

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.