

Investor Bulletin, December 2010

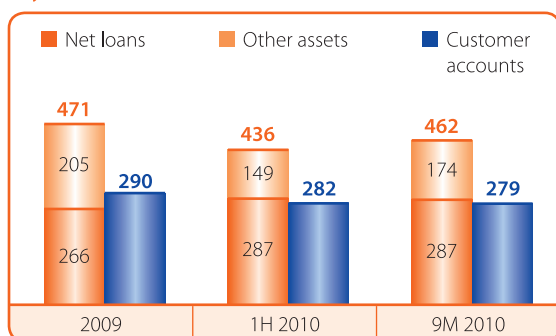
International Credit Ratings

Moody's Ba2 (Stable Outlook)
Fitch Ratings BB- (Stable Outlook)

Ranking Positions

10 by assets¹
8 by corporate loan portfolio²
1 by factoring market share³
5 by SME loan portfolio⁴
9 by deposits²

Key BS Items (RUB bn)



Loan Portfolio (RUB bn)

	9M 2010	1H 2010	2009	% change for 9M 2010
Corporate loans	268.3	268.6	242.0	10.8
SME loans	23.7	23.5	22.5	5.2
Retail loans	35.5	36.5	40.7	(12.9)

Loan Portfolio Quality (%)

	9M 2010	1H 2010	2009
Corporate loans (CL)			
Non-performing loans (NPL)/CL	7.8	8.6	9.6
Provisions/CL	8.6	9.4	9.8
SME loans (SMEL)			
NPL/SMEL	16.0	16.0	13.4
Provisions/SMEL	18.3	18.6	18.1
Retail loans (RL)			
NPL/RL	34.7	33.7	27.7
Provisions/RL	35.9	33.9	27.2
Total loan portfolio (TLP)			
NPL/TLP	11.3	11.9	12.3
Provisions/TLP	12.2	12.8	12.7
Gap between PL and CF	7.1	8.7	16.6

Key 3Q2010 Developments

- In 3Q2010, PSB delivered strong results in terms of both operating efficiency and profitability. 9M2010 net profit was reported at RUB2.2 bn, of which RUB1.6 bn was generated in Q3.
- Business activity in Russia was lacklustre in 3Q2010, due to the usual seasonal slowdown and the abnormal weather conditions witnessed in Central Russia in July and August. Nonetheless, the volume of lending in the corporate segment did not decrease in 3Q2010, while SME loan portfolio continued to grow, albeit at a significantly lower pace than in the previous quarter.
- Gross loans remained flat in Q3, largely driven by continued amortisation of the retail loan book. At the same time, given the strong recovery in business activity in Q4 that is already visible, PSB maintains its 2010 targets of 15% and 20% growth of lending in the corporate and SME segments, respectively.
- In July 2010, PSB resumed *en masse* retail lending. However PSB does not expect any visible effect of this re-launch to appear prior to the seasonal peak of demand for retail loans in November-December 2010. At the same time, the rate of retail loan portfolio reduction had already slowed down significantly in Q3, on the back of growing retail loan extensions. New retail loan extensions grew to RUB900 mln in September from RUB324 mln in July.
- The share of NPLs had gone down to 11.3% as at 1 October 2010 reflecting the persistent downward trend since 1Q2010 when the NPL level peaked. The reduction in the NPL level in 3Q2010 was mainly driven by the shrinkage of corporate NPLs in absolute figures, while NPLs in the retail and SME portfolios remained flat in comparison with 1H2010.
- As of 1 October 2010, the NPL coverage ratio stood at 108%.
- Another important indicator of further improvement in loan portfolio quality is the gap between interest and fee income accrued through the P&L account and that factually received through the bank's cash flow statement. Such a gap showed a further improving trend in Q3, having decreased to 7% from 9% as at 1H2010 and 17% at YE2009.
- The tier 1 capital adequacy ratio was reported at 10.5% — flat vs. the 1H2010 level. The Q3 total capital adequacy ratio considerably improved to 15.2%, driven by the placement of US\$200 mln subordinated Eurobonds in July 2010.
- Considering the falling share of NPLs and the ongoing revenue growth, PSB's current capital adequacy indicators provide sufficient cushion for expected growth in lending in 2010 and early 2011.
- The inflow of retail deposits remained strong in 3Q2010, despite several deposit interest rate cuts effected. In contrast, corporate deposits fell in Q3, as a result of PSB's deliberate policy aimed at maintenance of sustainable operating efficiency by means of reduction of excessive and the most expensive sources of funding, which remain unutilised in lending operations.
- As at 1 October 2010, the share of the 10 largest depositors in total customer funds had gone down to 28% from 32% as at 1 January 2010. The share of retail deposits increased to 40% from 33% during in the same period.
- The share of liquid assets remained close to the 20% level throughout Q3, in line with normal pre-crisis range. A minor growth in liquid assets to 22% at the end of September is a result of additional cash accumulation in order to meet the upcoming US\$200 mln Eurobond repayment, which was effected in October 2010.
- The securities portfolio (trading, held to maturity and available for sale) grew by 7% in 3Q2010, but remained unchanged as a share of total assets (11%).
- The portfolio's structure has somewhat changed as the share of investments in sovereign and quasi-sovereign bonds increased, while that of investments in corporate bonds and bank promissory notes went down. This shift was driven by additional liquidity accumulation in risk-free instruments due to nearing repayment of the Eurobond issue, as well as by the decreasing attractiveness of local currency corporate debt securities from the risk/return prospective.

¹ Source: Interfax-100, as of 1 October 2010.

² Source: RBC Rating, as of 1 July 2010.

³ Expert RA 1H2010 data.

⁴ RBC Rating 1H2010 data.

Funding (RUB bn)

	9M 2010	1H 2010	2009	% change for 9M 2010
Corporate deposits	168.0	178.0	194.0	(13.3)
Retail deposits	111.0	104.0	96.0	15.6

Capital Adequacy (%)

	9M 2010	1H 2010	2009
Tier I capital adequacy ratio (Basel Accords)	10.5	10.5	9.9
Total capital adequacy ratio (Basel Accords)	15.2	14.0	14.3

Liquidity

	9M 2010	1H 2010	2009
Liquid assets, RUB bn	103	82	154
Liquid assets/Total assets, %	22	19	33
Net loans/Customer deposits, %	103	102	92

Securities Portfolio (RUB bn)

	9M 2010	1H 2010	2009
Russian Government Federal bonds (OFZ), municipal bonds, CBR bonds	22	16	17
Corporate bonds	19	21	26
Bank promissory notes	9	10	7
Shares and fund investments	2	1	–
Total securities portfolio	52	49	49

Key P&L Items (RUB bn)

	9M 2010	9M 2009	% change
Net interest income	14.3	19.6	(27.0)
Net fee & commission income	4.3	4.3	–
Net income/(loss) from securities	(0.3)	0.8	–
Operating income	19.3	25.4	(23.6)
Provisions	(6.5)	(16.2)	(60.2)
General & administrative expenses	(10.1)	(9.7)	5.4
Profit/(loss)	2.2	(0.1)	–

Operating Efficiency and Profitability

	9M 2010	1H 2009	2009
GAE/Operating income, %	52.2	53.1	38.6
Commission income/Operating income, %	22.0	20.7	16.6
Operating income/Employees, RUB mln	2.8	2.9	3.7
GAE/Average assets, %	3.0	3.0	3.0
Net interest margin, %	4.4	4.3*	6.6
ROE, %	6.9	2.8	–

* Normalised.

- As usual, 70% of securities in PSB's portfolio are eligible for REPO transactions with the CBR, while 95% of promissory notes held are issued by Russia's state-owned or leading privately-owned banks.
- Fierce price competition in the market remained unchanged in 3Q2010, which is reflected in the minor decrease in PSB's net interest income vs. Q2. This trend was largely compensated for by a considerable decline in interest expenses, as the cost of funding was catching up with several reductions of deposit interest rates effected yet in 1H2010. In general a purely market effect on the bank's net interest margin (NIM) in 3Q2010 was well capped within a 10 b.p. decline.
- In order to improve the quality of financial reporting during 3Q2010 the bank changed some of its internal accounting principles in respect of interest income accrual. From now on interest income accrued on substantially provisioned loans is recognised in the P&L account net of provisions (previously such provisions had been reported in a separate line of the P&L statement). Such an amendment led to a decline in both the net interest income and the provisioning expenses of the bank in 3Q2010. This one-off effect weighed negatively on the bank's NIM, which went down to 4.4% for 9M2010. At the same time the normalised quarterly NIM, where such a one-off effect is spread evenly over the whole reporting period, stands at 4.7% for 3Q2010 vs. 4.8% in Q2 and 3.7% in Q1.
- Net fee and commission income continued to demonstrate a positive trend, reported at RUB1.5 bn in Q3 vs. RUB1.4 bn and RUB1.3 bn in Q2 and Q1, respectively. Fee and commission income remains high, both as a share of operating revenue and in relation to the average earning assets: 22% and 1.3%, respectively. This represents a strong level for a privately owned universal bank in Russia.
- PSB's securities portfolio generated a profit of RUB376 mln in Q3, which effectively reduced the Q2 mark-to-market loss suffered amid financial markets turbulence.
- Quarterly general and administrative expenses reduced by 10% in Q3 and amounted to RUB3.1 bn vs. RUB3.5 bn in Q2 and Q1.
- Backed by efficient cost management, the cost-to-income ratio (CTI) improved to 50.4% in Q3 against 54.6% and 51.5% in Q1 and Q2, respectively. As a result, 9M2010 CTI was reported at 52.2%.
- As a result of flattened NPL growth provisioning, charges continued to decrease. 9M2010 provisioning charges were down 60% year-on-year.

Key Developments in July — Early December 2010

- In 9M2010, the number of PSB corporate clients rose by more than 15% and exceeded 93 thousand. The number of active bankcards increased to 821,000 from 764,000 previously.
- In early July, PSB placed a US\$200 mln 11.25% 6Y subordinated Eurobond.
- A new PSB branch opened in Kazan at the beginning of July.
- In early September, Alexander Levkovsky left PSB as President and Chairman of the Management Board. The Board of Directors appointed Artem Konstandian as the bank's new President. Mr. Konstandian had served as Vice-President of PSB since 2007 and as a Management Board member since 2005 (in charge of International Business and Investment Banking).
- In October, PSB fully repaid its US\$200 mln Eurobond by means of its own funds.
- In early November 2010, the legal integration of Yarsotsbank — PSB's third subsidiary — was completed.
- In mid-November, Moody's changed the outlook on all ratings assigned to PSB's from Negative to Stable, and confirmed the bank's deposit and senior unsecured debt ratings at the Ba2 level, which is the highest standalone rating among all privately-owned banks in Russia.
- In mid-December, Fitch upgraded Issuer Default Rating of PSB to BB- with stable outlook from B+ with positive outlook. This upgrade reflects the agency's recognition of improving financial fundamentals of the bank together with its strong franchise as one of the leading privately-owned banks in Russia.