VOZROZHDENIE BANK

International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

31 December 2007

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ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Vozrozhdenie Bank:

1 We have audited the accompanying financial statements of Vozrozhdenie Bank (the "Bank") which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

28 March 2008
Moscow, Russian Federation

In millions of Russian Roubles	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	13 233	6 105
Mandatory cash balances with the Central Bank of the Russian Federation		1 305	1 099
Trading securities	8	6 702	4 236
Due from other banks	9	7 236	5 732
Loans and advances to customers	10	78 149	52 426
Premises, equipment and intangible assets	11	2 992	2 597
Other financial assets	12	1 493	986
Other assets		294	245
TOTAL ASSETS		**111 404**	**73 426**
LIABILITIES			
Due to other banks	13	4 845	418
Customer accounts	14	81 612	60 674
Debt securities in issue	15	7 103	4 087
Subordinated loans	16	2 874	2 467
Syndicated loans	17	2 550	-
Other financial liabilities	18	316	198
Other liabilities		214	73
TOTAL LIABILITIES		**99 514**	**67 917**
EQUITY			
Share capital	19	250	4 397
Share premium		7 306	3 162
Retained earnings/(Accumulated deficit)	20	4 334	(2 050)
TOTAL EQUITY		**11 890**	**5 509**
TOTAL LIABILITIES AND EQUITY		**111 404**	**73 426**

Approved for issue and signed on behalf of the Board of Directors on 28 March 2008.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

In millions of Russian Roubles	**Note**	**2007**	**2006**
Interest income	21	9 745	6 278
Interest expense	21	(4 175)	(2 794)
Net interest income		**5 570**	**3 484**
Provision for loan impairment	10	(885)	(393)
Net interest income after provision for loan impairment		**4 685**	**3 091**
Gains less losses from trading securities		95	24
Gains less losses from trading in foreign currencies		310	105
Foreign exchange translation (losses net of gains)/gains less losses		(60)	102
Fee and commission income	22	3 202	2 197
Fee and commission expense	22	(191)	(129)
Losses from disposal of loans and advances to customers		-	(118)
Dividend income		3	13
Other operating income		225	77
Losses on initial recognition of assets at rates below market	10	(7)	(3)
Operating income		**8 262**	**5 359**
Administrative and other operating expenses	23	(5 732)	(4 243)
Loss from an associate		-	(32)
Profit before tax		**2 530**	**1 084**
Income tax expense	24	(626)	(283)
Profit for the year		**1 904**	**801**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in RR per share)			
Ordinary shares	25	80	39
Preference shares with fixed dividend	25	78	38

In millions of Russian Roubles	Note	Share capital	Share premium	(Accumulated deficit)/ Retained earnings	Total
Balance at 31 December 2005		**4 377**	**1 735**	**(2 839)**	**3 273**
Profit for the year		-	-	801	801
Total recognised income for 2006		-	-	801	801
Share issue	19	20	1 427	-	1 447
Dividends declared		-	-	(12)	(12)
Balance at 31 December 2006		**4 397**	**3 162**	**(2 050)**	**5 509**
Profit for the year		-	-	1 904	1 904
Total recognised income for 2007		-	-	1 904	1 904
Elimination of adjustments for hyperinflation	20	(4 177)	(316)	4 493	-
Share issue	19	30	4 460	-	4 490
Dividends declared		-	-	(13)	(13)
Balance at 31 December 2007		**250**	**7 306**	**4 334**	**11 890**

In millions of Russian Roubles	Note	2007	2006
Cash flows from operating activities			
Interest received		9 638	6 250
Interest paid		(3 763)	(2 443)
Net income received from trading in trading securities		95	35
Net income received from trading in foreign currencies		310	105
Fees and commissions received		3 290	2 274
Fees and commissions paid		(214)	(129)
Other operating income received		224	61
Administrative and other operating expenses paid		(5 249)	(3 933)
Income tax paid		(481)	(281)
Cash flows from operating activities before changes in operating assets and liabilities		**3 850**	**1 939**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(206)	(176)
Net increase in trading securities		(2 582)	(1 976)
Net increase in due from other banks		(1 562)	(2 800)
Net increase in loans and advances to customers		(27 274)	(22 846)
Net increase in other financial assets		(2)	(276)
Net increase in other assets		(152)	(28)
Net increase in due to other banks		4 524	317
Net increase in customer accounts		21 079	21 051
Net increase in debt securities in issue (net of bonds)		86	64
Net increase in other financial liabilities		119	15
Net decrease in other liabilities		(26)	(39)
Net cash used in operating activities		**(2 146)**	**(4 755)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(485)	-
Proceeds from disposal of investment securities available for sale		-	466
Proceeds from an associate		-	75
Acquisition of premises, equipment and intangible assets	11	(800)	(889)
Proceeds from disposal of premises, equipment and intangible assets	11	65	42
Dividend income received		3	13
Net cash used in investing activities		**(1 217)**	**(293)**
Cash flows from financing activities			
Receipt of subordinated loans	16	604	1 372
Receipt of syndicated loans	17	2 529	-
Issue of bonds	15	3 000	-
Issue of ordinary shares	19	4 490	1 447
Dividends paid		(13)	(12)
Net cash from financing activities		**10 610**	**2 807**
Effect of exchange rate changes on cash and cash equivalents		**(119)**	**(132)**
Net increase in cash and cash equivalents		**7 128**	**(2 373)**
Cash and cash equivalents at the beginning of the year		**6 105**	**8 478**
Cash and cash equivalents at the end of the year		**13 233**	**6 105**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for Vozrozhdenie Bank OJSC (the “Bank”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations. The Bank is ultimately de-facto controlled by Mr. D.L. Orlov (2006: Mr. D.L. Orlov).

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1991. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 57 (2006: 60) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The number of the Bank’s employees as at 31 December 2007 was 6 283 (2006: 5 767).

The Bank's Head office is located at the following address: Luchnikov pereulok, 7/4 bld. 1, 101000, Moscow, Russian Federation.

Presentation currency. These financial statements are presented in millions of Russian Roubles ("RR millions").

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and wholesale financing by Russian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Bank to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors or borrowers of the Bank may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Bank's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading and available for sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 12.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities and derivatives; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the income statement as interest income. Dividends are included in dividend income when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

3 Summary of Significant Accounting Policies (Continued)

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;

- the borrower considers bankruptcy or a financial reorganisation;

- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available for sale at the time of purchase.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2%;
Office and computer equipment	15-20%
Intangible assets	20%
Leasehold improvements	over the term of the underlying lease (the average term of the lease is 5 years).

3 Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 5 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit bonds, and bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Subordinated loans. Subordinated loans are carried at amortised cost.

Syndicated loans. Syndicated loans are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity. Incremental costs directly attributable to additional share issue are recorded as deduction from share premium.

Preference shares. Preference shares that are not redeemable and with discretionary dividends are classified as equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

3 Summary of Significant Accounting Policies (Continued)

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The Bank's functional currency and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 (2006: USD 1 = RR 26.3311).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

3 Summary of Significant Accounting Policies (Continued)

***Segment reporting*.** A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

In millions of Russian Roubles	**2006**
Increase in	
Other financial assets	986
Other financial liabilities	198
Decrease in	
Other assets	986
Other liabilities	198

Any further changes to these financial statements require approval of the Bank's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank is currently assessing the impact of the amended standard on its financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank is currently assessing the impact of the amended standard on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its financial statements.

6 New Accounting Pronouncements (Continued)

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2007**	**2006**
Cash on hand	6 241	3 856
Cash balances with the CBRF (other than mandatory reserve deposits)	5 424	1 669
Correspondent accounts and overnight placements with other banks		
- Russian Federation	700	193
- Other countries	868	387
Total cash and cash equivalents	**13 233**	**6 105**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 28.

8 Trading Securities

In millions of Russian Roubles	**2007**	**2006**
Federal loan bonds (OFZ)	2 688	189
VneshEconomBank 3% coupon bonds (VEB bonds)	1 610	39
CBRF bonds	1 042	2 381
Corporate bonds	698	296
Corporate Eurobonds	382	346
Municipal bonds	276	135
Russian Federation Eurobonds	-	835
Total debt securities	6 696	4 221
Corporate shares	6	15
Total trading securities	**6 702**	**4 236**

All portfolio of trading securities have a quoted market price.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from March 2008 to April 2008 (2006: from June 2007 to January 2011), a coupon rate of 10% (2006: from 5.8% to 6.3%) and yield to maturity at 6.0% (2006: from 5.7% to 6.2%), depending on the type of bond issue.

VEB bonds are interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and have coupon rate of 3.0% (2006: 3.0%). These bonds have maturity date in May 2008 (2006: from November 2007 to May 2008), and yield to maturity at 5.6% (2006: from 5.5% to 5.7%).

CBRF bonds are zero-coupon bonds denominated in Russian Roubles, issued by the Central Bank of Russian Federation. These bonds are issued at a discount to face value. These bonds have maturity dates are March and June 2008 (2006: from June 2009 to September 2009) and yield to maturity from 5.0% to 5.4% (2006: from 5.0% to 5.1%), depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies freely tradable in the Russian Federation. These bonds have maturity dates from March 2008 to December 2012 (2006: from November 2007 to January 2009), coupon rate from 6.7% to 13.2% (2006: from 6.7% to 13.0%) and yield to maturity from 6,8% to 13,3% (2006: from 6.3% to 12.9%) depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from January 2008 to June 2015 (2006: from February 2007 to December 2012), coupon rate from 5.9% to 10.9% (2006: from 4.6% to 11.5%) and yield to maturity from 5.9% to 7.3% (2006: from 4.8% to 6.0%), depending on the type of bond issue.

Municipal bonds are interest-bearing securities denominated in Russian Roubles and Euros, issued by Russian regional authorities and are freely tradable in the Russian Federation. These bonds have maturity dates from June 2008 to October 2016 (2006: from December 2008 to June 2015), coupon rate from 5.1% to 11.0% (2006: from 7.8% to 13%) and yield to maturity from 5.5% to 8.9% (2006: from 5.5% to 8.1%) depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds as at 31 December 2006 had maturity date in June 2007, coupon rate of 10.0% and yield to maturity of 5.3%.

Corporate shares are shares of Russian companies.

8 Trading Securities (Continued)

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Trading securities are used by the Bank basically for liquidity risk management.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 28.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

9 Due from Other Banks

In millions of Russian Roubles	**2007**	**2006**
Short-term placements with other banks	5 542	593
Deposits with CBRF	1 500	5 000
Insurance deposits with non-resident banks	194	139
Total due from other banks	**7 236**	**5 732**

As at 31 December 2007 the Bank had short-term deposits in the amount of RR 5 542 million with maturity dates in January 2008 and contractual interest rate from 3.3% to 12.0% placed with some of top 50 banks of Russia in terms of equity (2006: RR 593 million with maturity date in January 2007 and contractual interest rate from 4.7 to 10.0% placed with some of 50 banks of Russia in terms of equity). Short-term deposits with other banks are not collateralised.

As at 31 December 2007 the Bank had a short-term deposit placed with CBRF in the amount of RR 1 500 million maturity date in January 2008 (2006: RR 5 000 million with maturity date in January 2007) and contractual interest rate of 3.3% (2006: 2.8%). Deposits with the CBRF are not collateralised.

The Bank has a significant concentration of credit risk with the CBRF. In total, credit risk exposure to the CBRF is estimated to have amounted to RR 9 271 million (2006: RR 10 149 million) comprising cash and cash equivalents, mandatory reserve deposits with the CBRF, other amounts due from other banks and trading securities. At the same time as at 31 December 2007 the Bank had a deposit from CBRF in the amount of RR 2 005 million (2006: nil). Refer to Note 13.

At 31 December 2007 in accordance with the requirements of Visa International and MasterCard International payment systems the Bank placed 2 insurance deposits in the amount of RR 194 million at LIBOR rate with non-resident banks located in the United Kingdom for the purpose of banking card settlements (2006: 2 insurance deposits in the amount of RR 139 million at LIBOR rate with non-resident banks located in the United Kingdom).

At 31 December 2007 the estimated fair value of due from other banks was RR 7 236 million (2006: RR 5 732 million).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 28.

10 Loans and Advances to Customers

In millions of Russian Roubles	2007	2006
Corporate loans - large	15 695	7 705
Corporate loans - medium	25 144	17 602
Corporate loans - small	23 347	20 091
Mortgage loans	8 835	4 102
Other loans to individuals	7 930	4 880
Less: Provision for loan impairment	(2 802)	(1 954)
Total loans and advances to customers	**78 149**	**52 426**

In accordance with its annually approved Credit Policy the loans issued by the Bank are divided into corporate and retail. Taking into consideration the Bank's customer policy requirements for 2007 the corporate portion of borrowers is further divided on the basis of total amount owed by the customer into the following categories: large – in excess of RR 500 million, medium – from RR 100 million to RR 500 million, small – less than RR 100 million (2006: large - in excess of RR 500 million, medium – from RR 100 million to RR 500 million, small – less than RR 100 million). Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans combined together.

Movements in the provision for loan impairment during 2007 are as follows :

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2007	**250**	**693**	**1 008**	**-**	**3**	**1 954**
Provision for impairment during the year	53	324	179	144	185	885
Amounts written off during the year as uncollectible	-	-	(37)	-	-	(37)
Provision for loan impairment at 31 December 2007	**303**	**1 017**	**1 150**	**144**	**188**	**2 802**

Movements in the provision for loan impairment during 2006 are as follows :

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2006	**69**	**603**	**817**	**30**	**102**	**1 621**
(Recovery of) Provision for impairment during the year	181	90	251	(30)	(99)	393
Amounts written off during the year as uncollectible	-	-	(60)	-	-	(60)
Provision for loan impairment at 31 December 2006	**250**	**693**	**1 008**	**-**	**3**	**1 954**

10 Loans and Advances to Customers (Continued)

Analysis of the structure of the provision for loan impairment at 31 December 2007 is as follows:

In millions of Russian Roubles	**Gross loans and advances to customers**	**Impairment loss provisions**	**Total loans and advances to customers (after impairment)**	**Ratio of impairment loss provisions to gross loans and advances to customers**
Loans and advances to legal entities:				
Individually evaluated for impairment, not impaired loans	2 850	-	2 850	0.0%
Collectively evaluated for impairment				
- standard loans	59 193	(1 301)	57 892	2.2%
- watch loans	852	(469)	383	55.0%
Individually evaluated for impairment				
- doubtful loans	753	(162)	591	21.5%
- uncollectible loans	538	(538)	-	100.0%
Total loans and advances to legal entities	**64 186**	**(2 470)**	**61 716**	**3.9%**
Loans and advances to individuals:				
Collectively evaluated for impairment, standard loans	16 598	(165)	16 433	1.0%
Individually evaluated for impairment, uncollectible loans	167	(167)	-	100.0%
Total loans and advances to individuals	**16 765**	**(332)**	**16 433**	**2.0%**
Total loans and advances to customers	**80 951**	**(2 802)**	**78 149**	**3.5%**

10 Loans and Advances to Customers (Continued)

Analysis of the structure of the provision for loan impairment at 31 December 2006 is as follows:

In millions of Russian Roubles	**Gross loans and advances to customers**	**Impairment loss provisions**	**Total loans and advances to customers (after impairment)**	**Ratio of impairment loss provisions to gross loans and advances to customers**
Loans and advances to legal entities:				
Individually evaluated for impairment, not impaired loans	1 779	-	1 779	0.0%
Collectively evaluated for impairment				
- standard loans	42 479	(1 361)	41 118	3.2%
- watch loans	538	(219)	319	40.7%
Individually evaluated for impairment				
- doubtful loans	384	(153)	231	39.8%
- uncollectible loans	218	(218)	-	100.0%
Total loans and advances to legal entities	**45 398**	**(1 951)**	**43 447**	**4.3%**
Loans and advances to individuals:				
Collectively evaluated for impairment, standard loans	8 979	-	8 979	0.0%
Individually evaluated for impairment, uncollectible loans	3	(3)	-	100.0%
Total loans and advances to individuals	**8 982**	**(3)**	**8 979**	**0.03%**
Total loans and advances to customers	**54 380**	**(1 954)**	**52 426**	**3.6%**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2007		**2006**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	19 564	24	14 265	26
Manufacturing	17 693	22	14 496	27
Individuals	16 765	21	8 982	17
Construction	6 163	8	5 322	10
Transport	5 018	6	2 050	4
Agriculture	3 603	4	3 254	6
Finance	2 942	4	1 680	3
State and public organisations	1 952	2	1 288	2
Other	7 251	9	3 043	5
Total loans and advances to customers (before impairment)	**80 951**	**100**	**54 380**	**100**

State and public organisations exclude government owned profit orientated businesses.

At 31 December 2007 the Bank had 17 borrowers with aggregated loan amounts equal or above RR 500 million. The total aggregate amount of these loans was RR 15 695 million or 19.4% of the gross loan portfolio.

10 Loans and Advances to Customers (Continued)

At 31 December 2006 the Bank had 10 borrowers with aggregated loan amounts equal or above RR 500 million. The total aggregate amount of these loans was RR 7 188 million or 13.2% of the loan portfolio.

The Bank normally issues loans on the condition of provision by the borrowers of liquid and sufficient collateral that is documented in accordance with the legally established procedure. Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- goods in turnover;
- guarantee deposit;
- third parties' guarantee;
- banking guarantee;
- state (municipal) guarantee.

Loans to individuals may be collateralised by the following:

- residential property purchased under mortgage agreement;
- car purchased under auto loan agreement;
- guarantees of third parties, in particular of employers of an individual;
- pledge of right of claim on the individual's deposit;
- other property owned by the borrower.

In addition, to mitigate the credit risk the Bank requires from its borrowers the insurance of the subject of pledge, the borrower's life and disability or accident insurance.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Bank's potential expenses associated with the fulfilment of debtor's obligations, which is assessed as at least 10% of the principal and the interest. The liquidity of the collateral is assessed on the basis of the term during which it can be realised.

The collateral value of the property shall be determined at the moment when the loan is issued in accordance with the effective Bank's procedure with the use of the system of discounts or on the basis of the cost of similar property.

The Bank considers pledge of property to be the best collateral, which accounts for the largest percentage in collateralisation of loans to corporate clients. It includes real estate, including land plots, equipment, motor transport, goods in circulation. The property received by the Bank as a collateral (except for land plots) is subject to obligatory insurance for the Bank's benefit.

The cost of real estate accepted as a collateral is determined by the Bank with the use of a discount system taking into consideration regional and industry specifics of the possibility to realise the subject of collateral depending upon the ratio between the cost of 1 square meter of real estate determined by a valuation company and average cost of 1 square meter of similar real estate in the region (in accordance with expert valuation of similar real estate with approximately similar location in relation to business centres and approximately similar condition). The range of discounts in valuation of real estate is 15-30%.

10 Loans and Advances to Customers (Continued)

When industrial, technological or other equipment is pledged as collateral the Bank applies a discount of 15-30% depending upon the industry and the region. Motor vehicles are discounted at 20-25%.

Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of the property is confirmed by the report on real estate market valuation prepared by a valuation company not earlier than two months prior to execution of pledge contract, transaction price of the acquired property or transaction price of similar property. If there is more than one transaction with identical property, market value is determined on the basis of the lowest transaction price.

Bank card loans are secured by guarantees, life and disability insurance. If required and depending upon the amount of credit limit the Bank can request additional collateral in the form of a pledge.

As additional collateral for corporate loans the Bank accepts guarantees of legal entities and pledges of rights of claim.

Loans collateralised only by the guarantee of third parties can be issued if the financial position of the legal entity guarantor is estimated no worse than “average” in accordance with Bank’s internal evaluation methodologies.

The percentage of state and municipal guarantees, and guarantee deposits of legal entities within the total collateral of the corporate loan portfolio is insignificant.

Mortgage loans within the Bank’s retail portfolio include loans for purchase of real estate at primary and secondary housing markets. These loans are collateralised by pledge of real estate, mortgage and rights of claim.

The highest percentage of consumer and car loans collateralisation comprises upon pledges of residential real estate, cars and rights of claim on deposits. The principal form of collateral for bank card loans is a guarantee (except for credits with limit up to thirty thousand roubles where collateral is not required).

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans – small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Current and not impaired:						
- Large borrowers with credit history over two years	6 842	-	-	-	-	6 842
- Large new borrowers	7 897	-	-	-	-	7 897
- Loans renegotiated in 2007	956	1 762	613	-	-	3 331
- Corporate loans - medium	-	22 746	-	-	-	22 746
- Corporate loans - small	-	-	21 567	-	-	21 567
- Collectively evaluated loans	-	-	-	8 755	7 790	16 545
Total current and not impaired	**15 695**	**24 508**	**22 180**	**8 755**	**7 790**	**78 928**
Past due but not impaired						
- less than 30 days overdue	-	-	156	6	31	193
- 30 to 90 days overdue	-	-	126	-	3	129
- 90 to 180 days overdue	-	332	95	4	4	435
- 180 to 360 days overdue	-	170	149	-	5	324
- over 360 days overdue	-	-	470	-	-	470
Total past due but not impaired	**-**	**502**	**996**	**10**	**43**	**1 551**
Loans individually determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	-	-	30	30
- 90 to 180 days overdue	-	-	-	70	20	90
- 180 to 360 days overdue	-	-	-	-	41	41
- over 360 days overdue	-	134	171	-	6	311
Total individually impaired (gross)	**-**	**134**	**171**	**70**	**97**	**472**
Less: impairment provisions	(303)	(1 017)	(1 150)	(144)	(188)	(2 802)
Total loans and advances to customers	**15 392**	**24 127**	**22 197**	**8 691**	**7 742**	**78 149**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2006 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Current and not impaired:						
- Large borrowers with credit history over two years	4 562	-	-	-	-	4 562
- Large new borrowers	3 143	-	-	-	-	3 143
- Loans renegotiated in 2006	-	882	725	-	-	1 607
- Corporate loans - medium	-	16 586	-	-	-	16 586
- Corporate loans - small	-	-	18 613	-	-	18 613
- Collectively evaluated loans	-	-	-	4 094	4 800	8 894
Total current and not impaired	**7 705**	**17 468**	**19 338**	**4 094**	**4 800**	**53 405**
Past due but not impaired						
- less than 30 days overdue	-	-	53	2	30	85
- 30 to 90 days overdue	-	-	36	6	13	55
- 90 to 180 days overdue	-	-	173	-	18	191
- 180 to 360 days overdue	-	-	79	-	1	80
- over 360 days overdue	-	-	230	-	-	230
Total past due but not impaired	**-**	**-**	**571**	**8**	**62**	**641**
Loans individually determined to be impaired (gross)						
- 180 to 360 days overdue	-	134	100	-	10	244
- over 360 days overdue	-	-	82	-	8	90
Total individually impaired (gross)	**-**	**134**	**182**	**-**	**18**	**334**
Less: impairment provisions	(250)	(693)	(1 008)	-	(3)	(1 954)
Total loans and advances to customers	**7 455**	**16 909**	**19 083**	**4 102**	**4 877**	**52 426**

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans – small	Mortgage loans	Other loans to individuals	Total
Fair value of collateral - loan past due but not impaired						
- residential real estate	-	-	-	11	1	12
- production real estate	-	124	-	-	-	124
- equipment and commodities and materials	-	404	1 018	-	-	1 422
- motor vehicles	-	-	-	-	23	23
- third parties' guarantees	-	184	-	-	23	207
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	-	-
- production real estate	-	-	-	-	-	-
- equipment and commodities and materials	-	-	-	-	-	-
- motor vehicles	-	-	-	-	-	-
- third parties' guarantees	-	-	-			-
Total	**-**	**712**	**1 018**	**11**	**47**	**1 788**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2006 was as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans – small	Mortgage loans	Other loans to individuals	Total
Fair value of collateral - loan past due but not impaired						
- residential real estate	-	-	-	12	-	12
- production real estate	-	-	171	-	-	171
- equipment and commodities and materials	-	-	1 007	-	-	1 007
- motor vehicles	-	-	-	-	15	15
- third parties' guarantees	-	-	757	-	18	775
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	-	-
- production real estate	-	-	-	-	-	-
- equipment and commodities and materials	-	-	-	-	-	-
- motor vehicles	-	-	-	-	-	-
- third parties' guarantees	-	-	30	-	-	30
Total	**-**	**-**	**1 965**	**12**	**33**	**2 010**

10 Loans and Advances to Customers (Continued)

Fair value of residential real estate at the balance sheet date was estimated by indexing the values determined by the staff of credit departments of the Bank's branches at the time of loan inception for the average increases in residential real estate prices by city and region. Fair value of other real estate and other assets was determined by the Bank's credit division using the Bank's Regulation on ensuring fulfilment of debtor's obligations.

Carrying value of each class of loans and advances to customers approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of loans and advances to customers was RR 77 542 million (2006: RR 52 787 million). Refer to Note 32.

During 2007 a loss on initial recognition of loans at rates below market in the amount of RR 7 million (2006: RR 3 million) has been recorded in the income statement.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 28. The information on related party balances is disclosed in Note 34.

11 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Construc-tion in progress	Computer software licences	Total
Residual value at 31 December 2005		**1 189**	**675**	**88**	**20**	**1 972**
Carrying amount at 1 January 2006						
Balance at the beginning of the year		1 435	1 709	88	25	3 257
Additions		33	564	236	56	889
Transfers		20	-	(20)	-	-
Disposals		(17)	(84)	-	-	(101)
Balance at the end of the year		**1 471**	**2 189**	**304**	**81**	**4 045**
Accumulated depreciation						
Balance at the beginning of the year		246	1 034	-	5	1 285
Depreciation charge	23	29	205	-	11	245
Disposals		(2)	(80)	-	-	(82)
Balance at the end of the year		**273**	**1 159**	**-**	**16**	**1 448**
Residual value at 31 December 2006		**1 198**	**1 030**	**304**	**65**	**2 597**
Carrying amount at 1 January 2007						
Balance at the beginning of the year		1 471	2 189	304	81	4 045
Additions		283	412	79	26	800
Transfers		359	-	(359)	-	-
Disposals		(53)	(122)	(7)	-	(182)
Balance at the end of the year		**2 060**	**2 479**	**17**	**107**	**4 663**
Accumulated depreciation						
Balance at the beginning of the year		273	1 159	-	16	1 448
Depreciation charge	23	35	286	-	19	340
Disposals		(9)	(108)	-	-	(117)
Balance at the end of the year		**299**	**1 337**	**-**	**35**	**1 671**
Residual value at 31 December 2007		**1 761**	**1 142**	**17**	**72**	**2 992**

Construction in progress consists of construction and refurbishment of Head Office and branch premises. Upon completion, assets are transferred to premises and equipment.

12 Other Financial Assets

In millions of Russian Roubles	2007	2006
Investment securities available for sale	644	159
Credit and debit cards receivables	452	414
Receivables and advance payments	364	273
Settlements with currency and stock exchanges	33	24
Settlements on letters of credit	-	67
Receivables from sale of an associate	-	49
Total other financial assets	**1 493**	**986**

As at 31 December 2005 the Bank owned a 20% interest in OAO Moscow Reinsurance Company. In September 2006, the bank sold its investment in this associate in its entirety for RR 124 million. In accordance with the purchase and sale contract RR 49 million out of the total consideration for the sale of OAO Moscow Reinsurance Company was paid to the Bank in April 2007.

At 31 December 2007 the estimated fair value of other financial assets was RR 1 493 million (2006: RR 986 million).

Geographical, currency and maturity analyses of other assets are disclosed in Note 28.

13 Due to Other Banks

In millions of Russian Roubles	2007	2006
Short- term placements of other banks	2 790	374
Short-term placement of CB RF	2 005	-
Correspondent accounts of other banks	50	44
Total due to other banks	**4 845**	**418**

At 31 December 2007, included in short-term placements of other banks are deposits of a large Russian bank in the amount of RR 2 009 million (2006: nil) with maturity dates in January – March 2008 and contractual interest rates from 6.8% to 7.3%. Short-term deposits with other banks are not collateralised.

At 31 December 2007 the Bank had a short-term placement of CB RF in the amount of RR 2 005 million with maturity date in May 2008 and an interest rate of 8.0%.

The carrying value of each class of due to other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due to other banks was RR 4 931 million (2006: RR 415 million). Refer to Note 32.

Geographical, currency, interest rate and maturity analyses of due to other banks are disclosed in Note 28.

14 Customer Accounts

In millions of Russian Roubles	**2007**	**2006**
State and public organisations		
- Current/settlement accounts	218	174
Other legal entities		
- Current/settlement accounts	22 651	17 247
- Term deposits	8 947	5 468
Individuals		
- Current/demand accounts	13 446	9 210
- Term deposits	36 350	28 575
Total customer accounts	**81 612**	**60 674**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2007		**2006**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	49 796	61	37 785	62
Trade	7 602	9	5 461	9
Manufacturing	7 209	9	5 922	10
Finance	3 789	5	2 824	5
Transport and communications	2 954	4	2 569	4
Construction	3 156	4	1 803	3
Agriculture	1 098	1	1 110	2
State and public organisations	218	-	174	-
Other	5 790	7	3 026	5
Total customer accounts	**81 612**	**100**	**60 674**	**100**

At 31 December 2007 the Bank had 15 customers with balances above RR 200 million. The aggregate balance of these customers was RR 8 527 million or 10.4% of total customer accounts.

At 31 December 2006 the Bank had 10 customers with balances above RR 200 million. The aggregate balance of these customers was RR 4 932 million or 8.1% of total customer accounts.

At 31 December 2006 included in customer accounts are deposits of RR 105 million held as collateral for irrevocable commitments under import letters of credit. Refer to Note 30.

Carrying value of each class of customer accounts approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of customer accounts was RR 80 457 million (2006: RR 60 301 million). Refer to Note 32.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 28. The information on related party balances is disclosed in Note 34.

15 Debt Securities in Issue

In millions of Russian Roubles	**2007**	**2006**
Promissory notes	3 540	3 443
Bonds	3 085	-
Deposit certificates	478	644
Total debt securities in issue	**7 103**	**4 087**

At 31 December 2007 promissory notes have maturity dates from January 2008 to November 2011 (2006: from January 2007 to December 2010) and effective interest rate from 1.8% to 10.7% p.a. (2006: from 3.3% to 15.6% p.a.).

At 31 December 2007, the Bank's debt securities in issue included bonds issued on domestic market in the amount of RR 3 085 million and a nominal value of RR 3 000 million. These bonds mature in March 2010, have a coupon rate of 9.0% and a yield to maturity of 10.0%

At 31 December 2007 deposit certificates have maturity dates from January 2008 to December 2008 (2006: from January 2007 to January 2008) and effective interest rate from 4.1% to 9.0% p.a. (2006: from 2.5% to 10.0% p.a.).

At 31 December 2007 the estimated fair value of debt securities in issue was RR 7 040 million (2006: RR 3 989 million). Refer to Note 32.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 28. The information on debt securities in issue held by related parties is disclosed in Note 34.

Under the terms of bonds placement and syndicated loan agreements, the Bank should comply with the following covenants:

- capital adequacy;
- tangible net worth;
- financial indebtedness;
- CBRF economic ratios.

As at 31 December 2007 the Bank was in compliance with these covenants.

16 Subordinated Loans

Subordinated loans represent long-term deposits of customers of the Bank, which mature from 2010 to 2014 and bear contractual interest rates ranging from 2.3% to 10.0%. In April 2007 the Bank received one additional subordinated loan (2006: three new subordinated loans). The details of subordinated loans attracted by the Bank are disclosed in the table below:

	Start date	Maturity date	Contractual interest rate, %	Currency	Nominal value, RR million
Subordinated loan 1	December 2006	December 2013	10.0	RR	1 000
Subordinated loan 2	June 2006	June 2014	6.5	US Dollars	123
Subordinated loan 3	March 2006	March 2014	6.5	US Dollars	123
Subordinated loan 4	May 2006	May 2014	6.5	US Dollars	74
Subordinated loan 5	April 2007	April 2014	10.0	RR	500

Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank.

At 31 December 2007 the estimated fair value of subordinated loans was RR 2 892 million (2006: RR 2 534 million). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 28. Subordinated loans 2, 3 and 4 were received by the Bank from a related party. Refer to Note 34.

17 Syndicated Loans

At 31 December 2007 syndicated loans are represented by a syndicated loan attracted in March 2007 in the amount of USD 50 million with maturity date in March 2008 and an interest rate of 7.0% prolonged in March 2008 (refer to Note 35) and a loan received in November 2007 in the amount of USD 53 million with maturity date in October 2009 and an interest rate of 6.0% from a group of foreign and Russian banks. The agents of the syndicated loans were Bank Austria Creditanstalt AG and Landesbank Berlin AG.

At 31 December 2007 the estimated fair value of syndicated loans was RR 2 547 million. Refer to Note 32.

Under the terms of bonds placement and syndicated loan agreements, the Bank should comply with the following covenants:

- capital adequacy;
- tangible net worth;
- financial indebtedness;
- CBRF economic ratios.

As at 31 December 2007 the Bank was in compliance with these covenants.

Geographical, currency, maturity and interest rate analyses of syndicated loans are disclosed in Note 28.

18 Other Financial Liabilities

Other financial liabilities comprise the following:

In millions of Russian Roubles	2007	2006
Trade payables	160	76
Debit or credit card payables	156	122
Total other financial liabilities	**316**	**198**

Carrying value of each class of other financial liabilities approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial liabilities was RR 316 million (2006: RR 198 million). Refer to Note 32.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 28.

19 Share Capital

In millions of Russian Roubles	Note	Number of outstanding shares	Ordinary shares	Preference shares with fixed dividend	Share premium	Total
At 1 January 2006		**20 043 199**	**4 317**	**60**	**1 735**	**6 112**
New shares issued		2 000 000	20	-	1 427	1 447
At 31 December 2006		**22 043 199**	**4 337**	**60**	**3 162**	**7 559**
New shares issued		3 000 000	30	-	4 553	4 583
Elimination of adjustments for hyperinflation	20	-	(4 130)	(47)	(316)	(4 493)
Expenses associated with share issue		**-**	**-**	**-**	**(93)**	**(93)**
At 31 December 2007		**25 043 199**	**237**	**13**	**7 306**	**7 556**

Nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions to the purchasing power of the Russian Rouble at 31 December 2007 is RR 250 million (2006: RR 220 million). At 31 December 2007, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (2006: RR 10 per share) and rank equally. Each share carries one vote.

The preference shares have a nominal value of RR 10 (2006: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2006: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time as the dividend is paid.

In August 2006 the Central Bank of the Russian Federation registered an additional issue of 2 000 000 ordinary shares of the Bank with a nominal value of RR 10 per share.

In May 2007 the Central Bank of the Russian Federation registered an additional issue of 3 000 000 ordinary shares of the Bank with a nominal value of RR 10 per share.

In July 2007 the Bank's ordinary shares were included into a A quotation list of the second level of Open Joint Stock Company RTS Stock Exchange.

In August 2007 the Bank's ordinary shares were transferred to A quotation list of the second level of Closed Joint Stock Company MICEX Stock Exchange.

19 Share capital (continued)

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

The expenses associated with share issue are fees of the professional advisors for organisation of issue of the Bank's ordinary shares.

As at 31 December 2007, 550 000 (2006: 550 000) ordinary shares of the Bank were circulating on international over-the-counter markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with nominal value of RR 10.

20 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2007 are RR 3 734 million (2006: RR 2 908 million).

At 31 December 2006 within the accumulated deficit calculated in accordance with IFRS there is RR 3 968 million related to revaluation of non-monetary items as required by IAS 29 "Financial Reporting in Hyperinflationary Economies". This revaluation was done before 1 January 2003. In May 2007 at the decision of the Bank's Board of Directors, the restatement of capital contributions received before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 was eliminated with a simultaneous adjustment of the accumulated deficit. This adjustment resulted in comparability of capital components of financial statements prepared in accordance with Russian Accounting Regulations and financial statements prepared in accordance with IFRS.

21 Interest Income and Expense

In millions of Russian Roubles	**2007**	**2006**
Interest income		
Loans and advances to customers	9 269	5 927
Correspondent accounts and due from other banks	273	155
Trading securities	200	196
Investment securities available for sale	3	-
Total interest income	**9 745**	**6 278**
Interest expense		
Term deposits of individuals	2 586	2 003
Term deposits of legal entities	576	282
Debt securities in issue	524	329
Subordinated loans	248	97
Due to other banks	120	7
Current/settlement accounts of legal entities	76	76
Syndicated loans	45	-
Total interest expense	**4 175**	**2 794**
Net interest income	**5 570**	**3 484**

The information on related party balances is disclosed in Note 34.

22 Fee and Commission Income and Expense

In millions of Russian Roubles	**2007**	**2006**
Fee and commission income		
Settlement transactions	916	663
Cash transactions	906	573
Credit/debit cards and cheques settlements	548	445
Payroll projects	421	289
Cash collection	93	57
Guarantees issued	89	43
Other	229	127
Total fee and commission income	**3 202**	**2 197**
Fee and commission expense		
Credit/debit cards and cheques settlements	113	82
Settlement transactions	22	10
Settlements with currency and stock exchanges	18	14
Cash transactions	14	16
Other	24	7
Total fee and commission expense	**191**	**129**
Net fee and commission income	**3 011**	**2 068**

23 Administrative and Other Operating Expenses

In millions of Russian Roubles	**Note**	**2007**	**2006**
Staff costs		3 295	2 431
Administrative expenses		764	624
Depreciation of premises, equipment and intangible assets	11	340	245
Contributions to the State Deposit Insurance Agency		281	160
Taxes other than income tax		238	191
Rent		227	151
Other costs related to premises, equipment and intangible assets		212	142
Other		375	299
Total administrative and other operating expenses		**5 732**	**4 243**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 463 million (2006: RR 364 million).

24 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	**2007**	**2006**
Current tax	647	341
Deferred tax	(21)	(58)
Income tax expense for the year	**626**	**283**

The income tax rate applicable to the majority of the Bank's income is 24% (2006: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	**2007**	**2006**
IFRS profit before tax	**2 530**	**1 084**
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	607	260
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(13)	(7)
- Non deductible expenses	32	30
Income tax expense for the year	**626**	**283**

Deferred taxation relating to the fair value remeasurement of investment securities available-for-sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the statement of income when the gain or loss on the securities is realised.

24 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%), except for income on state securities that is taxed at 15% (2006: 15%).

In millions of Russian Roubles	2005	Charged/ (credited) to profit or loss	2006	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	2007
Tax effect of deductible temporary differences						
Loan impairment provision	143	(26)	117	(9)	-	108
Fair valuation of trading securities	-	-	-	2		2
Accruals	28	10	38	23	-	61
Deferred fee and commission income	13	14	27	9		36
Other	-	-	-	1		1
Gross deferred tax asset	**184**	**(2)**	**182**	**26**	**-**	**208**
Tax effect of taxable temporary differences						
Premises, equipment and intangible assets	(83)	29	(54)	(6)	-	(60)
Investment in an associate	(28)	28	-	-	-	-
Other	(14)	3	(11)	1		(10)
Gross deferred tax liability	**(125)**	**60**	**(65)**	**(5)**	**-**	**(70)**
Total net deferred tax asset	**59**	**58**	**117**	**21**	**-**	**138**

The net deferred tax asset represents income taxes recoverable through future income and is recorded on the balance sheet within other assets.

25 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	**2007**	**2006**
Profit for the year attributable to ordinary shareholders	1 803	751
Profit for the year attributable to preference shareholders	101	50
Profit for the year	1 904	801
Weighted average number of ordinary shares in issue (million)	22.5816	19.4154
Weighted average number of preference shares in issue (million)	1.2945	1.2945
Basic and diluted earnings per ordinary share (expressed in RR per share)	**80**	**39**
Basic and diluted earnings per preference share (expressed in RR per share)	**78**	**38**

Profit for the year attributable to ordinary and preference shareholders is calculated as follows:

In millions of Russian Roubles	**Note**	**2007**	**2006**
Profit for the year		1 904	801
Less dividends on ordinary and preference shares	26	(13)	(12)
Undistributed profit for the year		1 891	789
Undistributed profit for the year attributable to preference shareholders based on terms of the shares		98	47
Preference dividends declared during the year	26	3	3
Profit for the year allocated to preference shareholders		101	50
Undistributed profit for the year attributable to ordinary shareholders based on terms of the shares		1 793	742
Ordinary dividends declared during the year	26	10	9
Profit for the year allocated to ordinary shareholders		1 803	751

26 Dividends

	2007		2006	
In millions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	10	3	9	3
Dividends paid during the year	(10)	(3)	(9)	(3)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2.0**	**0.5**	**2.0**

All dividends are declared and paid in Russian Roubles.

27 Segment Analysis

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Bank is organised on a basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Bank card transactions – representing settlement services to individuals with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll project services.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

In 2007 the Bank finalised the implementation of the new segmental model. Results of the year 2006 were presented in these financial statements using the new format.

27 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2007 and 2006 is set out below:

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Bank card transactions**	**Other**	**Total**
2007					
External revenues	2 279	8 860	1 332	701	13 172
Revenues from other segments	1 654	(2 209)	237	318	-
Total revenues	**3 933**	**6 651**	**1 569**	**1 019**	**13 172**
Total revenues comprise:					
- Interest income	1 535	7 371	363	476	9 745
- Fee and commission income	744	1 489	969	-	3 202
- Other operating income	-	-	-	225	225
Total revenues					**13 172**
Segment result	1 345	4 103	1 456	1 358	8 262
Unallocated costs	-	-	-	-	(5 732)
Profit before tax	**-**	**-**	**-**	**-**	**2 530**
Income tax expense	-	-	-	-	(626)
Profit	**-**	**-**	**-**	**-**	**1 904**
Segment assets	14 015	64 186	2 750	11 780	92 731
Current and deferred tax assets	-	-	-	-	138
Other unallocated assets	-	-	-	-	18 535
Total assets	**-**	**-**	**-**	**-**	**111 404**
Segment liabilities	**37 294**	**38 918**	**12 502**	**7 396**	**96 110**
Other unallocated liabilities	**-**	**-**	**-**	**-**	**3 404**
Total liabilities	**-**	**-**	**-**	**-**	**99 514**
Other segment items					
Capital expenditure	336	351	113	-	800
Depreciation and amortisation expense	60	266	14	-	340

27 Segment Analysis (Continued)

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Bank card transactions**	**Other**	**Total**
2006					
External revenues	1 129	6 145	850	428	8 552
Revenues from other segments	1 846	(1 643)	257	(460)	-
Total revenues	**2 975**	**4 502**	**1 107**	**(32)**	**8 552**
Total revenues comprise:					
- Interest income	757	5 054	116	351	6 278
- Fee and commission income	372	1 091	734	-	2 197
- Other operating income	-	-	-	77	77
Total revenues					**8 552**
Segment result	1 085	3 189	1 107	(22)	5 359
Unallocated costs	-	-	-	-	(4 275)
Profit before tax	**-**	**-**	-	**-**	**1 084**
Income tax expense	-	-	-	-	(283)
Profit	**-**	**-**	**-**	**-**	**801**
Segment assets	7 399	45 398	1 583	8 428	62 808
Current and deferred tax assets	-	-	-	-	117
Other unallocated assets	-	-	-	-	10 501
Total assets					**73 426**
Segment liabilities	29 725	26 974	8 060	418	65 177
Other unallocated liabilities	-	-	-	-	2 740
Total liabilities					**67 917**
Other segment items					
Capital expenditure	408	370	111	-	889
Depreciation and amortisation expense	112	102	31	-	245

27 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below for the years ended 31 December 2007 and 2006.

In millions of Russian Roubles	Note	Russia	OECD	Non-OECD	Total
2007					
Segment assets		109 911	1 239	254	111 404
External revenues		13 148	24	-	13 172
Capital expenditure		800	-	-	800
Credit related commitments	30	13 346	-	10	13 356
2006					
Segment assets		72 372	999	55	73 426
External revenues		8 518	34	-	8 552
Capital expenditure		889	-	-	889
Credit related commitments	30	8 466	201	-	8 667

External revenues and assets and credit related commitments have generally been allocated based on domicile of the counterparty. Premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

28 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The Bank has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Bank might incur as a result of exposure to credit risk.

Thus, within the Bank there is a system of credit and investment committees of several levels that limits and differentiates responsibilities and authorities in taking decisions on the transactions exposed to credit risk.

The Credit and Investment Committee of the Bank (CIC) reviews and approves limits from RR 60 to 300 million on rouble loans and in the equivalent from USD 2 to 10 million on currency loans to legal entities, from RR 15 to 30 million on individuals and from RR 3 to 5 million on bank card loans. CIC holds its meetings at least twice a month. Loan applications in excess of the above maximum limits are approved by the Management Board of the Bank.

The managers of the Bank in charge of corresponding credit business lines (loans to corporates, individuals, bank card loans) are assigned individual authority on taking credit risks limiting the amount of obligations of one borrower (guarantor).

28 Financial Risk Management (Continued)

Junior credit committees operate with corresponding credit units of the Central Office within their authority on loan issuance documented by the Regulation on Major Principles of the Bank's Rouble and Currency Resource Management:

- The Credit Committee of the Credit Department – up to RR 60 million and in the equivalent up to USD 2 million on currency loans upon issuance of loans and guarantees to legal entities and individual entrepreneurs and setting guarantee limits on individual loans;
- The Credit Committee of the Retail Department – up to RR 10 million when issuing loans to individuals. At the same time the Retail Department has a subsystem of committees approving applications for: mortgage loans - up to RR 3 million, consumer and car loans - up to RR 1 million;
- The Credit Committee of the Bank Card Department – up to RR 750 thousand when issuing bank card loans.

Following the Regulation on Authority Assessment branches and regional centers have their own approved maximum authority for issuing loans to legal entities and individual entrepreneurs and for independent assessment of the credit risk on bank guarantees issued on behalf of legal entities and setting guarantee limits for loans to individuals and issuance of loans to individuals and bank card loans.

The authority and certain types of limits, terms and conditions for issuing loans within corresponding authority are subject for mandatory approval by the Management Board of the Bank and quarterly review within the scope of Regulation on Major Principles of the Bank's Rouble and Currency Resource Management.

The current operational control over compliance with and distribution of powers and limits for independent crediting is exercised daily by responsible units of the Central Office in accordance with established procedures.

The Internal Control and Audit Function follows up credit transactions of branches during internal audits performed in accordance with six month internal audit plans for branches approved by the Board of Directors of the Bank.

Credit risk management techniques (beside the system of authority and decision taking) also include:

- a centralized system for application and regulation of interest rates and tariffs (approved quarterly by the Management Board in accordance with the Regulation on Major Principles of the Bank's Rouble and Currency Resource Management which establish underlying interest rates by loan types and borrowers' categories);
- a system of credit risk limits. General limits-restrictions aimed at reduction of the concentration risk and the related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are approved annually by the Management Board in accordance with the Credit Policy of the Bank:
    - the maximum loan amount issued by the Bank to one borrower (a group of related borrowers) – 25% of the Bank's equity calculated in accordance with CB RF Instruction No. 110-I as of 16 January 2004 "On the banks' obligatory normatives" (hereinafter – "the Bank's equity");
    - the maximum amount of all large (the amount of loans issued to one borrower exceeding 5% of the Bank's equity) loans – 800% of the Bank's equity;
    - the maximum amount of all loans issued by the Bank to shareholders of the Bank – 50% of the Bank's equity;
    - the maximum amount of all loans issued by the Bank to insiders of the Bank – 3% of the Bank's equity.

The Credit Policy of the Bank sets annually the overall limits for the borrowers categories, industries, terms, currencies and regions. The credit risk limits within the authority to take decisions on loan issuance by authorised bodies and structural units responsible for providing the Bank's clients with its products exposed to credit risk are quarterly updated and approved by the Bank's Management Board taking into consideration the changes in economic situation and the working practice of the credit institution.

28 Financial Risk Management (Continued)

Actual compliance with limits with regard to accepted risk is monitored by responsible units of the Central Office as a whole and by each branch on a daily basis.

The Bank also manages credit risk through establishing and fixing requirements to the borrower on securing a credit obligation, pledge assessment, insurance of pledge or the borrower, levy of execution upon pledge in normative, instructive and functional-technological documents approved by the Management Board of the Bank.

Classification of collateral into various groups and its assessment is exercised based on the Regulation on Ensuring Performance of Obligations by Borrowers of the Bank on Products Exposed to Credit Risk and also on the basis of an expert opinion based on the market situations established as at the date of credit risk assessment.

Analytical reports on credit quality containing information on non-performing loans by client, credit programs, days and amounts overdue are summarised on a regular basis by responsible divisions of the Central Office and communicated to the Bank's Management on a monthly basis for corporate loans and on a weekly basis for retail loans. The materials of analytical reports are later used in consideration of credit applications.

Loans with worsening debt service history are controlled by the Credit Department, Retail Department, Bank Card Department, Credit Monitoring Department. Loans are transferred under control of authorised departments in the following cases:

- assignment of overdue status;
- second change of the end date of contract;
- more than twofold decrease in arrival of funds to the borrower's settlement account as compared to monthly average amount;
- decrease in the cost of collateral by more than 10%;
- arrival of negative information on the borrower or management;
- change of the principal owner;
- interest overdue during the period over 1 month.

Further deterioration of servicing leads to transfer of the credits to the Credit Monitoring Department for control and support of the procedures aimed at forced collection. The conditions and the criteria of transfer of non-performing loans are determined by the Procedure for monitoring of issued loans in the Credit Department and the Procedure for transfer of loans to Credit Monitoring Department as well as by Regulation on support of retail loan portfolio. Actions aimed at liquidation of overdue loans can take the following form:

- negotiations and claims administration with respect to the borrower, guarantors and pledgers;
- initiating of and participation in insolvency (bankruptcy) cases;
- restructuring of the debtor's assets with the purpose to reorient or establish current business and/or out-of-court levy of execution upon their property and rights belonging to them;
- resorting to law enforcement authorities for criminal proceedings against the debtor's management, guarantors, pledgers;
- sale (assignment) of debt to outside entity;
- transfer of the case to a collection agency providing collection of overdue debt services.

28 Financial Risk Management (Continued)

The loan is considered to be uncollectible if for this loan:

- time allowed for claims has expired;
- obligation has been cancelled in accordance with civil law due to impossibility of fulfilment;
- obligation has been cancelled on the basis of an act of government authorities;
- obligation has been cancelled in connection with the borrower's liquidation;
- the fact of the borrower's failure to fulfil obligations to his creditors within the period exceeding one year from the date of decision to write-off the loan has been documentarily confirmed. In addition to that, all necessary and sufficient legal and factual actions on collection of this loan have been taken while further actions in this direction are legally impossible and/or the Bank's assumed expenses will exceed the result.

Uncollectible loan is written-off from the Bank's balance sheet in accordance with the regulations approved by the Bank's Board of Directors against loan loss provision. Uncollectible loan is written-off to the off-balance sheets accounts as follows:

- on the basis of the decision of the Bank's Management Board if the amount of the loan is less than 1% of the Bank's equity as at the latest balance sheet date prior to decision taking;
- on the basis of the decision of the Board of Directors if the amount of the loan is equal or exceeds 1% of the Bank's equity as at the latest balance sheet date prior to decision taking; or the loan is provided to a Bank's shareholder or affiliate and or an affiliate thereof.

The amount of uncollectible loan written off from the Bank's balance sheet as well as related interest shall be accounted for on off-balance sheet accounts during at least five years in order to monitor collection possibility in case of change in conditions.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The Board of Directors and the Assets and Liabilities Management Committee set limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Bank is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Bank manages currency risk by ensuring maximum possible correspondence between the currency of its assets and the currency of its liabilities by currency within established limits. The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

28 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2007:

In millions of Russian Roubles	RR	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	11 619	1 166	408	40	13 233
Mandatory cash balances with CBRF	1 305	-	-	-	1 305
Trading securities	4 617	1 875	204	-	6 696
Due from other banks	7 236	-	-	-	7 236
Loans and advances to customers	69 554	6 756	1 839	-	78 149
Other financial assets	1 295	170	27	1	1 493
Total monetary financial assets	**95 626**	**9 967**	**2 478**	**41**	**108 112**
Monetary financial liabilities					
Due to Other Banks	4 085	13	747	-	4 845
Customer accounts	74 062	5 481	2 068	1	81 612
Debt securities in issue	6 468	615	20	-	7 103
Subordinated loans	1 501	1 373	-	-	2 874
Syndicated loans	-	2 550	-	-	2 550
Other financial liabilities	316	-	-	-	316
Total monetary financial liabilities	**86 432**	**10 032**	**2 835**	**1**	**99 300**
Net balance sheet position	**9 194**	**(65)**	**(357)**	**40**	**8 812**
Credit related commitments (Note 30)	**12 489**	**295**	**572**	**-**	**13 356**

The above analysis includes only monetary assets and liabilities. The Bank believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

28 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006:

In millions of Russian Roubles	RR	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	5 421	521	163	-	6 105
Mandatory cash balances with CBRF	1 099	-	-	-	1 099
Trading securities	3 009	1 178	34	-	4 221
Due from other banks	5 580	152	-	-	5 732
Loans and advances to customers	44 587	6 534	1 305	-	52 426
Other financial assets	866	49	71	-	986
Total monetary financial assets	**60 562**	**8 434**	**1 573**	**-**	**70 569**
Monetary financial liabilities					
Due to Other Banks	39	136	243	-	418
Customer accounts	52 733	6 267	1 510	164	60 674
Debt securities in issue	2 975	1 112	-	-	4 087
Subordinated loans	1 000	1 467	-	-	2 467
Other financial liabilities	167	31	-	-	198
Total monetary financial liabilities	**56 914**	**9 013**	**1 753**	**164**	**67 844**
Net balance sheet position	**3 648**	**(579)**	**(180)**	**(164)**	**2 725**
Credit related commitments (Note 30)	**7 779**	**17**	**871**	**-**	**8 667**

At 31 December 2007, if US Dollar exchange rate at that date had been 396 basis points lower and Euro exchange rate 259 basis points higher with all other variables held constant, profit for the year would have been RR 7 million lower, mainly as a result of higher interest expense on customer accounts denominated in Euro.

At 31 December 2006, if US Dollar exchange rate at that date had been 300 basis points lower and Euro exchange rate 171 basis points higher with all other variables held constant, profit for the year would have been RR 18 million higher, mainly as a result of lower interest expense on customer accounts and securities in issue denominated in US Dollars.

28 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Assessment of the Bank's exposure to interest rate risk is based upon gap analysis of financial instruments sensitive to changes in interest rate (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amount. These carrying values are categorised by the earlier of contractual interest repricing or maturity dates.

Changes in net interest income caused by changes in SFI cost at maturity or interest repricing determine the amount of interest risk. Changes in net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the reporting period.

For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed interval.

The table below summarises the Bank's exposure to interest rate risks at the annual reporting dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2007						
Total financial assets sensitive to changes in interest rate	31 429	23 233	20 774	23 839	-	99 275
Total financial liabilities sensitive to changes in interest rate	41 810	22 927	19 413	14 834	-	98 984
Net interest sensitivity gap at 31 December 2007	**(10 381)**	**306**	**1 361**	**9 005**	**-**	**291**
Gap coefficient (aggregate relative cumulative gap)	**0.75**	**0.84**	**0.90**	**1.00**		
31 December 2006						
Total financial assets sensitive to changes in interest rate	16 207	15 770	24 194	8 457	-	64 628
Total financial liabilities sensitive to changes in interest rate	31 062	13 866	12 794	9 924	-	67 646
Net interest sensitivity gap at 31 December 2006	**(14 855)**	**1 904**	**11 400**	**(1 467)**		**(3 018)**
Gap coefficient (aggregate relative cumulative gap)	**0.52**	**0.71**	**0.97**	**0.96**		

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been RR 94 million (2006: RR 100 million) lower, mainly as a result of higher interest expense on term deposits of individuals and legal entities.

28 Financial Risk Management (Continued)

Risk management comprises minimising net gap established in analysis of assets and liabilities sensitive to interest rate changes. Depending upon the amount of net gap the Bank takes decision to issue or attract resources at certain rate for certain period in order to minimise potential losses as a result of changes in market interest rate.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2007				2006			
In % p.a.	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents	1%	3%	2%	0%	2%	3%	2%	-
Trading securities	6%	6%	7%	-	6%	5%	5%	-
Due from other banks	4%	-	-	-	3%	3%	-	-
Loans and advances to customers	14%	12%	10%	-	13%	12%	9%	-
Liabilities								
Due to other Banks	7%	1%	6%	-	0%	6%	5%	-
Customer accounts								
- current and settlement accounts	0%	0%	0%	0%	1%	0%	0%	0%
- term deposits	9%	7%	6%	-	8%	6%	4%	-
Debt securities in issue	8%	6%	6%	-	8%	10%	-	-
Subordinated loans	10%	6%	-	-	11%	6%	-	-
Syndicated loans	-	7%	-	-	-	-	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Other price risk. This risk is not significant for the Bank as the Bank has limited exposure to equity price risk.

The Bank is exposed to early repayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

28 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2007 is set out below:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	12 365	856	12	13 233
Mandatory cash balances with CBRF	1 305	-	-	1 305
Trading securities	6 320	382	-	6 702
Due from other banks	7 236	-	-	7 236
Loans and advances to customers	77 932	-	217	78 149
Other financial assets	1 467	1	25	1 493
Total financial assets	**106 625**	**1 239**	**254**	**108 118**
Non-financial assets	**3 286**	**-**	**-**	**3 286**
Total assets	**109 911**	**1 239**	**254**	**111 404**
Liabilities				
Due to other banks	4 093	746	6	4 845
Customer accounts	80 267	553	792	81 612
Debt securities in issue	6 682	-	421	7 103
Subordinated loans	2 063	-	811	2 874
Syndicated loans	403	2 027	120	2 550
Other financial liabilities	316	-	-	316
Total financial liabilities	**93 824**	**3 326**	**2 150**	**99 300**
Non-financial liabilities	**214**	**-**	**-**	**214**
Total liabilities	**94 038**	**3 326**	**2 150**	**99 514**
Net balance sheet position	**15 873**	**(2 087)**	**(1 896)**	**11 890**
Credit related commitments (Note 30)	**13 346**	**-**	**10**	**13 356**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2006 is set out below:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	5 718	364	23	6 105
Mandatory cash balances with CBRF	1 099	-	-	1 099
Trading securities	3 890	346	-	4 236
Due from other banks	5 594	138	-	5 732
Loans and advances to customers	52 414	6	6	52 426
Other financial assets	815	145	26	986
Total financial assets	**69 530**	**999**	**55**	**70 584**
Non-financial assets	**2 842**	**-**	**-**	**2 842**
Total assets	**72 372**	**999**	**55**	**73 426**
Liabilities				
Due to other banks	176	242	-	418
Customer accounts	59 863	218	593	60 674
Debt Securities in Issue	3 210	-	877	4 087
Subordinated loans	1 597	-	870	2 467
Other financial liabilities	198	-	-	198
Total financial liabilities	**65 044**	**460**	**2 340**	**67 844**
Non-financial liabilities	**73**	**-**	**-**	**73**
Total liabilities	**65 117**	**460**	**2 340**	**67 917**
Net balance sheet position	**7 255**	**539**	**(2 285)**	**5 509**
Credit related commitments (Note 30)	**8 466**	**201**	**-**	**8 667**

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The overall liquidity management is conducted by Management Board of the Bank, which may delegate some functions to the Asset and Liability Committee.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and to invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia.

28 Financial Risk Management (Continued)

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The undiscounted maturity analysis of financial liabilities at 31 December 2007 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 2 years**	**From 2 to 3 years**	**Over 3 years**	**Total**
Liabilities							
Due to other banks	1 119	3 169	164	103	104	503	5 162
Customer accounts	40 103	18 343	18 461	7 931	166	7	85 011
Debt securities in issue	715	1 236	2 466	282	3 131	20	7 850
Subordinated loans	1	43	196	239	309	3 469	4 257
Syndicated loans	-	1 307	40	1 378	-	-	2 725
Other financial liabilities	316	-	-	-	-	-	316
Financial guarantees	403	3 272	549	12	17	-	4 253
Other credit related commitments	8 197	22	188	75	179	327	8 988
Total potential future payments for financial obligations	**50 854**	**27 392**	**22 064**	**10 020**	**3 906**	**4 326**	**118 562**

The undiscounted maturity analysis of financial liabilities at 31 December 2006 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 2 years**	**From 2 to 3 years**	**Over 3 years**	**Total**
Liabilities							
Due to other banks	181	36	55	37	44	97	450
Customer accounts	30 577	13 306	13 172	6 580	27	-	63 662
Debt securities in issue	673	2 322	819	446	20	1	4 281
Subordinated loans	1	46	148	196	195	3 184	3 770
Other financial liabilities	199	-	-	-	-	-	199
Financial guarantees	261	978	875	203	5	2	2 324
Other credit related commitments	4 986	91	417	223	134	372	6 223
Total potential future payments for financial obligations	**36 878**	**16 779**	**15 486**	**7 685**	**425**	**3 656**	**80 909**

28 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2007:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	13 233	-	-	-	13 233
Mandatory cash balances with the CBRF	599	274	283	149	1 305
Trading securities	6 702	-	-	-	6 702
Due from other banks	7 042	-	-	194	7 236
Loans and advances to customers	10 699	23 233	20 572	23 645	78 149
Other financial assets	1 291	-	202	-	1 493
Total financial assets	**39 566**	**23 507**	**21 057**	**23 988**	**108 118**
Liabilities					
Due to other banks	1 116	3 059	154	516	4 845
Customer accounts	40 004	17 571	17 012	7 025	81 612
Debt securities in issue	690	1 050	2 247	3 116	7 103
Subordinated loans	-	-	-	2 874	2 874
Syndicated loans	-	1 247	-	1 303	2 550
Other financial liabilities	316	-	-	-	316
Total financial liabilities	**42 126**	**22 927**	**19 413**	**14 834**	**99 300**
Net liquidity gap at 31 December 2007	**(2 560)**	**580**	**1 644**	**9 154**	**8 818**
Cumulative liquidity gap at 31 December 2007	**(2 560)**	**(1 980)**	**(336)**	**8 818**	

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on Management's assessment of portfolio's realisability.

28 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2006:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	6 105	-	-	-	6 105
Mandatory cash balances with CBRF	524	235	216	124	1 099
Trading securities	4 236	-	-	-	4 236
Due from other banks	5 732	-	-	-	5 732
Loans and advances to customers	4 005	15 770	24 194	8 457	52 426
Other financial assets	986	-	-	-	986
Total financial assets	**21 588**	**16 005**	**24 410**	**8 581**	**70 584**
Liabilities					
Due to other banks	180	36	52	150	418
Customer accounts	30 374	12 805	11 970	5 525	60 674
Debt securities in issue	508	1 025	772	1 782	4 087
Subordinated loans	-	-	-	2 467	2 467
Other financial liabilities	198	-	-	-	198
Total financial liabilities	**31 260**	**13 866**	**12 794**	**9 924**	**67 844**
Net liquidity gap at 31 December 2006	**(9 672)**	**2 139**	**11 616**	**(1 343)**	**2 740**
Cumulative liquidity gap at 31 December 2006	**(9 672)**	**(7 533)**	**4 083**	**2 740**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily with monthly reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant.

The Bank maintains a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2007**	**2006**
Tier 1 capital		
Share capital formed of ordinary shares	164	134
Share premium	7 399	2 845
Retained earnings	2 882	1 820
Less intangible assets	(1)	(1)
Less the Bank's investments in interest held	(31)	(31)
Total tier 1 capital	**10 413**	**4 767**
Tier 2 capital		
Revaluation reserve for premises and equipment	464	464
Capitalisation of property revaluation	76	76
Share capital formed of preference shares	11	11
Current year profit (or a part thereof)	755	-
Subordinated loan	2 706	2 383
Total tier 2 capital	**4 012**	**2 934**
Total capital	**14 425**	**7 701**

The Bank have complied with all externally imposed capital requirements throughout 2007 and 2006.

30 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

30 Contingencies and Commitments (Continued)

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

At 31 December 2007 the Management has not created any provision for potential tax liabilities (31 December 2006: nil), as the Management of the Bank believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2007 the Bank has contractual capital expenditure commitments in respect of premises and equipment and in respect of software and premises renovation totalling RR 17 million (2006: RR 305 million). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	**2007**	**2006**
Not later than 1 year	144	99
Later than 1 year and not later than 5 years	310	210
Later than 5 years	415	329
Total operating lease commitments	**869**	**638**

Compliance with covenants. The Bank is subject to certain covenants related to bonds and syndicated loans. Refer to Notes 15 and 17. Non-compliance with such covenants may result in creditor's demand for early repayment of provided funds. The Bank is in compliance with covenants as at 31 December 2007.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of Bank's authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

30 Contingencies and Commitments (Continued)

In millions of Russian Roubles	2007	2006
Unused limits on overdraft loans	8 196	4 974
Guarantees issued	4 165	2 124
Undrawn credit lines	797	1 248
Import letters of credit	82	199
Letters of credit for payments in the Russian Federation	116	122
Total credit related commitments	**13 356**	**8 667**

At 31 December 2006 included in customer accounts are deposits of RR 105 million held as collateral for irrevocable commitments under import letters of credit.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	2007	2006
Russian roubles	12 489	7 173
Euros	572	1 208
US Dollars	295	286
Total	**13 356**	**8 667**

Assets pledged and restricted. At 31 December 2007 the Bank had no assets pledged as collateral.

Mandatory cash balances with the CBRF in the amount of RR 1 305 million (2006: RR 1 099 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2007 Nominal value	2006 Nominal value
Corporate shares held on behalf of the Bank's customers	285	84
OFZ held on behalf of the Bank's customers	150	90
Mortgage held on behalf of the Bank's customers	120	-
Corporate bonds held on behalf of the Bank's customers	99	118
Promissory notes held on behalf of the Bank's customers	43	213
Deposit certificates held on behalf of the Bank's customers	40	2
VEB securities held on behalf of the Bank's customers	23	91
Eurobonds held on behalf of the Bank's customers	-	26

31 Derivative Financial Instruments

Derivative financial instruments entered into by the Bank include foreign exchange contracts and forward agreements with precious metals traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2007 the Bank did not have outstanding derivative contracts, except outstanding obligations from unsettled spot transactions with foreign currencies and forward agreements with precious metals. The fair value of these derivative contracts at 31 December 2007 is RR 5 million (2006: RR 3 million). The contracts are short term in nature.

32 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets.

Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities available for sale are carried in the balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale (Note 12) for which there were no available external independent market price quotations. These securities have been fair valued by the Bank on the basis of the analysis of the price of shares of similar plants, financial statements of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

32 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In millions of Russian Roubles	**2007**	**2006**
Due from other banks – Note 9		
Short-term placements with other banks	4% - 12% p.a.	5% - 6% p.a.
Loans and advances to customers – Note 10		
Corporate loans - large	9% - 16 % p.a.	9% - 15% p.a.
Corporate loans - medium	8 % - 21 % p.a.	10% - 20 % p.a.
Corporate loans - small	8 % - 20 % p.a.	9% - 20% p.a.
Mortgage loans	8 % - 20 % p.a.	11% - 18% p.a.
Other loans to individuals	9 % - 23 % p.a.	10% - 20 % p.a.
Other financial assets – Note 12		
Receivables and advance payments	0% p.a.	0% p.a.
Settlements with currency and stock exchanges	0% p.a.	0% p.a.

Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 5% p.a. to 11% p.a. (2006: from 4% p.a. to 8% p.a.)

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices.

32 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

In millions of Russian Roubles	**31 December 2007** Carrying value	**31 December 2007** Fair value	**31 December 2006** Carrying value	**31 December 2006** Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- Cash on hand	6 241	6 241	3 856	3 856
- Cash balances with the CBRF	5 424	5 424	1 669	1 669
- Correspondent accounts and overnight placements	1 568	1 568	580	580
Mandatory cash balances with CBRF	1 305	1 305	1 099	1 099
Due from other banks				
- Short-term placements with other banks	5 542	5 542	593	593
- Deposits with the CB RF	1 500	1 500	5 000	5 000
- Insurance deposits with non-resident banks	194	194	139	139
Loans and advances to customers				
- Corporate loans - large	15 392	15 177	7 455	7 471
- Corporate loans - medium	24 127	24 138	16 909	17 000
- Corporate loans - small	22 197	22 062	19 083	19 092
- Mortgage loans	8 691	8 542	4 102	4 318
- Other loans to individuals	7 742	7 623	4 877	4 906
Other financial assets				
Credit and debit cards receivables	452	452	414	414
Receivables and advance payments	364	364	273	273
Settlements with currency and stock exchanges	33	33	24	24
Settlements on letters of credit	-	-	67	67
Receivables from sale of an associate	-	-	49	49
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Trading securities	6 702	6 702	4 236	4 236
Investment securities available for sale (within other financial assets)	644	644	159	159
TOTAL FINANCIAL ASSETS	**108 118**	**107 511**	**70 584**	**70 945**

32 Fair Value of Financial Instruments (Continued)

	31 December 2007		31 December 2006	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	50	50	44	44
- Short- term placements of other banks	4 795	4 881	374	371
Customer accounts				
- Current/settlement accounts of state and public organisations	218	218	174	174
- Current/settlement accounts of other legal entities	22 651	22 651	17 247	17 247
- Term deposits of other legal entities	8 947	8 721	5 468	5 349
- Current/demand accounts of individuals	13 446	13 446	9 210	9 210
- Term deposits of individuals	36 350	35 421	28 575	28 321
Debt Securities in Issue				
- Promissory notes	3 540	3 468	3 443	3 350
- Deposit certificates	478	473	644	639
- Bonds	3 085	3 099	-	-
Subordinated loans	2 874	2 892	2 467	2 534
Syndicated loans	2 550	2 547	-	-
Other financial liabilities				
- Trade payables	160	160	76	76
- Debit or credit card payables	153	153	120	120
- Dividends payable	3	3	2	2
TOTAL FINANCIAL LIABILITIES	**99 300**	**98 183**	**67 844**	**67 437**

33 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2007.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Total**
ASSETS				
Cash and cash equivalents	13 233	-	-	13 233
Mandatory cash balances with CBRF	1 305	-	-	1 305
Trading securities	-	-	6 702	6 702
Due from other banks	7 236	-	-	7 236
Loans and advances to customers	78 149	-	-	78 149
Other financial assets	849	644	-	1 493
TOTAL FINANCIAL ASSETS	**100 772**	**644**	**6 702**	**108 118**
NON-FINANCIAL ASSETS	-	-	-	3 286
TOTAL ASSETS	**100 772**	**644**	**6 702**	**111 404**

The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2006.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Total**
ASSETS				
Cash and cash equivalents	6 105	-	-	6 105
Mandatory cash balances with CBRF	1 099	-	-	1 099
Trading securities	-	-	4 236	4 236
Due from other banks	5 732	-	-	5 732
Loans and advances to customers	52 426	-	-	52 426
Other financial assets	827	159	-	986
TOTAL FINANCIAL ASSETS	**66 189**	**159**	**4 236**	**70 584**
NON-FINANCIAL ASSETS	-	-	-	2 842
TOTAL ASSETS	**66 189**	**159**	**4 236**	**73 426**

All Bank’s financial liabilities are carried at amortised cost.

34 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	**31 December 2007** Shareholders	**31 December 2007** Directors and related companies	**31 December 2006** Shareholders	**31 December 2006** Directors and related companies
Loans and advances to customers				
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2007: 4.0%-18%; 31 December 2006: 4.4%)	-	250	-	50
Impairment provisions for loans and advances to customers at 31 December	-	(7)	-	(2)
Customer accounts				
Current/settlement accounts (contractual interest rate: 31 December 2007: 0.0%-0.3%; 31 December 2006: 0%)	2	48	22	13
Term deposits (contractual interest rate: 31 December 2007: 6.8%-9.1%, 31 December 2006: 5.3%-8.0%)	253	1 018	263	1 120
Debt securities in issue (contractual interest rate: 31 December 2007: 5.8%-7.8%, 31 December 2006: 6.5%-6.8%)	20	9	-	8
Subordinated loans (contractual interest rate: 31 December 2007: 6.5%-9.1%, 31 December 2006: 6.5%-8.0%)	319	-	342	-

The income and expense items with related parties for the year 2007 and 2006 were as follows:

In millions of Russian Roubles	**2007** Shareholders	**2007** Directors and related companies	**2006** Shareholders	**2006** Directors and related companies
Interest income				
Loans and advances to customers	-	12	-	4
Interest expense				
Term deposits of legal entities	12	133	6	118
Debt securities in issue	-	1	-	1
Subordinated loans	21	-	22	-

Aggregate amounts lent to and repaid by related parties during 2007 and 2006 were:

In millions of Russian Roubles	**2007** Shareholders	**2007** Directors and related companies	**2006** Shareholders	**2006** Directors and related companies
Amounts lent to related parties during the period	-	182	-	17
Amounts repaid by related parties during the period	-	-	-	-

In 2007, the remuneration of members of the Executive Board comprised salaries, discretionary bonuses and other short-term benefits totalling to RR 253 million (2006: RR 158 million).

35 Subsequent Events

In February Brysam Global Partners Fund became the Bank's new shareholder by accumulating a 9.9% interest. After the Fund became one of the Bank's major shareholders, it is expected that its representative will become a member of the Bank's Board of Directors.

In September 2007 the Central Bank of the Russian Federation registered an issue prospectus of 5 000 000 Russian Rouble bonds of the Bank with a nominal value of RR 1 000 per bond. The Bank has a right to issue these bonds until September 2008.

In March 2008 the Bank prolonged a syndicated loan attracted in March 2007 in the amount of USD 50 million with original maturity date in March 2008 and an interest rate of 7.0%. The syndicated loan was prolonged until March 2009 and expanded up to USD 59.8 million at an interest rate of LIBOR + 1.8%. Refer to Note 17.

In January 2008 N.D. Orlov left his position as Deputy Chairman of the Management Board of the Bank.