Promsvyazbank

Investor Bulletin, March 2010

Key P&L items*

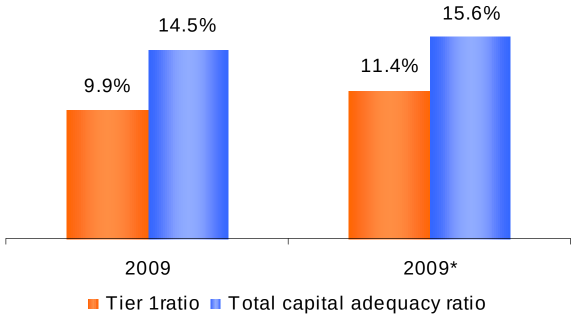
(RUB bn)	2009	2008	% change
Net interest income	25.5	22.0	16.3
Net commission income	5.6	4.7	18.5
Operating revenue	33.7	28.2	19.2
General & administrative expenses	(13.3)	(12.4)	7.4
Profit before tax and provision	19.9	15.4	29.0

Key financial ratios*

(%)	2009	2008
RoA	n/a	0.4
RoE	n/a	4.6
Net interest margin	6.5	6.6
Net fees & commissions / operating income	16.6	16.7
Cost / income	39.5	43.8
Operating income per employee (RUB mln)	3.7	3.0
Provisions / loans	12.7	5.8
Tier 1 ratio	9.9	9.7
Total capital adequacy ratio	14.5	13.1

*** Source: PSB consolidated IFRS financial statements (preliminary data – subject to change upon the completion of the audit)**

Capital adequacy



* if the latest share issue (subscribed by EBRD and Commerzbank) was included into the YE 2009 financials

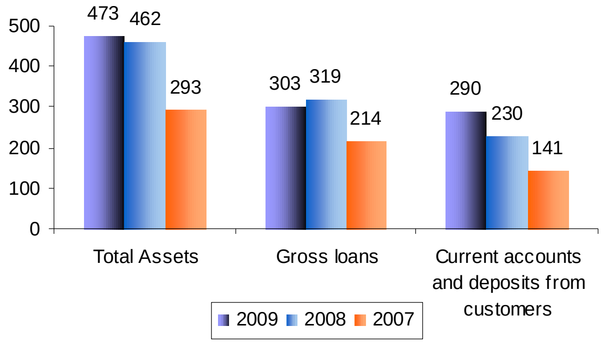
Positive trends

- Net interest income strengthened in spite of the loan book contraction, as lending rates grew faster than funding costs in H1/beginning of H2 2009. Lending rates were driven by supply shrinkage in the loan market and increased risk premium at a time of economic turmoil.
- Therefore, PSB managed to maintain its net interest margin at the 2008 level, despite a reduced share of customer loans on the balance sheet and an increased proportion of more liquid but less profitable assets (e.g., securities).
- A fair cost-to-income improvement was driven by a strong growth in operating income against the backdrop of strict controls over administrative expenses under PSB's cost optimization programme.
- A strengthening in interest income and fees & commissions led to an increase in operating income, while efficient administrative expenses controls drove a 29% increase in profit before tax and provisions.
- Stronger operating income per employee (up 22%) reflects improved labor efficiency management at the Bank.

Negative trends

- A significant overall increase in non-performing loans (NPL) amid a deep economic crisis in Russia drove additional provisioning for loan impairment (loan loss reserves more than doubled in 2009 to RUB 39 bn).
- In 2009, approximately 60% of PSB operating revenue was allocated to provisioning, against 47% in 2008.
- A pressure on the net interest margin started in Q4 2009 and continued into Q1 2010, driven by falling interest rates against the backdrop of limited lending opportunities and high interest expenses related to maintaining a sizeable liquidity cushion in times of economic turmoil.

Key balance sheet items



Loan book

RUB bn	2009	2008	2007	% change 2008/09
Standard corporate loans	181	163	116	11.1
International trade and long-term finance	32	64	42	(50.3)
Factoring	27	22	19	19.6
Total corporate loans	**240**	**250**	**176**	**(3.9)**
SME loans	23	19	8	19.3
Retail loans	41	50	29	(19.2)

Loan quality

(%)	2009	2008	2007
Corporate Loans			
NPL / Corporate loans	9.3	1.3	0.2
Provisions / Corporate loans	9.7	4.4	2.1
SME Loans			
NPL / SME loans	16.2	1.9	-
Provisions / SME loans	18.1	7.3	1.8
Retail Loans			
NPL / Retail loans	29.3	10.6	3.9
Provisions / Retail loans	27.2	12.5	4.6
Total Gross Loans			
NPL / Gross loans	12.5	2.8	0.7
Provisions / Gross loans	12.7	5.8	2.4

Drivers of the key balance sheet trends

- During the first 9M of 2009 total assets decreased following (i) repayments in H1 2009 of CBR anti-crisis funding obtained amid the system-wide liquidity crunch in Q4 2008, (ii) cautious approach to lending and (iii) PSB's policy targeted at reducing concentration levels in funding.

- In Q4 2009 a large influx of customer deposits at PSB resulted in a YoY increase in total assets. It was caused by excess liquidity in the Russian economy and limited number of banks, incl. PSB, perceived as safe enough to place that money with.

- The proportion of shareholders' equity was slightly down to 8.1% from 8.5%, due to a 3% decrease in own funds versus a 2% asset growth. The key factors for the reduction in shareholders' equity were as following: (1) net loss due to a sharp increase in provisioning charge; (2) negative revaluation of fixed assets; and (3) decrease in additional capital, due to acquisition of minority stakes in subsidiary banks.

- In 2009, the Bank operated amid, on the one hand, persisting higher credit risks across the economy and, on the other, a weakening demand for loans due to the economic crisis. Both factors negatively affected PSB's loan book dynamics. Gross loans contraction was mainly driven by (a) suspension of most retail lending programs, (b) tighter credit underwriting criteria as part of a revamped credit policy, and (c) declining volumes of international trade finance amid the global economic crisis.

- Nevertheless, PSB continued active credit underwriting in the areas of factoring and SME lending, and strengthened its market positions in these segments. 2009 volumes of factoring financing and SME loans were over RUB 85 bn and nearly RUB 22 bn, respectively.

Liquidity

(%)	2009	2008	2007
Liquid Assets (RUB bn)	154	127	67
Liquid Assets / Total Assets	33	28	23
Instant Liquidity Ratio (N2) – min 15%	54	76	44
Current Liquidity Ratio (N3) – min 50%	126	95	84
Net loans / Customer Deposits	92	131	148

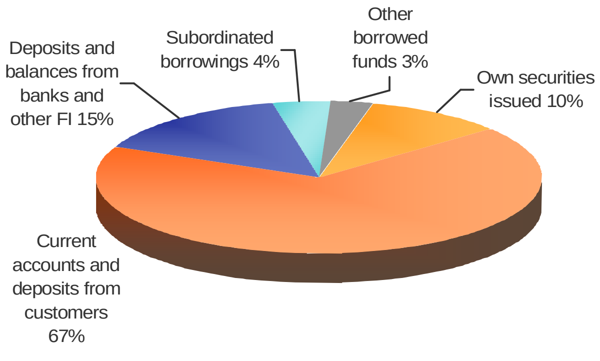
Funding

RUB bn	2009	2008	2007	% change 2008/09
Corporate Deposits	194	176	106	9.8%
Retail Deposits	96	53	35	79.9%
Equity / Assets	8.4%	8.7%	9.4%	(0.3 pp)

Securities portfolio (trading and held to maturity)

RUB bn	2009	2008	2007
Russian state bonds (OFZ), municipal bonds, CBR bonds	17	9	13
Corporate bonds	25	12	5
Promissory notes of Russian banks	7	2	6
Equities	-	-	1
Total securities portfolio	**49**	**23**	**25**

Liabilities structure



- NPL more than quadrupled in absolute numbers from YE 2008, and their level reached approx.12.5% of gross loans, according to preliminary IFRS financials. However, NPL growth decelerated in H2 2009 when their increase (in absolute terms) was 40% lower than in H1 2009.

- Retail loans display the highest level of NPL; this is due to the portfolio shrinkage against the backdrop of very limited volumes of new retail lending. The share of NPL in the SME portfolio is also relatively high, mainly comprised of loans issued before the tightening of the SME credit underwriting criteria in Q4 2008, while the level of NPL in SME loans issued in 2009 is about 3%.

- PSB adheres to its policy of maintaining NPL coverage by provisions of no less than 100%.

- Also, as the period of increased volatility in the financial markets lingers on, PSB continues to prioritize liquidity over profitability.

- Retail deposits grew strongly throughout 2009, outpacing the respective average growth rate for the Russian banking sector. This was driven by the efficiency of PSB deposit product offering against the backdrop of higher household saving rates amid economic volatility.

- In 2009, PSB securities portfolio (traded and held to maturity) more than doubled, driven by: (1) purchases of new bonds issued by major Russian corporates since Q2 2009, when the domestic market began to recover after its collapse in October 2008; and (2) placement of a part of the liquidity cushion created by PSB in Russian state and municipal bonds. Highly liquid fixed income instruments included in the CBR Lombard list (i.e. eligible for repo with the CBR) account for over 70% of PSB trading and HTM securities.

Late 2009 – early 2010 key events

- According to Interfax Economic Research Center data as at January 1, 2010, PSB has for the first time become a TOP10 Russian bank by assets.
  - In 2009, the number of PSB clients – legal entities grew to 81,000, up from 70,000 a year before. This figure includes 57,000 clients in the SME segment (in 2009, PSB carried out segmentation of clients on both sides of the balance sheet). In the retail segment, the Bank has more than 370,000 borrowers and depositors, as well as almost 740,000 active payment cards.
  - In 2009, PSB considerably increased its share in the Russian factoring market (to 31.3%, according to the Russian rating agency “Expert RA”) and established itself as the single largest leader in this market.
- In November 2009, PSB issued US$200 million subordinated Eurobonds, becoming the only Russian bank, which was able to place subordinated debt in the public market in 2009.
- In February 2010, CBR registered the results of a new share issue by PSB, which was subscribed to by EBRD and Commerzbank (through its fully-owned subsidiary Commerzbank Auslandsbanken Holding AG). As a result of the share issue, PSB’s own funds increased by RUB 5.4 bn: EBRD became a new shareholder with an 11.75% stake, while Commerzbank maintained its share at 15.32%. The share of Promsvyaz Capital B.V. decreased from 84.68% to 72.93%.
- PSB participated in the privatization of two stakes in Yarsotsbank owned by the Yaroslavl Region (5.01%) and the City of Yaroslavl (4.98%). As a result, PSB share in Yarsotsbank increased to 61.91%.
- In addition, as at YE 2009 PSB acquired 100% stakes in Nizhny Novgorod Bank and Volgoprombank. In February, PSB’s Board of Directors resolved to submit to the EGSM the matter of PSB reorganization through consolidation of Volgoprombank and Nizhny Novgorod Bank (which would in that case cease to exist as separate legal entities).
- PSB has continued to implement sizeable IT-projects. In particular, all subsidiary banks were transferred to a single IT-platform; the Bank started using SAP-based corporate database as well as cost accounting and HR modules; a single front-office Misys Summit is being implemented for the financial markets; Siebel Collection system is implemented in retail lending to strengthen the collection of problem loans.

Key tasks and their implementation

The key tasks for PSB in 2009 included maintaining the operating efficiency, the asset quality and a conservative liquidity cushion amid challenging economic environment as well as funding diversification and decreasing the concentration risk on the liability side of the balance sheet.

Asset quality

- PSB revamped its product offering, tightened credit underwriting criteria and improved the monitoring of existing borrowers.
- PSB centralized the function of setting credit limits, shortened loan maturities and increased requirements to the quality and the size of the collateral.
- In retail banking, PSB suspended lending to new clients, revamped the credit procedure and the scoring models and substantially strengthened the process of bad debt collection.

Cost controls

- PSB cut back on advertising expenses, office equipment acquisitions and repairs, as well as optimized its transport and other expenses. In 2009, administrative expenses, net of employee compensation and fixed assets depreciation, decreased by 6.3%, while the relevant average quarterly indicator was down 23% against Q4 2008.
- Employee compensation grew by 16% in 2009; about one third of that was attributable to the consolidation of subsidiary banks (which were not included in the consolidated P&L at YE 2008), while the rest was due to a lower annual average headcount in 2008 compared to 2009.
- Overall, about two thirds of the 9% increase in non-interest expenses in 2009 is attributable to the consolidation of subsidiary banks’ expenses in the group’s P&L.
- As part of branch network optimization, PSB phased out a number of outlets. As a result, the total number of PSB service points decreased to 239 from 257 as at 1 January 2009.

Funding diversification

- The share of 10 largest depositors in customer deposits dropped to 32% at YE 2009, down from 38% at YE 2008.
- The share of retail deposits in total liabilities increased to 22% at YE 2009, from 13% at YE 2008.
- PSB significantly reduced its dependence on funding from foreign banks, with its proportion in total liabilities dropping to 15%, from 28% at YE 2008.

2010 strategy

- In 2010, PSB will pursue a moderate growth strategy. We will target expansion of our loan portfolio through new high-quality credit-worthy clients. We will prioritize such products as factoring, trade finance and SME loans. In addition, PSB intends to expand its loan portfolio in other market segments, including standard credit products and retail business. New credit product offering to a broad circle of retail clients is in the 2010 pipeline.
- The 2010 loan growth will mainly be financed through a reduction in excess liquidity.
- At a time of dipping interest rates, maintaining of the operating efficiency is PSB's top strategic priority.

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