

I IT DEVELOPMENT



In 2009, PSB pursued implementation of world-class IT systems intended to upgrade its business functions, and ensured transition of subsidiary banks towards the single PSB IT platform. The technical upgrade and the banks' operation in a single information space will enable us to better prepare for the expected post-crisis banking business recovery.

BUSINESS TECHNOLOGY PLATFORM

In 2009, PSB continued implementation of Misys Summit, the front-office system for financial market operations, designed to fully automate securities trading and accounting procedures. The system was adapted to PSB business processes and conditioned for interface with back-office systems and exchanges. We expect to launch the system into operation as of the beginning of 2010.

In addition, in 2009 we completed automation of middle-office retail lending functions. As part of the project, a number of systems were replaced with a centralized solution based on EMC-developed Documentum, the documentation management system.

As part of mySAP ERP program, PSB completed implementation of the Payroll and HR subsystem at all branches. Data required for Documentum-based credit decision-making is fed with the use of SAP BW, the corporate data storage facility, and SAP NetWeaver (PI), the data integration bus. In 2010, we intend to expand the tasks of our Finance and Risks Division to be accomplished with the use of SAP data storage. We have launched implementation of SAP CRM subsystem for corporate, SME and Private Banking businesses' clients, while implementation of the subsystem for retail clients is currently being

SHARE

Saint-Petersburg {1911}

Contents:

A RUB 187.50 bearer share of Russian-Asian Bank.

planned. PSB will continue to implement SAP subsystems. Specifically, in 2010 we intend to launch implementation of AXP, the cost (including HR cost) planning system.

Oracle-developed Siebel CRM system is now fully operational at PSB. The system is used for collection and, since recently, for distressed asset processing and foreclosures.

CLIENT CONVENIENCE

In 2009, the number of PSB On-Line corporate users increased by 21% to 40,000. Acknowledging the ongoing functional and qualitative improvement of PSB On-Line, most clients prefer to transit from the traditional Client-Bank system towards PSB On-Line platform.

The number of retail subscribers to Internet Bank Service within PSB-Retail System increased 3.5 times in 2009. The user interface is scheduled for redesign in early 2010, which will make the system more user-friendly.

SUBSIDIARY BANK TRANSITION TOWARDS PSB SYSTEMS

Three subsidiary banks, Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank, moved to PSB IT systems in 2009, with migration of client, account, loan, deposit and other relevant data. The banks now provide a harmonized range of services.

CORPORATE GOVERNANCE



IN 2009, WE CONTINUED TO IMPROVE PROCEDURES UNDERLYING RELATIONS BETWEEN OUR GOVERNING BODIES, AS WELL AS EFFICIENCY OF THE GOVERNING BODIES BOTH AT THE OPERATING LEVEL AND AS A RESULT OF APPROVAL OF PSB CORPORATE GOVERNANCE CODE, THE FUNDAMENTAL CORPORATE DOCUMENT.

KEY PRINCIPLES

Efficient interaction between all governing bodies – the General Shareholders' Meeting, the Board of Directors, the President and the Management Board, as well as various-level committees, underlies PSB Corporate Governance System (CGS).

The CGS key principles include compliance with the existing Russian legislation and regulator requirements; protection of rights of shareholders, investors and other stakeholders, as well as control and timely disclosure of data pertaining to PSB economic operations. In addition to corporate governance best international practice, PSB applies the Bank of Russia and the Federal Service for Financial Markets recommendations, as well as the OECD and the Basel Committee on Banking Supervision corporate governance principles.

CHANGES IN 2009

Key changes to the CGS, which essentially completed development of its overall structure, were implemented in 2008. Further and less significant adjustments made in 2009 mainly targeted improved interaction between the CGS participants.

BOARD OF DIRECTORS CHANGES

To improve operational efficiency, the number of directors serving on the Board was in 2009 reduced to 7, including two independent directors. Independence criteria meet the most

stringent requirements of Russian and international regulators and stock exchanges. Independent directors are remunerated for their service on PSB Board. The General Shareholders' Meeting decides on the remuneration levels.

CORPORATE DOCUMENTATION

At the end of 2009, the Board adopted PSB Corporate Governance Code setting forth key principles for the Bank's CGS and interaction between its participants. The full text of the Code is available on our website (About PSB – Corporate Governance): <http://www.eng.psbank.ru/about/316>.

INFORMATION DISCLOSURE

The disclosure group set up in 2008 in accordance with PSB Information Disclosure Policy pursued control of disclosure by various units of the Bank in 2009.

GENERAL SHAREHOLDERS' MEETINGS

In addition to the Annual General Shareholders' Meeting held on 26 June 2009, there were three Extraordinary General Shareholders' Meetings (16 March, 15 May and 12 October 2009) considered a share split, a change to the number of directors serving on the Board, and a share capital increase, respectively.

BOARD OF DIRECTORS

The Board composition as on 31 December 2009:

Alexey Ananiev

(1964)

Chairman of the Board of Directors since 2006 and Member of the Board since 2001. Mr. Ananiev is also Chairman of the Advisory Council of Tekhnoserv (IT company).

Alexander Levkovskiy

(1972)

President and the Chairman of the Management Board since 2001.

Maxim Litvinov

(1970)

Deputy Chairman of the Board since 2008, Member of the Board of Directors since 2007, Vice-President, Head of Strategic Development Department at PromSvyazCapital.

Vladislav Zabelin

(1975)

Member of the Board of Directors since 2008, President of PromSvyazCapital.

Sergey Kharitonov

(1966)

Member of the Board of Directors since 2006, Advisor to the Management Board PSB since December 2009.

Paul Ostling

(1948)

Independent Member of the Board of Directors since 2008, CEO of Phoenix – Neftegaz Services. Mr. Ostling has more than 20 years work experience with Ernst&Young.

Tamjid Basunia

(1945)

Independent Member of the Board of Directors since 2008, CEO of Spice Factory and Voice Connections. Mr. Basunia has more than 20 years work experience with PricewaterhouseCoopers.

BOARD COMMITTEES

The Board committees pursued their functions in 2009.

Audit Committee analyzes and develops recommendations to the Board in respect of important financial and business issues, as well as monitors the accuracy and integrity of the Bank's financial reports. The Committee is composed of independent directors, as well as a representative of the majority shareholder (in an observer capacity):

- ◆ T. Basunia (Chairman);
- ◆ P. Ostling;
- ◆ M. Litvinov (no voting power).

Nominations and Remuneration Committee ensures Board members' personal awareness of the Bank's HR policy and supports their involvement in the monitoring of the HR policy implementation. The committee is composed exclusively of independent directors, as well as a representative of the majority

shareholder (in an observer capacity):

- ◆ P. Ostling (Chairman);
- ◆ T. Basunia;
- ◆ M. Litvinov (no voting power).

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 the balance of interests, the Committee is composed as follows:

- ◆ M. Litvinov, non-executive member of the Board (Chairman);
- ◆ V. Zabelin, non-executive member of the Board,
- ◆ A. Ananiev, Chairman of the Board;
- ◆ A. Levkovskiy, executive member of the Board, PSB President;
- ◆ A. Volchenko and A. Konstandyan, members of the Management Board.

MANAGEMENT BOARD

PSB Management Board composition as at 31 December 2009:

Alexander Levkovskiy

(1972)

Member of the Management Board since 1996, President and Chairman of the Management Board since 2001.

Dmitry Sennikov

(1957)

Member of the Management Board since 1995 and First Vice-President

Artem Konstandian

(1974)

Member of the Management Board since 2005 and First Vice-President.

Irina Morozova

(1963)

Member of the Management Board since 2000, Chief Accountant and Head of Accounting and Financial Reporting Department.

Konstantin Basmanov

(1974)

Member of the Management Board since 2009, Senior Vice-President and Head of Distribution Network.

Alexandra Volchenko

(1976)

Member of the Management Board since 2007, Senior Vice-President and Head of Finance and Risks.

Alexey Fedotkin

(1976)

Member of the Management Board since 2007, Senior Vice-President and Head of Corporate Banking.

Tatiana Kuzmina*(1968)*

Member of the Management Board since 2008, Vice-President and Head of Legal Department.

Natalia Neverkevich*(1974)*

Member of the Management Board since 2007, Head of Internal Audit and Control Department.

In early 2010 the composition of the Management Board was amended – Natalia Neverkevich was substituted by:

Elena Makhota*(1980)*

Member of the Management Board since January 2010; Vice-President and Head of SME and Retail Banking.

BANK COMMITTEES

The following Bank Committees are in place at PSB to address daily operating issues:

- ◆ Credit Committee;
- ◆ Operative Credit Committee;
- ◆ SME Credit Committee;
- ◆ Asset and Liability Committee;
- ◆ Distressed Asset Committee;
- ◆ Tariff Committee;
- ◆ Budget Committee
- ◆ Retail Risk Committee;
- ◆ Public Finance Committee;
- ◆ Product and Innovation Committee.

Committee function overview is available on PSB website (About PSB – Board and Management – Committees) <http://www.eng.psbank.ru/about/321/334>.

INFORMATION DISCLOSURE

PSB remains committed to consistent improvement of its information transparency. We regularly publish RAS and IFRS financial reports, organize quarterly investor and analyst conference calls and web-casts, issue press releases about important events at PSB in Russian and English. PSB bilingual corporate website provides information about our broad service offering, as well as an overview of our operations, ownership, management and organizational structure. In addition, we offer analytical information about current financial market environment (daily and weekly capital market reports, as well as investor bulletins).

HR POLICY: KEY AREAS



In 2009, amid an environment, which remained challenging for the Russian economy as a whole and its banking sector in particular, PSB managed not only to maintain but also to improve its market position, re-establishing its reputation of an organization resilient to downturn. Our achievements were driven by timely and sound decisions and coordinated efforts of our entire team. Indeed, our key competitive advantage is our team of committed professionals able to accomplish the most challenging tasks.

In implementation of its HR policy based on strategic objectives and development priorities, PSB has been consistently building a team of like-minded professionals, ensuring the highest degree of conjunction between the Bank's objectives and those of its employees.

ORGANIZATIONAL AND STRUCTURAL CHANGES; BUSINESS PROCESS OPTIMIZATION

PSB organizational structure changed in 2009. The change was partially driven by the crisis, even though its role should not be overstated, as the crisis merely spurred PSB efforts in the area.

In 2009, we completed establishment of the risk management function in our Finance and Risks Block. The single risk management system now encompasses three areas: corporate risk management, SME risk management, and retail and financial risk management. A streamlined and full-fledged risk management system was one of the key factors, which enabled PSB to maintain its market position and pursue its sustainable development.

We have consolidated our SME Business and Retail Business Development departments into a new single business. The key objective of the combined SME and Retail Business is to optimize our retail product offering and increase sales of retail products to SME clients.

SHARE Makeyevka {1907}

Contents:

*A RUB 112.50 share of
Russian Donetsk Coal
and Industrial Company.*

And, finally, we revamped the organizational and HR structure of our points of sale, with the view of increasing their operating efficiency. We reviewed the branch network structure and overall approaches to product distribution, as well as introduced new professional functions.

HR DEVELOPMENT AND TRAINING

Professionals are our most important asset enabling us to maintain our market leadership. Staff development and training is therefore a priority for PSB.

In 2009, we launched the Talent Pool Project in our Distribution Network. We identified the most important competences for the position of a regional division manager and selected the most promising regional division employees able to grow within the organization and aspiring career growth. Out of 63 participants at the initial stage, 35 have been short-listed for evaluation events scheduled for early 2010. This will allow to develop individual development programs and create career growth opportunities for the best employees.

PSB provides HR training across a number of areas. Development of mentorship and sales skills is one the training key focus areas. This is a long-term project, which we expect to extend to all regions of PSB presence. HR Department coaches developed a mentorship skills program for outlets office managers and heads of sales departments. In 2009, managers of all outlets offices located in Moscow and Moscow Region participated in the training, which was also organized at 13 PSB branches. Participating managers acquired knowledge and skills, which will enable them to improve their efficiency and performance.

Coaches working directly with frontline employees and additional office managers play an important role in mentorship development. They deliver training in products and technologies, sales skill development, client communication and service quality. This area was introduced at PSB only in 2008. In 2009, 2,014 training sessions were organized at all additional offices in the Moscow Region. As of mid-2009, the effort was extended to branches.

REMUNERATION AND SOCIAL POLICY

PSB continued to improve its remuneration and social policy throughout 2009. We managed to maintain employee salaries at competitive levels amid the economic downturn. We pursued implementation of a KPI-linked short-term bonus program based on the best practice, while development of KPI calculation methodologies for business and support units is underway.

Employee social security is of prime importance. Despite the crisis, PSB did not cut down employee benefits in 2009. Moreover, we offered our employees an additional soft loan program.

CORPORATE POLICY

At present, PSB employs more than 9,500 people, including many newcomers. Awareness and understanding of the Bank goals and development strategy by all our employees, as well as their ability to share a common corporate culture are of utmost importance. In 2009, we published two fundamental corporate documents, Fundamentals of

Our Business and Strategic Priorities, which outline PSB development strategy and efforts required of all of us to ensure its implementation. Each employee was invited to comment on the documents and submit proposals for improvement of the quality of our operations. Implementation of a number of received initiatives is currently underway. In addition, we organized working sessions with the participation of the Bank managers who assisted in elaboration of an action plan for further development of incentivization, IT and communication systems, as well as improvement of overall efficiency.

An important event was the launch in 2009 of PRObank, the corporate Intranet portal providing employees with access to information about the most recent corporate events, as well offering them «a common working space» where they can exchange the necessary information, thereby improving their efficiency, and simply communicate, which enhances employee cooperation.

Employee participation in PSB social projects, such as Lifeline Charity Program and World Wildlife Fund projects, are key to team and corporate spirit development.

As part of 2009 Bank performance evaluation, PSB held an Employee Awards Ceremony. For the first time in the history of our awards, in 2009 we introduced a new category, Manager of the Year, determined based on the relevant unit performance, its contribution to the Bank overall performance, as well as the manager's personal contribution and his/her positivity.

Professional and positive team players are key to success. Our confidence about PSB ability to attain its key strategic goal is supported by the fact that we have managed to build a strong and efficient team able to accomplish the most complex objectives.

SPONSORSHIP AND CHARITY

In its core operations, PSB firmly adheres to the principles of a socially oriented business. We participate in financing of the real sector of the Russian economy and its strategic companies. The Bank contributes to the development of small and medium business in Russia, facilitating job creation. Amid the financial crisis, PSB has been supporting socially significant regional credit institutions. Competitive modern enterprises are being created in Russian regions through PSB assistance. The Bank established cooperation with the Russian Pension Fund under the State Program for Pension Co-financing, offering additional opportunities for boosting pension provisions.

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

Commemorating those perished while defending Russia's freedom and independence, we believe it is our duty not to forget veterans of World War II. A significant number of our branches provide financial aid to individual veterans. PSB also recognizes the need to support the disadvantaged population, particularly children. For a number of years, our St. Petersburg branch has been supporting Children's Medical Hospice.

2009 saw the launch of a joint project of PSB and Lifeline, the fund for assistance to severely sick children. PSB participates through issuance of special bankcards and transfers contributions to Lifeline Fund, depending on the frequency of the cards use and calculated as follows:

- ◆ 50% of the Bank fee for the first year of card service
- ◆ 0.5% of the value of purchases made by card

Another example of joint projects is PSB cooperation with Our Children, the ICP-affected children charity fund.

Support of the Russian Orthodox Church has traditionally been one of the key areas of PSB charitable work. The Bank has been providing support to churches, monasteries and spiritual education institutions, notably through financing construction and book purchases. In 2009, PSB provided financial assistance to Znamenski Female Monastery, Joseph-Volotski Patriarchal Male Monastery, Novo-Tikhvinski Female Monastery, Rostov Holy Trinity St. Sergius Varnitski Monastery, Holy Trinity St. Sergius Laura, Svyato-Uspensky Pskovo-Pechersky Male Monastery, Svyato-Preobrazhenski Solovetski Patriarchal Male Monastery, Church of the Life-Giving Trinity in Serebryaniki, Church of the Saint Grand Duke Vladimir of Kiev, and others.

Culture patronage is an important part of PSB charitable work. Our St. Petersburg branch has renewed its general sponsorship of Dedication to Maestro International Music Festival held in the State Hermitage Museum.

Sports and healthy lifestyle promotion has traditionally been high on PSB agenda. PSB acts as a sponsor to FC Nizhny Novgorod, FC Shinnik (Yaroslavl) and FC Saturn (Ramenskoye), as well as a general sponsor to the Khimki Basketball Club.

PSB has been traditionally organizing and supporting events promoting development of the Russian banking sector. In April, PSB acted as the general sponsor to the 20th Convention of the Association of Russian Banks. In July PSB held the 14th North-western Banking Conference in St. Petersburg. In June and December the Bank sponsored two bond market conferences.

Together with the Russian National Organization for Small and Medium Enterprises (OPORA), PSB in 2009 continued to hold a competition for SME entrepreneurs Money to the Young. The competition is aimed at business environment development and support of young gifted entrepreneurs amid the challenging economy. Aged 18-35, the participants competed in two nominations: Business Startup and Young Enterprise.

ENVIRONMENTAL POLICY



Throughout the history of its operations, PSB has been paying particular attention to environmental protection. In 2008, the Bank joined the Corporative Club of the Wild World Fund (WWF), one of the world's biggest independent nature conservation organizations uniting more than 5 million permanent supporters and engaged in broad-based activities in more than 100 countries. Partnership with WWF allows corporate members of the club to be fully involved in WWF nature conservation work, and to provide financial support to the Fund's projects. PSB and WWF have entered a cooperation agreement, in accordance with which PSB now collects contributions to the Fund.

As part of its credit risk management efforts, PSB has been assessing environmental risks associated with operations of its clients. In accordance with EBRD recommendations, the Bank adopted corporate borrower environmental compliance assessment standards. The Bank has an environmental protection policy and the necessary environmental risk management procedures in place. We are particularly vigilant with regard to borrowers operating in sectors with high- and critical level environmental risk. In addition, PSB monitors its loan portfolio structure for environmental risk.

SHARE Saint-Petersburg {1910}

*Contents:
Ten RUB 250 shares
of Saint-Petersburg
International
Commercial Bank.*

When applying for a loan, borrowers submit a questionnaire providing information necessary 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, as well as environmental certificates and permits. Key parameters for borrower environmental risk assessment are: sector of operations, nature of business, purposes of the loan and type of collateral.

At the stage of application review, our credit staff assesses borrower environmental risks. Information about any environmental risks of the borrower is included in the credit opinion to be submitted to the relevant authority.

PSB Credit Risk Assessment Department drafts an annual environmental report under the EBRD lending program. The report contains analysis of environmental risks associated with our loan portfolio, including loans to small and medium enterprises participating in the program.