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# 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 %.

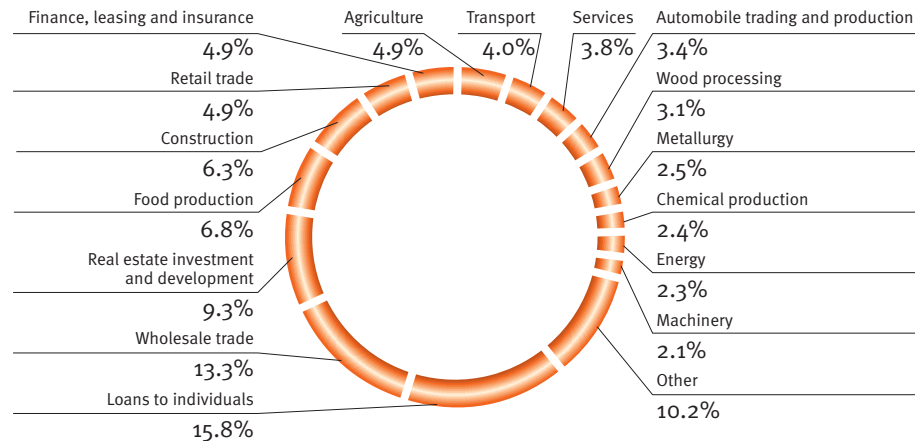
Lending to the real sector of the economy remained a key priority for PSB Corporate Banking. As at 31 December 2008, loans to real sector companies accounted for about 80%. PSB significantly expanded cooperation with trans-

### 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.

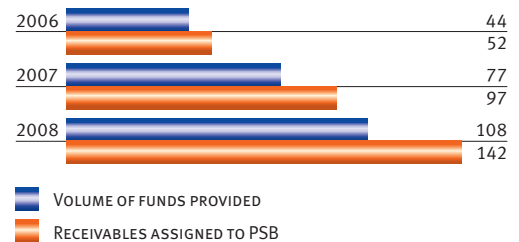
In June 2008, PSB confirmed its status as an authorized bank for the Federal Customs Service. PSB head office and 38 branches across Russia are authorized to issue bank guarantees for customs duty payments. The Bank intends to continue a mutually beneficial cooperation with major customs brokers, forwarders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

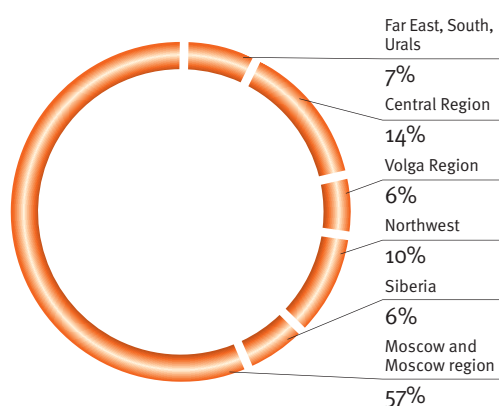


As at 1 January 2009, PSB factoring portfolio was RUB 22.4 billion.

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.

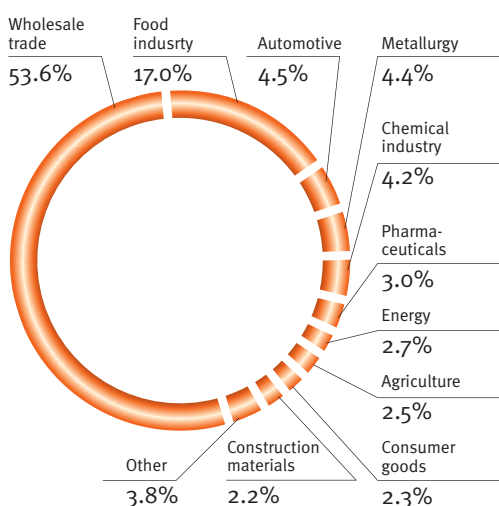
In 2008, the industry breakdown of PSB factoring portfolio remained essentially unchanged. As before, the portfolio was dominated by wholesale trading companies and manufacturers.

## 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.

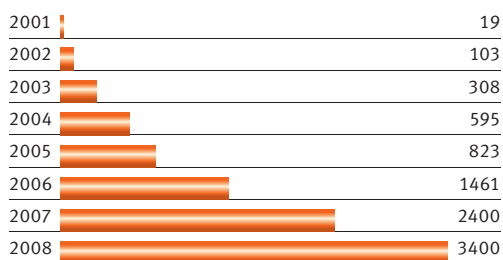
According to an independent rating agency Expert RA survey, PSB market share in factoring increased to 23.5% in 2008. Thus, the Bank became a leading factoring supplier in Russia. PSB remained a No. 1 bank by the volume of receivables and maintained its leading position in international factoring.

## 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



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

SELECTED TRADE FINANCE DEALS

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

# 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  
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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.

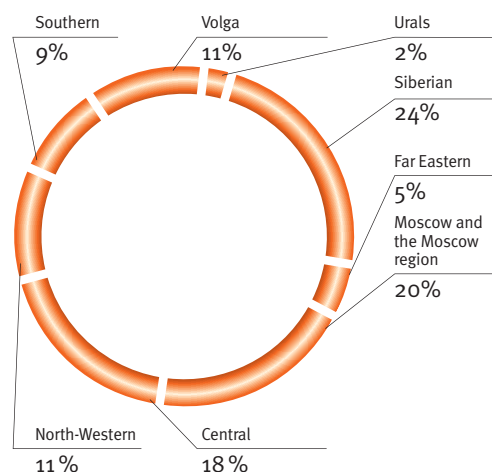
### SME LOAN PORTFOLIO IN 2008, RUB MILLION

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.

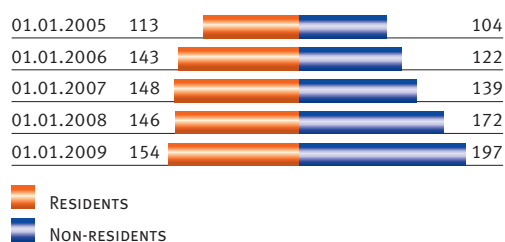
Differentiated fees, a choice of telecommunication system, and long office hours have

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.

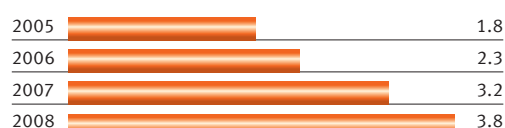
In December 2008, PSB signed an agreement with the Customs Clearing System (OOO "Tamozhennaya Platyozhnaya Systema"), under which PSB was appointed a settlement agent for customs duty settlements between the System members.

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.



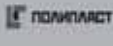
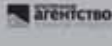




Investment business is a key component of the Bank long-term development.

### 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.

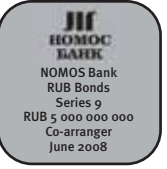
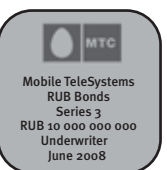
## OPERATIONS IN THE SECURITIES MARKETS

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.

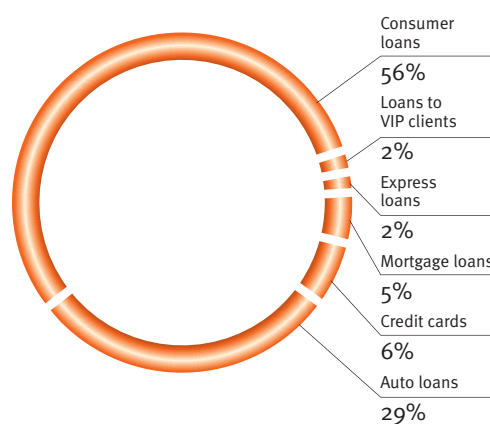
### RETAIL LOAN PORTFOLIO GROWTH, RUB MILLION

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.

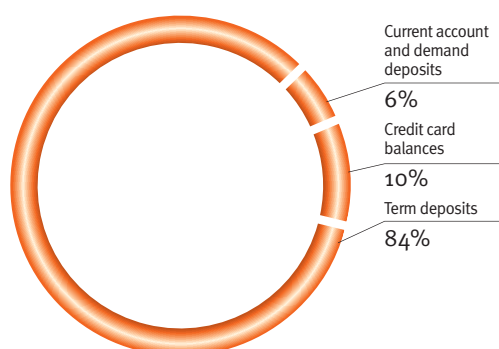
In March 2008, PSB introduced a new range of term deposits – My Benefit, My Savings, My Choice, My Status and My Pension, which offered the clients more diverse, attractive and flexible terms reflecting their needs. In addition, PSB launched two seasonal deposits in 2008 – Sunny Days and In the Christmas 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.