

Summary of measures adopted by the Russian Government to support the Russian banking sector

Since the onset of the financial crisis in September, the Russian authorities, including the Central Bank of Russia (CBR), have acted quickly and decisively, and have taken unprecedented measures to support the Russian financial sector, and boost liquidity. Measures taken by the Russian authorities helped to stabilize the situation with liquidity last fall and have been up to the challenges Russia has faced so far. The Russian authorities have without doubt learnt a lesson from the 1998 and 2004 financial crises and can be commended for their actions.

Please find below the summary of the main measures and their effect on the banking sector as a whole and PSB in particular.

Measure	When adopted	Contents / Conditions	Implications for the banking sector / Effect on PSB
Provision of subordinated loans	<p>Federal law “On additional measures of support for the financial system of the Russian Federation”</p> <p>Passed by the State Duma October 10, 2008</p> <p>Became effective October 14, 2008</p>	<ul style="list-style-type: none"> • CBR provides the state-owned Sberbank with non-collateralized subordinated loans up to RUB 500 billion (US\$ 17 billion*) until December 31, 2009 at 8% per annum. • Funds of the National Wealth Fund of up to RUB 450 billion (US\$ 15.3 billion*) are deposited in Vnesheconombank (VEB) until December 31, 2019 at an annual rate of 7%. These funds will be used to provide 10-year non-collateralized subordinated loans at a rate of 8% per annum to <ul style="list-style-type: none"> - Majority state-owned VTB Bank – RUB 200 billion; - State-owned Rosselkhozbank - RUB 25 billion; - Other private banks (RUB 225 bn), on the condition that they <ul style="list-style-type: none"> - have a minimum long-term international credit rating of B-/B3 or a minimum national credit rating of BBB-/Baa3 (about 150 banks comply) - match the loan amount with a subordinated loan and/or charter capital increase - the maximum loan amount from the VEB may not exceed 15% of the total equity as of October 1, 2008. 	<p>Subordinated loans to the state-owned banks have, unfortunately, not reached the interbank lending market.</p> <p>Subordinated loans to private banks, although much stricter requirements apply, may be a helpful measure, especially considering that the resources provided are among the longest-term, currently available on the market.</p> <p>As of January 2009, subordinated loans were extended to Alfa Bank, Nomos-Bank, and the Bank of Khanty-Mansiysk (in total RUB 17,1 bn).</p> <p>PSB’s additional share issue, placed in December 2008 (see press-release at http://eng.psbank.ru/news/bank/1445.html), can potentially be matched by a subordinated loan from VEB.</p>
Refinancing of borrowings falling due	See above	<p>Between October 14, 2008 and December 31, 2009, the state-owned VEB will advance up to US\$ 50 billion to Russian companies/banks enabling them to refinance foreign currency loans taken before September 25, 2008.</p> <p>Rate per annum: the largest of the two – VEB’s refinancing rate (LIBOR + 5pp) or the rate set by the foreign lender. The loan amounts range between US\$ 100 mln and US\$ 2.5 bn per borrower.</p> <p>Eligibility criteria: borrowers should be of strategic importance to the Russian economy; should have used foreign loans to finance large investment projects or purchase of assets in Russia; should co-finance not less than 25% of the</p>	<p>By January 1, 2009, over US\$13 bn have been provided to telecom, aluminum, oil, construction & development, railways, mining, and microelectronics companies, and one bank – VTB (US\$ 950 mln).</p> <p>The available funds are oversubscribed: VEB reports that it has received applications from Russian companies and banks totaling US\$ 78 bn (inc. from banks</p>

		<p>obligations.</p> <p>For banks, additional requirements apply:</p> <ul style="list-style-type: none"> - own capital of at least RUB 15 bn - an international credit rating of no less than B-/B3 - the bank should be majority Russian-owned (50% + 1 share) and not be affiliated with its foreign lender - involvement in lending to the real sector. <p>Other conditions apply, e.g. agreement of large deals with VEB; inclusion of VEB (CBR) representatives in the governing bodies of the borrower.</p>	of US\$ 28 bn).
Raised limit on deposit insurance	<p>Amendments to the Federal law «On the Insurance of Household Deposits in Banks of the Russian Federation</p> <p>Passed by the State Duma October 10, 2008,</p> <p>Became effective October 14, 2008</p>	<p>The limit on deposit insurance is raised to RUB 700,000 (US\$ 23,800*) per account, full coverage, from RUB 400,000 (90% coverage, of which RUB 100,000 full coverage).</p> <p>The new rules apply to all banks that fail after October 1, 2008. Payments in full are made to depositors 14 days after a bank license has been revoked.</p>	<p>The new limit will protect 98.5% of all individuals' deposits.</p> <p>PSB was one of the first banks to join the system in 2004. The Bank will benefit from the overall positive effect on the banking sector through boosting confidence of retail depositors</p>
CBR lowers mandatory reserve requirements	<p>September 18, October 15, 2008</p>	<p>September 2008: the mandatory reserve ratio on credit institutions' RUB liabilities to individuals is reduced to 1.5%, to non-resident banks in RUB and foreign currency - to 4.5%, on other liabilities in RUB and foreign currency - to 2.0%.</p> <p>October 2008: the mandatory reserve ratio for all credit institutions' liabilities is temporarily reduced to 0.5% (to be increased by 1 pp in May 2009 and by additional 1 pp in June 2009).</p> <p>December 2008: CBR temporarily - until the end of 2009 - softened the reserve requirements for loans (e.g. extended overdue time and allowed loan restructuring without changing loan evaluation).</p>	<p>A positive effect on liquidity of <u>all</u> banks. According to some estimates, injected totally about RUB 300 bn in the banking system.</p> <p>During two decreases of mandatory reserve requirements in September and October PSB received RUB 3.8bn and RUB 1.9bn, respectively</p>
Uncollateralized loans provided by CBR	<p>CBR Regulation of October 16, 2008</p>	<p>Eligible banks include those rated by the international rating agencies total at least B-/B3 and by the eligible Russian agencies at least BB-/B++. Minimum value of one application by a bank (three are possible) is RUB 1 million (approx. \$34,000). Tenors – from 5 weeks up to 6 month - depend on the level of ratings. The first auction was held on October 20.</p>	<p>PSB has an uncollateralized credit line with the CBR in the amount proportional to PSB's capital under RAS (RUB41.8 bn as of December 1, 2008)</p>
Partial compensation	<p>November</p>	<p>Partial compensation is provided to eligible banks with international credit ratings</p>	<p>PSB signed the compensation agreement</p>

for losses in the inter-bank loan market		not lower than BB-/Ba3 and capital exceeding RUB 20 bn	with CBR in January 2009
More federal funds are available for placement with commercial banks	Ministry of Finance orders from March 2008	<ul style="list-style-type: none"> Placement of temporarily available <u>funds of the state corporations and regional authorities</u> in commercial banks. Eligible banks include those rated at least BB-/Ba3 - 28 banks in total. Funds are placed for 3-18 months, these are among the longest tenors. The amount of temporarily available <u>federal budget funds</u> to be placed in bank deposits is increased to RUB 1,514 billion. Auctions started in the spring of 2008, the amount of funds placed have recently increased. Funds can be placed for 3 months or longer, changes are planned in the federal law to extend maturities. These actions might stop to be replaced by CBR auctions 	<p>PSB is one of the 28 eligible banks that can attract temporarily available federal budget funds (auctions suspended for the time being). Exposure limit opened by the Ministry of Finance on PSB is one of the highest.</p> <p>PSB is one of 28 eligible banks to participate in the deposit auctions held for the Housing and Utilities Reform Fund by the St Petersburg exchange</p> <p>PSB can also attract budget funds of several Russian regions and state corporations</p>
Rescue of failing / troubled banks	September-October	<ul style="list-style-type: none"> Loans to state-owned banks and corporations, such as VEB, Alrosa, RZhD, Gazenergoprombank Loans to private banks, such as PSB and National Reserves Bank 	With the approval and support from CBR, PSB extended funding to a regional bank JSC "Yarsotsbank" in October 2008 and reached a preliminary agreement to integrate the latter into the Banking Group Promsvyazbank: http://eng.psbank.ru/news/1305.html
	<p>Federal law "On additional support measures for the banking system"</p> <p>Passed by the State Duma October 23, 2008</p> <p>Became effective October 28, 2008</p>	<p>The Deposit Insurance Agency takes over the role of supporting troubled banks and will be able to provide financial support to the troubled bank itself (in exchange of its shares) or to other banks/entities acquiring its assets. The Agency acts on the initiative of, and in cooperation with, CBR.</p> <p>The Agency has received RUB 200 bn for the purpose.</p>	<p>A preliminary agreement was reached in November 2008 to integrate JSC "Nizhny Novgorod Bank" into the Banking Group Promsvyazbank. See press-release: http://eng.psbank.ru/news/bank/1385.html</p> <p>PSB completed the acquisition of controlling stakes in Yarsotsbank and Nizhny Novgorod Bank in January 2009, see press-release: http://eng.psbank.ru/news/bank/1485.html</p>
Other refinancing mechanisms by CBR		<ul style="list-style-type: none"> CBR extended the Lombard list of securities for market collateral-based lending; lowered the minimum required level of rating for issuers/securities to B-/B3; loans up to 1 year (recently extended). Lending under guarantees by other banks (Reg. 273) – up to 180 days Accepts non-market assets as collateral for loans up to 6 months (Reg. 312) 	<p>The Lombard list of securities includes PSB's Eurobonds (since March 2008) and RUB bonds (since October 2008)</p> <p>PSB is on the list of 50 banks, which can provide guarantees to other banks</p>

		adopted in 2007, procedure simplified in Oct 2008). A flexible instrument, once a general agreement is signed with CBR. Collateral can include credit claims, promissory notes, and bond issues approved by CBR (minimum rating of B-/B3)	
Support to the securities market	October 21	VEB may receive up to RUB175bn from the National Wealth Fund for purchase of Russian securities and corporate bonds. Funds will be placed on the market in successive tranches	No immediate effect on PSB
Support to the real sector	December 2008	The Government approved a list of about 300 companies “of strategic importance” to the Russian economy, which are entitled to state support incl. guarantees on loans, interest rate subsidies, federal/municipal orders. The list may be extended further.	Companies are in oil, gas, transportation, telecom, machine-building and automotive sectors. The list includes some of PSB’s corporate clients, who may benefit from the support measures if the need arises.

* 29.39 RUB/ 1 USD exchange rate used (as at January 1, 2009)

Sources: PSB, the Central Bank of the Russian Federation (www.cbr.ru), Vnesheconombank (www.veb.ru), the Ministry of Finance of the Russian Federation (www.minfin.ru), the Deposit Insurance Agency (www.asv.org.ru)