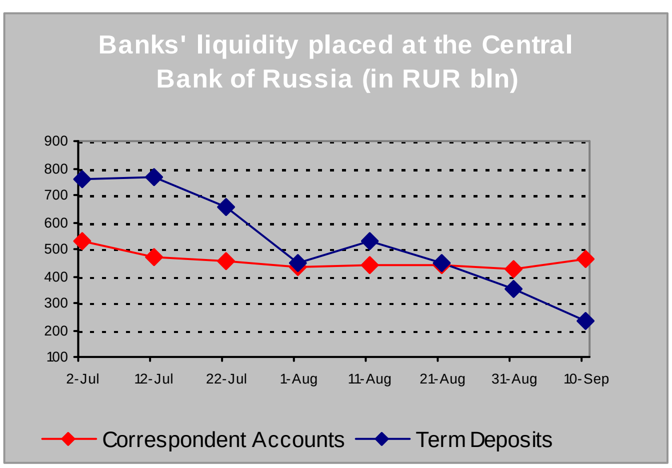
Foreword

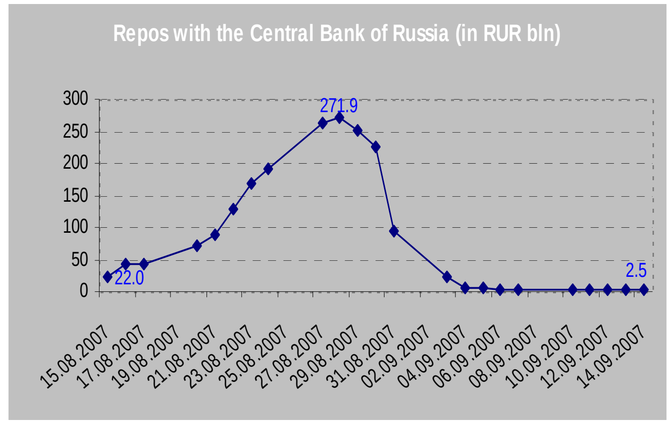
Since PSB issued its first bulletin at the beginning of July, international financial markets entered into a period of turbulences related to the US sub-prime crisis. Despite excellent macro-economic fundamentals and the absence of exposure of local banks to US-sub-primes, the Russian market has not been spared from the current turmoil. However, it seems that this time, developed markets face more instability than emerging markets, including Russia's. Because of these events, we decided to modify slightly the structure of our quarterly bulletin, and dedicate a significant part of it to our analysis of the current situation of the Russian banking sector in light of the international instability.

Overview of Russia’s Banking Sector

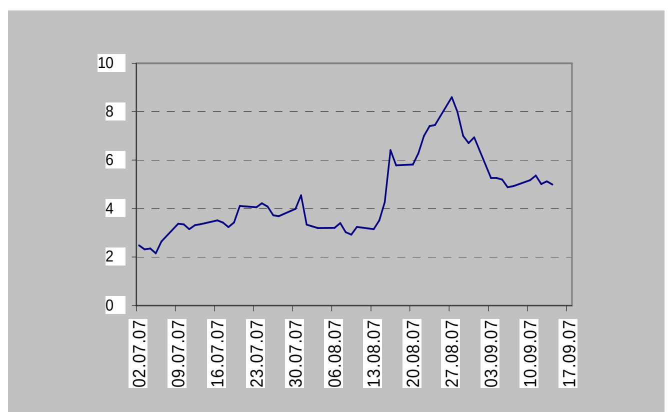
The main question today is whether or not Russia’s banking sector will enter a new phase of recession after 8 consecutive years of sustained growth,. Loans to the economy grew at a CAGR of 45% between 2000 and mid-2007, and loans/GDP increased from 12.5% to 34.4% during the same period.
Nevertheless, comparing Russia’s loans/GDP ratio to that of Central European countries, which average over 50%, we understand that the potential for growth in Russia remains high for several years to come.
But it seems that the US Sub-prime crisis, which had an impact on financial markets at the worldwide level, has not spared Russia. Banks, which were excessively liquid during the last few years, have experienced a drop in liquidity since August, as shown in the chart below:



The second buffer of liquidity of Russian banks is the use of repos with the Central Bank of Russia (CBR). The chart below shows the evolution of this type of operations:



Repos were almost nonexistent until July 2007. At the end of August, they reached a peak of RUR 272bln, but the overwhelming majority of these funds were channeled in to one large State-owned bank. Since the beginning of September, repos have nearly disappeared. The next chart shows overnight interest rates on the interbank market:



From a very low level of 2%- 4% interest rates between 2006 and mid-2007, due to excess liquidity, the interbank overnight yield is now within the range of 5-7% after a peak of over 8% at the end of August. Rates were low until mid-2007 because banks had excess liquidity. Because of the crisis, rates increased to a range of 5-7%.
The three charts above show that the Russian banking system, which was structurally overly liquid, has shown

a very significant slump this summer. On the other hand, we can affirm that liquidity has now reached a 'normal' level, and the system is far from any cash shortage. Despite the lack of visibility on international markets and the difficulty of measuring the amplitude and length of this global instability, PSB remains confident that this global instability will have a rather limited impact on the Russian banking system for the following reasons:

1. Russia's economic fundamentals remain very strong;
2. Russian banks are of course neither directly nor indirectly involved in the US sub-prime market;
3. The Russian banking system still has a large liquidity buffer, and so far, we have not noticed any closures of interbank lines;
4. CBR's refinancing mechanisms are well in place, CBR has large excess reserves, and it is much better prepared to prevent system crises than before. For instance, CBR has greatly increased the list of eligible assets for repo (including PSB's paper), allowing banks to use this refinancing mechanism intensively should the need arise;
5. The Government would not allow a banking crisis to occur in a pre-election period;
6. Generally, Russian banks do not rely excessively on international markets (compared to Kazakhstan, for instance), and repayment of syndicated loans and Eurobonds should not cause difficulty, bearing in mind the remaining comfortable level of liquidity.

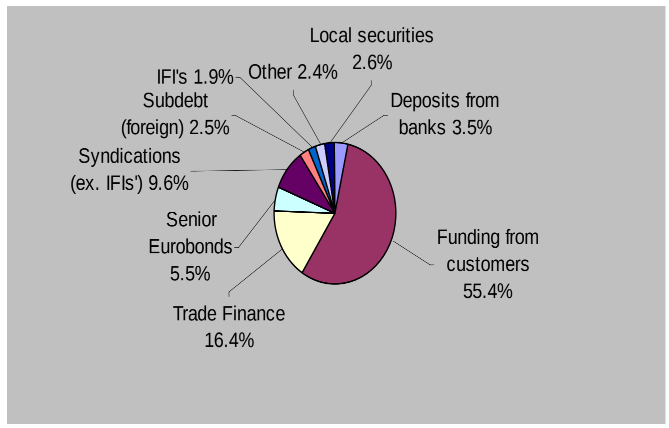
In conclusion, we have sufficient grounds to presume that the US sub-prime crisis will have a limited impact on the Russian banking system. We believe that the main consequence will be a relative slowdown of growth due to the upcoming repayments of international funding, with a limited possibility in the near future to roll over this type of financing or to securitize assets. Hence banks will have to rely exclusively on customers funds and local markets, and the growth in yearly loans will most probably reach 20-30%, compared to the CAGR 45% mentioned above. This forecast relies on the pessimistic scenario of a lengthy crisis on international markets, which would not allow Russian banks to have access to international funding for the next couple of years. In the more likely scenario that syndicated loans or issuances of Eurobonds would be again possible within the next months, only 3rd and 4th quarters 2007, and presumably 1st half of 2008 will be impacted by some growth slowdown.

PSB's situation and markets' turmoil

PSB's situation in the context of this market turmoil is sound. This is borne out by the three elements described below:

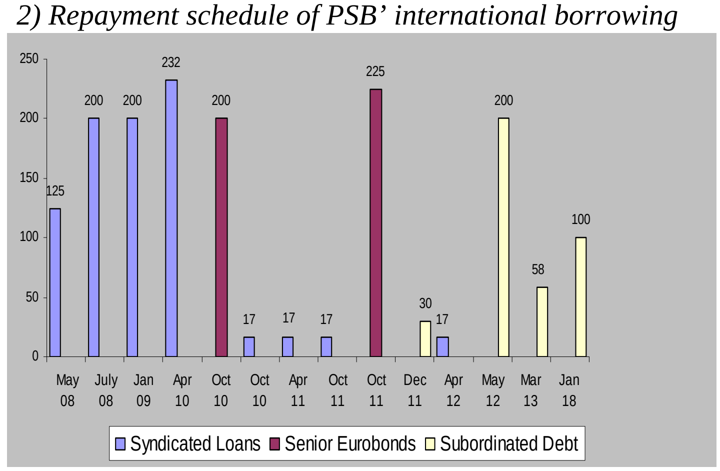
1) PSB's liability structure

The pie graph below shows PSB's structure of funding as of 30 June 2007:



Indeed, syndications, senior and subordinated Eurobonds together make up only 17.6% of the total liability. Trade finance, which represents 16.4% of the bank's funding, should not be confused with funds tapped from international markets, since this represent the recurrent refinancing of import trade operations within lines opened individually by more than 100 banks and ECAs. This activity continued, and still continues as usual today, and not a single foreign institution has discontinued, or even decreased, its trade finance line with PSB. In other words, PSB's reliance on international markets is actually contained within very reasonable limits.

2) Repayment schedule of PSB' international borrowing



The chart above shows that PSB's next international repayment will happen only in May 2008 for US$125 million, leaving plenty of time and room for eventual measures. The overall repayment for 2008 amounts to US$325 million, which represents today only 3.2% of its total assets and 17% of its liquid assets; these figures will be even lower by the time these syndicated loans mature in 2008. In 2009, PSB will have only US$200 million to repay. In other words, PSB could refrain from tapping international markets during the next two years or more with no impact on its liquidity, while the only consequence would be some slowdown of its asset growth.

3) PSB liquidity situation

The chart below shows the breakdown of PSB's asset and liability by maturity as of 30 June 2007:

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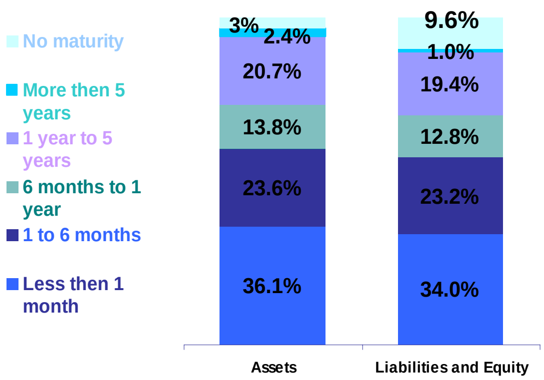


The chart shows that all liquidity gaps are positive, an indication of a very comfortable liquidity situation. These positive maturity gaps are not exceptional, as a similar configuration can be seen at year-end 2006. The reasons for this are that so far, PSB has benefited from relatively long-term financing (e.g. 3-year Eurobonds), while on the other hand, a large part of its loan portfolio (average duration: 7 months) is made up of short-term loans, namely trade finance and factoring operations. As a result, PSB is a net creditor on the interbank market, and in this context of increased interest rates, it benefits from a higher yield on its liquid assets.

PSB key figures as of 30 June 2007

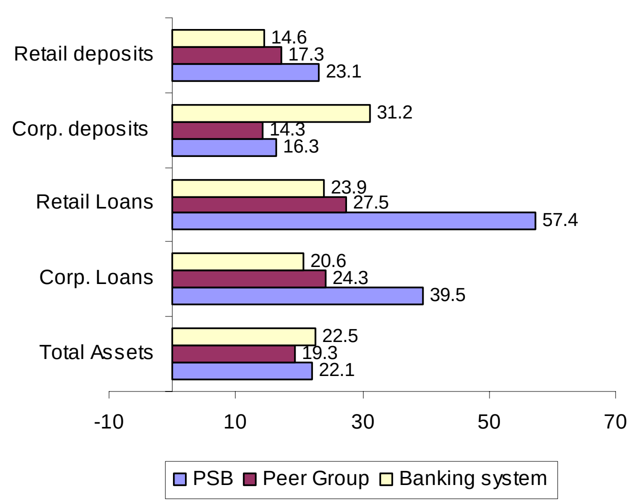
- Ranked **13th** bank by total assets and 6th privately owned Russian bank;
- Ranked **17th** bank by equity ($790 million);
- Ranked **3rd** largest branch/outlets network among privately owned Russian banks with **145** points of sale at 1H2007.
- **14th** bank by deposits from individuals (Ranked 17th at YE2006);
- **2nd** rank for factoring in Russia;
- **1st** bank by number of import trade finance deals with **$0.9bln** of transactions during 1H2007;

Operational Performance

Moscow, 3 September 2007 – PSB issued its reviewed financial statements for the first half of 2007, prepared in accordance with IFRS.

PSB's growth indicators for the first half of 2007 compare favorably with its peer group, and with the market in general, as shown in the chart below:

Table 1: PSB's growth in % versus peer group and sector 1H2007



All PSB's growth indicators exceed those of its peer group, defined as the top 5-20 banks in Russia. Compared to the overall banking system, PSB's indicators are also higher, with the noticeable exception of corporate deposits. Indeed, all the growth in corporate deposits was due to Gazprombank (2nd bank by assets), whose deposits increased by an exceptional 172% during this period, and weighted significantly on the average growth of the entire banking system. PSB's total asset growth is apparently comparable with the sector average, but if the exceptional asset growth of Gazprombank (+70% in 6 months) is excluded, PSB's performance is indeed well above the market average.

This performance is due, among other factors, to the increasing role played by our regional network, whose shares in the loan portfolio exceeded for the first time the share of Moscow and Moscow region.
The regional portfolio increased from 49.2% of the total portfolio at year-end 2006 to 50.3% as of 30 June 2007. The same trend is observed on the liability side, where the share of client resources collected from the regions grew from 34% to 36% during the same period.

The last several years have clearly revealed several strategic priorities for the Bank, which proved to be a smart combination between universalism and leadership in some niches, essentially Trade finance and factoring. PSB's current strategic goals are: 1. To maintain its position as one of the leaders of corporate banking, trade finance and factoring; and 2. To further strengthen its positions in SME lending, retail banking, and, to some extent, in investment banking.

Financial Performance

The first-half 2007 reviewed financial statements reveal a continued growth, as highlighted in the previous paragraph, but also the preservation of high-quality assets, healthy profitability indicators, and a capital adequacy that is still strong.
We remind our readers that PSB's full financial statements can be found on the website, page http://eng.psbank.ru/292/8/

Following are a condensed version of the Balance Sheet and Profit & Loss Statement of the bank as of 30 June 2007.

Balance Sheet

In RUR millions	**30.06.07 (reviewed)***	**31.12.06 (audited)***
ASSETS		
Cash & equivalent	26,308	30,361
Placements with banks	2,406	2,309
Securities at fair value	21,799	25,438
Loans to customers	157,600	116,472
Other assets	5,152	2,279
Property & equipment	7,179	3,678
Total assets	**220,444**	**180,537**
LIABILITY		
Due to banks	40,967	36,404
Customer deposits	100,792	85,350
Own securities issued	31,459	24,197
Other borrowed funds	25,323	14,653
Other liability	1,731	1,557
Total Liability	**200,272**	**162,161**
Shareholders' equity	20 172	18,376
Total liability & equity	**220,444**	**180,537**

Profit & Loss

In RUR millions	**30.06.07 (reviewed)***	**30.06.06 (audited)***
Interest income	9,927	5,847
Interest expense	4,915	2,848
Net interest income	**5,012**	**2,999**
Net fee income	906	570
Net gain on Fin. Instr.	7	199
Net gain on Forex	334	285
Other	135	77
Operating income	**6,394**	**4,130**
Impairment expenses	840	488
Gen. admin. expenses	3,151	2,213
Income before tax	**2,402**	**1,429**
Income tax expense	606	326
Net income	**1,796**	**1,103**

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

Asset quality

The quality of the assets remained excellent, as shown by the extremely low level of overdue loans, compared to the gross loan portfolio at 0.34% (vs. 0.33% at year-end 2006). This performance is due partly to the bank's outstanding credit risk management procedures, and also to the lag-time effect between the delivery of new loans and the occurrence of overdue sums among them, particularly in retail lending. Because our retail lending activity is expanding rapidly, we do expect some increase in our problem loans/total loans ratio within the next few months. However, first of all, this adverse effect will be closely monitored, and will also be largely offset by a higher interest spread in the retail lending segment. As a result, the P&L bottom-line will largely benefit from the development of this activity.

Profitability

The annualized ROAE reached 18.6%, and ROAA was 1.8% for 1H2007, compared to 17.2% and 1.8%, respectively, for 2006. This places PSB among the top performers in its peer group in profitability. Due to heavy investments in our branch network, we expect, however, that the 2007 ROAE will be essentially the same as in 2006, while the ROAA may not exceed 1.7%.

Capital Adequacy

Total capital adequacy decreased to 13.7% and Tier I ratios went to 9.7% on 30 June 2007, down from 16.4% and 11.1%, respectively, at year-end 2006. This is the result of a relatively high growth in RWA, while the only source of capital came from profit. But, bearing in mind the upcoming new shares issue for RUR 4,096 million (approximately $165 million), which will be finalized in October-November, as well as the subordinated debt private placement for $100 million, which took place in July 2007, we expect that the total capital adequacy will reach approximately 14.5%, and Tier I ratios 10.3% at year-end 2007. Such a level of capitalization is, in the opinion of PSB, a good compromise between a strong buffer for creditors in case of a stress scenario, and an adequate level for maintaining a high ROE, despite important investments in the branch network.

Latest internal developments

The SME Department begins operations: The SME Department, created in April of this year as a separate entity from the Corporate Banking Department, designed a range of lending products specifically adapted to the Russian SME, implemented a scorecard based on the best experience acquired by leading banks in this segment, and started its own operations during this third quarter.

Creation of a Private Banking Department: A Private Banking Department has been created for responding to the specific needs of wealthy individuals. According to a local survey, more than 1% of the population in Russia (approximately 1.5 million individuals) has a net worth of over $1 million.

A new member of the Management Board: The Board of Management increased from five to six members. The new member is Alexandra Volchenko, the bank's CFO. Alexandra has worked for PSB since 2004, and was named CFO in July 2006. She has over ten years' experience in banking and financial management.

A socially responsible bank: During 1H2007, PSB increased its expenditures in charity and sponsorship, up to approximately 1% of its operating income. PSB’s charities include assistance to people in need, such as World War II veterans with very small pension, and orphans; sponsorship include, among others, the promotion of arts and sciences. If PSB’s financial performance is maintained at or above the current level, such a level of expenditure will likely be continued.

Ratings

Fitch – On September 19th 2007 FitchRatings revised PSB’s outlook from stable to positive, while maintaining current ratings (Issuer Default Rating B+, Short-term Rating B, Support 5, Individual D) at the same level. We remind our readers that a positive outlook was first assigned to PSB in December 2006, following the acquisition of 15.3% of PSB's shares (through a new shares issue) by Commerzbank AG (rated by IDR 'A'/Stable Outlook) and the perspective of the German-based bank to acquire a controlling stake in PSB. In May 2007, due to the reduced likelihood that Commerzbank AG would acquire a majority stake in PSB, Fitch revised the outlook from positive to stable.

The last outlook revision, from stable to positive, is due, according to Fitch, to 'the bank's broadening customer franchise and regional expansion, healthy bottom-line performance and good asset quality to date'. In other words, the positive outlook is now based on the intrinsic fundamentals of the bank, rather than possible support from a foreign outsider. Outlooks from all three rating agencies, namely Standard & Poor's, Moody's, and Fitch, are now positive. This sends a strong signal to the market about PSB’s high likelihood of rating upgrades within the coming months.

QUARTERLY INVESTOR BULLETIN OCTOBER 2007

	S&P	Moody's	Fitch
Alfa Bank	BB(sta)	Ba1(sta)	
MDM Bank	BB(sta)	Ba1(sta)	BB(sta)
Rosbank	BB-(pos)	Ba2(sta)	BB-(pos)
PSB	B+(pos)	Ba3(pos)	B+(pos)
Uralsib	B+(pos)	Ba3(pos)	B+(sta)
Nomos		Ba3(pos)	B+(sta)
Petrocommerce	B+(sta)	Ba3(sta)	
IIB	B(pos)	B1(sta)	B(sta)

News in brief

July 2007: PSB launched a syndicated loan for $400 million in two equal tranches. The first tranche was launched for 12 months at Libor+60bp, and the second tranche for 18 months at Libor+70bp. The very low credit spread was a strong message given by investors about their positive view of PSB. In the meantime, PSB repaid the $205 million12-months syndicated loan issued in July 2006 at Libor+110bp and $200 million 18-months syndicated loan issued in February 2006 at Libor+175bp.

In July, PSB also issued $100 million of subordinated debt maturing in January 2018 within the framework of a private placement.

25 September - PromsvyazCapital B.V., the parent company of PSB, has acquired a controlling stake in Volgoprombank, a bank with a strong position in its region of Volgograd (southern Russia), with total assets amounting to only RUR 4.8 billion (approximately US$190 million). The transaction is planned to be completed within 1-2 months. PSB will be happy to provide more details about the deal in its next quarterly publication.