCE AWARDS

Financial market participants have recognized high standards of PSB corporate governance. According to Euromoney annual survey, in 2008, for the fourth year running PSB ranked among emerging Europe banks with the best corporate governance. The survey was based on the annual polling of financial institutions, which were asked to name the most successful and promising banks in corporate governance.

## TRANSPARENCY

PSB has been consistently improving its information transparency level. PSB regularly publishes financial statements under RAS and IFRS, organizes quarterly investor and analyst conference calls and issues Russian- and English-language press releases on important corporate events. PSB bilingual website provides information about the broad range of services PSB offers, as well as information about the Bank, its shareholders, management and organizational structure. PSB also regularly provides analytical information, including daily and weekly stock market reviews, and publishes a quarterly Investor Bulletin.

# BRAND

TEACHING BOYS  
«BOOK KNOWLEDGE» AT THE  
TRANSFIGURATION  
CHURCH COLLEGE  
IN MOSCOW, 16TH  
CENTURY  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*



## MARKETING AND PUBLICITY EFFORTS IMPROVED PSB BRAND RECOGNITION BY ONE AND A HALF TIMES IN 2008.

In 2008, PSB completed corporate restyling. New PSB logo is a graphic representation of the image of an open, dynamic and reliable bank. PSB logo has two components: the trademark and the corporate font. The trademark reflects the Bank's attitude toward its clients:

- The arrows represent hands reaching out for each other;
- The resulting square stands for robustness and trustworthiness;
- The upper arrow represents the future and progress.

The trademark also contains three Latin letters «PSB» – the abbreviated Promsvyazbank name.



In line with its new corporate style, PSB updated its publicity materials, replaced signage and revamped both interior and exterior design at its offices and branches.

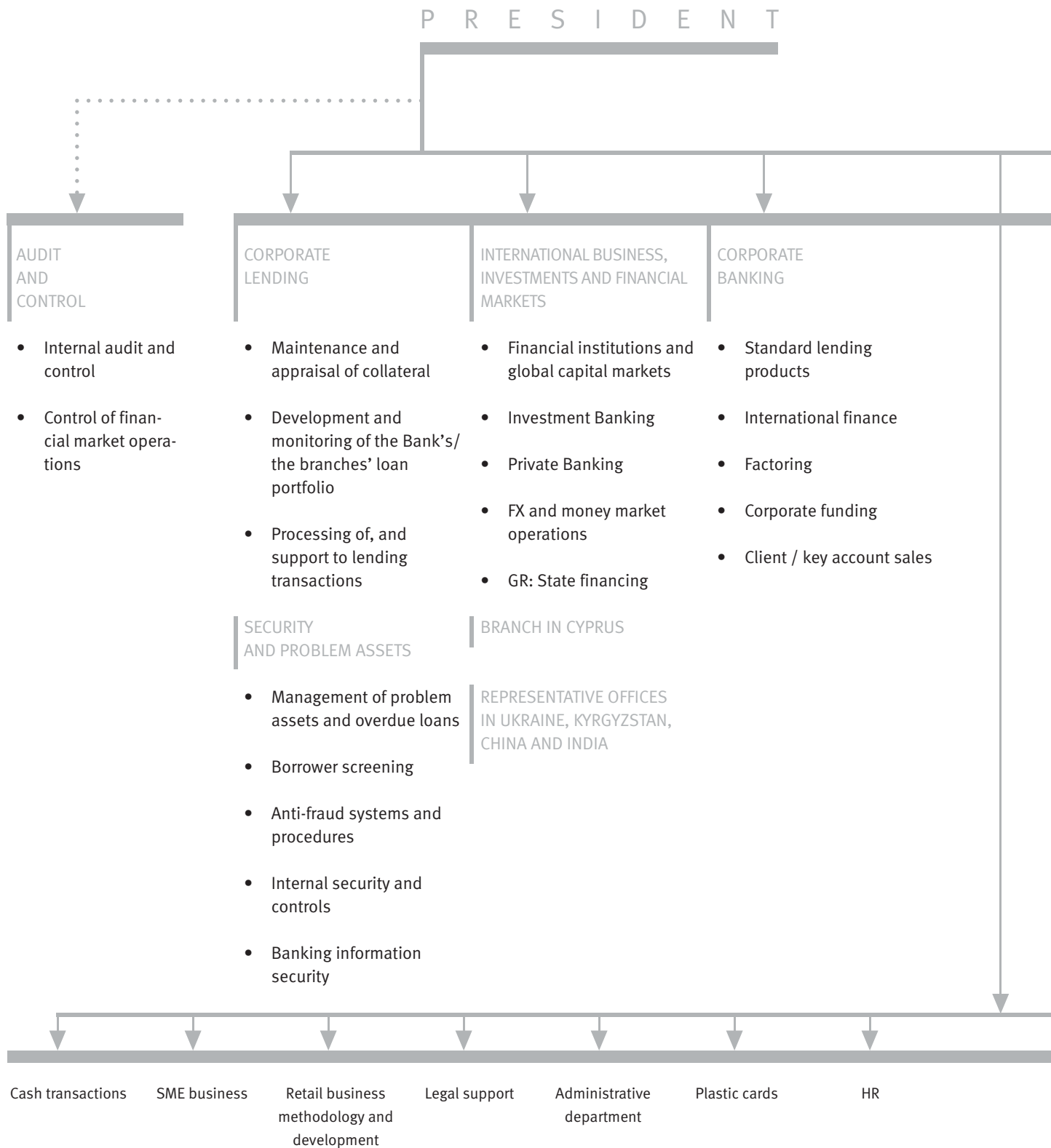
The new corporate style and its individual components were also reflected in the logos of subsidiary banks – members of the PSB Banking Group.

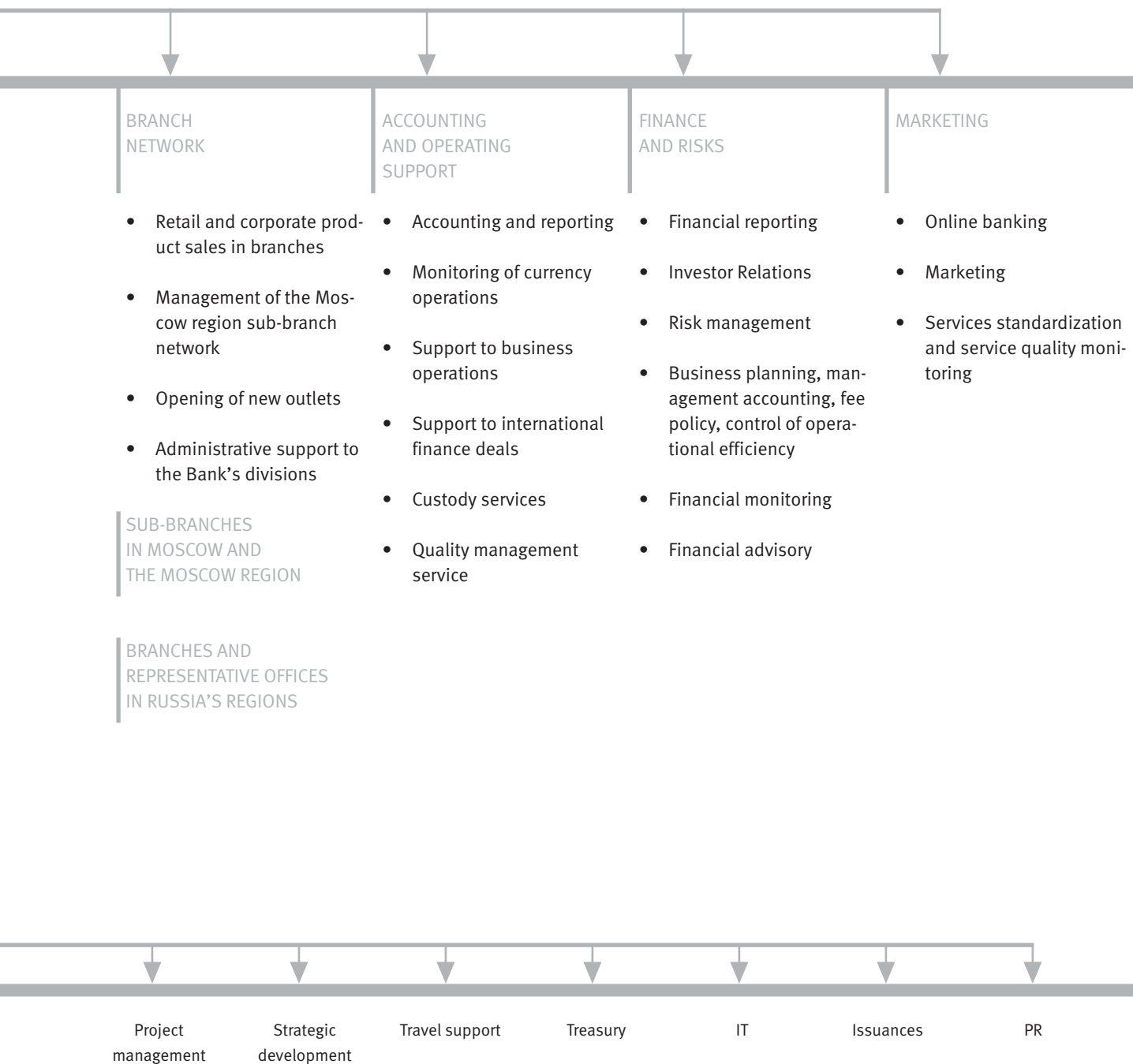


With a view to promote its brand, PSB became the general sponsor of CSKA basketball team and placed corporate advertisements in all cities of its presence. The efforts resulted in a significantly stronger PSB brand recognition in 2008, which according to TNS Gallup Media Marketing Index was up 6 percentage points (from 11% to 17%).

In 2008, PSB developed a segmentation model for the Bank's existing and potential clients. Client surveys based on social and demographic metrics provide only a general idea about their needs and incentives, whereas PSB analyzed clients' lifestyle, family size, interests and hobbies. This allowed the Bank to better comprehend the clients' needs at different stages of their lives, and offer them the most appropriate banking services.

# PSB ORGANIZATIONAL STRUCTURE





# ORGANIZATIONAL DEVELOPMENT AND HUMAN RESOURCES



**BLACKSMITHS AT  
WORK**  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*

IN ITS HR POLICY AND SPONSORSHIP AND CHARITY WORK, PSB ADHERES TO THE PRINCIPLES OF SOCIALLY RESPONSIBLE BUSINESS. WE BELIEVE THAT RUSSIA'S SOCIAL STABILITY AND PROSPERITY DEPEND ON BUSINESSES RECOGNIZING THE IMPORTANCE OF SUCH PRINCIPLES AND HOPE THAT SOCIAL INITIATIVE TRADITIONS IN RUSSIA WILL BE REVIVED AND STRENGTHENED.

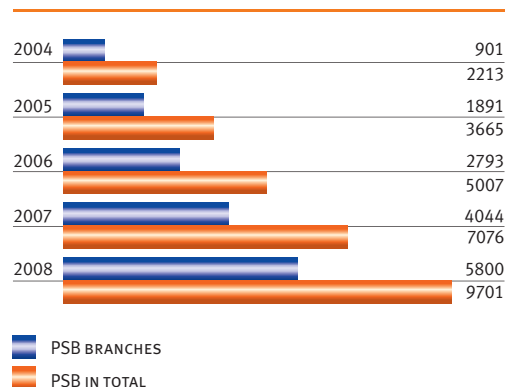
People are one of the Bank's fundamental strengths. In order to achieve ambitious strategic goals PSB needs to hire and retain the best available people in the market, create career growth opportunities and build a corporate culture, which helps to unlock the full potential of each employee.

Ongoing changes in both domestic and global economies drive PSB's efforts to continuously improve its organization and develop human resources. PSB HR strategy is currently under review due to the new market conditions.

In 2008, PSB adopted Fundamentals of Our Business, which apply to every employee and the Bank as a whole. The document is a set of ideas and rules underlying the development of PSB business, organization and corporate culture. It allows the Bank's employees to better understand their organization and helps newcomers to adapt

to the new environment and become full-fledged members of the PSB team.

## PSB STAFFING NUMBERS



In recent years the number of staff was rapidly increasing, in 2008 alone by 150%. Such growth rate is unsustainable in the times of crisis; and the current focus has shifted towards optimization through restructuring of the

network and reassessment of processes and employee contribution in areas with decreasing business volumes. As a result, PSB has retained the most efficient and laid off inefficient staff.

A highly qualified, professional team is one of PSB competitive advantages allowing it to maintain leadership in the market. PSB puts a lot of efforts in organizing both internal and external trainings for its employees. In 2008, 70% of PSB staff participated in various training programs.

PSB has been offering basic professional training to employees in sub-branches and outlets of other types. In 2008, all new hires went through the basic training, and learnt about the specifics of PSB products, sales methods and client service standards. The program has been helping PSB to maintain high client service standards regardless of the staff turnover.

In September 2008, PSB introduced a mentoring program with a view to improve professional competences of staff in sub-branches. As many as 25 sub-branches in Moscow and the Moscow region got involved in the program during the first months of its existence.

PSB maintains broad-based cooperation with foreign partners and peers. In order to develop language skills of its employees, PSB launched a corporate English program in 2006.

Following Volgoprombank integration into the Banking Group Promsvyazbank in June 2008, the bank's product portfolio was expanded to include retail lending products similar to those offered by PSB. To educate Volgoprombank staff about PSB products and client service standards, PSB developed a special training course.

Further to integration of Yarsotsbank and Nizhny Novgorod Bank into the Banking Group in 2008, PSB management held a number of meetings with the regional banks' staff and clients. In addition, PSB issued special publications to explain the merger rationale and process to the employees of these banks.

The Bank is a big family and it pays particular attention to promoting informal communications between employees. To strengthen corporate spirit, PSB holds team-building events and corporate celebrations. Each summer PSB celebrates PSB birthday, while The Stars of PSB New Year party is organized annually for the Moscow and Moscow region employees. PSB has a lot of talented staff, and corporate events offer them a unique opportunity to share their talents.

In 2008, PSB participated, for the first time, in Russia's Top 2008 Employers Survey. As part of the project, PSB employees were questioned about the Bank's business processes, procedures, working conditions and corporate life. About 40% of the staff participated in the survey, which reflects strong employee involvement in corporate life and their interest in ongoing improvements. According to the survey results announced at a ceremony held in October, 2008, PSB ranked 26th among the survey participants, including international companies. The result is quite an impressive achievement for a Russian corporate.

The Bank is creating an up-to-date incentive program and remuneration policy based on the best international practice. To reflect changes in the market environment, PSB is reviewing its variable remuneration system. The revamped system will allow PSB to retain the best people and offer them strong incentives for professional growth.

The bank is a dedicated team of professionals focused on different tasks, yet putting cooperation as their priority. The unfolding crisis is a resilience test for the PSB team. Only through the consistent and diligent efforts of every employee will PSB be able to overcome the challenges. It was the strong team spirit, operating efficiency and professionalism that drove PSB positive 2008 results.

# SPONSORSHIP AND CHARITY

In its core operations PSB firmly adheres to the principles of a socially responsible business through extending financing to the real sector of the Russian economy and its strategic companies, contributing to the development of small and medium businesses, and thereby creating jobs. Amid the financial crisis, PSB has been supporting socially significant regional financial institutions and competitive modern enterprises. The Bank has established cooperation with the Russian Pension Fund under the State Program for Pension Co-financing, offering additional opportunities for boosting retirement savings.

PSB is engaged in various sponsorship and charity activities, including arts patronage, sponsorship of sport organizations and sport events, financing of social projects and support of major economic initiatives. Importantly, PSB charitable work targets clearly designated recipients.

Commemorating those perished while defending Russia's freedom and independence, PSB supports veterans of World War II, with a number of branches providing targeted assistance to the war veterans. PSB also recognizes the need to support the disadvantaged, particularly children. For a number of years, the St. Petersburg branch has been supporting the city's Children's Hospice. The Bank also provided humanitarian aid to victims of the military actions in South Ossetia.

Sports and healthy lifestyle promotion has traditionally been high on PSB agenda. In 2008, the Bank became the general sponsor of CSKA basketball team, an unflinching champion of the Russian basketball for many years, and the champion of Euroleague in 2006 and 2008. PSB also acted as a general partner to the Russian national women's football team and official partner to the Russian Football Union. In January, PSB sponsored IIHF European Champions Cup, which took place in St. Petersburg.

Support to the Russian Orthodox Church has traditionally been one of the key areas of PSB

charitable work. The Bank has provided support to churches, monasteries and divinity schools, notably through financing construction and book purchases. In 2008, PSB provided financial assistance, among others, to the Holy Trinity-St. Sergius Lavra, Pskovo-Pechersky Monastery, the Valaam Monastery, Borisoglebsky Na Ustye Monastery, Savvino-Storozhevsky Monastery in Zvenigorod, Svyato-Kazansky Church, the Church of the Life-Giving Trinity in Serebryaniki, and others. In addition, PSB provided financing to Chita and Zabaikalsk eparchy to finish construction of a seminary in the city of Chita.

Arts patronage is an important component of PSB charitable work. The St. Petersburg branch once again was a general sponsor of Dedication to Maestro International Music Festival held in the State Hermitage Museum, in which well-known Russian and international performing artists participated. PSB also supports theaters; for example, it provided financial resources for the renovation of the Ermolovsky Hall of the Mikhail Shchepkin Higher Theatre College.

PSB has traditionally organized and supported events promoting development of the Russian banking sector. In July, jointly with the Association of Russian Banks, the Bank of Russia St. Petersburg Division and other institutions, PSB held the 13th Northwestern Banking Conference in St. Petersburg, attended by participants from Russia, CIS and other countries. In August, PSB sponsored a conference on the government policy in SME development held in Vladivostok.

In 2008, together with the All-Russian Non-governmental Organization of Small and Medium Business (OPORA), PSB held a competition for entrepreneurs Money to the Young. Aged 18-27, the participants competed in two nominations: Startup Business and Young Enterprise. The competition was aimed at raising awareness of the government, the Russian business community and society about the challenges faced by small and medium enterprises, notably in the area of startup financing.

# ENVIRONMENTAL POLICY

FESTIVITIES AT  
THE COURT OF THE  
GRAND PRINCE  
VASILY III  
*Miniature from  
The Illuminated  
Chronicles,  
16th century*



Throughout its history, PSB has been paying particular attention to environmental protection. In 2008, the Bank became a Corporate Partner of the World Wildlife Fund (WWF), one of the world's biggest non-governmental organizations working on nature conservation since 1961, which has more than 5 million members in more than 100 countries. Partnership with the WWF allows Corporate Partners of the club to be fully involved in WWF nature conservation work, and to provide financial support to the Fund's projects.

PSB operations are compliant with the existing environmental protection standards. In accordance with the EBRD recommendations, the Bank has adopted corporate borrower environmental compliance assessment standards.

As part of credit risk management PSB assesses environmental risks associated with business operations of all of its corporate borrowers. The Bank has an environmental protection policy and the necessary environmental risk management procedures in place. PSB is particularly vigilant with regard to borrowers operating in sectors with high- and critical level environmental risk (such as those included in the EBRD Environmental Exclusion and Referral List). Since 2008, PSB has been breaking down the loan portfolio as to the level of environmental risk.

When applying for a loan, borrowers submit a questionnaire with information that allows for the assessment of borrower primary environmental risk. If a high level of environmental risk is established, the Bank requests more detailed information about potential environmental risks

and accidents, as well as environmental certificates and permits. Some of the key parameters for borrower environmental risk assessment are: the borrower's industry and nature of business, purposes of the loan and type of collateral.

At the stage of application review, the credit units staff assesses borrower environmental risks. Information about any environmental risks of the borrower is included in the credit opinion to be submitted to the Credit Committee. Throughout PSB operations under the EBRD program, borrowers have never contested the Bank's environmental protection policy.

PSB Risk Management and Control Department drafts an annual environmental report under the EBRD lending program. The report contains analysis of environmental risks associated with the loan portfolio, including loans to SME participating in the program.



COMPLETION OF CONSTRUCTION OF THE MOSCOW KREMLIN'S FACETED CHAMBER, 1491  
*Miniature from The Illuminated Chronicles, 16th century*



■ FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS



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## INDEPENDENT AUDITORS' REPORT

To the Council of OAO "Promsvyazbank"

We have audited the consolidated financial statements of OAO "Promsvyazbank" (the "Bank") and its subsidiaries (the "Group") as at and for the year ended 31 December 2008, from which the accompanying summarized consolidated financial information was derived, in accordance with International Standards on Auditing. In our report dated 6 April 2009 we expressed an unqualified opinion on the consolidated financial statements from which this summarised consolidated financial information was derived.

In our opinion, the summarised consolidated financial information is consistent, in all material respects, with the consolidated financial statements from which it was derived.

For a better understanding of the Group's consolidated financial position as at 31 December 2008 and its consolidated financial performance and its consolidated cash flows for the year then ended and the scope of our audit, the summarised consolidated financial information should be read in conjunction with the consolidated financial statements from which the summarised consolidated financial information was derived, and our audit report thereon.

*ZAO KPMG*

ZAO KPMG

6 April 2009

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

**PROMSVYAZBANK**  
**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008**  
**(EXPRESSED IN THOUSANDS OF RUSSIAN ROUBLES)**

ASSETS	2008	2007
Cash and cash equivalents	105 723 210	38 088 343
Obligatory reserves with central banks	992 510	3 319 898
Placements with banks and other financial institutions	2 426 852	1 518 651
Financial assets at fair value through profit or loss	14 408 817	25 749 506
• Unpledged	13 524 941	23 555 428
• Pledged under sale and repurchase agreements	883 876	2 194 078
Amounts receivable under reverse repurchase agreements	4 574 084	3 362 081
Loans to customers	300 413 049	208 425 336
Investments available for sale	158 714	187 112
Investments held to maturity	8 880 051	-
Current income tax prepayments	1 292 982	243 793
Other assets	1 517 540	1 128 464
Property and equipment	21 413 219	11 222 215
<b>TOTAL ASSETS</b>	<b>461 801 028</b>	<b>293 245 399</b>
<b>LIABILITIES</b>		
Financial liabilities at fair value through profit or loss	614 859	156 148
Deposits and balances from banks and other financial institutions	111 275 357	50 667 904
Amounts payable under repurchase agreements	855 837	2 175 112
Current accounts and deposits from customers	229 610 958	141 000 963
Own securities issued	48 322 327	45 038 656
Other borrowed funds	27 649 974	24 299 108
Other liabilities	2 672 979	993 490
Current income tax payable	48 002	38 737
Deferred tax liability	776 151	1 193 032
<b>TOTAL LIABILITIES</b>	<b>421 826 444</b>	<b>265 563 150</b>
<b>SHAREHOLDERS` EQUITY</b>		
Share capital	10 062 544	7 468 794
Share premium	13 319 695	7 613 445
Additional paid-in-capital	1 167 515	30 496
Revaluation reserve for property and equipment	3 192 346	2 357 758
Revaluation reserve for investments available for sale	(66 641)	-
Retained earnings	11 773 411	10 211 756
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>39 448 870</b>	<b>27 682 249</b>
Minority interest	525 714	-
<b>TOTAL SHAREHOLDERS` EQUITY</b>	<b>39 974 584</b>	<b>27 682 249</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS` EQUITY</b>	<b>461 801 028</b>	<b>293 245 399</b>



Levkovskiy A.A.  
President

Volchenko A.U.  
Senior Vice-president, CFO

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (EXPRESSED IN THOUSANDS OF RUSSIAN ROUBLES)

	2008	2007
Interest income	42 781 988	23 691 779
Interest expense	(20 812 220)	(11 558 806)
<b>NET INTEREST INCOME</b>	<b>21 969 768</b>	<b>12 132 973</b>
Fee and commission income	5 780 146	2 959 104
Fee and commission expense	(1 055 809)	(586 033)
<b>NET FEE AND COMMISSION INCOME</b>	<b>4 724 337</b>	<b>2 373 071</b>
Net loss on financial instruments at fair value through profit or loss	(1 842 840)	(123 911)
Net foreign exchange gain	2 142 569	915 449
Net loss on sale of subsidiaries	(21 942)	-
Gain on acquisition of subsidiaries	456 625	-
Other income	820 903	319 334
<b>OPERATING INCOME</b>	<b>28 249 420</b>	<b>15 616 916</b>
Impairment losses	(13 266 161)	(2 586 888)
Loss on revaluation of fixed assets recognized in income statement	(456 100)	-
Administrative expenses	(11 952 858)	(7 623 484)
General expenses	(431 997)	(386 590)
	<b>(26 107 116)</b>	<b>(10 596 962)</b>
<b>PROFIT BEFORE TAX</b>	<b>2 142 304</b>	<b>5 019 954</b>
Income tax expense	(580 649)	(1 315 431)
<b>PROFIT FOR THE YEAR</b>	<b>1 561 655</b>	<b>3 704 523</b>
<b>ATTRIBUTABLE TO:</b>		
Shareholders of the parent	1 561 655	3 704 523
Minority interest	-	-

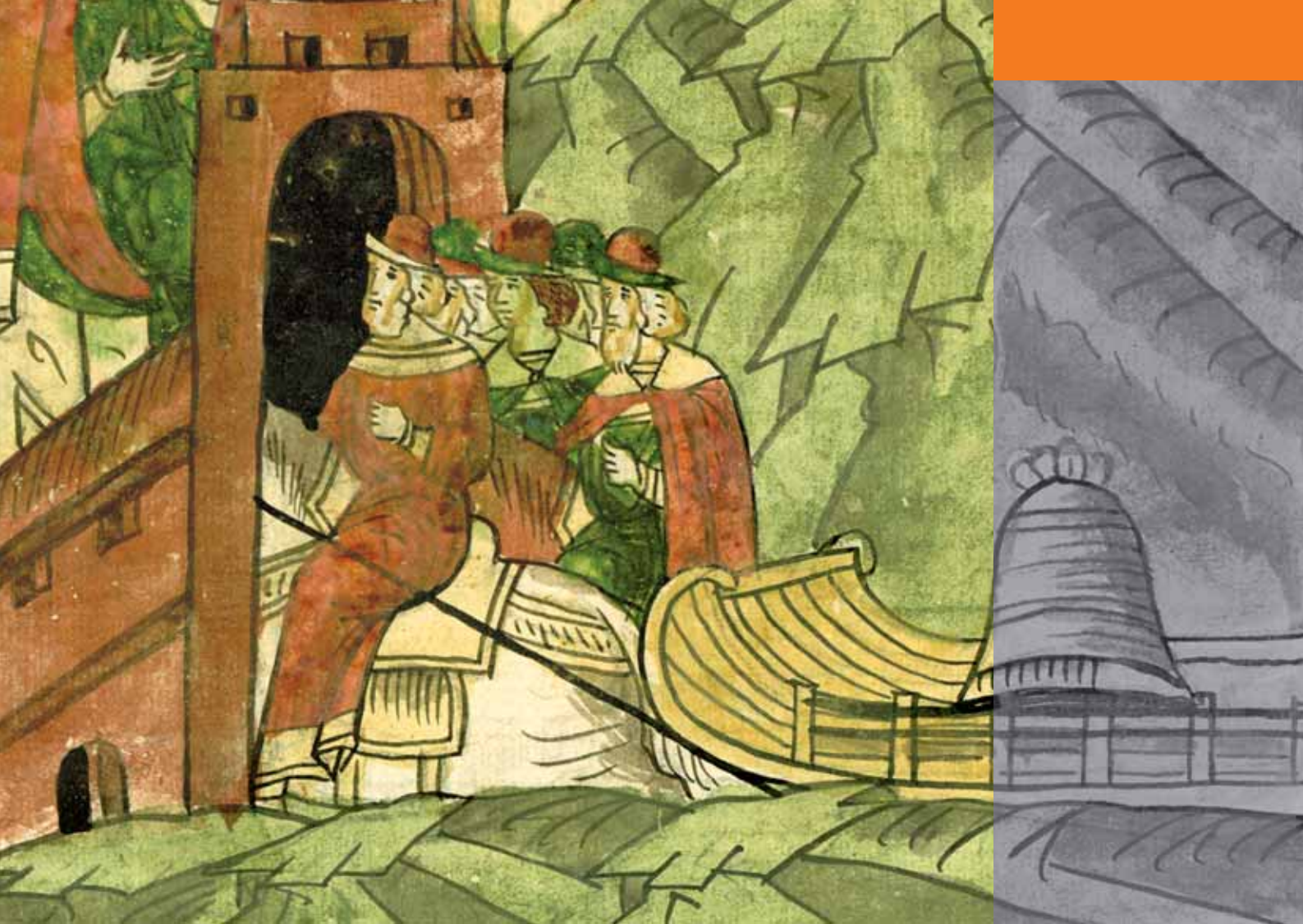
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
31 DECEMBER 2008 (EXPRESSED IN THOUSANDS OF RUSSIAN ROUBLES)**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and fee and commission receipts	46 337 270	26 680 159
Interest and fee and commission payments	(19 337 376)	(11 529 255)
Net (payments)/receipts from financial instruments at fair value through profit or loss	(840 816)	72 698
Net receipts from foreign exchange transactions	861 540	512 414
Other income received	800 112	277 454
General and administrative expenses paid	(11 413 160)	(7 349 277)
	<b>16 407 570</b>	<b>8 664 193</b>
<b>(Increase)/decrease in operating assets</b>		
Obligatory reserves with central banks	2 450 860	560 813
Placements with banks and other financial institutions with original maturity of over one month	(3 162 995)	751 378
Financial assets at fair value through profit or loss	3 922 129	(324 400)
Amounts receivable under reverse repurchase agreements	(1 294 669)	(2 342 566)
Loans to customers	(65 571 667)	(98 458 415)
Other assets	(93 537)	(463 130)
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances from banks and other financial institutions	50 864 167	15 200 474
Amounts payable under repurchase agreements	(1 320 304)	2 141 008
Current accounts and deposits from customers	65 395 352	56 458 017
Promissory notes and certificates of deposit	(11 134 034)	12 743 870
Other liabilities	232 858	188 416
<b>Net cash from/(used in) operating activities before taxes paid</b>	<b>56 695 730</b>	<b>(4 880 342)</b>
Taxes paid	(2 249 633)	(1 123 877)
<b>Cash flows from/(used in) operations</b>	<b>54 446 097</b>	<b>(6 004 219)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal of investments available for sale	5 560	-
Disposal of subsidiaries	12 976	-
Acquisition of subsidiaries	3 799 193	(136 906)
Purchases of investments available for sale	(59 804)	(178 845)
Purchases of investments held to maturity	(1 884 722)	-
Purchases of property and equipment	(7 896 050)	(5 811 800)
Disposals of property and equipment	72 481	11 729
<b>Cash flows used in investing activities</b>	<b>(5 950 366)</b>	<b>(6 115 822)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of loan participation notes and domestic bonds	9 039 065	9 049 321
Repayment of other borrowed funds	(13 807 539)	(10 455 112)
Proceeds from other borrowed funds	13 987 871	21 452 757
Proceeds from issuance of share capital	6 370 000	4 096 000
<b>Cash flows from financing activities</b>	<b>15 589 397</b>	<b>24 142 966</b>
<b>Net increase in cash and cash equivalents</b>	<b>64 085 128</b>	<b>12 022 925</b>
Effect of changes in exchange rates on cash and cash equivalents	3 549 739	(419 550)
Cash and cash equivalents at the beginning of the year	38 088 343	26 484 968
<b>Cash and cash equivalents at the end of the year</b>	<b>105 723 210</b>	<b>38 088 343</b>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008  
(EXPRESSED IN THOUSANDS OF RUSSIAN ROUBLES)**

	Attributable to equity holders of the parent		
	Share capital	Share premium	Additional paid-in-capital
<b>Balance at 1 January 2007</b>	<b>6 188 794</b>	<b>4 797 445</b>	<b>52 402</b>
Profit for the year ended 31 December 2007	-	-	-
Revaluation of property and equipment	-	-	-
Deferred tax related to revaluation of property and equipment	-	-	-
<b>Total income</b>			
Share issue	1 280 000	2 816 000	-
Increase of amount payable under option agreement	-	-	(21 906)
<b>Balance at 31 December 2007</b>	<b>7 468 794</b>	<b>7 613 445</b>	<b>30 496</b>
Profit for the year ended 31 December 2008	-	-	-
Revaluation of property and equipment	-	-	-
Deferred tax related to revaluation of property and equipment	-	-	-
Disposal of property and equipment	-	-	-
Deferred tax related to disposal of property and equipment	-	-	-
Revaluation of investments available for sale	-	-	-
Deferred tax related to revaluation of investments available for sale	-	-	-
Effect of change in income tax rates	-	-	-
<b>Total income</b>			
Share issue	2 593 750	5 706 250	-
Acquisition of subsidiaries	-	-	1 085 596
Disposal of subsidiaries	-	-	51 423
<b>Balance at 31 December 2008</b>	<b>10 062 544</b>	<b>13 319 695</b>	<b>1 167 515</b>

Attributable to equity holders of the parent				Minority interest	Total equity
Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings	Total		
<b>830 002</b>	-	<b>6 507 233</b>	<b>18 375 876</b>	-	<b>18 375 876</b>
-	-	3 704 523	3 704 523	-	3 704 523
2 010 205	-	-	2 010 205	-	2 010 205
(482 449)	-	-	(482 449)	-	(482 449)
			<b>5 232 279</b>	-	<b>5 232 279</b>
-	-	-	4 096 000	-	4 096 000
-	-	-	(21 906)	-	(21 906)
<b>2 357 758</b>	-	<b>10 211 756</b>	<b>27 682 249</b>	-	<b>27 682 249</b>
-	-	1 561 655	1 561 655	-	1 561 655
989 281	-	-	989 281	6 530	995 811
(197 856)	-	-	(197 856)	(1 306)	(199 162)
(101 165)	-	-	(101 165)	-	(101 165)
24 280	-	-	24 280	-	24 280
-	(83 301)	-	(83 301)	-	(83 301)
-	16 660	-	16 660	-	16 660
120 048	-	-	120 048	-	120 048
			<b>2 329 602</b>	<b>5 224</b>	<b>2 334 826</b>
-	-	-	8 300 000	-	8 300 000
-	-	-	1 085 596	520 490	1 606 086
-	-	-	51 423	-	51 423
<b>3 192 346</b>	<b>(66 641)</b>	<b>11 773 411</b>	<b>39 448 870</b>	<b>525 714</b>	<b>39 974 584</b>



ARRIVAL OF THE NOVGOROD CELEBRATION BELL IN MOSCOW, 1478  
*Miniature from The Illuminated Chronicles, 16th century*



■ REFERENCE INFORMATION

# REFERENCE INFORMATION

## LICENSE

Promsvyazbank was registered by the Central Bank of the Russian Federation on 12 May 1995 (Registration No. 3251) and holds the following licenses to perform the banking operations with legal entities and individuals:

1. General banking license of the Central Bank of the Russian Federation (CB RF) No. 3251.
2. License for attracting deposits and placing precious metals (License No. 3251, issued by CB RF).
3. License of a professional participant on the securities market to act as a broker (License No.177-03816-100000 issued by the Federal Commission for the Securities Market on 13.12.2000).
4. License of a professional participant on the securities market to act as a dealer (License No.177-03876-010000 issued by the Federal Commission for the Securities Market on 13.12.2000).
5. License of a professional participant on the securities market to manage securities (License No.177-03918-001000 issued by the Federal Commission for the Securities Market on 13.12.2000).
6. License of a professional participant on the securities market to perform depository activities (License No. 177-03960-000100 issued by the Federal Commission for the Securities Market on 15.12.2000).
7. License of a specialized depository for investment funds, unit investment funds and private pension funds (License No. 22-000-1-00036 issued by the Federal Commission for the Securities Market on 01.08.2001).
8. License of an exchange intermediary conducting commodity futures and options transactions at an exchange on the territory of the Russian Federation (License No.921 issued by the Federal Financial Markets Service on 14.12.2006 valid until 14.12.2009).
9. License for conducting activities, connected with use of information classed as a state secret, on the condition the service is performed by RSO CJSC "Technoserv A/S" (License No. 12359 issued by the Moscow and Moscow region Unit of the Federal Security Service on 18.06.2008 valid until 29.04.2013).
10. General License for the export of fine gold (small gold bars and standard gold bars) (License No. LGo270900300099 issued by Ministry of Industry and Trade of the Russian Federation on 12.02.2009, valid until 25.01.2010).
11. License for the technical maintenance of coding devices (cryptographic devices) No. 6176 X dated 06.10.2008. Licensing authority - Center for licensing, certification, and protection of state secrets of the Federal Security Service (valid until 21.03.2013).
12. License for dissemination of coding devices (cryptographic devices) No.6177 P dated 06.10.2008. Licensing authority - Center for licensing, certification, and protection of state secrets of the Federal Security Service (valid until 21.03.2013).
13. License for provision of services in respect of data encryption No. 6178 Y dated 06.10.2008. Licensing authority - Center for licensing, certification, and protection of state secrets of the Federal Security Service (valid until 21.03.2013).

## PARTICIPATION IN PROFESSIONAL ASSOCIATIONS

PSB conducts its activities on the basis of its Articles of Association and other internal documents developed and approved in accordance with the law of the Russian Federation.

The Bank's auditor is the international audit company ZAO KPMG, which is one of the Big Four global audit companies.

PSB is:

- Participant in the deposit insurance system;
- Authorised bank of the Moscow Government;
- Authorised bank of the Federal Customs Service of the Russian Federation;
- Principal member of Visa International;
- Principal member of MasterCard World-Wide;
- Principal member of SBERCART Russian payment system;
- Participant in the Association of Russian banks-members of Europay Int.;

- Member of the Association of Russian Banks;
- Member of the Association of Banks of the Northwest;
- Member of the National Currency Association;
- Full member of the Moscow Interbank Currency Exchange (MICEX);
- Member of the Noncommercial partnership RTS Stock Exchange;
- Full member of the Factors Chain International (FCI);
- Member of the International Forfeiting Association (IFA);
- Member of the Moscow International Currency Association;
- Participant in the Electronic Trading System
- Member of the National Securities Market Association;
- Member of the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD);
- Participant in the Western Union and ANELIK money transfer systems;
- Participant in of the Russian National Association of S.W.I.F.T. members;
- Reuters Dealing 3000 subscriber;
- Member of Telecom Forum non-commercial partnership;
- Member of the Professional Institute of Placement and Circulation of Equity Instruments non-commercial partnership;
- Member of the Association of Investor Relations Professionals, a non-commercial partnership in Russia.

## STANDARD SETTLEMENTS INSTRUCTION

### US Dollars (US\$)

#### **Deutsche Bank Trust Company Americas,**

New York, NY, USA

SWIFT: BKTR US 33

Account No. 04410090

#### **JP Morgan Chase Bank, New York**

New York, NY, USA

SWIFT: CHAS US 33

Account No. 400942143

#### **American Express Bank**

23rd Floor, American Express Tower,

200 Vesey Street, New York, NY 10285-2300, USA

SWIFT: AEIB US 33

Account No. 744425

#### **The Bank of New York Mellon**

One Wall Street, New York, NY 10286, USA

SWIFT: IRVTUS3N

Account No. 890-0536-209

### Australian Dollars (AUD)

#### **Commonwealth Bank of Australia**

48 Martin Place, Sydney NSW 2000 Australia

SWIFT: CTBAAU2S

Account No. 100086501AUD112601

### Canadian Dollars (CAD)

#### **Bank of Montreal**

Toronto Operations Centre, 234 Simcoe Street,

3rd Floor, Toronto, Ontario, Canada, M5T 1T4

SWIFT: BOFMCAM2

Account No. 3144-1028115

### Euro (EUR)

#### **Deutsche Bank AG**

Taunusanlage 12, 60325 Frankfurt/Main

Germany

SWIFT: DEUT DE FF

Account No 10094751040000

#### **Commerzbank AG**

Kaiserplatz, 60261 Frankfurt/Main, Germany

Account No 400887181600

SWIFT: COBADEFF

#### **Dresdner Bank AG**

Juergen Ponto Platz 1 D-60301 Frankfurt/Main, Germany

SWIFT: DRES DE FF

Account No 499/08125181/11/888

### Pounds Sterling (GBP)

#### **National Westminster Bank PLC**

41 Lothbury, London, EC2P 2BP, United Kingdom

SWIFT: NWBK GB 2L

Account No 4400004598512

#### **Lloyds Bank TSB Plc**

25 Gresham Street, London,

EC2V 7HN, United Kingdom

SWIFT: LOYDGB2L

Account No. 01023412

### Swedish Krona (SEK)

#### **Svenska Handelsbanken**

Kungstradgardsgatan 2, 106 70 Stockholm, Sweden

SWIFT: HAND SE SS

Account No 40308049

### Norwegian Kroner (NOK)

#### **Svenska Handelsbanken**

Radhusgt. 27, N-0113 Oslo, Norway

SWIFT: HAND NO KK

Account No 83960203340

### Danish Krone (DKK)

#### **Den Danske Bank**

2-12 Holmens Kanal DK-1092 Copenhagen K, Denmark

SWIFT: DABA DK KK

Account No 3996067440

### Swiss Francs (CHF)

#### **Credit Swiss First Boston**

Uetlibergstrasse 231 PO Box 900 CH-8070 Zuerich, Switzerland

SWIFT: CRES CH ZZ 80A

Account No 0835141959310

**Japanese Yen (JPY)****The Bank Of Tokyo-Mitsubishi, LTD**

1-3-2 Nihomabashi-Hongokucho Chuo-ku, Tokyo  
103-0021, Japan  
SWIFT: BOTK JP JT

Account No 6530445622

**Armenian Drams (AMD)****CJSC Conversbank**

26, Vazgen Sarkisian St., Erevan, 375010,  
Republic of Armenia  
SWIFT: COVB AM 22

Account № 1930000393730100

**Byelorussian Roubles (BYR)****OJSC BPS-Bank**

6, Lunacharsky Boulevard, Minsk, Belarus  
SWIFT: BPSB BY 2X MFO 153001369

Account № 1702581760012, UNN 101453535

**Kyrgyzian Soms (KGS)****BTA BANK CJSC**

118, Moskovskaya str, Bishkek, 720001, Kyrgyz  
Republic

SWIFT: EIMBKG22

Account № 1190015000001201

**Kazakh Tenge (KZT)****OJSC Kazkommerzbank**

135 Zh, Gagarin St., Almaty, 480060, Republic  
of Kazakhstan

SWIFT: KZKO KZ KX MFO 190501926 corr/acc:  
900161126

PNN OJSC Promsvyazbank 600400123644

Account № 000169906

**Ukrainian Hryvna (UAH)****VAB Bank**

5, Zoologicheskaya St., Kiev, Ukraine

SWIFT: VABA UA UK MFO 380537

Account № 160042001849/980

**JSCB Asia-Invest-Bank**

11/2, 1st Kazachiy Per., Moscow, 109017  
corr.acc. in Uzbek Sums in NB FA UZ №  
21002000800000450035 MFO 00450

SWIFT NBFA UZ 2X

SWIFT JSCB Asia-Invest-Bank ASIJ RU MM

Account № 30109860000000000028

**Estonian Krone (EEK)****AS SEB PANK**

Tornimae 2, 15010 Tallinn, Estonia

SWIFT: EEUHEE2X

Account no 10000003838010

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