

Rankings and numbers

PSB country rankings as at **1 May 2008** under Russian Accounting Standards (RAS):

- **11th**-largest bank in terms of total assets¹
- **3rd**-largest private-sector Russian-owned bank²
- **2nd** in Russia by volume of factoring transactions (18.8% market share in 2007, up from 17.6% in 2006; 84% total market growth in 2007)³
- **1st** among Russian banks by number of L/Cs⁴ (total value of international trade and project finance US\$790 million in 1Q08, more than double from 1Q07)
- **9th**-largest bank in terms of corporate loans¹
- **14th**-largest bank in terms of retail loans¹
- **11th**-largest bank by corporate funds¹
- **12th**-largest bank by deposits from individuals¹.

¹ Source: "Profile" magazine from 01.07.2008; PSB calculation.

Note: VTB and its subsidiary banks considered one banking group.

² Excluding state-owned, quasi state-owned and foreign-owned banks.

³ Source: "Expert RA" Russian rating agency

⁴ Source: S.W.I.F.T.

Environment

Economy

Despite concerns over accelerating inflation, the state of the Russian economy remained good in H1 2008, backed by high world prices for the main Russian export commodities. Among the key macroeconomic indicators are the following:

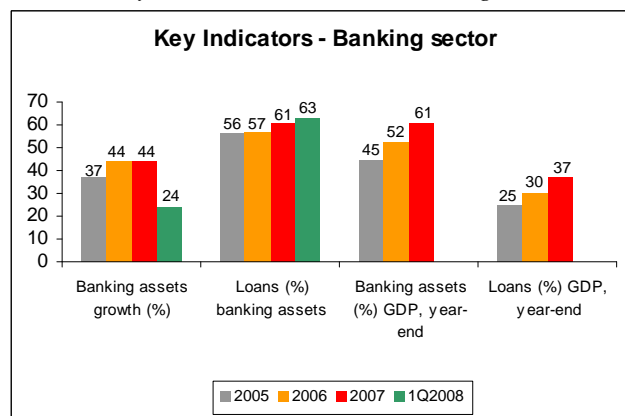
- Ongoing real GDP growth (8.5% in Q1 2008 YoY, up from 7.4% in Q1 2007)⁶; nominal GDP at end Q1 2008 reached RUB 8,838 billion (US\$ 376 billion)⁶;
- CPI inflation 7.7% in H1 2008⁶;
- In January-May 2008 the national currency (RUB) strengthened in real terms against all major currencies (8.8% against US\$, 3.6% against EUR, 13.6% against GBP and 0.9% against CHF)⁷.

⁶ Source: Rosstat (Russian Federal State Statistics Service).

⁷ Source: The Ministry of Economic Development of the Russian Federation

Banking sector

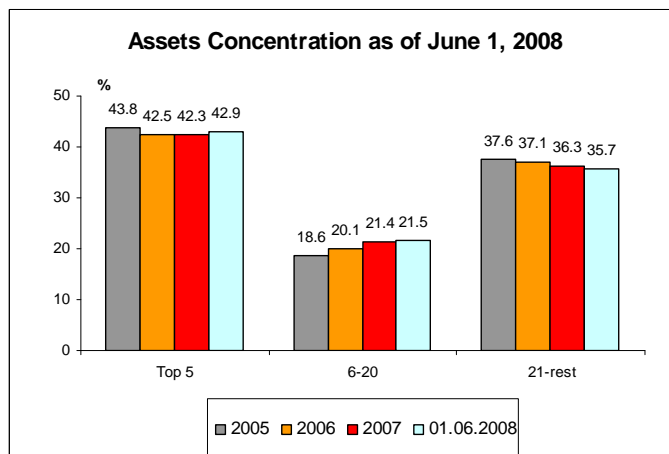
Chart 1: Key Indicators – Russian banking sector



Source: CBR data

In the current environment where access to foreign funding has become restricted, the growth rates of state-owned and quasi state-owned Russian banks have proved to be the least affected, as shown by an increase of the aggregated market share of top-5 banks (ranked by total assets) in the first five months of 2008, according to the CBR Banking System Review from July 2008. However, the group of banks ranking 6-20 by total assets (including PSB) also continued to increase their aggregated market share in the period of January to May 2008.

Chart 2: Asset Concentration



Source: CBR data

(NB: banks' ranking by total assets as calculated under RAS)

Foreign funding

- The total volume of syndicated loans attracted by Russian companies in H1 2008 increased by 8% to US\$ 39 billion from US\$ 36 billion in H1 2007, according to "RBC daily" Russian business newspaper. In Europe, only companies from the U.K. and France attracted more funds than Russian companies in form of syndicated loans during this period.
- At the same time, the volume of Eurobond placements by Russian issuers halved in H1 2008 to just US\$ 15 billion compared with H1 2007 (according to "Vedomosti" a Russian business daily), reflecting difficult situation in international financial markets.

Corporate events

The Annual General Meeting (AGM) of PSB shareholders on 23 June 2008 elected PSB's new Board of Directors comprised of 9 members, including:

- Mr. Alexei Ananiev, Chairman of the Advisory Council of Technoserv A/S;
- Mr. Alexander Levkovskiy, PSB's President;
- Mr. Vladislav Zabelin, Vice-President and Director of Legal Department of PromSvyazCapital Group (PSC);
- Mr. Sergei Kharitonov, Senior Vice-Chairman of the Advisory Council of Technoserv A/S;
- Mr. Pavel Khokhryakov, PSC's President;
- Mr. Maxim Litvinov, Investment Director at PSC;
- Mr. Paul Ostling, former Chief Operations Partner at Ernst & Young, Russia;
- Mr. Tamjid Basunia, former Lead partner at PricewaterhouseCoopers, Russia;
- Mr. Sergei Shchebetov, Managing Partner of Trifecta Capital Partners.

The new Board of Directors (BoD) meeting on 23 June 2008 elected Mr. Alexei Ananiev as Chairman of the BoD. In accordance with PSB's independence criteria for BoD members, Mr. Tamjid Basunia, Mr. Paul Ostling and Mr. Sergei Shchebetov were declared independent non-executive directors (INEDs) of Promsvyazbank.

The BoD resolved to create several committees within the BoD, including the following:

- (1) Audit Committee,
- (2) Nomination and Remuneration Committee and
- (3) Strategic Committee

The BoD also approved PSB's new Information Policy which lays out key principles and approaches for information disclosure by PSB. The Russian-language version of the policy is available on the Bank's website or at the following link [-->](#), the English translation will be made available in H2 2008.

The AGM on 23 June 2008 also decided to form PSB Banking Group. On 25 June 2008, the AGM of Volgoprombank (95% of which were acquired by PSB's parent company Promsvyaz Capital B.V. in the autumn of 2007) voted to join PSB Banking Group. Accordingly, in H1 2008 IFRS financial statements Volgoprombank's accounts will be consolidated with those of PSB. At YE 2007, total assets of Volgoprombank under IFRS were RUB 4.3 billion, equivalent to 1.5% of PSB's total assets. The creation of PSB Banking Group is a strategic step aimed at accelerating PSB's geographical expansion through inorganic growth, produce synergies and improve corporate governance.

In Q2 2008 PSB completed its 9th capital increase in the total amount of RUB 4.3 billion, in which all existing shareholders of the Bank participated *pro rata*. The Extraordinary General Meeting (EGM) of PSB shareholders on 30 June 2008 resolved to make another capital increase.

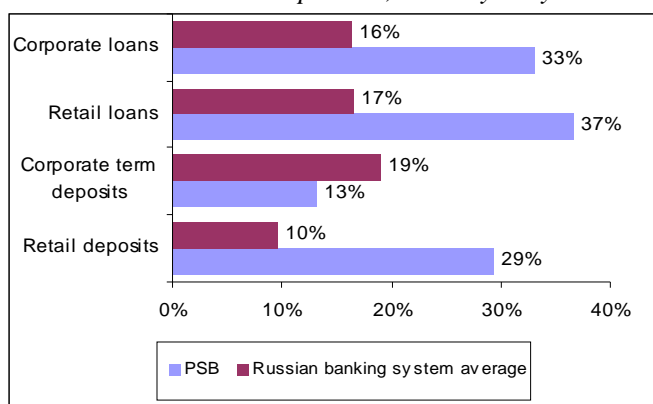
Regional expansion of the Bank continued in H1 2008 (total number of offices increased by 18 to 273). As of 1 July 2008 the regional network accounted for 46 branches, 116 sub-branches, 20 full service retail offices, 42 retail points of sale and 49 payment offices.

In May 2008, PSB opened its first retail outlet in Cyprus. PSB's Cyprus branch has been in operation since April 2002, initially providing banking services to corporate entities only. Following the introduction of Euro in Cyprus from the beginning of 2008, PSB decided to complement its product offering by selected retail banking services, comprising bank cards and deposits. In Q1 2008, total assets of PSB Cyprus Branch increased by 25% to more than US\$ 2 billion. The number of corporate clients rose by more than 15% during this period, and by end-March 2008 encompassed approximately 2,000 companies from various countries and economic sectors.

Operational Performance

The following comparison uses CBR statistics for the Russian banking sector as calculated under RAS. The “peer group” includes other major Russian-owned private-sector banks: Alfa-Bank, Uralsib and MDM-Bank which PSB regards as comparable in terms of size and diversity of operations.

Chart 3: Growth rate comparison, January-May 2008



Source: CBR data (as prepared under RAS)

The key growth areas at PSB include retail banking, SME lending, trade and project finance, factoring, sub-sovereign finance, domestic bond underwriting, cash management and private banking.

Lending

Corporate business development benefited from the turmoil in major financial markets which resulted in restricting the ability of top-tier Russian companies’ to raise funds from the markets. PSB – unlike some of its major competitors – neither had significant liquidity constraints, nor faced the need to refinance or redeem major borrowings. Therefore PSB was able to attract new top-notch corporate clients, e.g. such as Rusal, Severstal and Transaero.

The total volume of international trade and project finance transactions in Q1 2008 more than doubled YoY to about US\$790 million, including US\$734 million of short- and medium-term trade finance with tenors up to five years, and the remainder comprised of longer-term financing projects with tenors up to 12 years (mainly under participation of export-credit agencies).

The growth in loans to small- and medium-sized enterprises (SME) was driven by acquisition of new clients. SME lending is still a widely untapped market in Russia, particularly outside of Moscow. Accordingly, the potential for business development is immense, and the margins relatively high. Although the relative importance of this business line for PSB was still minor in 2007, it represents one of the fastest-growing segments, and its share of gross loans and revenues is increasing. In January-April 2008 SME loan book increased by 50% to more than RUB 12 billion (US\$ 500 million), with the proportion of standard SME-tailored loan products issued within the scope of PSB’s specialised SME lending programme (launched in September 2007) increasing from less than 20% of gross loans to SME at YE07 to about 50% at end-April 2008. Nearly 70% of all new loans to SME issued by PSB in Q1 2008 were granted to borrowers located outside of the Moscow region.

Funding and capitalization

In light of limited access to international capital markets, PSB’s short-term funding strategy focused attracting additional customer deposits to fund growth. In Q1 2008 current accounts and deposits from corporate customers grew strongly by 13%, supported by favorable economic environment in Russia and PSB’s strategic focus on attracting customer deposits. On the opposite, retail deposits increased only by 4%, thus motivating PSB to follow the market and increase in Q2 2008 its interest rates on retail deposits – a move which was backed by an advertising campaign in the Russian mass media and resulted in a strong growth of retail term deposits in May 2008, according to RAS data.

Trade financing facilities from foreign banks proved resilient to adverse conditions in the international financial markets as indicated by the dynamics in the volumes of short- and medium-term trade finance transactions:

- in Q3 2007: US\$ 573 million;
- in Q4 2007: US\$ 712 million ;
- in Q1 2008: US\$ 734 million;

The aggregated amount of unsecured trade finance-related credit lines opened on PSB by its foreign banking counterparties showed similar dynamics:

- end-H1 2007: US\$ 1.4 billion;
- YE 2007: US\$ 1.9 billion;
- end-Q1 2008: US\$ 2.1 billion.

The Russian market for rouble-denominated corporate bonds is still in a fragile state, following a near complete closedown in Q4 2007 (driven by an exodus of non-resident investors). However, once PSB's debt (both domestic and senior Eurobonds) was accepted by the Central Bank of Russia as eligible collateral for direct repo transactions with the regulator, this has become a major supporting factor for the Bank's ability to market its fixed income instruments. In Q2 2008, PSB registered four new domestic bond issues, each in the amount of RUB 5 billion. According to the Russian regulations, they must be placed within one year from the date of the registration. The first issue was placed at end-June 2008. In addition to this issue, there are also domestic bonds in the total of RUB 4.5 billion issued by PSB in 2007, with maturity in May 2012, and an embedded put option executable in May 2009.

Similar to trade finance related funding facilities, the market for syndicated loans also proved its resilience in times of global financial turmoil. In April 2008 PSB attracted a one-year syndicated loan from a group of Western banks in the total amount of US\$ 175 million (oversubscribed from the initially announced US\$ 150 million). The interest rate is Libor + 1%, the proceeds are being used by PSB to finance foreign trade operation of its customers.

External Awards in H1 2008

- In Q1 2008 the EBRD awarded PSB as "The most active trade finance bank in Russia in 2007".
- Straight-Through Payments (STP) Excellence Award from Deutsche Bank (for the 4th time, STP rating 99,84%), Dresdner Kleinwort (96% STP) and J.P.Morgan (100% STP).

- The National Award "Financial Olympus" for 2007 in the nomination "Corporate Bank – Potential and Perspective".
- One of the top-3 fixed income operators on MICEX in May 2008.

Financial Performance in Q1 2008

Q1 2008 IFRS financial data*

<i>In RUB millions</i>	31.03.08 (unaudited)	31.12.07 (audited)
ASSETS		
Cash & equivalent	37,962	38,088
Placements with banks	929	1,519
Securities at fair value	19,033	25,750
Reverse repo	8,745	3,362
Loans to customers	237,945	208,425
Property & equipment	11,382	11,222
All other assets	7,978	4,879
Total assets	323,974	293,245
LIABILITIES		
Due to banks	65,983	50,668
Customer deposits	156,554	141,001
Own securities issued	44,739	45,039
Other borrowed funds	23,443	24,299
All other liabilities	4,317	4,556
Total Liabilities	295,036	265,563
Shareholders' equity	28,938	27,682
Total liability & equity	323,974	293,245

Q1 2008 IFRS Income Statement

<i>In RUB millions</i>	Q1 2008 (unaudited)	Q1 2007 (unaudited)
Interest income	8,946	4,572
Interest expense	(4,159)	(2,244)
Net interest income	4,787	2,328
Net fee income	823	437
Net trading gain/(loss)	(198)	(11)
Net FX gain	241	43
Other	91	23
Operating income	5,744	2,820
Impairment losses	(1,546)	(159)
Gen. & admin. expenses	(2,510)	(1,377)
Profit before tax	1,687	1,285
Income tax expense	(432)	(316)
Profit for the period	1,255	969

* Some accounts are presented here in aggregated/reclassified form compared to the audited or review accounts.

** Q1 2008 IFRS financials represent unaudited data prepared by PSB.

The key financial trends during Q1 2008 include:

- **Asset-driven balance sheet growth** (total assets up by 10.5% in Q1 2008, compared with 4.9% growth in Q1 2007).

- **Sustained profitability of operations**

- ✓ net profit for Q1 2008 up by 30% from Q1 2007
- ✓ Q1 2008 ROAE of 18.1%, slightly up from 17.4% for 2007
- ✓ Q1 2008 ROA of 1.7% broadly in line with the level of 2007
- ✓ net interest margin of 6.61% in Q1 2008, up from 6.2% in 2007
- ✓ improved operational efficiency (CTI down to 44.2% in Q1 2008, from 51.3% for the full-year 2007)
- ✓ operating income more than doubled YoY despite a net trading loss of RUB 198 million (US\$ 8.4 million) which resulted from negative fair value adjustments on fixed income portfolio, reflecting unfavourable market trends.

- **Further loan growth** (14.2% increase in net loans in Q1 2008, compared with 13.5% in Q1 2007) **through a continuous lending expansion in relatively high-margin areas** (strategic focus):

- ✓ trade finance (US\$734 million total transaction volume in Q1 2008, up from US\$342 million in Q1 2007);
- ✓ factoring (end-Q1 2008 factoring portfolio of RUB 20 billion, up by 145% from end-Q1 2007);
- ✓ SME lending (50% growth in SME loan portfolio to a total of RUB 12 billion during January – April 2008, incl. RUB 6 billion issued under the new SME lending programme, up from RUB 1.5 billion at YE07). Average effective interest rates in SME lending (as of 31/12/07) ranged from 14.1% - 17.1%;
- ✓ retail loans (19% growth in Q1 2008, compared with 22% in Q1 2007).

- **Increase in loan impairment allowance as (%) of gross loans** (to 2.7% of gross loans at end-Q1 2008, up from 2.4% at YE07 and 1.9% at end-Q107) due to increasing levels of loans classified as impaired. Loan impairment allowance was increased by RUB1.5 billion

or by 30% in Q1 2008; the bulk of the increase (over 70%) was attributable to commercial loans.

- Due to total assets growth, **capitalisation ratios temporarily declined**

- ✓ Total Capital Ratio (as per Basel Accord) of 12.30% at end-Q1 2008, down from 13.51% at YE07;
- ✓ Tier-1 Ratio of 8.84% at end-Q1 08, down from 9.41% at YE07);
- ✓ however, this was addressed in Q2 2008 by means of the 9th capital increase in the amount of RUB 4.3 billion.

International ratings in H1 2008

In Q2 2008 PSB underwent annual review by all three leading international rating agencies. As a result, two rating agencies upgraded PSB's credit ratings as following:

Moody's Investors Service

- Bank Financial Strength Rating (BFSR) upgraded to D from D-;
- Long-term bank deposit ratings in local and foreign currencies as well as senior unsecured debt upgraded to Ba2 from Ba3;
- Subordinated debt upgraded to Ba3 from B1;
- Stable outlook on all ratings.

Standard & Poor's

- Long-term counterparty credit rating and senior unsecured debt upgraded to BB- from B+;
- Subordinated debt upgraded to B from B-;
- Stable outlook.

The key drivers for the upgrades included:

- strengthening franchise;
- robust profitability;
- good loan book quality;
- good liquidity;
- improvements in the areas of corporate governance and risk management.

Annex: Selected financial metrics of PSB in comparison with other large private-sector Russian-owned banks

	PSB			MDM**	Alfa**	Uralsib**
	Q1 2008 (unaudited)	2007	2006			
<u>Profitability & Efficiency</u>						
ROAA*	1.7	1.6	1.8	1.95	1.30	0.65
ROAE*	18.1	17.4	17.3	16.60	16.00	4.75
Net interest margin*	6.6	6.2	5.9	5.08	5.25	3.82
Cost-to-income ratio	44.2	51.3	55.3	48.34	55.51	74.16
<u>Liquidity</u>						
Net loans / Customer deposits***	152.0	147.8	136.5	145.3	123.5	106.6
Liquid assets / Total assets	20.6	23.4	32.2	39.1	26.1	26.6
<u>Asset Quality</u>						
Impairment allowance / Gross loans	2.7	2.4	2.1	3.3	2.5	4.3
Loans to related parties / Gross loans	1.9	1.9	3.3	0.1	3.5	n/a
<u>Capitalization</u>						
Total capital adequacy ratio	12.3	13.5	16.4	17.2	11.8	13.4
Tier 1 ratio	8.8	9.4	11.1	14.5	9.5	11.1

* Calculation is based on quarterly averages for total assets and shareholders' equity.

** Financial data in this Bulletin in respect of other banks in the market has been extracted from publicly available information (IFRS financial statements and websites of the respective banks), and PSB accepts no responsibility as to the accuracy of this data.

*** Net loans to customer deposits ratio is calculated without making adjustments for trade finance (TF); a relatively high proportion of TF at PSB negatively affects this credit metric because TF is included in loans but excluded from customer deposits (as financing is provided through interbank funding).