

# 2008 IFRS Results

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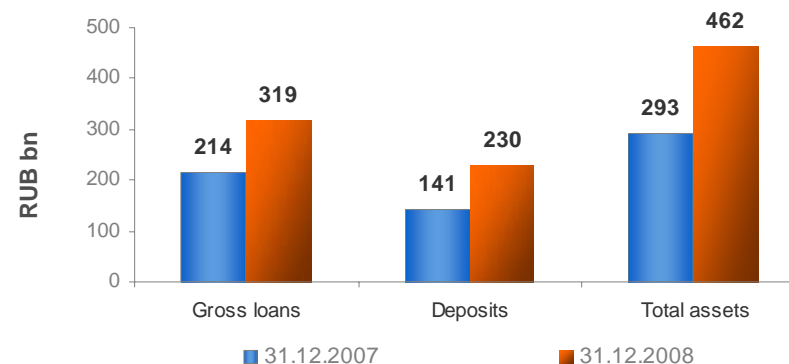
## Proved strengths

- 📌 **Strong client relationship skills**
  - 📌 # of corporate & SME clients grew from 55,000 to 68,000; retail clients from 624,000 to 950,000
  - 📌 Domestic footprint extended to 5 new regions; control obtained over 3 regional banks; retail banking outlet opened in Cyprus
  - 📌 For crisis-shaken clients, restructuring is given priority over foreclosure
- 📌 **Flexibility**
  - 📌 Quick adaptation of product mix and procedures to the new realities, identified new drivers for revenue generation
  - 📌 Accumulated extraordinary liquidity to repay debt without refinancing
- 📌 **Effective risk management**
  - 📌 Minimal market losses on securities and FX
  - 📌 Avoided issuer defaults in corporate bond portfolio
- 📌 **Good operating efficiency**  
 (Cost-to-income down to 43.8%, from 51.3% in 2007)
- 📌 **Ability to tap capital markets even in tough times**  
 (2 Eurobond issues (US\$250mln) and 2 syndicated loans (US\$455mln))
- 📌 **Visible progress in corporate governance**  
 (independent directors, BoD Committees, policies and controls)

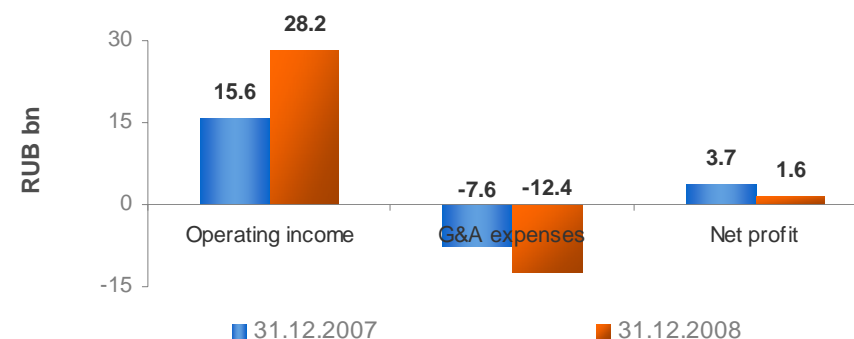
## ... and main challenges

- 📌 **Worsened economic environment has affected loan quality**
- 📌 **From 09/2008 long-term funding drained off as markets are closed**
- 📌 **Pressure on capital adequacy from rising provisioning for impairment and the ruble devaluation**

## PSB key balance sheet items



## PSB key P&L items

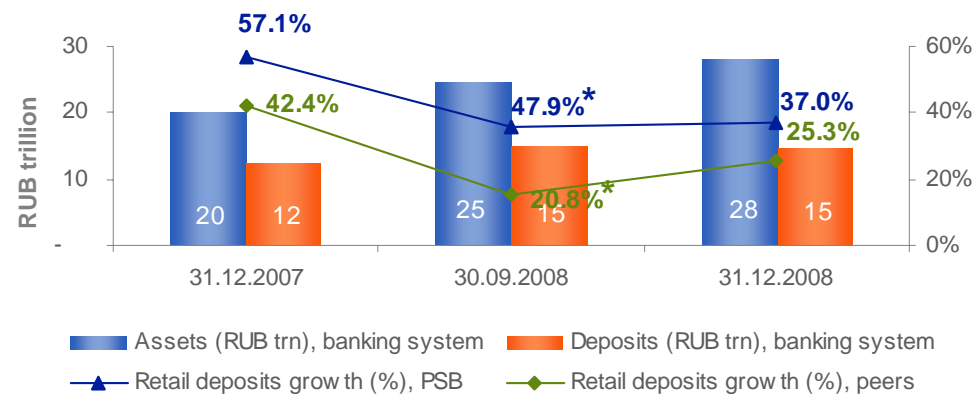


# PSB response to deteriorated operating environment in H2 2008

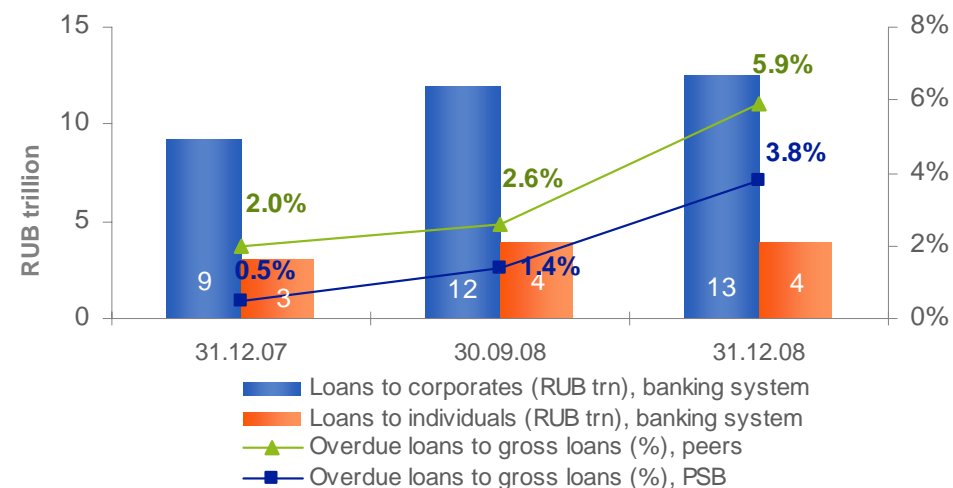


- **Tightened loan underwriting standards**
  - Centralized lending process
  - Reduced loan terms
  - Increased provision coverage of the loan book
  - Increased collateral requirements
  - Narrowed focus on relatively low-risk client groups
- **Increased interest rates on loans and deposits**
- **Revised fees and commissions**  
 (further upward potential, as many fees are still below those of peers)
- **Changed product mix**
  - Focus on L/Cs, guarantees and factoring in corporate banking
  - Focus on loyalty programs in retail lending
  - Stopped car lending, express-loans and retail mortgages
- **Cost optimization**
  - Thorough review of all expenses
  - Reduced headcount by 5% in Q4 2008, restricted new hires
  - Closed inefficient outlets and specialized car lending offices
- **Priority given to liquidity over profitability**
  - Liquid assets comprised 28% of total assets at 31/12/08
  - Extraordinary liquidity cushion maintained at all times since September 2008 (ca. RUB 110 bn in liquid assets as of 28/02/09)

## Assets and deposits (RAS)



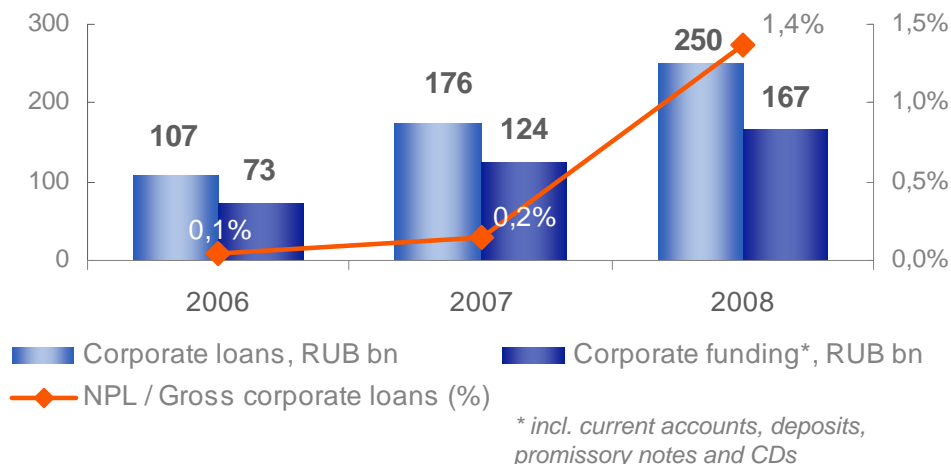
## Loans and NPL (RAS)



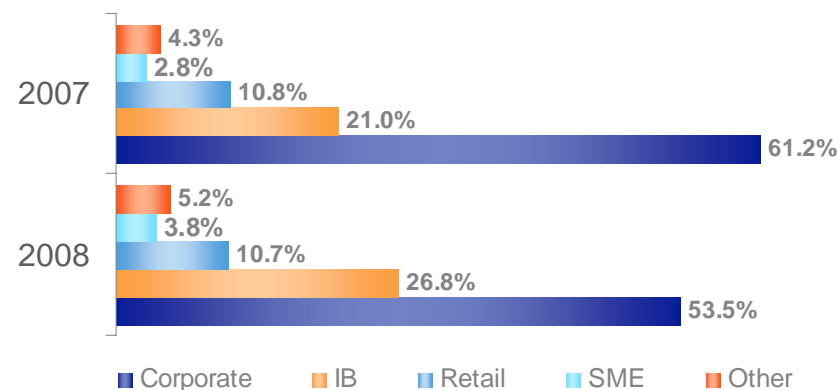
# Corporate banking: focus on maintaining asset quality and profitability



## Corporate loans and funding



## Share of business lines in total assets



## 2008 Results

### Corporate lending:

- Despite 42% loan growth in 2008, PSB was able to reduce its loan book by 4% in Q4, as the need arose to build up liquidity
- The largest positive segment result (RUB 4.4 bn), 52% share in PSB's revenues
- Strengthened market positions in factoring and trade finance

### Corporate funding

- Shifted client managers' focus from loans to deposits
- Grew by 35% in 2008; in particular, in Q4 PSB had a RUB 20 bn net inflow of corporate deposits
- Made up for the decline in public borrowings and foreign funding

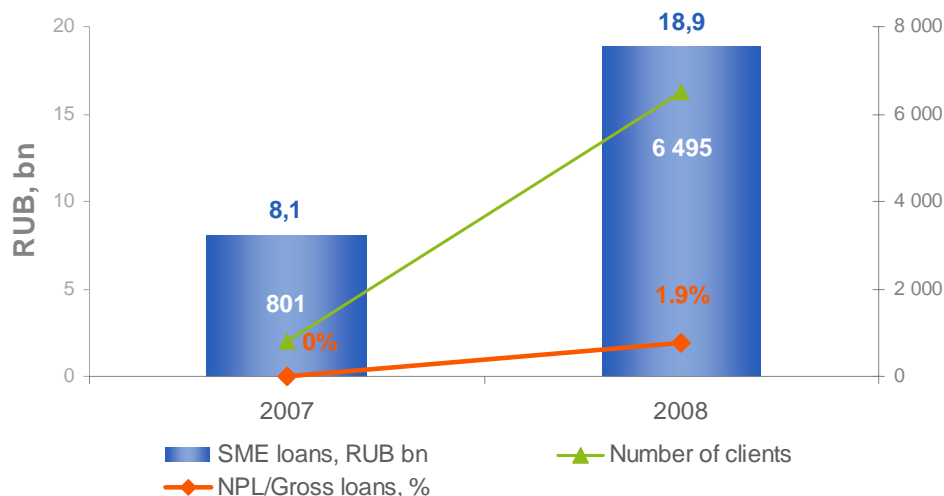
## 2009 Plans

- Further segmentation of the client base
- Restrain growth of impaired loans, improve collection
- Maintain portfolio volume and profitability on 2008 level
- Focus on commission-based products
- Maintain leading positions in factoring and international trade finance

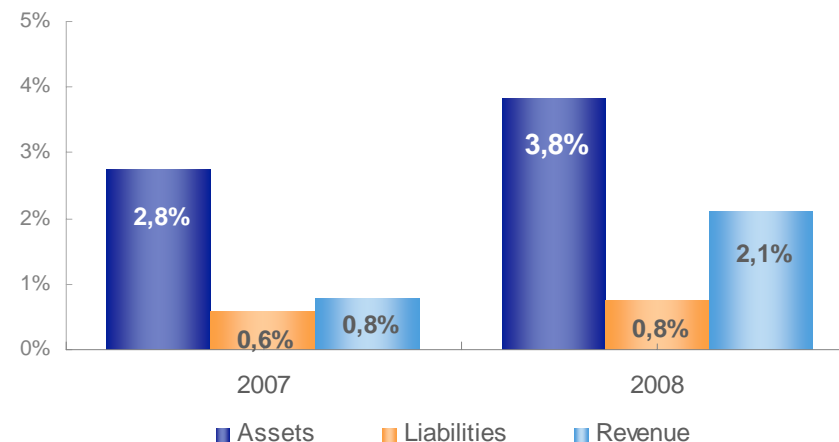
# SME banking: potential for expansion, even in difficult times



### SME loans



### SME banking as % of PSB business



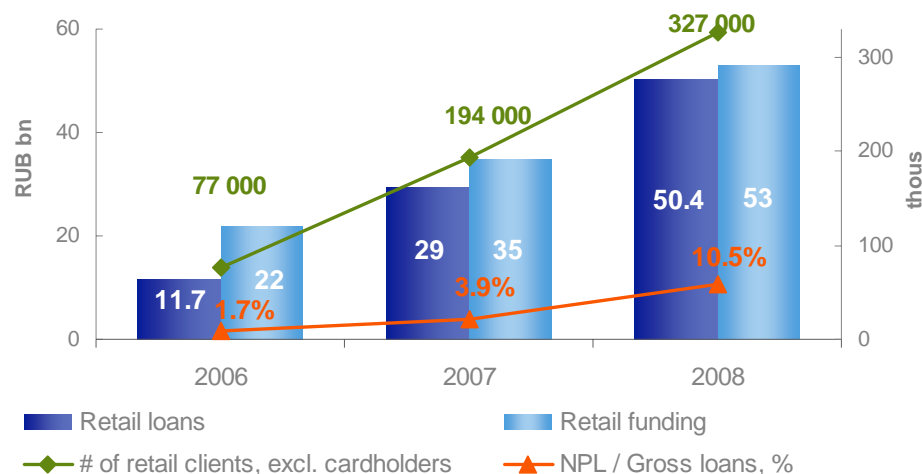
## 2008 Results

- Domestic market share up to 0.9% from 0.6% in 2007
- PSB became one of top-5 SME lenders in Russia, with 5,800 loans issued in 2008
- 5.9% share in PSB's loan portfolio, 2.1% share in revenues (up from 3.8% and 0.8%, respectively, in 2007)
- 80% borrowers located outside of Moscow region
- RUB 1 bn negative segment result for 2008, mainly driven by drastically increased charge for impairment losses

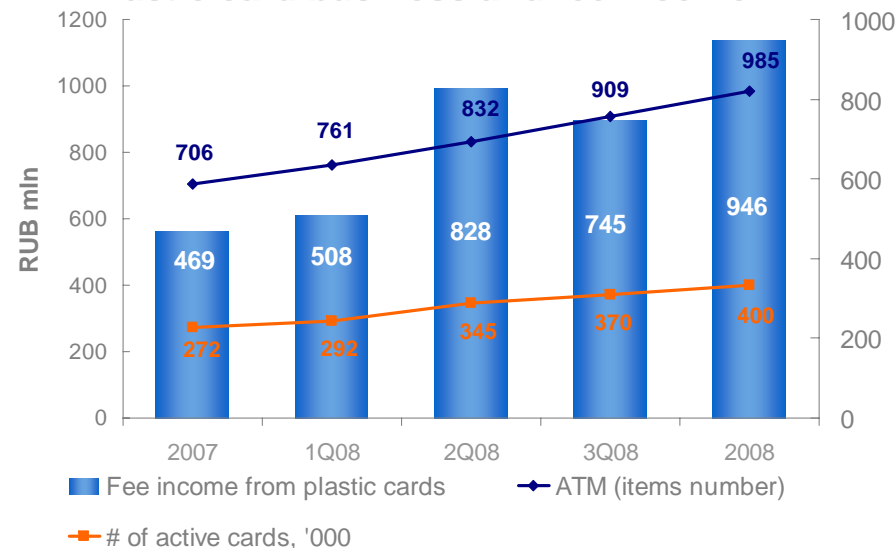
## 2009 Plans

- Further increase SME share in PSB loan portfolio
- Focus on risk management and borrower monitoring
- Priority to mid-sized companies from relatively low-risk economic sectors
- Increase volume of funding from SME customers, focus on deposits and settlement services

## Retail loans & funding



## Plastic card business and fee income



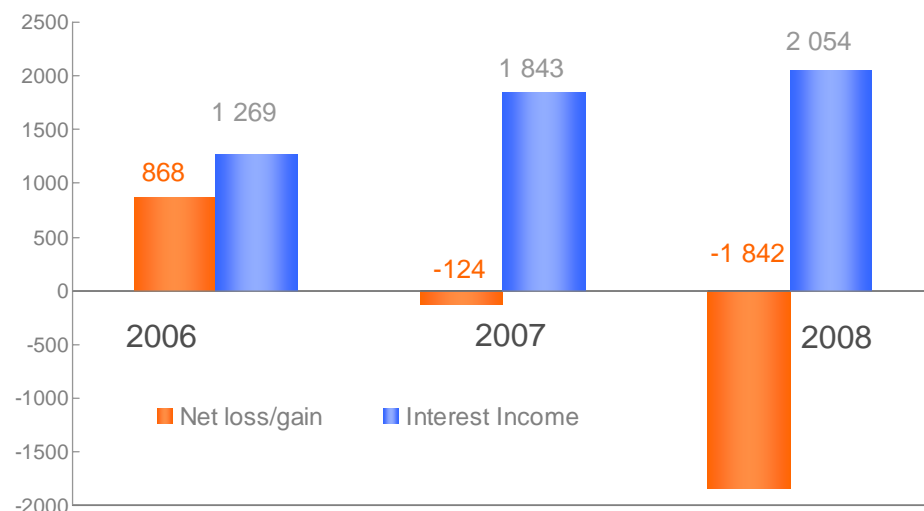
## 2008 Results

- 📌 Domestic market shares up by 2 p.p. (to 0.9% in terms of deposits and 1.3% in terms of loans)
- 📌 Largest segment loss (RUB 2.2bn) due to nearly 5-fold increase in provisions for impairment losses on retail loans
- 📌 Growth in NPL driven by social defaults and fraud
- 📌 From H2 2008 PSB stopped car lending (retail mortgages remained insignificant), cut lending limits in regional branches
- 📌 Solid 51% growth in retail deposits (3 times bigger than the Russian market average)

## 2009 Plans

- 📌 Restrain growth of impaired loans
  - 📌 streamline lending process
  - 📌 enhance borrower monitoring
  - 📌 improve collection
- 📌 Priority to commission-based and deposit products
- 📌 Focus in lending on credit cards and consumer loans to loyal clients with proved credit histories with PSB
- 📌 Improve sales channels and service quality

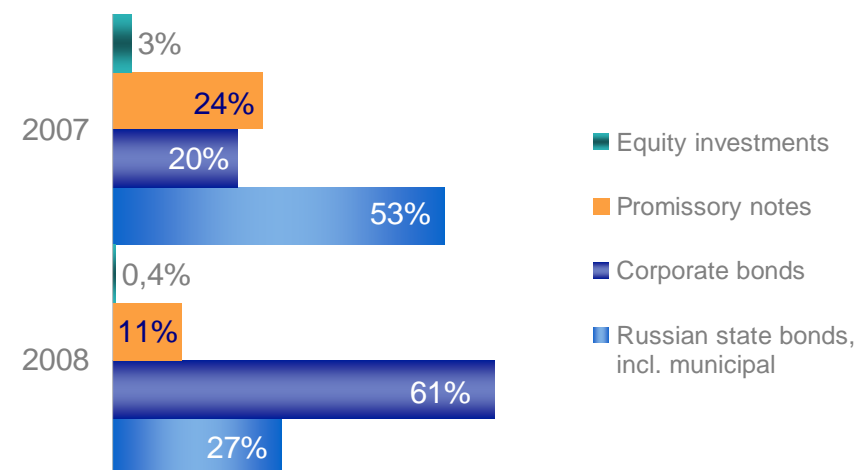
### Securities book: reported losses vs interest income (RUB mln)



### 2008 Results

- 📌 27% share in PSB assets, 37% in liabilities, 27% in revenues
- 📌 Segment profit of RUB 2.8 bn, more than doubled from 2007
- 📌 Avoided large losses from securities operations due to effective risk management function
- 📌 8 bond issues in the total amount of RUB 17.4 bn
- 📌 Ranked #11 among arrangers of corporate bonds in Russia
- 📌 Leading positions in the secondary market for Eurobonds and RUB-denominated fixed income instruments\*

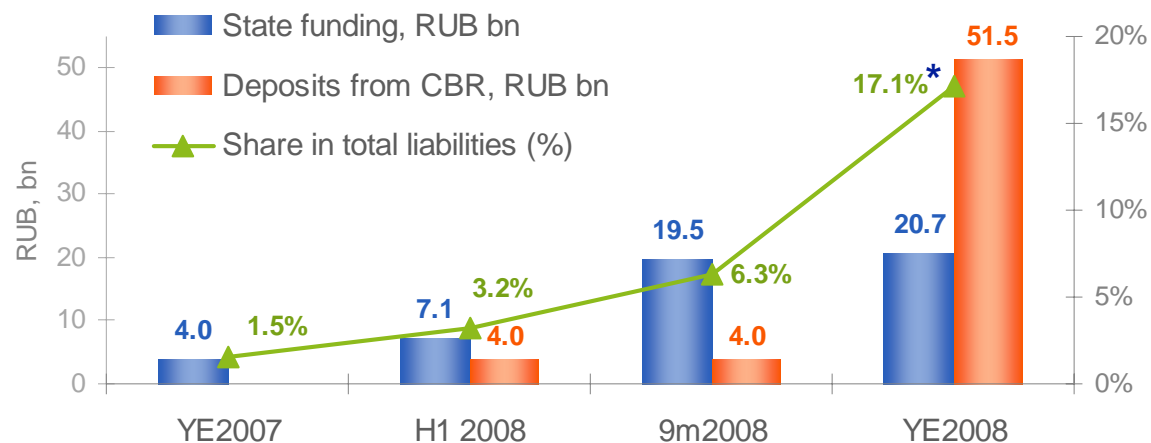
### Securities portfolio split



### 2009 Plans

- 📌 Increase securities portfolio with corporate Eurobonds and high-quality RUB bonds
- 📌 Offer clients new services (promissory note payments, restructuring of public borrowings, brokerage services, purchase and management of discounted debt)

\*According to an independent broker survey



\* as of 1/04/2009 CBR deposits were down to 7.6% of PSB total liabilities

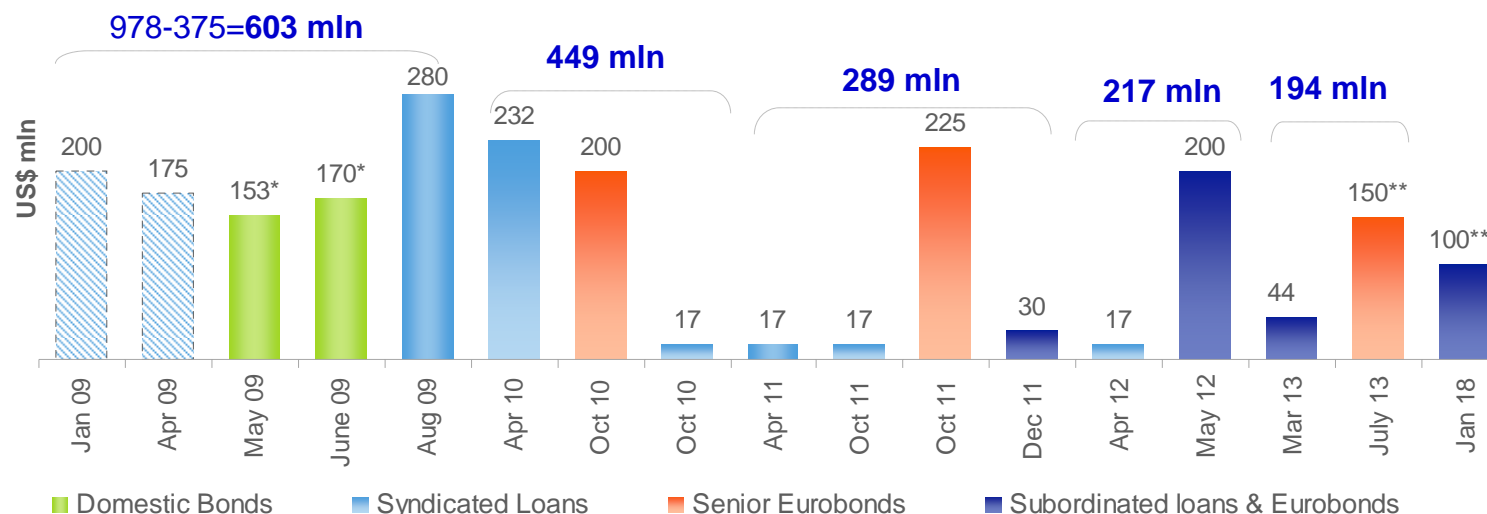
## 2008 Results

- ☑ A separate unit within PSB since YE 2007, 2008: in 'test mode'
- ☑ The fastest-growing funding component
  - ☑ state corporations
  - ☑ regional authorities
  - ☑ federal budget, CBR and Deposit Insurance Agency
- ☑ Provided RUB 400 mln in loans to several municipalities across Russia

## 2009 Plan

- ☑ Grow the volume of deposits from state corporations and federal/regional budgets
- ☑ Reduce dependence from anti-crisis funding from CBR (completed in Q1 2009)
- ☑ Increase lending to regional/municipal authorities
- ☑ Payroll programs and cash & settlement services to public organizations and regional/municipal authorities
- ☑ Wider involvement of PSB regional network in the area of state financing

### Redemption schedule of public borrowings



\* RUB bonds mature in 2012 and 2103, but PSB expects bondholders to exercise put option. \*\*Debt holders' put option in 07/2011. \*\*\* PSB call option in 01/2013

## 2008 Results

- ☑ Funding from foreign banks and market borrowings made up 25% of total liabilities, down from 32% at YE 2007
- ☑ Despite tough markets, PSB was one of the very few private Russian banks to accomplish 2 Eurobond issues and 2 syndicated loans
- ☑ During 2008, PSB repaid 3 syndicated loans totaling US\$525mln, incl. US\$200mln loan in December

## 2009 Plans

- ☑ Replace reduced market funding by customer deposits
- ☑ Accumulate extra liquidity to redeem maturing borrowings without refinancing (US\$175mln syndicated loan prepaid in 03/2009)
- ☑ remaining market borrowings redeemable in 2009 (US\$603mln) account for 4% of total liabilities as of YE08

# Financial performance

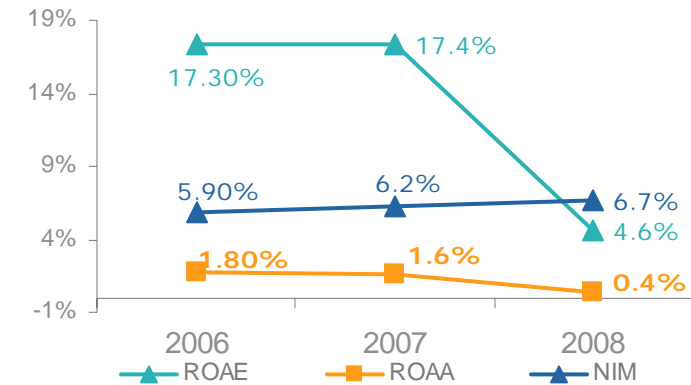
## Key positives

- **Strong revenue-generating capacity**
  - Operating income increased by 80%, up from 60% in 2007
- **Increased share of fees & commissions**
  - 17% of operating income, up from 15% in 2007
- **Effective overheads controls**
  - cost-to-income down to 43.8%, from 51.3% in 2007
- **Solid liquidity cushion**
  - liquid assets made up 28% of total assets at YE08, up from 24% at YE07

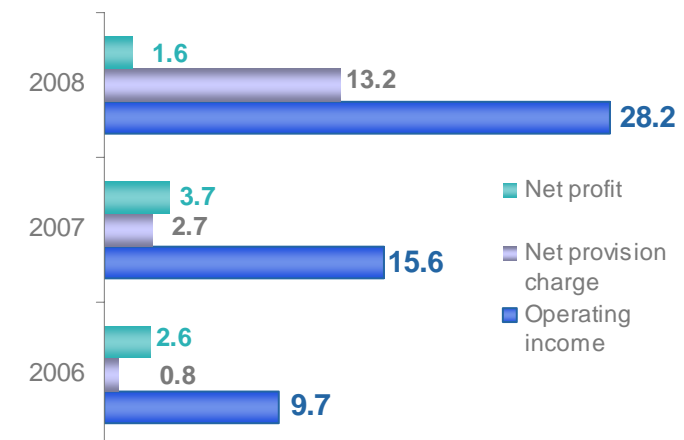
## ... and main risks

- **Loan quality deterioration**
  - NPL up to 2.8% of gross loans, from 0.7% at YE07
  - burgeoning charges for impairment losses affect the bottom line
- **Rising single-party concentration in the loan book**
- **Growing exposure to related parties**
- **Pressure on capital adequacy from ruble devaluation**

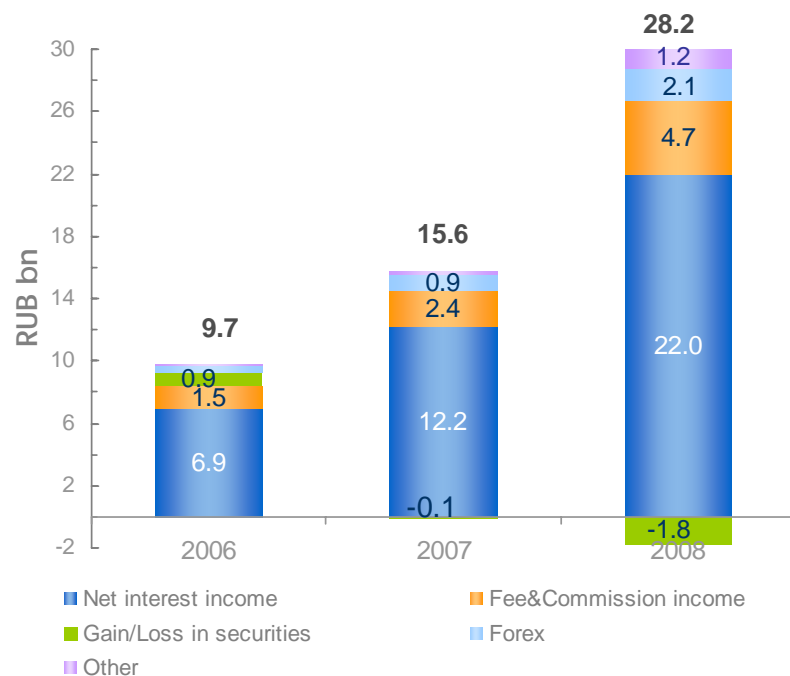
## Key profitability metrics



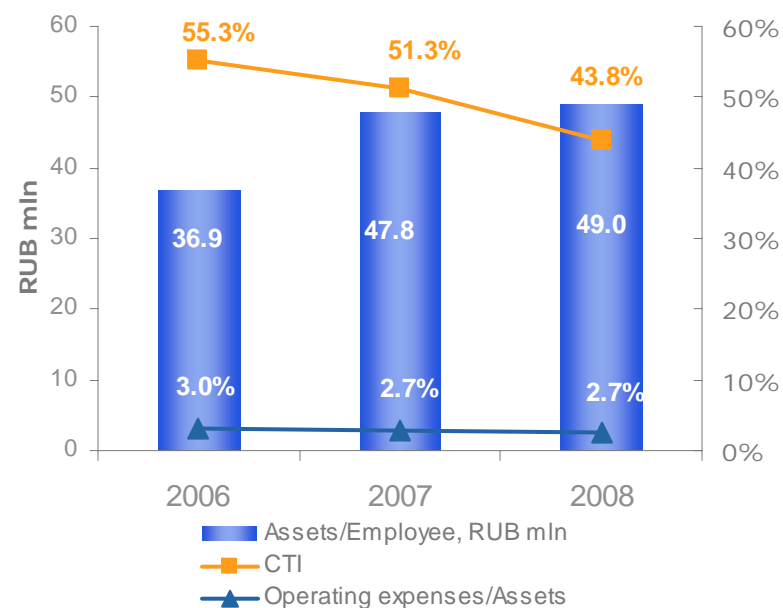
## Key profitability indicators, RUB mln



### Operating revenue

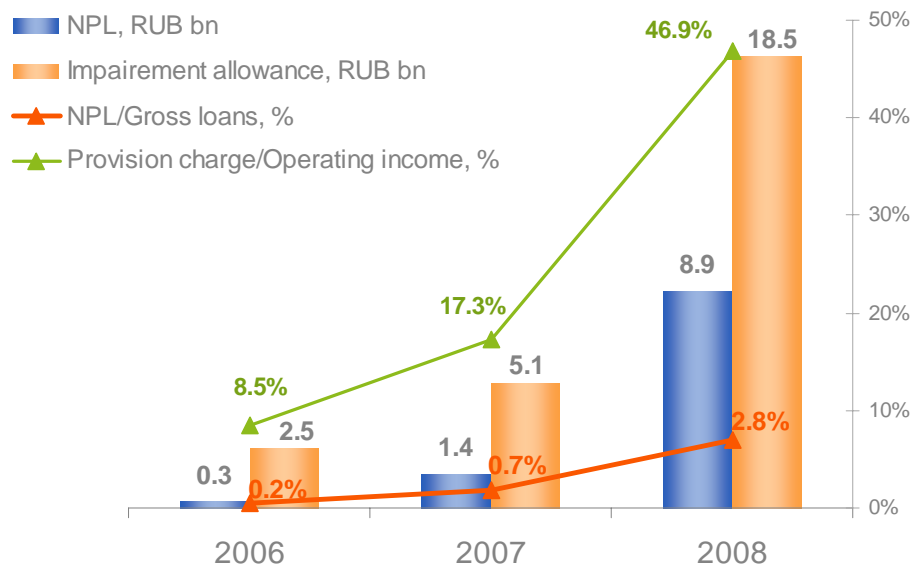


### Operational efficiency



- Good revenue dynamics, despite losses from securities trading
- Fee and commission income remained well-diversified by source; good potential for further increases as PSB brings its fee structure in line with peers
- Overheads tightly controlled, optimization programs in place, although no massive lay-offs envisaged
- Productivity grows as illustrated by increased assets per employee
- 2009 outlook:** positive bottom line planned for 2009, though loan loss provisions will continue to weigh on PSB performance

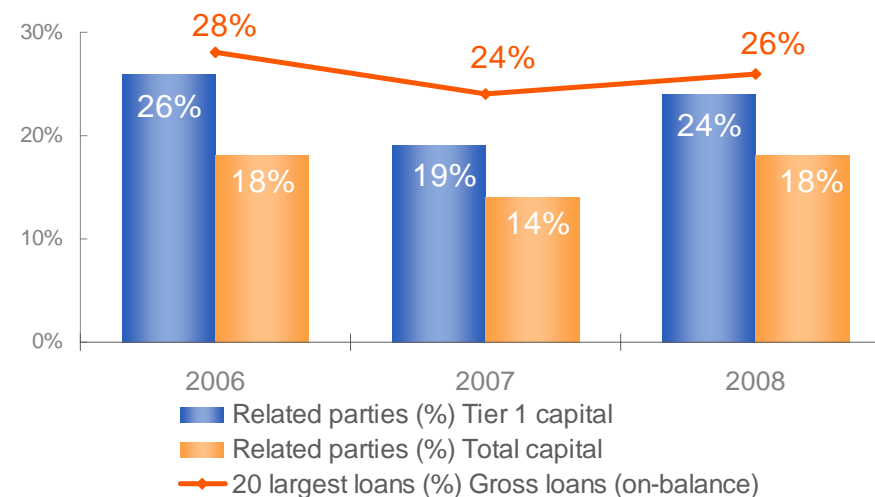
## NPL\* and provisioning



\* Non-performing loans (NPL) comprise loans with principal or/and interest overdue by more than 90 days, and other loans classified as NPL by PSB if it is not probable that they will be recovered through means other than repossession and subsequent realization of collateral

(RUB bn)	2007		2008	
	NPL	Provisions	NPL	Provisions
Corporate	0,3	3,6	3,4	10,9
SME	0,0	0,1	0,4	1,4
Retail	1,2	1,4	5,3	6,2

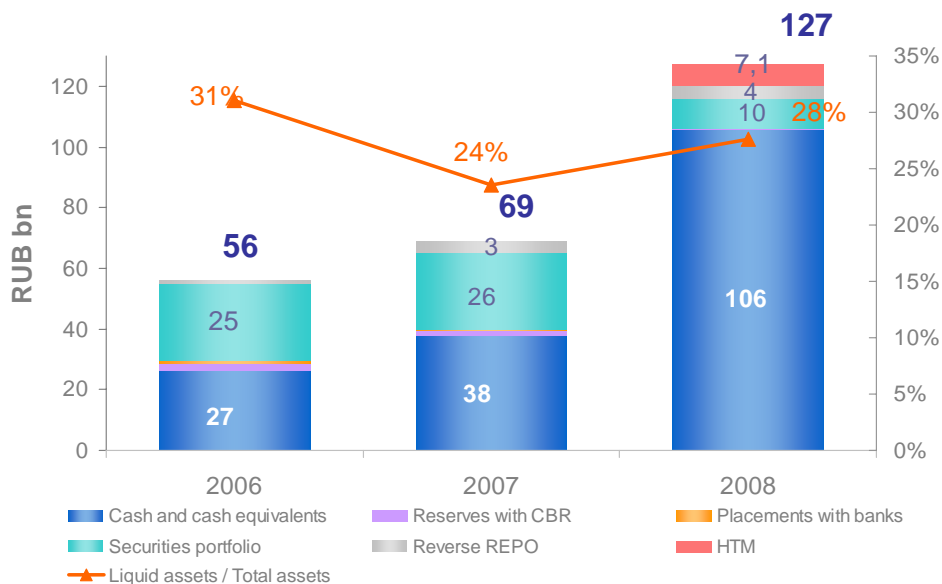
## Related-party exposure\*\* and single-party concentration



\*\* Represents on-balance sheet items, net of provisions for impairment

- Provisioning charge for impairment losses was the single largest negative P&L driver in 2008
- Retail loan book (16% of gross loans) accounts for the bulk of NPL, a cause of concern for PSB
- Growing single-party concentration and related-party exposure reflect PSB's increased reliance on better-quality borrowers in times of a crisis

## Liquidity overview

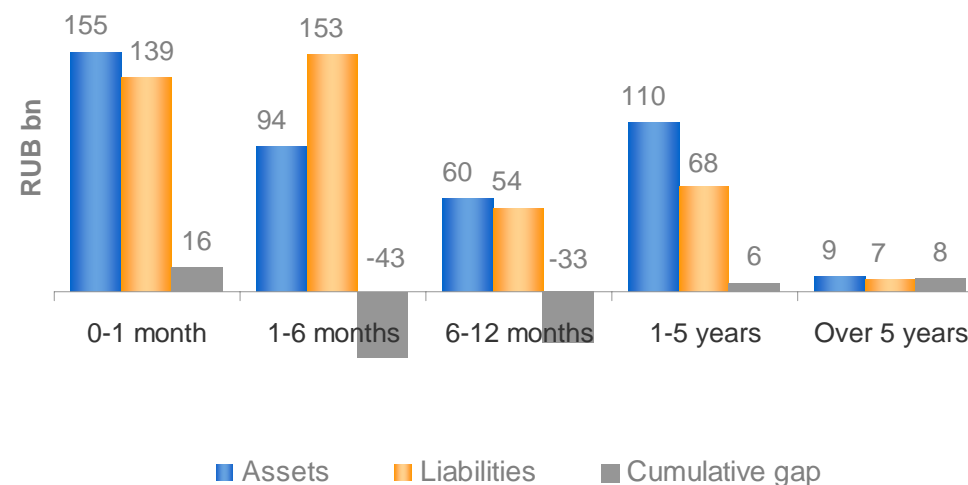


Note: Liquid assets with a maturity up to 1 months

## 2008 Results

- ☑ Liquidity prioritised over profitability from 09/2008
- ☑ “Anti-crisis” funds from CBR supported PSB liquidity in Q4 but were fully repaid in Q1 2009
- ☑ Excess liquidity (over RUB100bn) has been held by PSB at all times since Q4 2008
  - ☑ pre-payment of US\$175mln syndicated loan in 03/2009

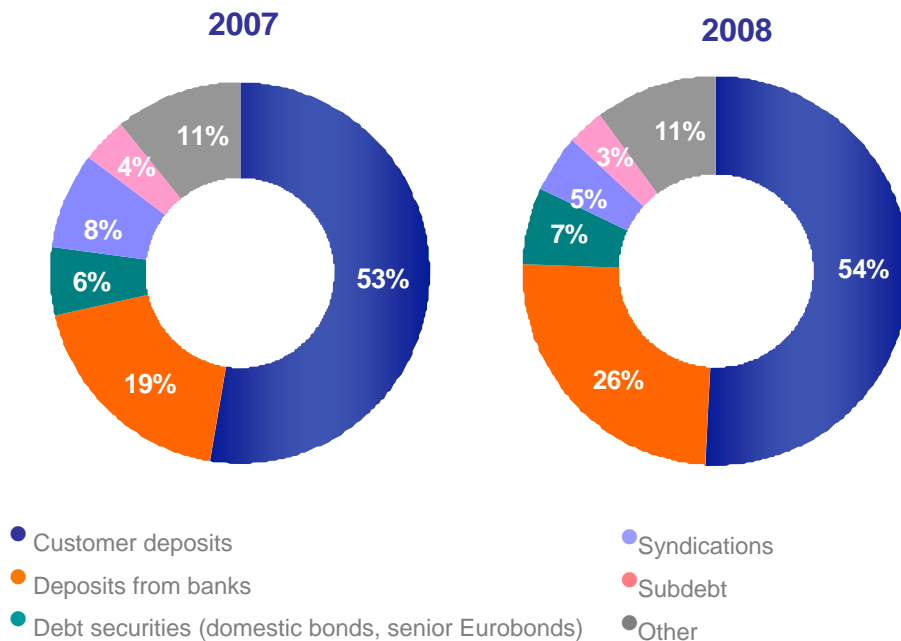
## Maturity structure of assets and liabilities (YE 08)



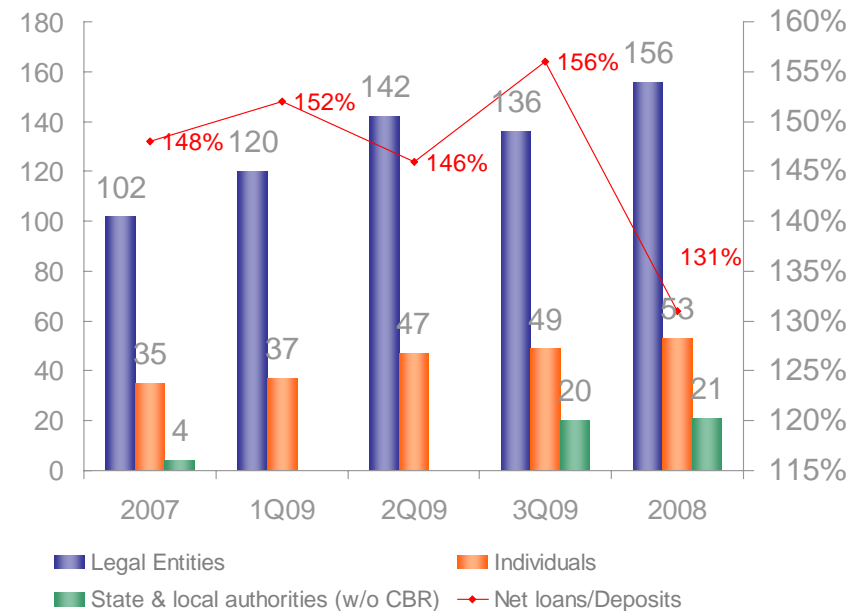
## 2009 Plans

- ☑ Maintain excess liquidity for the duration of the crisis, at the expense of profitability
- ☑ Participate in the auctions for state funding, without developing undue dependence on it
- ☑ Prepare for a potential run on retail deposits in case of mass bankruptcies among small banks in Russia

### Funding mix (RUB bn)

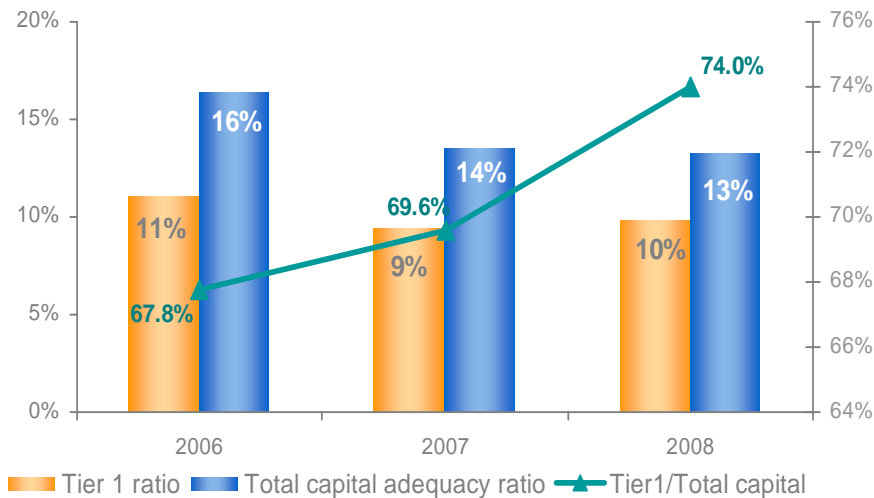


### Deposits growth (RUB bn)

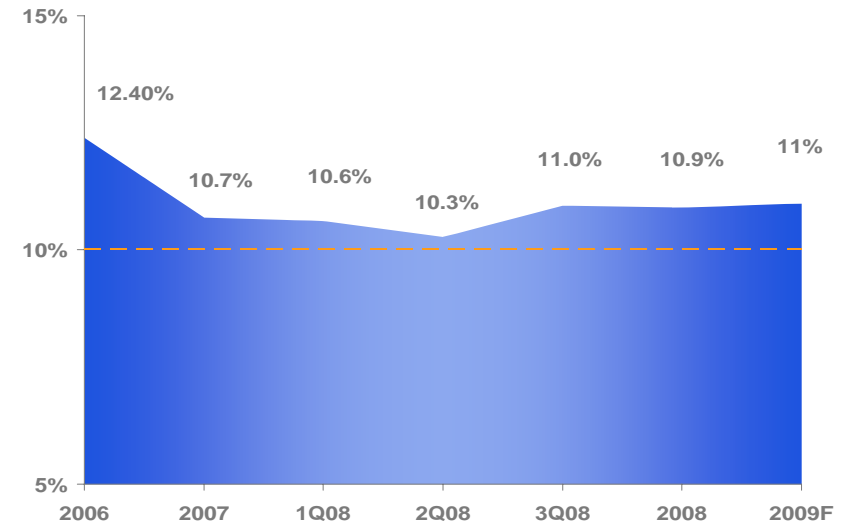


- Increased share of interbank funds reflects CBR deposits (RUB52bn) that were substantially reduced in Q1 2009
- Apart from CBR funds, 72% of interbank funding (RUB43bn) represented trade finance facilities from foreign banks
- Net off-balance sheet position in US\$ at YE08 included short-term forward deals (RUB6bn) conducted to hedge PSB's investment rights in an office building under construction, which was accounted for in US\$ under local GAAP
- 2009 outlook:** focus on further substituting international funding by customer deposits and state budget funds

### Capital adequacy as per Basel Accord



### Capital adequacy "N1" as per CBR regulations



- PSB regulatory capital ratio has historically been just marginally above the 10% threshold
  - a sign for efficient usage of shareholders' capital
- Ruble weakening negatively affects PSB capital adequacy due to revaluation of assets denominated in foreign currencies
- High Tier-1/Total capital ratio leaves scope for increasing tier-2 capital (can be raised faster than tier-1)
- Under long-term Eurobond covenants, PSB has to maintain Total (Basel I) CAR of no less than 12% (end-2008: 13.1%)
- 2009 outlook:** PSB plans to attract tier-2 capital from external sources, and continue with the policy of full profit retention

RUB mln	2007	H1 2008 (unaudited)	9M 2008 (unaudited)	2008
Total assets	293,245	380,491	407,558	461,801
Gross loans to customers	213,563	285,349	329,914	318,923
Total deposits from customers	141,001	189,481	204,166	229,611
Shareholders' equity	27,682	35,682	36,178	39,975
Net interest income	12,163	9,401	15,472	21,970
Net fee & commission income	2,373	1,807	3,249	4,724
Operating income	15,617	11,969	19,998	28,249
General & administrative expenses	8,010	5,518	8,702	12,385
Net profit	3,705	2,563	3,118	1,562
<b><i>Profitability &amp; Efficiency Ratios</i></b>				
ROAE	17.4%	17.0%	12.9%	4.6%
ROAA	1.6%	1.5%	1.2%	0.4%
Cost to income ratio	51.3%	46.1%	43.5%	43.8%
<b><i>Liquidity Ratios</i></b>				
Customer deposits / Net loans	67.7%	68.4%	64.2%	76.4%
<b><i>Asset Quality Ratios</i></b>				
Loan loss reserve / Gross loans	2.4%	2.9%	3.7%	5.8%
<b><i>Capitalization Ratios</i></b>				
Total capital adequacy ratio	13.5%	12.3%	12.2%	13.1%
Tier 1 ratio	9.4%	9.4%	8.9%	9.7%

# **Q&A session**

**Thank you for your participation!**