Open Joint Stock Company “BANK URALSIB”
Consolidated Financial Statements

Year ended December 31, 2007

Together with Independent Auditors’ Report

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open joint stock company "BANK URALSIB" –

We have audited the accompanying consolidated financial statements of Open joint stock company "BANK URALSIB" (the "Bank"), which comprise the consolidated balance sheet as of December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open joint stock company "BANK URALSIB" as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 31, which describes that the Bank has significant transactions with related parties, in particular with regard to securities and lending operations.

Ernst & Young Vneshaudit

April 15, 2008

CONSOLIDATED BALANCE SHEET

As of December 31, 2007

(Millions of Russian Rubles)

	Notes	*2007*	*2006 (Restated*)*
Assets			
Cash and cash equivalents	6	47,847	32,468
Precious metals		357	91
Trading securities	7	40,554	63,243
Trading securities pledged under repurchase agreements	7	3,533	1,105
Amounts due from credit institutions	8	6,192	15,619
Derivative financial assets	9	1,130	41
Loans to customers	10	229,101	157,495
Available-for-sale securities	11	3,292	3,666
Net investments in finance leases	12	20,150	10,980
Property and equipment	13	8,780	5,803
Goodwill	14	4,527	4,527
Current tax assets	15	740	411
Deferred tax assets	15	65	117
Other assets	16	8,446	11,079
Total assets		**374,714**	**306,645**
Liabilities			
Amounts due to credit institutions	18	85,966	54,678
Derivative financial liabilities	9	836	38
Amounts due to customers	19	215,012	182,952
Promissory notes and certificates of deposit issued	20	14,682	10,968
Other borrowed funds	21	5,031	5,027
Deferred tax liabilities	15	616	2,717
Other liabilities	16	4,329	4,014
Minority interest in limited liability companies and unit investment funds		443	263
Total liabilities		**326,915**	**260,657**
Equity	22		
Share capital		32,607	32,607
Additional paid-in capital		7,681	7,681
Unrealised gains on available-for-sale securities		55	281
Property revaluation surplus		2,420	738
Retained earnings		4,902	3,908
Total equity attributable to shareholders of the Bank		**47,665**	**45,215**
Minority interest		134	773
Total equity		**47,799**	**45,988**
Total equity and liabilities		**374,714**	**306,645**

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control").

Signed and authorised for release on behalf of the Management Board of the Bank

Andrey M. Donskikh — Chairman of the Board

Yury V. Petukhov — Chief Accountant

April 15, 2008

The accompanying notes on pages 5 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

(Millions of Russian Rubles)

	Notes	2007	2006 (Restated*)
Interest income			
Loans to customers		23,999	17,662
Finance leasing		2,919	1,358
Trading securities		2,081	1,657
Amounts due from credit institutions		827	1,008
Factoring		26	22
		29,852	**21,707**
Interest expense			
Amounts due to customers		8,041	6,423
Amounts due to credit institutions		4,177	2,638
Promissory notes and certificates of deposit issued		713	663
Other borrowed funds		241	567
		13,172	**10,291**
Net interest income		**16,680**	**11,416**
Allowance for impairment of interest earning assets	8, 10, 12	(1,131)	(4,300)
Net interest income after allowance for impairment		**15,549**	**7,116**
Fee and commission income	24	6,046	4,755
Fee and commission expense	24	1,054	867
Net fee and commission income		**4,992**	**3,888**
Net (losses)/gains from trading securities	25	(3,754)	5,465
Net gains from available-for-sale securities		1,252	1,228
Net gains from derivatives	26	1,177	410
Net gains from foreign currencies	27	411	95
Net (losses)/gains from operations with precious metals		(101)	1
Dividend income		237	396
Income (loss) from revaluation of property		367	(186)
Other income		586	612
Other non interest income		**175**	**8,021**
Personnel expenses	28	9,740	7,727
Administrative and operating expenses	28	6,462	4,791
Depreciation and amortisation		765	656
Impairment of other assets	16	40	145
Minority interest in limited liability companies and unit investment funds		93	1
Other non interest expense		**17,100**	**13,320**
Profit before income tax expense		**3,616**	**5,705**
Income tax expense	15	1,419	1,525
Profit for the year		**2,197**	**4,180**
Attributable to:			
- shareholders of the Bank		2,190	4,161
- minority interest		7	19
		2,197	**4,180**

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control").

The accompanying notes on pages 5 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2007
(Millions of Russian Rubles)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Unrealized gains/ (losses) on available-for-sale securities*	*Property revaluation surplus*	*Retained earnings (Accumulated deficit)*	*Total equity attributable to shareholders of the Bank*	*Minority interest*	*Total equity*
December 31, 2005 (Restated*)	**32,607**	**7,681**	**1,070**	**239**	**(444)**	**41,153**	**712**	**41,865**
Net unrealised gains on available-for-sale securities	–	–	190	–	–	**190**	–	**190**
Realised (gains)/ losses on available-for-sale securities reclassified to the income statement	–	–	(1,228)	–	–	**(1,228)**	16	**(1,212)**
Tax effect of net gains on available-for-sale securities	–	–	249	–	–	**249**	–	**249**
Disposal of property previously revalued	–	–	–	(100)	100	**–**	–	**0**
Revaluation of property, net of tax	–	–	–	599	–	**599**	–	**599**
Total income and expense recognized directly in equity	**–**	**–**	**(789)**	**499**	**100**	**(190)**	**16**	**(174)**
Profit for the year	–	–	–	–	4,161	**4,161**	19	**4,180**
Total income and expense for the year	**–**	**–**	**(789)**	**499**	**4,261**	**3,971**	**35**	**4,006**
Change of minority share in subsidiaries	–	–	–	–	91	**91**	26	**117**
December 31, 2006 (Restated*)	**32,607**	**7,681**	**281**	**738**	**3,908**	**45,215**	**773**	**45,988**
Net unrealised gains on available-for-sale securities	–	–	955	–	–	**955**	–	**955**
Realised (gains)/ losses on available-for-sale securities reclassified to the statement of income	–	–	(1,252)	–	–	**(1,252)**	1	**(1,251)**
Tax effect of net gains on available-for-sale securities	–	–	71	–	–	**71**	–	**71**
Disposal of property previously revalued	–	–	–	(1)	1	**–**	–	**–**
Revaluation of property, net of tax	–	–	–	1,683	–	**1,683**	6	**1,689**
Total income and expense recognized directly in equity	**–**	**–**	**(226)**	**1,682**	**1**	**1,457**	**7**	**1,464**
Profit for the year	–	–	–	–	2,190	**2,190**	7	**2,197**
Total income and expense for the year	**–**	**–**	**(226)**	**1,682**	**2,191**	**3,647**	**14**	**3,661**
Change of minority share in subsidiaries	–	–	–	–	(145)	**(145)**	(540)	**(685)**
Disposal of subsidiary	–	–	–	–	–	**–**	(113)	**(113)**
Dividends to shareholders of the Bank (Note 22)	–	–	–	–	(1,052)	**(1,052)**	–	**(1,052)**
December 31, 2007	**32,607**	**7,681**	**55**	**2,420**	**4,902**	**47,665**	**134**	**47,799**

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control").

The accompanying notes on pages 5 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2007

(Millions of Russian Rubles)

	Notes	2007	2006 (Restated *)
Cash flows from operating activities			
Interest received		29,597	21,888
Interest paid		(13,481)	(9,537)
Fees and commissions received		5,935	4,694
Fees and commissions paid		(1,051)	(857)
Net (losses)/gains from trading securities		(4,246)	168
Net gains from derivatives		693	838
Realised gains less losses from dealing in foreign currencies		1,266	1,034
Realised gains less losses from dealing in precious metals		25	373
Dividends received		215	361
Other income received		585	545
Personnel expenses paid		(10,159)	(7,266)
Operating and administrative expenses paid		(6,394)	(4,742)
Cash flows from operating activities before changes in operating assets and liabilities		**2,985**	**7,499**
Net (increase)/decrease in operating assets			
Precious metals		(266)	13
Trading securities		7,787	(21,262)
Amounts due from credit institutions		8,985	204
Loans to customers		(74,779)	(36,446)
Net investments in finance leases		(9,542)	(5,764)
Other assets		(2,654)	129
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		18,228	10,094
Amounts due to customers		33,747	51,501
Promissory notes and certificates of deposit issued		3,732	(2,659)
Other liabilities		873	(1,043)
Net cash flows from operating activities before income tax		**(10,904)**	**2,266**
Income tax paid		(4,236)	(1,918)
Net cash from operating activities		**(15,140)**	**348**
Cash flows from investing activities			
Purchase of available-for-sale securities		(2,416)	(1,605)
Proceeds from sale of available-for-sale securities		1,827	1,296
Purchase of investment property		–	(119)
Purchase of property and equipment		(1,275)	(701)
Proceeds from sale of property and equipment		201	655
Proceeds from disposal of subsidiaries		40,387	–
Purchase of subsidiaries		(23,540)	–
Net cash from (used in) investing activities		**15,184**	**(474)**
Cash flows from financing activities			
Proceeds from syndicated loans		25,157	22,306
Syndicated loans repaid		(13,840)	(12,444)
Redemption of Eurobonds		(3,492)	(3,760)
Proceeds from subordinated loans		6,475	–
Proceeds from Credit Linked Notes and bonds issued		2,944	–
Dividends paid to shareholders of the Bank		(1,052)	–
Purchase of minority stakes in subsidiaries		(596)	–
Sale of minority stakes in subsidiaries		–	229
Dividends paid by subsidiaries to minority participants in limited liability companies		–	(107)
Net cash from financing activities		**15,596**	**6,224**
Effect of exchange rates changes on cash and cash equivalents		(261)	(300)
Net increase in cash and cash equivalents		**15,379**	**5,798**
Cash and cash equivalents, beginning		**32,468**	**26,670**
Cash and cash equivalents, ending	6	**47,847**	**32,468**

* - Refer to Note 2 “Basis of preparation” (“Reorganisation under common control”).

The accompanying notes on pages 5 to 61 are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

The accompanying consolidated financial statements comprise the accounts of Open joint stock company "BANK URALSIB" and its subsidiaries (together the "Bank"). Open joint stock company "BANK URALSIB" was established in January 1993 by a decree of the Supreme Soviet of the Bashkortostan Republic as an open joint stock company. The Bank previously operated as Republican Investment and Credit Bank "BashCreditBank". In December 2001, the Bank changed its name to Open joint stock company "Uralo - Sibirsky Bank".

On September 20, 2005, the reorganisation in the form of merger with OJSC AKB "AVTOBANK-NIKoil", OJSC AB "IBG NIKoil", OJSC "Bryansky Narodny Bank" and OJSC AKB "Kuzbassugolbank" was completed and the Bank changed its name to "Open joint stock company "BANK URALSIB". All merged banks were members of Financial Corporation URALSIB, parent entity of a group of companies (the "Group") whose principal subsidiaries are engaged in the provision of financial services in Russia, UK, Cyprus, and other jurisdictions.

Open joint stock company "BANK URALSIB" possesses a general banking license from the Central Bank of Russia (the "CBR") granted on September 20, 2005. Furthermore, Open joint stock company "BANK URALSIB" also possesses licenses for securities operations and custody services from the Federal Service for the Securities Market, as well as a license for precious metals operations granted by the CBR.

Open joint stock company "BANK URALSIB" is among the seven largest banks in Russia in terms of net assets calculated under local accounting rules as of December 31, 2007. Its main office is in Moscow and it has 44 branches in Ufa, Saint-Petersburg, Krasnoyarsk, Nizhniy Novgorod, Omsk and other regions. The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered legal address is Moscow, 119048, Efremova Street, 8.

Starting January 20, 2004, the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". From March 26, 2007, insurance covers the Bank's liabilities to individual depositors for the amount up 400 thousand of Russian Rubles for each individual in case of business failure and revocation of the CBR banking license.

As of December 31, the following shareholders held the issued shares of Open joint stock company "BANK URALSIB":

Shareholder	*2007* %	*2006* %
LLC "Financial Corporation URALSIB" (former LLC "Complex investments")	48.92	48.92
LLC "Aktiv-Holding"	33.62	32.32
Government of Republic of Bashkortostan	7.41	7.41
OJSC "Uralsib – Capital Management"	5.00	5.06
CJSC "Business Centre Uralsib"	2.57	2.57
LLC "Arienta-MV"	0.28	1.61
Other	2.20	2.11
Total	**100.00**	**100.00**

The Bank is ultimately controlled by Mr. Nickolai A. Tsvetkov.

(Millions of Russian Rubles)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Russian Rubles, which is the functional currency of the Bank, in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments and buildings have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless otherwise indicated.

Reorganizations under common control

The Bank's policy with respect to accounting for reorganisations under common control is uniting of interest using predecessor basis. Under this method the cost of each of the merged banks (See Note 1) for Financial Corporation URALSIB was pushed down to the Bank including goodwill. Consideration paid by Financial Corporation URALSIB to third parties at the dates of acquisition of each of the merged banks was presented in the Bank's consolidated financial statements as additional paid-in-capital.

	URALSIB Banking Group	*AVTOBANK-NIKOIL*	*Total*
Consideration paid	5,284	2,078	7,362
Less – share in fair value of net assets acquired	3,265	(987)	2,278
Goodwill at acquisition	**2,019**	**3,065**	**5,084**

Uniting of interest method was also applied to acquisition of OJSC AKB "Dzerjinsky". Under this method the comparative information for 2006 was restated to reflect the acquisition and includes the 2006 financial information of OJSC AKB "Dzerjinsky" in the 2006 consolidated financial statements of the Bank with elimination of transactions between them.

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at December 31, 2002 by applying the relevant inflation indices to the historical cost or revalued amount, and that these restated values were used as a basis for accounting in subsequent periods.

(Millions of Russian Rubles)

2. Basis of preparation (continued)

Subsidiaries

The consolidated financial statements include the following incorporated subsidiaries:

2007

Subsidiary	***Ownership, %***	***Country***	***Date of incorporation***	***Industry***	***Date of receiving control***
OJSC AKB "Stroyvestbank"	91.5%	Russia	January 24, 1992	Banking	September 28, 2001*
CJSC "Stock Agency"	100%	Russia	June 6, 1996	Investment	June 6, 1996
LLC "Operating Factoring Company URALSIB-NIKoil"	100%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "Uralsib Electronic Technologies"	100%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100%	Russia	April 29, 2002	Construction	May 13, 2002
Members of Leasing Group Uralsib					
LLC "Uralsib Leasing Company"	87.61%	Russia	October 9, 1990	Leasing	December 22, 2006**
LLC "Region Leasing Ufa"	86.73%	Russia	November 10, 2000	Leasing	December 22, 2006
LLC "Region Leasing Consult"	86.73%	Russia	November 12, 2001	Leasing	December 22, 2006
NIKOIL Leasing company LLC	100%	Azerbaijan	December 11, 2007	Leasing	December 11, 2007

2006

Subsidiary	***Ownership, %***	***Country***	***Date of incorporation***	***Industry***	***Date of receiving control***
OJSC "Bashprombank"	48.5%	Russia	November 28, 1990	Banking	June 6, 2002****
OJSC "Bank Dorozhnik"	91.87%	Russia	April 6, 1990	Banking	September 24, 2001*
OJSC AKB "Evrazia"	53.0%	Russia	October 24, 1990	Banking	February 5, 2002*
OJSC AKB "Stroyvestbank"	84.4%	Russia	January 24, 1992	Banking	September 28, 2001*
OJSC "Tumenprofbank"	19.2%	Russia	October 4, 1990	Banking	January 23, 2003*
OJSC "Volgoinvestbank"	19.3%	Russia	October 20, 1994	Banking	March 6, 2003*
CJSC "Stock Agency"	100%	Russia	June 6, 1996	Investment	June 6, 1996
LLC "Operating Factoring Company URALSIB-NIKoil"	100%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "Uralsib Electronic Tehnologies"	100%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100%	Russia	April 29, 2002	Construction	May 13, 2002
LLC "Inzhtorgstroy"	99%	Russia	June 15, 2001	Factoring	August 21, 2003
OJSC AKB "Dzerjinsky"	0%	Russia	December 7, 1990	Banking	August 9, 2007***
Members of Leasing Group Uralsib					
LLC "Uralsib Leasing Company"	87.61%	Russia	October 9, 1990	Leasing	December 22, 2006**
LLC "St-Petersburg Uralsib Leasing Company"	87.61%	Russia	December 29, 1999	Leasing	December 22, 2006**
LLC "Ufa Uralsib Leasing Company"	87.61%	Russia	November 25, 1999	Leasing	December 22, 2006**
LLC "Uralsib Avto Leasing Company"	87.61%	Russia	January 14, 2001	Leasing	December 22, 2006**
LLC "Region Leasing Ufa"	86.73%	Russia	November 10, 2000	Leasing	December 22, 2006
LLC "Region Leasing Consult"	86.73%	Russia	November 12, 2001	Leasing	December 22, 2006
LLC TPK "YUG"	87.61%	Russia	October 21, 1997	Leasing	December 22, 2006**

* In August 2007 the reorganization in the form of combination of subsidiary banks OJSC AKB "Stroyvestbank", OJSC Bank "Dorozhnik", OJSC AKB "Evrazia", OJSC "Tumenprofbank", OJSC "Volgoinvestbank" and OJSC AKB "Dzerjinsky" was registered by the Central Bank of Russia. The combination resulted in liquidation of five banks and in transfer of all respective rights and obligations to OJSC AKB "Stroyvestbank".

** In July 2007 the reorganization in the form of combination of subsidiary companies LLC "Uralsib Leasing Company", LLC "St-Petersburg Uralsib Leasing Company", LLC "Ufa Uralsib Leasing Company", LLC "Uralsib Avto Leasing Company" and LLC TPK "YUG" was registered by the Uniform State Register of Legal Entities. The combination resulted in liquidation of four companies and in transfer of all respective rights and obligations to LLC "Uralsib Leasing Company".

*** This entity represents subsidiary under common control acquired in 2007. This subsidiary has been included in consolidated comparative information in accordance with the uniting of interest method.

**** During 2007, the Bank lost control over OJSC "Bashprombank" (BPB), which occurred without a change in the ownership interest of the Bank in that subsidiary. BPB became subject to the new governance rules and the new structure of the Board of Directors which led to the Bank's effectively losing control over BPB. The loss of control over BPB resulted in lowering the level of influence still held by the Bank to "significant influence". Therefore, the remaining interest in the carrying amount of the BPB's assets and liabilities at the date of loss of the control was deemed to be the associate's cost.

(Millions of Russian Rubles)

2. Basis of preparation (continued)

Subsidiaries (continued)

The consolidated financial statements include also the following unincorporated subsidiaries:

2007

Subsidiary	*Ownership, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Closed Unit Investment Fund of stock "Strategic management"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - REGION"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - ARENDA"	100%	Russia	November 1, 2007	Investment	November 1, 2007

2006

Subsidiary	*Ownership, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Closed Unit Investment Fund "Strategy I"	100%	Russia	December 22, 2003	Investment	December 22, 2003*
Closed Unit Investment Fund "Strategy II"	100%	Russia	December 22, 2003	Investment	December 22, 2003*
Closed Unit Investment Fund "Strategy III"	100%	Russia	December 22, 2003	Investment	December 22, 2003*
Closed Unit Investment Fund "Construction Investments"	85.29%	Russia	October 13, 2004	Investment	October 13, 2004

* In September 2007 Closed Unit Investment Funds "Strategy I", "Strategy II" and "Strategy III" were liquidated.

In accordance with the Russian legislation, participants in limited liability companies may unilaterally withdraw their contributions from the entities. In such cases the company will be obliged to pay the withdrawing participant's share of net assets of the company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to the consent of the participant, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal. Participants in closed unit investment funds may withdraw from the funds in case of change in the fund's rules or change of the management company. Thus, minority interest in limited liability companies and closed unit investment funds is presented within liabilities in the consolidated balance sheet.

Acquisition and disposals of subsidiaries

Aggregated information related to acquisition and disposal of subsidiaries is as follows:

	2007	*2006*
Acquisition of subsidiaries		
Cash and cash equivalents in subsidiaries acquired	5,731	–
Assets, other than cash and cash equivalents in subsidiaries acquired	4,635	–
Liabilities in subsidiaries acquired	39	–
Disposals of subsidiaries		
Cash and cash equivalents in disposed subsidiaries	217	–
Assets, other than cash and cash equivalents in disposed subsidiaries	17,370	–
Liabilities in disposed subsidiaries	241	–

(Millions of Russian Rubles)

2. Basis of preparation (continued)

Reconciliation of RAL and IFRS equity and profit for the year

Equity and profit for the year is reconciled between RAL and IFRS as follows:

	2007		*2006*	
	Equity	*Profit for the year*	*Equity*	*Profit for the year*
Russian Accounting Legislation	**46,796**	**2,103**	**46,288**	**5,819**
Goodwill	4,527	–	4,527	–
Effect of consolidation of subsidiaries	(3,662)	(6,030)	2,183	1,291
Inflation impact on non-monetary capital items	1,810	(43)	1,853	(579)
Revaluation of property	(505)	367	(2,420)	(49)
Deferred tax, excluding effect of available-for-sale securities and property revaluation	231	2,510	(2,279)	(624)
Accelerated depreciation	(1,640)	(70)	(1,611)	(170)
Effect of accrued interest	(1,583)	240	(1,823)	(514)
Personnel and administrative expenses accrued	(1,134)	654	(1,788)	(672)
Available-for-sale securities revaluation, net of deferred tax	55	–	281	–
Minority interest	134	7	773	19
Allowances for impairment	1,674	1,442	232	107
Fair value re-measurement of derivatives	293	290	3	(99)
Fair value re-measurement of embedded derivatives	644	644		
Fair value re-measurement of securities	167	412	(245)	(238)
Expenses recorded directly in equity	–	(307)	–	(111)
Other	(8)	(22)	14	–
International Financial Reporting Standards	**47,799**	**2,197**	**45,988**	**4,180**

Reclassification

The following reclassifications have been made to 2006 balances to conform to the 2007 presentation.

Amount	*Previously reported*	*As reclassified*
124	Net gains from operations with precious metals	Net gains from derivatives
57	Other income	Fee and commission income
29	Current tax liabilities	Other liabilities

3. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Bank. The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendment to IAS 1 "Presentation of Financial Statements"

This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital. These new disclosures are shown in Note 33.

IFRIC 9 Reassessment of Embedded Derivatives

The Interpretation clarifies that an entity should not reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 10 Interim Financial Reporting and Impairment

The new Interpretation of IAS 39 requires that impairment losses recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost must not be reversed at a subsequent balance sheet date.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2007, and have not been applied in preparing these financial statements is described below. The estimate impact of adoption of new and amended standards is not significant, except for IAS 23, impact of which can not be reasonably estimated as of the reporting date.

IAS 1 (revised) Presentation of Financial Statements and IAS 32 (revised) Financial Instruments: Presentation

IAS 1 (revised), Presentation of Financial Statements, was issued in September 2007 and is effective on 1 January 2009. The revised standard affects the presentation of owner changes in equity and of comprehensive income. In addition, the IASB issued a further amendment to IAS 1 and an amendment to IAS 32 regarding puttable financial instruments and obligations arising on liquidation in February 2008. The IAS 32 amendment clarifies under which circumstances puttable financial instruments and obligations arising on liquidations have to be treated as equity instruments.

IFRS 2 Share-based Payment

In January 2008, the International Accounting Standards Board (IASB) issued an amendment to IFRS 2 Share-based Payment. The amended standard, entitled IFRS 2 Sharebased Payment: Vesting Conditions and Cancellations, is effective January 1, 2009 (early adoption permitted). The new standard clarifies the definition of vesting conditions and the accounting treatment of cancellations.

IFRS 8 Operating Segments

The new standard on segment reporting, IFRS 8 Operating Segments, comes into force on January 1, 2009, replacing IAS 14 Segment Reporting. It sets out requirements for disclosure of information about a Bank's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The new standard introduces changes to previous requirements for identification of segments, measurement of segment information and disclosures. Specifically, it requires a firm to provide financial and descriptive information about its reportable segments – the operating segments or aggregations of operating segments based on which the senior management of the Bank (the "chief operating decision maker") regularly evaluates separate financial information in deciding how to allocate resources and how to assess performance.

Generally, under IFRS 8, the information to be reported will be the same information that is used internally, which might differ from amounts reported in the financial statements. The new standard therefore requires an explanation of the basis on which the segment information is prepared, and reconciliations to the amounts presented in the income statement and the balance sheet.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

New standards and interpretations not yet adopted (continued)

IAS 23 "Borrowing Costs"

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

In January 2008, the IASB issued a revised Standard of IFRS 3 Business Combinations and amendments to IAS 27 Consolidated and Separate Financial Statements. The most significant changes under revised IFRS 3 are as follows:

- Contingent consideration will be recognized at fair value as part of the consideration transferred at the acquisition date. Currently contingent consideration is only recognized once it meets the probability and reliably measurable criteria.
- Non-controlling interests in an acquiree will either be measured at fair value or as the non-controlling interest's proportionate share of the fair value of net identifiable assets of the entity acquired. The option is available on a transaction-by-transaction basis.

IFRIC 12 "Service Concession Arrangements"

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Bank is an operator and hence this Interpretation will have no impact on the Bank.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 was issued on June 28, 2007 and is effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses how companies that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the points. IFRIC 13 requires entities to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations to provide goods or services.

IFRIC 14 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction – IAS 19

IFRIC 14 was issued on July 5, 2007 and is effective for annual periods beginning on or after January 1, 2008. IFRIC 14 provides guidance regarding the circumstances under which refunds and future reductions in contributions from a defined benefit plan can be regarded as available to an entity for the purpose recognizing a net defined benefit asset.

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between consolidated entities are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interest method. The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholder's equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Bank on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in equity. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days from the date of acquisition by the Bank and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in the consolidated income statement as gains less losses from precious metals.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and carried at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from derivatives or gains less losses from foreign currencies (dealing), depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

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 recognised in the consolidated income statement.

Leases

i. Finance - Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iii. Operating - Bank as lessor

The Bank presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions and of the municipal districts in which the Bank has offices and branches and where its subsidiaries are located.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Bank’s activities. These taxes are included as a component of administrative and operating expenses.

Investment property

Following initial recognition at cost, investment property is carried at a revalued amount, which is the fair value at the date of the revaluation. The gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises. Investment property is not subject to depreciation.

Property and equipment

Equipment is carried at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except when such a deficit directly offsets a previous surplus on the same asset that was originally recognised in equity.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	7
Computers and office equipment	4-6
Motor vehicles	5

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the parent’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Bank are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Bank’s primary or the Bank’s secondary reporting format determined in accordance with IAS 14 “Segment Reporting”.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Indefinite life intangible assets are not subject to amortisation, but are assessed for impairment annually or whenever there is an indication that they may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations

The Bank has pension arrangements with State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. Other than the above, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, including those issued in a business combination, are deducted from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Bank.

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. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at December 31, 2007 and December 31, 2006, were 24.55 Rubles and 26.33 Rubles to 1 USD, respectively.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of closed unit investment funds

As the Bank owns a majority of units in closed unit investment fund "Strategic management", closed unit investment funds of property "URALSIB - REGION" and "URALSIB - ARENDA", it exercises control over them by the means of appointing a management company and having a right to block the approval of investment declarations suggested by the management company. Therefore the funds were consolidated in these financial statements, however, the Bank is not involved in day-to-day operating and investing activities of these funds.

(Millions of Russian Rubles)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Changes in the allowance estimation policies for retail loans

In 2007, the Bank has changed the methods of estimating allowance for the pools of retail loans and methodology for incurred but not yet reported losses for retail loans. The change in the loan pools' allowance estimation methodology was caused by the fact that the Bank has collected sufficient statistical data on retail loan portfolio enabling it to estimate migration matrix for different past due loan classes. That allowed the Bank to estimate meaningfully both the probability of impairment for non-overdue retail loans and determine parameters for reversals of previously impaired loans.

The in-depth analysis of statistical data led to identification of sustainable loan impairment patterns, which allowed the Bank to replace the previously used conservative method of estimation of impairment of retail loans with the new methodology based on validated historical retail loan statistics. The effect of change in the methodology is estimated at RUB 1,652 reflected in income statement for 2007 as recovery of allowance for impairment of interest earning assets.

The method of analysis of financial assets that are individually determined to be impaired as of the reporting date remained unchanged.

Impairment of goodwill

The Bank determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Bank to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2007 and 2006 was RUB 4,527. More details are provided in Note 14.

5. Segment analysis

In accordance with the requirements of IAS 14 "Reporting Financial Information by Segment", the Bank defined business segments as primary format for reporting segment information. The secondary format for reporting segment information is geographical segments within the territory of the Russian Federation.

Business segments

The Bank is organized on a basis of four main business segments:

- Corporate banking – represents corporate banking direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Retail banking – represents retail banking, private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Brokerage and treasury activities – represents financial instruments trading, structured financing, merger and acquisition advice.
- Leasing activities – represents finance leasing operations provided by the group of Bank's subsidiaries "Leasing Group URALSIB".

(Millions of Russian Rubles)

5. Segment analysis (continued)

Business segments (continued)

There are no material items of income or expense between the business segments, apart from those disclosed below. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments reflected in the performance of each business segment are based on officially approved rates from Bank's internal funding system.

Segment analysis of the Bank's activities by business sectors for the years ended December 31, 2007 and 2006, is as follows:

December 31, 2007	*Corporate banking*	*Retail banking*	*Brokerage and treasury operations*	*Leasing*	*Unallocated*	*Total*
Interest income	17,727	6,299	2,878	2,948	–	**29,852**
Net gains from available-for-sale securities	–	–	1,252	–	–	**1,252**
Net gains from derivatives	–	–	1,177	–	–	**1,177**
Net gains from foreign currencies - dealing	–	–	1,287	(21)	–	**1,266**
Fee and commission income	3,120	2,789	120	17	–	**6,046**
Dividend income	–	–	237	–	–	**237**
Other income	157	158	35	154	82	**586**
Inter-segment revenues	496	1,695	3,324	17	–	**5,532**
Total income	**21,500**	**10,941**	**10,310**	**3,115**	**82**	**45,948**
Interest expense	(4,216)	(3,567)	(4,749)	(640)	–	**(13,172)**
Net losses from trading securities	–	–	(3,759)	5	–	**(3,754)**
Net losses from operation with precious metals	–	–	(101)	–	–	**(101)**
Fee and commission expense	(82)	(912)	(39)	(21)	–	**(1,054)**
Personnel expenses	(3,729)	(3,443)	(2,329)	(239)	–	**(9,740)**
Administrative and operating expenses	(2,178)	(2,625)	(1,174)	(485)	–	**(6,462)**
Inter-segment expenses	(5,036)	–	–	(496)	–	**(5,532)**
Total expenses	**(15,241)**	**(10,547)**	**(12,151)**	**(1,876)**	**–**	**(39,815)**
Segment income/(losses) before impairment, translation, depreciation, revaluation and other expenses	**6,259**	**394**	**(1,841)**	**1,239**	**82**	**6,133**
Allowance for impairment of interest earning assets (reversal)	(2,049)	1,088	(29)	(141)	–	**(1,131)**
Net losses from foreign currencies - translation differences	–	–	–	(26)	(829)	**(855)**
Depreciation and amortisation	(424)	(279)	(58)	(4)	–	**(765)**
Impairment of other assets	30	–	–	(70)	–	**(40)**
Income from revaluation of property	139	136	92	–	–	**367**
Minority interest in limited liability companies	–	–	–	(93)	–	**(93)**
Impairment, translation, depreciation, revaluation and other expenses	**(2,304)**	**945**	**5**	**(334)**	**(829)**	**(2,517)**
Profit before income tax expense	**3,955**	**1,339**	**(1,836)**	**905**	**(747)**	**3,616**
Income tax expense	–	–	–	(282)	(1,137)	**(1,419)**
Profit for the year	**3,955**	**1,339**	**(1,836)**	**623**	**(1,884)**	**2,197**
Assets and liabilities						
Segment assets	181,562	77,450	85,687	24,684	–	**369,383**
Investments in associates	–	112	–	–	–	**112**
Unallocated assets	–	–	–	–	5,219	**5,219**
Total assets	**181,562**	**77,562**	**85,687**	**24,684**	**5,219**	**374,714**
Segment liabilities	161,155	71,123	78,313	15,513	–	**326,104**
Unallocated liabilities	–	–	–	–	811	**811**
Total liabilities	**161,155**	**71,123**	**78,313**	**15,513**	**811**	**326,915**
Other segment information						
Capital expenditure	(477)	(473)	(320)	(5)	–	**(1,275)**

(Millions of Russian Rubles)

5. Segment analysis (continued)

Business segments (continued)

December 31, 2006 (Restated)	*Corporate banking*	*Retail banking*	*Brokerage and treasury operations*	*Leasing*	*Unallocated*	*Total*
Interest income	12,478	5,154	2,662	1,413	–	**21,707**
Net gains from trading securities	–	–	5,465	–	–	**5,465**
Net gains from available-for-sale securities	–	–	1,228	–	–	**1,228**
Net gains from derivatives	–	–	410	–	–	**410**
Net gains from foreign currencies - dealing	–	–	1,055	(21)	–	**1,034**
Net gains from operation with precious metals	–	–	1	–	–	**1**
Fee and commission income	3,375	1,307	67	6	–	**4,755**
Dividend income	–	–	396	–	–	**396**
Other income	329	25	–	46	212	**612**
Inter-segment revenues	680	1,558	3,967	50	–	**6,255**
Total income	**16,862**	**8,044**	**15,251**	**1,494**	**212**	**41,863**
Interest expense	(3,036)	(3,387)	(3,651)	(217)	–	**(10,291)**
Fee and commission expense	(612)	(122)	(127)	(6)	–	**(867)**
Personnel expenses	(3,309)	(3,575)	(709)	(134)	–	**(7,727)**
Administrative and operating expenses	(2,235)	(1,915)	(256)	(235)	(150)	**(4,791)**
Inter-segment expenses	(5,575)	–	–	(680)	–	**(6,255)**
Total expenses	**(14,767)**	**(8,999)**	**(4,743)**	**(1,272)**	**(150)**	**(29,931)**
Segment income/(losses) before impairment, translation, depreciation, revaluation and other expenses	**2,095**	**(955)**	**10,508**	**222**	**62**	**11,932**
Allowance for impairment of interest earning assets (reversal)	(1,229)	(2,876)	(19)	(176)	–	**(4,300)**
Net losses from foreign currencies - translation differences	–	–	–	1	(940)	**(939)**
Depreciation and amortisation	(286)	(308)	(61)	(1)	–	**(656)**
Impairment of other assets	(142)	–	–	(3)	–	**(145)**
Loss from revaluation of property	(81)	(88)	(17)	–	–	**(186)**
Minority interest in limited liability companies and unit investment funds	–	–	3	(4)	–	**(1)**
Impairment, translation, depreciation, revaluation and other expenses	**(1,738)**	**(3,272)**	**(94)**	**(183)**	**(940)**	**(6,227)**
Profit before income tax expense	**357**	**(4,227)**	**10,414**	**39**	**(878)**	**5,705**
Income tax expense	–	–	–	(8)	(1,517)	**(1,525)**
Profit for the year	**357**	**(4,227)**	**10,414**	**31**	**(2,395)**	**4,180**
Assets and liabilities						
Segment assets	137,231	46,792	103,804	13,374	–	**301,201**
Unallocated assets	–	–	–	–	5,444	**5,444**
Total assets	**137,231**	**46,792**	**103,804**	**13,374**	**5,444**	**306,645**
Segment liabilities	128,025	63,298	60,371	5,899	–	**257,593**
Unallocated liabilities	–	–	–	–	3,064	**3,064**
Total liabilities	**128,025**	**63,298**	**60,371**	**5,899**	**3,064**	**260,657**
Other segment information						
Capital expenditure	(292)	(317)	(63)	(29)	–	**(701)**

(Millions of Russian Rubles)

5. Segment analysis (continued)

Geographical segments

The segment analysis of the Bank by geographical segments is based on the distribution of activity among the Bank's Directorates. The Bank has identified six geographical segments:

Geographical segment	***Name of branch and subsidiary bank***	***Location of the head office of the branch/subsidiary bank***
Central	Central Office OJSC "URALSIB"	Moscow
	Orekhovo-Zuevo Branch of OJSC "URALSIB"	Orekhovo-Zuevo, Moscow region
	Voskresensk Branch of OJSC "URALSIB"	Voskresensk, Moscow region
	Serpukhov Branch of OJSC "URALSIB"	Serpukhov, Moscow region
	Zhukovskiy Branch of OJSC "URALSIB"	Zhukovskiy, Moscow region
	Odintsovo Branch of OJSC "URALSIB"	Odintsovo, Moscow region
	Dubna Branch of OJSC "URALSIB"	Dubna, Moscow region
	Bryansk Branch of OJSC "URALSIB"	Bryansk, Bryansk region
	Tver Branch of OJSC "URALSIB"	Tver, Tver region
	Smolensk Branch of OJSC "URALSIB"	Smolensk, Smolensk region
	Voronezh Branch of OJSC "URALSIB"	Voronezh, Voronezh region
	Vladimir Branch of OJSC "URALSIB"	Vladimir, Vladimir region
	Ryazan Branch of OJSC "URALSIB"	Ryazan, Ryazan region
	Belgorod Branch of OJSC "URALSIB"	Belgorod, Belgorod region
	CJSC Stock Agency	Moscow
	LLC Operating Factoring Company URALSIB-NIKoil	Moscow
	LLC URALSIB Electronnie Tehnologii	Moscow
	Closed Unit Investment Fund of stock "Strategic management"	Moscow
	Closed Unit Investment Fund of property "URALSIB - REGION"	Moscow
	Closed Unit Investment Fund of property "URALSIB - ARENDA"	Moscow
	Central Regional Branches of LLC "Leasing Company Uralsib"	Moscow
Privolzhskiy	Ufa Branch of OJSC "URALSIB"	Ufa, Bashkortostan Republic
	Nizhniy Novgorod Branch of OJSC "URALSIB"	Nizhniy Novgorod, Nizhniy Novgorod region
	Perm Branch of OJSC "URALSIB"	Perm, Perm region
	Sterlitamak Branch of OJSC "URALSIB"	Strelitamak, Bashkortostan Republic
	Izhevsk Branch of OJSC "URALSIB"	Izhevsk, Udmurt Republic
	Samara Branch of OJSC "URALSIB"	Samara, Samara region
	Saratov Branch of OJSC "URALSIB"	Saratov, Saratov region
	Kazan Branch of OJSC "URALSIB"	Kazan, Tatarstan Republic
	LLC Ufa-City	Ufa, Bashkortostan Republic
	LLC Region Leasing Ufa	Ufa, Bashkortostan Republic
	LLC Region Leasing Consult	Ufa, Bashkortostan Republic
	Privolzhskie Regional Branches of LLC "Leasing Company Uralsib"	Ufa, Bashkortostan Republic

(Millions of Russian Rubles)

5. Segment analysis (continued)

Geographical segments (continued)

Geographical segment	*Name of branch and subsidiary bank*	*Location of the head office of the branch/subsidiary bank*
South	Krasnodar Branch of OJSC "URALSIB"	Krasnodar, Krasnodar region
	Novorossiysk Branch of OJSC "URALSIB"	Novorossiysk, Krasnodar region
	Stavropol Branch of OJSC "URALSIB"	Stavropol, Stavropol region
	Rostov-na-Donu Branch of OJSC "URALSIB"	Rostov-na-Donu, Rostov-na-Donu region
	Astrakhan Branch of OJSC "URALSIB"	Astrakhan, Astrakhan region
	South Regional Branches of LLC "Leasing Company Uralsib"	Krasnodar, Krasnodar region
Uralskiy	Ekaterinburg Branch of OJSC "URALSIB"	Ekaterinburg, Sverdlovsk region
	Chelyabinsk Branch of OJSC "URALSIB"	Chelyabinsk, Chelyabinsk region
	Tyumen Branch of OJSC "URALSIB"	Tyumen, Tyumen region
	Nizhnevartovsk Branch of OJSC "URALSIB"	Nizhnevartovsk, Tyumen region
	Surgut Branch of OJSC "URALSIB"	Surgut, Tyumen region
	Kurgan Branch of OJSC "URALSIB"	Kurgan, Kurgan region
	Uralskie Regional Branches of LLC "Leasing Company Uralsib"	Ekaterinburg, Sverdlovsk region
North-West	Saint-Petersburg Branch of OJSC "URALSIB"	Saint-Petersburg
	Petrozavodsk Branch of OJSC "URALSIB"	Petrozavodsk, Karelian Republic
	Arkhangelsk Branch of OJSC "URALSIB"	Arkhangelsk, Arkhangelsk region
	Vologda Branch of OJSC "URALSIB"	Vologda, Vologda region
	Velikiy Novgorod Branch of OJSC "URALSIB"	Velikiy Novgorod, Novgorod region
	OJSC AKB "Stroyvestbank"	Kaliningrad, Kaliningrad region
	North-West Regional Branches of LLC "Leasing Company Uralsib"	Saint-Petersburg
Siberia – Far East	Barnaul Branch of OJSC "URALSIB"	Barnaul, Altayskiy region
	Omsk Branch of OJSC "URALSIB"	Omsk, Omsk region
	Irkutsk Branch of OJSC "URALSIB"	Irkutsk, Irkutsk region
	Krasnoyarsk Branch of OJSC "URALSIB"	Krasnoyarsk, Krasnoyarsk region
	Novosibirsk Branch of OJSC "URALSIB"	Novosibirsk, Novosibirsk region
	Tomsk Branch of OJSC "URALSIB"	Tomsk, Tomsk region
	Kemerovo Branch of OJSC "URALSIB"	Kemerovo, Kemerovo region
	Siberia-Far East Regional Branches of LLC "Leasing Company Uralsib"	Novosibirsk, Novosibirsk region

(Millions of Russian Rubles)

5. Segment analysis (continued)

Geographical segments (continued)

As of December 31, 2007 and 2006, the segment analysis of the Bank by geographical segments is as follows:

Year ended December 31, 2007	*South*	*Privolzhskiy*	*Central*	*Uralskiy*	*North-West*	*Siberia-Far East*	*Unallocated*	*Total*
Interest income	811	5,795	15,014	2,127	2,562	3,543	–	**29,852**
Net gains from available-for-sale securities	–	–	1,252	–	–	–	–	**1,252**
Net gains from derivatives	–	–	1,177	–	–	–	–	**1,177**
Net gains from foreign currencies - dealing	14	94	823	43	272	20	–	**1,266**
Fee and commission income	87	1,298	2,850	493	596	722	–	**6,046**
Dividend income	–	–	237	–	–	–	–	**237**
Other income	8	159	357	13	27	22	–	**586**
Total income	**920**	**7,346**	**21,710**	**2,676**	**3,457**	**4,307**	**–**	**40,416**
Interest expense	(76)	(3,225)	(8,317)	(796)	(516)	(242)	–	**(13,172)**
Net losses from trading securities	–	–	(3,805)	–	51	–	–	**(3,754)**
Net losses from operation with precious metals	–	–	(101)	–	–	–	–	**(101)**
Fee and commission expense	(4)	(59)	(919)	(14)	(31)	(27)	–	**(1,054)**
Personnel expenses	(141)	(1,810)	(5,570)	(596)	(735)	(888)	–	**(9,740)**
Administrative and operating expenses	(122)	(716)	(4,380)	(311)	(550)	(383)	–	**(6,462)**
Total expenses	**(343)**	**(5,810)**	**(23,092)**	**(1,717)**	**(1,781)**	**(1,540)**	**–**	**(34,283)**
Segment income/(losses) before impairment, translation, depreciation, revaluation and other expenses	**577**	**1,536**	**(1,382)**	**959**	**1,676**	**2,767**	**–**	**6,133**
Allowance for impairment of interest earning assets (reversal)	(92)	964	(2,290)	202	(26)	111	–	**(1,131)**
Net losses from foreign currencies - translation differences	(1)	(45)	(802)	–	(6)	(1)	–	**(855)**
Depreciation and amortisation	(7)	(246)	(377)	(33)	(46)	(56)	–	**(765)**
Impairment of other assets	(17)	(17)	2	–	(8)	–	–	**(40)**
Income from revaluation of property	–	140	227	–	–	–	–	**367**
Minority interest in limited liability companies	–	–	–	–	–	–	(93)	**(93)**
Impairment, translation, depreciation, revaluation and other expenses	**(117)**	**796**	**(3,240)**	**169**	**(86)**	**54**	**(93)**	**(2,517)**
Profit before income tax expense	**460**	**2,332**	**(4,622)**	**1,128**	**1,590**	**2,821**	**(93)**	**3,616**
Income tax expense	–	–	–	–	–	–	(1,419)	**(1,419)**
Profit for the year	**460**	**2,332**	**(4,622)**	**1,128**	**1,590**	**2,821**	**(1,512)**	**2,197**
Assets and liabilities								
Segment assets	7,766	60,544	219,545	20,856	28,147	32,411	–	**369,269**
Investments in associates	–	–	112	–	–	–	–	**112**
Unallocated assets	–	–	–	–	–	–	5,333	**5,333**
Total assets	**7,766**	**60,544**	**219,657**	**20,856**	**28,147**	**32,411**	**5,333**	**374,714**
Segment liabilities	1,791	72,738	204,136	17,098	15,124	14,968	–	**325,855**
Unallocated liabilities	–	–	–	–	–	–	1,060	**1,060**
Total liabilities	**1,791**	**72,738**	**204,136**	**17,098**	**15,124**	**14,968**	**1,060**	**326,915**
Other segment information								
Capital expenditure	(25)	(385)	(511)	(97)	(91)	(166)	–	**(1,275)**

(Millions of Russian Rubles)

5. Segment analysis (continued)

Geographical segments (continued)

Year ended December 31, 2006 (Restated)	*South*	*Privolzhsiy*	*Central*	*Uralskiy*	*North-West*	*Siberia-Far East*	*Unallocated*	*Total*
Interest income	567	3,993	11,133	1,478	1,683	2,853	–	**21,707**
Net gains from trading securities	–	(1)	5,400	25	41	–	–	**5,465**
Net gains from available-for-sale securities	–	–	1,228	–	–	–	–	**1,228**
Net gains from derivatives	–	–	410	–	–	–	–	**410**
Net gains from foreign currencies - dealing	15	313	449	29	155	73	–	**1,034**
Net gains from operation with precious metals	–	–	1	–	–	–	–	**1**
Fee and commission income	67	1,107	2,243	362	411	565	–	**4,755**
Dividend income	–	–	396	–	–	–	–	**396**
Other income	1	341	101	113	29	27	–	**612**
Total income	**650**	**5,753**	**21,361**	**2,007**	**2,319**	**3,518**	**–**	**35,608**
Interest expense	(65)	(2,486)	(6,101)	(708)	(555)	(376)	–	**(10,291)**
Fee and commission expense	(4)	(65)	(748)	(10)	(24)	(16)	–	**(867)**
Personnel expenses	(65)	(986)	(5,384)	(368)	(373)	(534)	(17)	**(7,727)**
Administrative and operating expenses	(37)	(717)	(3,194)	(263)	(254)	(326)	–	**(4,791)**
Total expenses	**(171)**	**(4,254)**	**(15,427)**	**(1,349)**	**(1,206)**	**(1,252)**	**(17)**	**(23,676)**
Segment income/(losses) before impairment, translation, depreciation, revaluation and other expenses	**479**	**1,499**	**5,934**	**658**	**1,113**	**2,266**	**(17)**	**11,932**
Allowance for impairment of interest earning assets (reversal)	(131)	(1,277)	(1,462)	(507)	(253)	(670)	–	**(4,300)**
Net losses from foreign currencies - translation differences	–	(12)	(912)	(2)	(10)	(3)	–	**(939)**
Depreciation and amortisation	(4)	(187)	(346)	(33)	(35)	(51)	–	**(656)**
Impairment of other assets	–	–	(156)	11	–	–	–	**(145)**
Loss from revaluation of property	–	(70)	(116)	–	–	–	–	**(186)**
Minority interest in limited liability companies and unit investment funds	–	–	–	–	–	–	(1)	**(1)**
Impairment, translation, depreciation, revaluation and other expenses	**(135)**	**(1,546)**	**(2,992)**	**(531)**	**(298)**	**(724)**	**(1)**	**(6,227)**
Profit before income tax expense	**344**	**(47)**	**2,942**	**127**	**815**	**1,542**	**(18)**	**5,705**
Income tax expense	–	–	–	–	–	–	(1,525)	**(1,525)**
Profit for the year	**344**	**(47)**	**2,942**	**127**	**815**	**1,542**	**(1,543)**	**4,180**
Assets and liabilities								
Segment assets	4,295	44,689	198,386	12,178	17,616	24,426	–	**301,590**
Unallocated assets	–	–	–	–	–	–	5,055	**5,055**
Total assets	**4,295**	**44,689**	**198,386**	**12,178**	**17,616**	**24,426**	**5,055**	**306,645**
Segment liabilities	70,884	77,121	81,441	14,418	2,405	11,379	–	**257,648**
Unallocated liabilities	–	–	–	–	–	–	3,009	**3,009**
Total liabilities	**70,884**	**77,121**	**81,441**	**14,418**	**2,405**	**11,379**	**3,009**	**260,657**
Other segment information								
Capital expenditure	(5)	(176)	(385)	(65)	(24)	(46)	–	**(701)**

(Millions of Russian Rubles)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	*2006 (Restated)*
Cash on hand	11,446	8,706
Current accounts with the Central Bank	12,955	11,231
Current accounts with other credit institutions	2,273	2,668
Time deposits with credit institutions up to 90 days	12,291	6,903
Time deposits with the Central Bank	4,501	–
Reverse repurchase agreements with credit institutions up to 90 days	4,136	2,581
Accounts with stock exchanges	245	379
Cash and cash equivalents	**47,847**	**32,468**

The Bank has entered into reverse repurchase agreements with a number of credit institutions. The subject of these agreements are Russian State bonds (OFZ) with fair value of RUB 2,488 (2006 – 1,302) and bonds issued by Russian companies and banks with fair value of RUB 1,972 (2006 – RUB 1,614).

7. Trading securities and securities pledged under repurchase agreements

Trading securities owned comprise:

	2007	*2006*
Treasury bills of foreign governments	11,209	8,824
Corporate bonds	9,868	8,063
OJSC "LUKoil" ordinary shares	7,918	13,196
Promissory notes	3,814	4,080
Russian State bonds (OFZ)	2,292	933
Corporate shares	1,601	21,189
Corporate Eurobonds	1,502	1,212
Russian Federation Eurobonds	1,458	3,878
Units in LUKoil equity investment funds	585	1,107
Municipal and government bonds	307	761
Trading securities	**40,554**	**63,243**

As of December 31, 2007 and December 31, 2006, Treasury bills of foreign governments included US Treasury bills and Treasury bills of Latin America countries governments; corporate bonds represented bonds of various Russian companies, including blue-chip; corporate shares represented shares of blue-chip Russian companies; promissory notes included notes of top Russian banks and blue-chip Russian companies.

Trading securities pledged under repurchase agreements comprise:

	2007	*2006*
Russian Federation Eurobonds	2,893	–
Corporate Eurobonds	476	–
Corporate bonds	101	–
Russian State bonds (OFZ)	46	1,053
Municipal and government bonds	17	52
Trading securities pledged under repurchase agreements	**3,533**	**1,105**

(Millions of Russian Rubles)

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2007	*2006 (Restated)*
Obligatory reserve with the Central Bank	4,112	6,427
Time deposits for more than 90 days or overdue	2,098	1,237
Promissory notes	30	–
Reverse repurchase agreements for more than 90 days	–	7,974
	6,240	**15,638**
Less – Allowances for impairment	(48)	(19)
Amounts due from credit institutions	**6,192**	**15,619**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of December 31, 2006 the Bank entered into reverse repurchase agreements with a number of credit institutions. The subject of these agreements were US Treasury bills with a fair value of RUB 8,113.

During 2007, the Bank placed with and received short-term funds from Russian banks in different currencies. At December 31, 2007, the Bank received RUB 234, equivalent of RUB 65 in EUR and RUB 171 in USD as deposits with Russian banks, which relate to deposits granted to the same banks (see Note 18).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2007	*2006*
January 1	**19**	**–**
Charge	29	19
December 31	**48**	**19**

9. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate of index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk. The outstanding deals with derivative financial instruments are as follows:

	2007			*2006*		
	Notional principal	*Fair values Asset*	*Fair values Liability*	*Notional principal*	*Fair value Asset*	*Fair value Liability*
Precious metals contracts						
Forwards and Swaps – foreign	7,014	605	752	1,777	11	32
Foreign exchange contracts						
Forwards and Swaps – foreign	9,246	29	61	8,262	26	6
Forwards and Swaps – domestic	6,063	2	13	4,893	4	–
Equity contracts						
Forwards – foreign	2,407	494	–	–	–	–
Forwards – domestic	69	–	10	–	–	–
Total derivative assets/liabilities	**24,799**	**1,130**	**836**	**14,932**	**41**	**38**

(Millions of Russian Rubles)

9. Derivative financial instruments (continued)

Forwards

Forward contracts are contractual agreements to buy or sell a specified asset and liability at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

Most of the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates on indices. Included under this heading are derivatives which do not meet IAS 39 hedging requirements.

10. Loans to customers

Loans to customers comprise:

	2007	*2006 (Restated)*
Corporate lending	173,323	127,889
Residential mortgages	27,957	10,103
Consumer lending	17,810	15,226
Auto loans	14,909	9,795
Loans to state companies, state budget and local authorities	2,265	2,629
Credit cards	1,468	1,038
Other	1,672	592
Gross loans to customers	**239,404**	**167,272**
Less – Allowance for impairment	(10,303)	(9,777)
Loans to customers	**229,101**	**157,495**

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2007	*Residential mortgages 2007*	*Consumer lending 2007*	*Auto loans 2007*	*Loans to state companies, state budget and local authorities 2007*	*Credit cards 2007*	*Other 2007*	*Total 2007*
At January 1, 2007 (Restated)	5,479	24	3,109	664	345	112	44	**9,777**
Charge for the year	2,136	29	(930)	(233)	(252)	68	(22)	**796**
Amounts written off	(270)	–	–	–	–	–	–	**(270)**
At December 31, 2007	**7,345**	**53**	**2,179**	**431**	**93**	**180**	**22**	**10,303**
Individual impairment	3,968	–	–	–	4	–	–	**3,972**
Collective impairment	3,377	53	2,179	431	89	180	22	**6,331**
	7,345	**53**	**2,179**	**431**	**93**	**180**	**22**	**10,303**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,756	–	–	–	21	–	–	**4,777**

(Millions of Russian Rubles)

10. Loans to customers (continued)

	Corporate lending 2006	*Residential mortgages 2006*	*Consumer lending 2006*	*Auto loans 2006*	*Loans to state companies, state budget and local authorities 2006*	*Credit cards 2006*	*Other 2006*	*Total 2006*
At January 1, 2006 (Restated)	4,398	4	736	326	198	–	11	**5,673**
Charge for the year	1,082	20	2,373	338	147	112	33	**4,105**
Amounts written off	(1)	–	–	–	–	–	–	**(1)**
At December 31, 2006 (Restated)	**5,479**	**24**	**3,109**	**664**	**345**	**112**	**44**	**9,777**
Individual impairment	3,274	–	–	–	269	–	–	**3,543**
Collective impairment	2,205	24	3,109	664	76	112	44	**6,234**
	5,479	**24**	**3,109**	**664**	**345**	**112**	**44**	**9,777**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,396	–	–	–	269	–	–	**3,665**

In accordance with the Russian legislation, loans may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the Court.

Concentration of loans to customers

As of December 31, 2007, the Bank had a concentration of loans represented by RUB 14,223 due from ten largest third party borrowers (6% of gross loan portfolio) (2006 – RUB 13,563 or 8%). An allowance of RUB 268 (2006 – RUB 238) was recognised against these loans.

As of December 31, 2007, the Bank had unsecured loans amounting to RUB 8,112 and RUB 8,315 due from two international banks, which were the organizers of loans for similar amounts to related parties of the Bank (entities under common control). The loans provided by the Bank are denominated in USD and carry interest rates of 15% per annum; RUB 8,315 matures in November 2008 and RUB 8,112 matures in September 2009. The funds are used by the related parties to finance their business activity. The Bank's loan loss allowance was estimated based on inclusion of the loans in special pool of loans to related parties during the collective assessment. The obligation of the international banks to repay these loans is dependant on the respective repayment by the related parties of the loans due to those international banks. Repayment of the loans is under the control of the Bank's ultimate controlling party. Note 31 discloses the full amount of loans to related parties.

Individually impaired loans

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at December 31, 2007 amounts to RUB 5,045 (2006: RUB 4,798).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Millions of Russian Rubles)

10. Loans to customers (continued)

Collateral and other credit enhancements

Loans to customers comprise:

	2007	*2006 (Restated)*
Loans to customers	224,855	154,438
Loans granted under reverse repurchase agreements	9,401	8,889
Overdrafts	5,034	3,812
Factoring	67	103
Promissory notes	47	30
	239,404	**167,272**
Less – Allowance for loan impairment	(10,303)	(9,777)
Loans to customers	**229,101**	**157,495**

Reverse repurchase agreements

The Bank has entered into reverse repurchase agreements with a number of Russian companies. The subject of these agreements are Russian State bonds (OFZ), bonds, shares and global depository receipts issued by Russian companies with a fair value of RUB 10,324 (2006 – RUB 10,962). At December 31, 2007, loans granted under reverse repurchase agreements include RUB 2,661 (2006 – RUB 7,107) placed with related parties.

Loans have been extended to the following types of customers:

	2007	*2006 (Restated)*
Private companies	173,323	127,889
Individuals	63,816	36,754
State companies	2,025	2,173
State budget or local authorities	240	456
	239,404	**167,272**

Loans are made principally within Russia in the following industry sectors:

	2007	*2006 (Restated)*
Individuals	63,816	36,754
Trading enterprises	63,378	45,505
Financial services, other than credit institutions	36,830	28,385
Real estate construction	23,000	10,864
Food processing	11,113	8,765
Manufacturing	8,524	4,933
Machine-building	5,722	3,305
Gold mining	4,386	2,970
Transport	2,680	2,248
Agriculture	2,547	2,813
Oil and gas	2,412	4,229
Leasing	1,795	1,525
Energy	1,697	2,508
Chemical	1,613	1,167
Metallurgy	1,493	2,548
Light industry	1,126	620
Forestry	917	1,179
Metal mining and refinery	911	2,579
Services	366	103
Telecommunication	342	341
Government and municipal bodies	240	456
Other	4,496	3,475
	239,404	**167,272**

(Millions of Russian Rubles)

11. Available-for-sale securities

Available-for-sale securities comprise:

	2007	*2006*
Units in closed unit investment funds	1,220	–
Corporate shares	1,096	1,077
Corporate bonds	672	1,586
Share participation in limited liability companies	146	132
Corporate Eurobonds	115	–
Equity investments	26	13
Municipal and government bonds	17	–
OJSC "LUKoil" ordinary shares	–	858
Available-for-sale securities	**3,292**	**3,666**

As of December 31, 2007 and 2006 available-for-sale financial assets are represented primarily by corporate equity and debt instruments, which are not actively traded in Russian capital markets, such as shares in the "second tier" Russian enterprises and start-ups of various industrial and technology sectors. As of December 31, 2007 units in closed unit investment funds included investments in closed unit investment funds of property "Development of South of Russia" in the amount of RUB 574, "Construction Investments" in the amount of RUB 523 and "URALSIB – Land investments" in the amount of RUB 123.

12. Net investments in finance leases

Net investments in finance leases comprise:

	2007	*2006*
Gross investments in finance leases	28,735	15,129
Less – Unearned finance lease income	(8,007)	(3,877)
	20,728	**11,252**
Less – Allowance for impairment	(578)	(272)
Net investments in finance leases	**20,150**	**10,980**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

There is no residual value related to lease contracts existing as of December 31, 2007 and 2006. Future minimum lease payments to be received following December 31, 2007 and 2006, are disclosed below:

	2007	*2006*
Within 1 year	11,098	5,377
From 1 to 5 years	15,454	9,522
More than 5 years	2,183	230
Minimum lease payments receivable	**28,735**	**15,129**

Gross investment in leases as of December 31, 2007 and 2006, is payable in the following currencies:

	2007	*2006*
RUB	13,808	5,533
USD	8,910	3,968
EUR	6,017	5,628
Gross investments in finance leases	**28,735**	**15,129**

(Millions of Russian Rubles)

12. Net investments in finance leases (continued)

The movements in allowance for impairment of investments in finance leases were as follows:

	2007	*2006*
January 1	**272**	**96**
Charge	306	176
December 31	**578**	**272**

13. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost or revalued amount				
December 31, 2005 (Restated)	**3,865**	**2,300**	**557**	**6,722**
Additions	55	370	276	**701**
Disposals	(320)	(279)	(183)	**(782)**
Netting of accumulated depreciation due to revaluation	(156)	–	–	**(156)**
Revaluation	609	–	–	**609**
Transfer	–	189	(189)	–
December 31, 2006 (Restated)	**4,053**	**2,580**	**461**	**7,094**
Additions	103	844	328	**1,275**
Disposals	(117)	(324)	(16)	**(457)**
Netting of accumulated depreciation due to revaluation	(92)	–	–	**(92)**
Revaluation	2,582	–	–	**2,582**
Transfer	7	120	(127)	**–**
December 31, 2007	**6,536**	**3,220**	**646**	**10,402**
	–	–	–	–
Accumulated depreciation	–	–	–	–
December 31, 2005 (Restated)	**181**	**917**	**–**	**1,098**
Charge for the year	100	499	–	**599**
Disposals	(41)	(209)	–	**(250)**
Netting of accumulated depreciation due to revaluation	(156)	–	–	**(156)**
December 31, 2006 (Restated)	**84**	**1,207**	**–**	**1,291**
Charge for the year	103	581	–	**684**
Disposals	(5)	(256)	–	**(261)**
Netting of accumulated depreciation due to revaluation	(92)	–	–	**(92)**
December 31, 2007	**90**	**1,532**	**–**	**1,622**
Net book value				
December 31, 2005 (Restated)	**3,684**	**1,383**	**557**	**5,624**
December 31, 2006 (Restated)	**3,969**	**1,373**	**461**	**5,803**
December 31, 2007	**6,446**	**1,688**	**646**	**8,780**

The Bank engaged independent appraisers to determine the fair value of its buildings. Fair value was determined by reference to market-based evidence. The date of the revaluation was November 1, 2007. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2007	*2006*
Cost	3,699	3,479
Accumulated depreciation and impairment	494	403
Net carrying amount	**3,205**	**3,076**

(Millions of Russian Rubles)

14. Goodwill

Goodwill relates to:

	December 31, 2007	*December 31, 2006*
URALSIB Banking Group	1,897	1,897
OJSC "AVTOBANK-NIKOIL"	2,630	2,630
Goodwill	**4,527**	**4,527**

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- corporate banking – RUB 3,607
- retail banking – RUB 920.

Key assumptions used in value in use calculations

The recoverable amounts of each of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 15% (2006 – 14%) and cash flows beyond the five-year period are extrapolated based on the profit earned during the fifth year.

The calculation of value in use for both Corporate Banking and Retail Banking units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the budget period;
- Current local Gross Domestic Product (GDP);
- Local inflation rates; and
- Foreign exchange rates.

Interest margins

Interest rate margin is increased over the budget period for anticipated market conditions of 25-33% annually.

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period. Management expects the Bank's share of the Retail Banking and Corporate Banking markets, including customer deposits, to be stable over the budget period.

Projected growth rates, GDP and local inflation rates

Assumptions are based on published industry research.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

Foreign exchange rates

The US Dollar will not fluctuate significantly over the next five years.

(Millions of Russian Rubles)

15. Taxation

The corporate income tax expense comprises:

	2007	*2006 (Restated)*
Current tax charge	3,928	901
Deferred tax (benefit) expense		
Movement in net deferred tax liabilities	*(2,049)*	*532*
Recognized directly in equity	*(460)*	*92*
	(2,509)	624
Income tax expense	**1,419**	**1,525**

The Bank is liable to profits tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 24%. Pursuant to Russian profits tax law interest income on certain types of securities is subject to profits tax at a rate of 15%, 9% or 0%.

Tax assets and liabilities comprised the following:

	2007	*2006 (Restated)*
Current tax assets	740	411
Deferred tax assets	65	117
Tax assets	**805**	**528**
Current tax liability (Note 16)	–	29
Deferred tax recognized through income statement	(166)	2,395
Deferred tax relating to property revaluation	764	233
Deferred tax relating to investment revaluation reserve	18	89
Tax liabilities	**616**	**2,746**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2007	*2006 (Restated)*
Profit before tax	**3,616**	**5,705**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	**868**	**1,369**
State securities taxed at different rates	(24)	(11)
Transfer pricing adjustment on dealing gain	74	3
Dividend income taxed at different rate	(30)	(55)
Non-deductible administrative expenditures:		
- business development, business travel and personnel training	168	88
- charity	74	34
- marketing and advertising	63	30
- personnel expenses	39	4
- office materials	21	11
- other non-deductible administrative expenditures	65	11
Other	101	41
Income tax expense	**1,419**	**1,525**

(Millions of Russian Rubles)

15. Taxation (continued)

Deferred tax assets and liabilities as of December 31 for the respective years comprise:

	2007	*2006*
Tax effect of deductible temporary differences:		
Loans to customers	523	694
Bonuses and compensation accrued	158	294
Allowance for net investments in finance leases	155	106
Administrative expenses accrued	89	100
Allowance for other assets	13	56
Intangible assets	12	36
Deferred tax asset	**950**	**1,286**
Less part of deferred tax asset which can not be offset against deferred tax liability	65	117
Deferred tax asset eligible to decrease deferred tax liability	**885**	**1,169**
Tax effect of taxable temporary differences:		
Property and equipment	1,036	448
Derivative financial instruments	225	1
Net investments in finance lease	99	9
Borrowed funds	75	62
Securities	66	3,366
Deferred tax liability	**1,501**	**3,886**
Deferred tax liability, net	**616**	**2,717**

16. Other assets and liabilities

Other assets comprise:

	2007	*2006 (Restated)*
Prepaid operating taxes	2,420	1,449
Trade debtors on operations with securities	1,475	6,683
Prepayments	1,543	688
Intangible assets	1,087	998
Settlements under agreements on sale of equipment	749	–
Inventory in transit	431	222
Settlements under finance lease contracts	296	219
Settlements on foreign exchange derivatives	166	–
Investments in associates (Note 17)	112	–
Settlements on acquisition of investment property	103	–
Investment property	45	802
Receivables on plastic cards	14	44
Other	134	210
	8,575	**11,315**
Less – Allowance for impairment of other assets	(129)	(236)
Other assets	**8,446**	**11,079**

Prepaid operating taxes comprise RUB 1,955 (2006 – RUB 1,438) accounted on the balance sheet of LLC "URALSIB Leasing Company" and represent excess input VAT over the output VAT. In accordance with tax legislation excess input VAT is subject to recovery either through offset against output VAT or cash refund. The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Upon the expiration of the three month period the remainder of input VAT which was not offset by the tax authorities is to be refunded to the taxpayer in cash upon its written claim or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

(Millions of Russian Rubles)

16. Other assets and liabilities (continued)

Other liabilities comprise:

	2007	*2006 (Restated)*
Settlements under finance lease contracts	2,281	1,479
Accrued compensation and bonuses	1,019	1,468
Operating taxes	327	291
Settlements under agreements on purchase of equipment	241	128
Securities sold, but not yet purchased	88	–
Accrued contribution under obligatory deposit insurance system	73	–
Trade creditors	63	401
Rent settlements	53	–
Deferred commission income	22	12
Dividend settlements	6	3
Settlements on plastic cards	6	8
Current tax liabilities (Note 15)	–	29
Other	150	195
Other liabilities	**4,329**	**4,014**

The movements in allowances for other assets were as follows:

	2007	*2006 (Restated)*
January 1	**236**	**93**
Charge	40	145
Write-offs	(147)	(2)
December 31	**129**	**236**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

17. Investments in associates

Associates

The following associate is accounted for under the equity method:

2007

Associate	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
OJSC "Bashprombank"	48.5%	Russia	November 28, 1990	Banking	June 6, 2002

During 2007, the Bank lost control over OJSC "Bashprombank" (BPB), which occurred without a change in the ownership interest of the Bank in that subsidiary. BPB became subject to the new governance rules and the new structure of the Board of Directors which led to the Bank's effectively losing control over BPB.

The loss of control over BPB resulted in lowering the level of influence still held by the Bank to "significant influence". Therefore, the remaining interest in the carrying amount of the BPB's assets and liabilities at the date of loss of the control was deemed to be the associate's cost.

(Millions of Russian Rubles)

17. Investments in associates (continued)

Movement in investments in associate:

	2007	*2006*
Balance, beginning of the period	–	–
Purchase cost	106	–
Share of profit	6	–
Investments in associates, end of the period	**112**	**–**

The following table illustrates summarised financial information of the associate:

Aggregated assets and liabilities of associate	*2007*	*2006*
Assets	690	–
Liabilities	459	–
Net assets	**231**	**–**

Aggregated revenue and profit of associate	*2007*	*2006*
Revenue	61	–
Profit	12	–

18. Amounts due to credit institutions

The amounts due to credit institutions comprise:

	2007	*2006 (Restated)*
Current accounts	4,865	3,300
Time deposits and loans	40,943	29,621
Syndicated loans	31,011	20,756
Subordinated loan	6,097	–
Repurchase agreements	3,050	1,001
Amounts due to credit institutions	**85,966**	**54,678**

During 2007, the Bank placed with and received short-term funds from Russian banks in different currencies. At December 31, 2007, the Bank received RUB 234, equivalent of RUB 65 in EUR and RUB 171 in USD as deposits with Russian banks, which relate to deposits granted to the same banks (see Note 8).

The Bank entered into repurchase agreements with a number of credit institutions. The subject of these agreements are Eurobonds of Russian Federation and Corporate Eurobonds issued by Russian companies with a fair value of RUB 2,893 and RUB 476, respectively (as of December 31, 2006 the subject of these agreements were Russian State bonds (OFZ) with fair value of RUB 1,053).

As of December 31, 2007 nominal amount of syndicated loans received by the Bank comprised USD 1,335 million (RUB 34,298) from Russian, OECD and non-OECD banks and companies. The amounts received from non-credit institutions (nominal amount comprised USD 86 million (RUB 2,225)) is recognized in other borrowed funds. The contractual maturity of syndicated loans is 2008-2012, and the interest rate is tied to six-month LIBOR.

During 2007 the Bank received a subordinated loan in total nominal amount of USD 250 million (RUB 6,475) from an OECD bank. The contractual maturity of the subordinated loan is 2017, and the interest rate is LIBOR plus 4.5 per cent during the first 5-year period and LIBOR plus 6.5 per cent after the first five year period.

As of December 31, 2007 the Bank attracted loans from foreign banks totaling RUB 1,681 (2006 – RUB 30,161). These loans are subject to financial covenants, some of which were violated as of the reporting date. According to contractual arrangements the creditors have a right to withdraw the provided financing in case of violation of financial covenants. Thus, these loans have been included in category "on demand" in the liquidity table (Note 29). As of the date of the authorization of the financial statements the creditors have not withdrawn any funds under the respective loan agreements.

(Millions of Russian Rubles)

19. Amounts due to customers

The amounts due to customers include the following:

	2007	*2006 (Restated)*
Current accounts	96,990	74,493
Time deposits	117,856	108,402
Repurchase agreements	166	57
Amounts due to customers	**215,012**	**182,952**

At December 31, 2007, amounts due to customers of RUB 25,085 or 12% were due to the ten largest third party customers (2006 - RUB 27,530 or 15%).

The Bank had entered into repurchase agreements with a number of customers. The subject of these agreements are corporate bonds, Russian State bonds (OFZ) and municipal and government bonds with total fair value of RUB 164, (2006 - government bonds with total fair value of RUB 52).

Included in time deposits are deposits of individuals in the amount of RUB 47,383 (2006 – RUB 45,088). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2007	*2006 (Restated)*
Private enterprises	112,953	84,476
Individuals	68,797	61,608
State and budgetary organisations	31,424	35,944
Employees	1,838	924
Amounts due to customers	**215,012**	**182,952**

An analysis of customer accounts by economic sector follows:

	2007	*2006 (Restated)*
Individuals	70,635	62,532
Investment and finance	43,174	25,995
Government bodies	31,143	35,612
Trade and food processing	17,547	14,176
Real estate construction	16,747	7,616
Energy	8,185	12,104
Production and manufacturing	6,217	6,438
Transport and communication	5,229	2,024
Services	4,501	2,357
Chemical	3,027	3,690
Leasing	765	51
City and municipal bodies	149	200
Non-budget funds	132	132
Other	7,561	10,025
Amounts due to customers	**215,012**	**182,952**

(Millions of Russian Rubles)

20. Promissory notes and certificates of deposit issued

Promissory notes and certificates of deposit issued consisted of the following:

	2007	*2006*
Promissory notes	14,652	10,968
Certificates of deposit	30	–
Promissory notes and certificates of deposit issued	**14,682**	**10,968**
Held as security against guarantees	**732**	**6**

As of December 31, 2007, the Bank issued non-interest-bearing promissory notes, and deposit certificates having an aggregate nominal value of RUB 1,612 (2006 - 1,897). Other promissory notes and certificates of deposit issued by the Bank as of December 31, 2007, bear annual interest rates ranging from 2.0% to 11.9% (2006 - from 2.0% to 13.0%).

21. Other borrowed funds

Other borrowed funds comprised the following:

	2007	*2006*
Credit Linked Notes ("Uralsib Leasing Company" LLC)	2,228	–
Syndicated loans (Note 18)	2,148	1,357
Bonds ("Uralsib Leasing Company" LLC)	655	–
Eurobonds	–	3,670
Other borrowed funds	**5,031**	**5,027**

In the first half of 2007 the Bank redeemed the second issue of Eurobonds in the total nominal amount of USD 150 million structured as debt securities issued by DEUTSCHE BANK LUXEMBOURG S. A., LU.

In 2007, "Uralsib Leasing Company" LLC completed the issue of Credit Linked Notes denominated in Russian Rubles totalling RUB 2,500 maturing in 2009 with 9.75% fixed interest payable semi-annually. The Credit Linked Notes were issued by ING Bank N.V, the placement agents for the issue are OJSC "URALSIB" and ING Bank N.V.

In December 2007, LLC "Uralsib Leasing Company" (represented by OJSC "URALSIB" and LLC "Uralsib Capital") completed the issue of non-convertible documentary bonds totalling RUB 2,700 maturing in 2010 with 11.6% interest (for the first three coupon payments, remaining are to be determined by the issuer) and payable semi-annually. The placement agent for the issue was OJSC "URALSIB".

Bonds and Credit Linked Notes issued by "Uralsib Leasing Company" LLC and which were owned by the Bank as of December 31, 2007 were netted off against their carrying value in other borrowed funds.

22. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares		*Nominal amount, Rbth*		*Inflation adjustment*	*Total*
	Preferred	*Ordinary*	*Preferred*	*Ordinary*	*Rbth*	*Rbth*
December 31, 2005, 2006 and 2007	**–**	**204,184,218,350**	**–**	**20,418,422**	**12,188,281**	**32,606,703**

The number of authorized ordinary shares is 275,984,185,600 (2005: – 275,984,185,600) with a nominal value per share of Ruble 0.1.

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

In November 2004 the shareholders of OJSC AB "IBG NIKoil", OJSC AKB "AVTOBANK-NIKOIL", OJSC "Bryansky Narodny Bank", OJSC "Kuzbassugolbank" and OJSC "Uralo-Sibirsky Bank" approved a reorganization in the form of a combination with OJSC "Uralo-Sibirsky Bank", which was completed and registered by the CBR in September 2005.

(Millions of Russian Rubles)

22. Equity (continued)

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. In its stand-alone financial statements, the Bank had approximately RUB 1,252 of undistributed and unreserved earnings as of December 31, 2007 (2006 – RUB 5,840). In addition, the Bank’s share in the undistributed and unreserved earnings of its subsidiaries was approximately RUB 737 as of December 31, 2007 (2006 – RUB 529).

At the Shareholders’ Meeting in June 2007, the Bank declared dividends in respect of the year ended December 31, 2006, totaling RUB 1,052 on ordinary shares. These dividends were paid out of unreserved earnings of the Bank.

Nature and purpose of other reserves

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains(losses) on investment securities available for sale

This reserve records fair value changes of available-for-sale investments.

23. Commitments and contingencies

Operating environment

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Russian tax, currency 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 regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

As of December 31, 2007, management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

(Millions of Russian Rubles)

23. Commitments and contingencies (continued)

Commitments and contingencies

As of December 31, the Bank's commitments and contingencies comprised the following:

	2007	*2006*
Credit related commitments		
Undrawn loan commitments	50,942	39,542
Import letters of credit	13,644	11,535
Guarantees issued	10,774	7,334
Letters of credit on settlements in Russian Federation	585	67
	75,945	**58,478**
Operating lease commitments		
Not later than 1 year	1,221	870
Later than 1 year but not later than 5 years	2,267	1,159
Later than 5 years	584	506
	4,072	**2,535**
Capital expenditure commitments	783	526
	80,800	**61,539**
Less – Cash held as security against letters of credit	–	(2)
Less – Bank's promissory notes held as security against guarantees	(732)	(6)
Commitments and contingencies	**80,068**	**61,531**

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

24. Net fee and commission income

Net fee and commission income comprises:

	2007	*2006 (Restated)*
Settlements operations	3,472	2,595
Cash operations	1,924	1,588
Guarantees and letters of credit	222	119
Foreign exchange operations	200	212
Consulting	120	15
Trust operations	48	57
Underwriting	38	91
Securities operations	9	11
Agent fees for insurance	4	11
Other	9	56
Fee and commission income	**6,046**	**4,755**
Settlements operations	871	642
Cash operations	150	143
Securities operations	13	20
Guarantees	11	20
Currency conversion operations	1	18
Other	8	24
Fee and commission expense	**1,054**	**867**
Net fee and commission income	**4,992**	**3,888**

(Millions of Russian Rubles)

25. Net (losses) / gains from trading securities

Transactions with trading securities in 2007 resulted in losses in the amount of RUB 3,754 (2006: gains RUB 5,465), which included both realized and unrealized gains and losses. This has been caused by the weak performance of Russian stock market in the first half of 2007.

During 2007, the Bank substantially changed the structure of the trading securities portfolio (please see Note 7).

Net (losses)/gains from trading securities include certain related party transactions discussed in Note 31.

26. Net gains from derivatives

Gains less losses from derivatives comprise:

	2007	*2006*
Foreign exchange contracts (realised)	700	410
Equity contracts (realised and unrealised)	477	–
Gains less losses from derivatives	**1,177**	**410**

Gains less losses from equity derivatives include certain related party transactions discussed in Note 31.

27. Net gains from foreign currencies

Gains less losses from foreign currencies comprise:

	2007	*2006*
Dealing gains	1,266	1,034
Translation differences	(855)	(939)
Gains less losses from foreign currencies	**411**	**95**

28. Personnel expenses, administrative and operating expenses

Personnel, administrative and operating expenses comprise:

	2007	*2006 (Restated)*
Salaries and bonuses	8,595	6,712
Social security costs	1,145	1,015
Personnel expenses	**9,740**	**7,727**
Rent expenses	1,350	1,001
Operating taxes	1,139	919
Repairs and maintenance of property and equipment	794	522
Marketing and advertising	455	335
Charity	447	141
Obligatory deposit insurance system contributions	352	228
Office materials	300	268
Data processing	324	197
Communications	270	231
Business development	250	152
Business travel and related expenses	206	145
Insurance	193	43
Penalties incurred	77	4
Personnel training	45	81
Professional services	30	42
Other	230	482
Administrative and operating expenses	**6,462**	**4,791**

(Millions of Russian Rubles)

29. Risk management

The Bank is exposed to credit risk, market risk and liquidity risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

In order to control the level of certain risks and to restrict its losses, the Bank implemented an ongoing risk management process. The risk management system is based on an integrated approach to identification, measurement, monitoring and controlling of risk. The Bank's risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Bank.

Risk management structure

Risk management functions are realized at all levels of corporate governance and are allocated among the following bodies:

Supervisory Board (Board of Directors) performs supervisory functions and provides overall assurance over the risk management process.

Management Board is responsible for implementing the risk management strategy, approving risk management Policies, segregating risk management functions between the Bank's committees and departments and controlling their execution.

The Board sets general limits on the level of risk that may be accepted by types of risks and by business-segments and also sets risk limits for large risk exposures. The Board regularly analyses risk reports and, where necessary, reallocates risk limits to achieve target strategic risk profile.

To make the risk management system more efficient, the Management Board delegates authority for setting risk limits to other Bank committees, departments or personnel.

Assets and Liabilities Management Committee (ALCO) is responsible for currency, interest rate and liquidity risk management. ALCO also manages price risk.

ALCO allocates general market risk limits established by the Management Board against particular securities portfolio, currency and interest rate positions and sets target level for liquidity position. ALCO also approves internal transfer prices that are a core instrument of the Bank's interest rate risk management policy.

Day-to-day management of currency, interest rate and liquidity risks as well as administration of the internal funds transfer pricing system is carried out by **the Bank's Treasury** within authority delegated to it by the ALCO.

The **Credit Committee** is responsible for implementation of the Bank's credit policy in the commercial lending segment. The Bank implemented a four-level system of Credit Committees, due to its diversified regional network. Section "Credit risk" contains additional information on the Bank's credit decision-making process.

The **Credit Committee for Money and Capital Markets Operations** determines the policy for managing credit risk which the Bank undertakes when performing operations on the currency, money and securities markets. The Committee sets risk limits for the Bank's counterparties (credit institutions, financial and investment companies, exchanges, trading systems and clearing centers), securities issuers (Russian and foreign) as well as country risk limits.

The **Risk Management Department** performs centralized risk management functions and is responsible for development of risk management policies and procedures and identification, assessment and control of risks in all business segments. The Risk Management Department is an independent division reporting directly to the Deputy Head of the Management Board who does not supervise any business segment.

The **Risk Control Units** makes sure that transactions comply with policies, established risk limits and other requirements. The Risk Control units are organized by different business segments.

The **Internal Control Department** performs internal audit functions and assesses the efficiency of the risk management system at both the Bank and individual business levels. The Internal Control Department reports its findings to the Management Board and to the Supervisory Board of the Bank.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur losses as a result of its counterparties failing to fulfill their financial obligations in full or in part or when due. The Bank's exposure to credit risk depends on amounts due and the Bank's off-balance sheet commitments which carry credit risk.

Exposure to credit risk without taking into account any collateral and netting agreements is the following:

	2007	*2006*
Balance sheet instruments carrying credit risk:		
Cash and cash equivalents*	36,400	23,762
Trading securities	31,035	28,858
Trading securities pledged under repurchase agreements	3,533	1,105
Amounts due from credit institutions*	6,192	15,619
Derivative financial assets	1,130	41
Loans to customers	229,101	157,495
Available-for-sale securities	2,196	1,731
Net investments in finance leases	20,150	10,980
Other assets	4,271	7,499
	334,008	**247,090**
Commitments carrying credit risk:**		
Undrawn loan commitments	50,942	39,542
Import letters of credit	13,644	11,535
Guarantees issued	10,774	7,334
Letters of credit on settlements in Russian Federation	585	67
	75,945	**58,478**
Total credit risk exposure	**409,953**	**305,568**

Credit risk concentrations arise when significant loans are granted to an individual counterparty (borrower) or to a group of related counterparties (borrowers) or in case when counterparties (borrowers) are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause them to be similarly affected by changes of the same economic factors.

Credit risk concentration by geographical regions as of December 31, 2007 is the following:

	2007				*2006*			
	Russia	*OECD*	*Other countries*	*Total*	*Russia*	*OECD*	*Other countries*	*Total*
Assets:								
Cash and cash equivalents	32,025	4,362	13	**36,400**	20,534	3,177	51	**23,762**
Trading securities	19,755	10,945	335	**31,035**	19,981	8,877	–	**28,858**
Trading securities pledged under repurchase agreements	3,533	–	–	**3,533**	1,105	–	–	**1,105**
Amounts due from credit institutions	5,218	173	801	**6,192**	7,309	7,974	336	**15,619**
Derivative financial assets	2	633	495	**1,130**	4	37	–	**41**
Loans to customers	203,454	605	25,042	**229,101**	146,952	78	10,465	**157,495**
Available-for-sale securities	2,196	–	–	**2,196**	1,731	–	–	**1,731**
Net investments in finance leases	20,150	–	–	**20,150**	10,980	–	–	**10,980**
Other assets	4,209	62	–	**4,271**	6,787	712	–	**7,499**
Total	**290,542**	**16,780**	**26,686**	**334,008**	**215,383**	**20,855**	**10,852**	**247,090**

The Bank's credit procedures are designed to make the credit approval process efficient, depending on the credit risk level, by taking into consideration the specifics of different industries, business segments, groups of customers and types of credit products.

* These captions include amounts due from the CBR, however the Bank considers this risk as minimal.

** The Bank has commitments such as credit facilities, guarantees and uncovered letters of credit carrying credit risk. Such risk is mitigated through the use of the same methods and procedures as applied to the balance sheet instruments bearing credit risk.

(Millions of Russian Rubles)

29. Risk management (continued)

Loans to large corporate customers

Loan applications by corporate customers are handled by client managers, who analyze the applicant's business and structure the loans in accordance with customer's requirements. The application documents are then sent to credit managers of the Corporate Lending Department and, if collateral is required, to the Collateral Department. Credit managers assess the credit risk by applying the relevant methodology prepared jointly with the Risk Management Department (refer to the Section "Credit quality of financial assets"). The Risk Management Department provides its own independent analysis of the loan.

The ultimate decision on a particular deal depends on its structure and amount, and is made by either:
- an authorized credit manager (within personal limit) or
- a credit risk manager and a credit managers("four-eyes approach") or
- one of the Credit Committee or
- Management Board.

The subsequent support and monitoring of the loan is carried out by the Loan Administration Department. The Collateral Department determines the fair value of collateral on a quarterly basis.

A loan could be classified as a problem loan by the Credit Committee if:
- it is overdue,
- the borrower's financial position worsens,
- value of collateral substantially decreases, or
- there are other circumstances.

A loan overdue by more than 45 days is classified as a problem loan. The Problem Assets Collection Department reviews all problem loans and takes actions necessary to collect debts including loan restructuring, judicial and extrajudicial recovery.

Loans to small and medium-sized entities

The Bank grants loans to small and medium-sized entities on standard terms, thereby reducing decision-making time. Credit managers assess a client's credit risk by applying the relevant methodology prepared jointly with the Risk Management Department (refer to the Section "Credit quality of financial assets"). The procedures for credit approval, loan administration and problem loans management are identical to those for large corporate customers.

Retail lending

Retail customers submit their loan applications to credit managers who collect and review all necessary documents for compliance with the Bank's minimal requirements and make an initial assessment of the customer's credit limit. Applications are then reviewed by qualified underwriters who perform credit scoring, determine the customer's maximum credit limit, request customer verification approval from the Bank's Security Department, request a collateral valuation (depending on product type) and finally draw a credit conclusion.

The final loan approval is made by the Bank's authorized managers. The subsequent support and monitoring of loans, including loans overdue up to 60 days are carried out by credit controllers of the Retail Loan Control Department. Loans overdue by more than 60 days are classified as problem loans, and transferred to the Problem Assets Collection Department, which takes necessary steps to collect debts, including loan restructuring, judicial and extrajudicial recovery.

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral for operations with credit risk

The type and amount of collateral required depends on assessment of credit quality of a counterparty. The Bank requires the following types of collateral, depending on the type of transactions:

- repurchase transactions and margin loans: securities;
- interbank transactions: deposits, promissory notes and securities;
- corporate lending: real estate (manufacturing premises, trade areas, warehouses), machinery and equipment, inventories, receivables, guarantees and sureties;
- retail lending, real estate, motor vehicles.

The Bank established procedures that determine the adequacy and amount of required collateral depending on the type of transaction as well as procedures for monitoring the fair value of collateral that require the borrower to put up additional collateral in case the current collateral value declines. To reduce its risks, the Bank requires that collateral is insured by insurance companies accredited by the Bank.

As of December 31, 2007 the fair value of collateral obtained on loans overdue by more than 1 day, except for guarantees and sureties, amounted to RUB 7,361 (2006 – RUB 6,259).

The Bank also uses master netting agreements with counterparties to mitigate the exposure to credit risk.

Credit quality of financial assets

The assessment of credit quality of financial assets is based on the qualitative and quantitative assessment of credit risk

The assessment of credit quality of loans to **corporate customers** is based on the seven-level system (good+, good, good-, average+, average, average-, below average) which is a basis for the classification of the loan portfolio. The assignment of a credit quality level is based on assessment of the borrower's financial position and value and liquidity of collateral obtained. The assessment is made also with regard to the type of lending: turnover financing, investment financing, project financing, financing the users of mineral resources, small-business, and lease financing.

The assessment of credit risk of **retail customers** is based on scoring models.

Credit quality of loans to legal entities which are neither past due nor impaired is the following:

	2007	*2006*
Good +	55,510	40,480
Good	51,239	17,537
Good –	11,501	12,976
Average +	10,547	12,181
Average	31,326	35,140
Average –	7,494	7,577
Below average	3,029	551
Not rated	105	378
Total	**170,751**	**126,820**

(Millions of Russian Rubles)

29. Risk management (continued)

Credit quality of financial assets (continued)

Analysis of overdue amounts as of December 31, 2007 and 2006 is the following:

	Not overdue and not impaired	*Overdue by less than 30 days*	*Overdue by 31-60 days*	*Overdue by more than 60 days*	*Individually impaired*	*Total*
Amounts due from credit institutions	6,192	–	–	–	48	**6,240**
Loans to customers						
Loans to legal entities	170,751	46	14	–	4,777	**175,588**
Auto loans	13,917	228	67	697	–	**14,909**
Residential mortgages	27,391	181	89	296	–	**27,957**
Consumer loans	14,237	200	133	3,240	–	**17,810**
Credit cards	1,371	4	2	91	–	**1,468**
Other	1,629	10	5	28	–	**1,672**
Net investment in finance leases	18,139	1,691	385	111	402	**20,728**
Other assets	3,863	155	4	–	249	**4,271**
Total	**257,490**	**2,515**	**699**	**4,463**	**5,476**	**270,643**

	Not overdue and not impaired	*Overdue by less than 30 days*	*Overdue by 31-60 days*	*Overdue by more than 60 days*	*Individually impaired*	*Total*
Amounts due from credit institutions	15,619	–	–	–	19	**15,638**
Loans to customers						
Loans to legal entities	126,820	31	2	–	3,665	**130,518**
Auto loans	9,148	196	102	349	–	**9,795**
Residential mortgages	10,026	37	25	15	–	**10,103**
Consumer loans	12,308	202	335	2,381	–	**15,226**
Credit cards	702	336	–	–	–	**1,038**
Other	563	3	3	23	–	**592**
Net investment in finance leases	8,604	1,952	137	492	67	**11,252**
Other assets	7,042	75	64	112	206	**7,499**
Total	**190,832**	**2,832**	**668**	**3,372**	**3,957**	**201,661**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as of 31 December 2007 was RUB 2,316 (2006: RUB 1,461). See 'Collateral and other credit enhancements' on Note 10 for the details of types of collateral held.

The significant terms of some contracts have been changed by the Bank during the year in order to mitigate the risk of impairment of respective financial assets.

The table below shows the carrying amount of renegotiated financial assets, by class:

	2007	*2006*
Loans to customers		
Loans to legal entities	7,061	2,413
Total	**7,061**	**2,413**

In accordance with the **policy for estimation allowance**s, the Bank assesses the impairment on an individual or collective basis.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit quality of financial assets (continued)

The Bank determines the allowances appropriate for each significant loan on an **individual basis**. The following circumstances provide evidence of impairment of individually assessed loans: any payment of principal or interest is overdue by more than 60 days, a borrower notified the Bank about its inability to meet its loan obligations when due, a borrower has overdue obligations to budgetary funds, a borrower intentionally limits the scope of the Bank's review and revaluation of the collateral.

The issues considered while determining the amount of an allowance on individually impaired loans include:
- the sustainability of the counterparty's business plans,
- the counterparty's ability to improve performance when a financial difficulty arises,
- the projected receipts and the expected dividend payout should bankruptcy ensue,
- the realizable value of collateral and the timing of expected cash flows.

Allowances for losses are assessed **collectively** on loans that are not individually significant or for individually significant loans for which there is no objective evidence of individual impairment.

Allowances for losses are assessed **collectively** on the following loans:
- auto loans to individuals;
- residential mortgages;
- consumer lending;
- credit cards;
- "express-loans";
- loans to small-sized entities.

The amount of allowances for the above portfolios is calculated by making a statistical analysis of the time structure of overdue payments. Thereby, the probability of impairment and the level of repayment of problem loans may be assessed. The data obtained, as applied to the current size of each portfolio, provides an estimate of the size of the potential impairment of each portfolio, which is followed by the creation of the respective allowances. Historical allowance rates for the Bank's retail loan portfolio as of December 31 were as follows:

	*2007, %**	*2006, %*
Residential mortgages	0.2	0.2
Consumer lending	12.2	20.4
Auto loans	2.9	6.8
Credit Cards	12.3	10.8
Other	1.3	7.4

* In 2007, the Bank has changed the methods of estimating allowances for the pools of retail loans and methodology for incurred but not yet reported losses for retail loans (Note 4).

The amount of collectively assessed allowances on significant loans without objective evidence of individual impairment depends on the industry in which a borrower operates.

Liquidity risk

A liquidity risk is the risk of a potential loss arising in the case when the Bank is unable to meet its financial obligations as they fall due.

The Bank created a regular fund management process intended to maintain a source-diversified funding base.

The Bank Treasury is responsible for operative liquidity risk management which is aimed at maintaining current and medium-term liquidity. In managing the liquidity risk, the Bank Treasury prepares a "cash-plan" report for each day, carries out stress-testing, sets limits on liquidity gaps and forms portfolios (allowances) of liquid assets of different levels.

The Bank has a rule to maintain solvency in critical situations,, establishing the procedures for committees, departments and personnel in case of a possible lack of funding sources.

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk (continued)

In accordance with the CBR's requirements, the Bank maintains an obligatory reserve with the CBR. As of December 31, 2007, the obligatory reserve with the CBR amounted to RUB 4,112 (for 2006, RUB 6,427). The Bank also meets the following CBR's liquidity requirements:

- Immediate-liquidity ratio (N2): calculated by dividing the total amount of highly liquid assets by the total amount of the Bank's liabilities that must be repaid on demand;
- Current-liquidity ratio (N3): calculated by dividing the total amount of all liquid assets by the total amount of the Bank's liabilities maturing in the next 30 days;
- Long-term-liquidity ratio (N4): calculated by dividing the total amount of the Bank's assets with a maturity of more than 1 year by the Bank's equity and liabilities with a maturity of more than 1 year;

The table below gives data on the provisional structure of assets and liabilities in accordance with the contractual maturities. With regard to planning the level of funding sources, the Bank segregates the stable part of its liabilities that are formed by the balances on the clients' current demand accounts, based on an analysis of the statistical data on the movement of balances on the clients' accounts.

Analysis of the Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date (liquidity gap) is following:

					2007				
	On demand	***Less than 3 months***	***3 months to 1 year***	***1 to 3 years***	***3 to 5 years***	***Over 5 years***	***Past due***	***No stated maturity***	***Total***
Assets:									
Cash and cash equivalents	33,832	14,015	–	–	–	–	–	–	**47,847**
Precious metals	357	–	–	–	–	–	–	–	**357**
Trading securities	–	40,554	–	–	–	–	–	–	**40,554**
Trading securities pledged under repurchase agreements	–	3,533	–	–	–	–	–	–	**3,533**
Amounts due from credit institutions	1,789	1,086	2,162	809	66	280	–	–	**6,192**
Derivative financial assets	–	617	513	–	–	–	–	–	**1,130**
Loans to customers	292	46,790	77,415	46,433	27,039	30,168	964	–	**229,101**
Available-for-sale securities	–	2,489	17	303	483	–	–	–	**3,292**
Net investment in finance leases	–	1,948	5,469	9,134	2,200	1,399	–	–	**20,150**
Property and equipment	–	–	–	–	–	–	–	8,780	**8,780**
Goodwill	–	–	–	–	–	–	–	4,527	**4,527**
Current tax asset	–	740	–	–	–	–	–	–	**740**
Deferred tax assets	–	–	–	–	–	65	–	–	**65**
Other assets	1,572	2,231	1,635	1,190	286	161	172	1,199	**8,446**
	37,842	**114,003**	**87,211**	**57,869**	**30,074**	**32,073**	**1,136**	**14,506**	**374,714**
Liabilities:									
Amounts due to credit institutions	6,681	20,410	34,431	13,971	3,548	6,925	–	–	**85,966**
Derivative financial liabilities	–	320	516	–	–	–	–	–	**836**
Amounts due to customers	97,816	53,488	56,301	7,161	246	–	–	–	**215,012**
Promissory notes and certificates of deposit issued	894	3,882	9,120	718	40	28	–	–	**14,682**
Other borrowed funds	–	464	493	4,074	–	–	–	–	**5,031**
Deferred tax liabilities	–	–	–	–	–	616	–	–	**616**
Other liabilities	39	2,392	1,891	7	–	–	–	–	**4,329**
Minority interest in limited liability companies	–	–	–	443	–	–	–	–	**443**
	105,430	**80,956**	**102,752**	**26,374**	**3,834**	**7,569**	**–**	**–**	**326,915**
Net position	**(67,588)**	**33,047**	**(15,541)**	**31,495**	**26,240**	**24,504**	**1,136**	**14,506**	**47,799**
Accumulated gap	**(67,588)**	**(34,541)**	**(50,082)**	**(18,587)**	**7,653**	**32,157**	**33,293**	**47,799**	

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk (continued)

	2006 (Restated)								
	On demand	*Less than 3 months*	*3 months to 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Past due*	*No stated maturity*	*Total*
Assets:									
Cash and cash equivalents	23,788	8,680	–	–	–	–	–	–	**32,468**
Precious metals	91	–	–	–	–	–	–	–	**91**
Trading securities	–	63,243	–	–	–	–	–	–	**63,243**
Trading securities pledged under repurchase agreements	–	1,105	–	–	–	–	–	–	**1,105**
Amounts due from credit institutions	2,741	6,106	6,442	166	161	3	–	–	**15,619**
Derivative financial assets	–	39	2	–	–	–	–	–	**41**
Loans to customers	905	57,740	41,788	37,018	8,870	10,139	1,035		**157,495**
Available-for-sale securities	–	2,080	–	1,324	242	20	–	–	**3,666**
Net investment in finance leases	–	1,211	2,675	4,428	2,514	152	–	–	**10,980**
Property and equipment	–	–	–	–	–	–	–	5,803	**5,803**
Goodwill	–	–	–	–	–	–	–	4,527	**4,527**
Current tax asset		411	–	–	–	–	–	–	**411**
Deferred tax assets	–	–	–	–	–	117	–	–	**117**
Other assets	1,365	926	6,077	539	372	–	–	1,800	**11,079**
	28,890	**141,541**	**56,984**	**43,475**	**12,159**	**10,431**	**1,035**	**12,130**	**306,645**
Liabilities:									
Amounts due to credit institutions	24,148	8,831	14,125	5,230	1,830	514	–	–	**54,678**
Derivative financial liabilities	–	6	32	–	–	–	–	–	**38**
Amounts due to customers	74,366	50,646	53,855	3,044	1,041	–	–	–	**182,952**
Promissory notes and certificates of deposit issued	864	4,612	5,041	344	74	33	–	–	**10,968**
Other borrowed funds	1,357	3,670	–	–	–	–	–	–	**5,027**
Deferred tax liabilities	–	–	–	–	–	2,717	–	–	**2,717**
Other liabilities	920	1,068	1,685	333	8	–	–	–	**4,014**
Minority interest in limited liability companies and unit investment funds	–	–	3	260	–	–	–	–	**263**
	101,655	**68,833**	**74,741**	**9,211**	**2,953**	**3,264**	**–**	**–**	**260,657**
Net position	**(72,765)**	**72,708**	**(17,757)**	**34,264**	**9,206**	**7,167**	**1,035**	**12,130**	**45,988**
Accumulated gap	**(72,765)**	**(57)**	**(17,814)**	**16,450**	**25,656**	**32,823**	**33,858**	**45,988**	

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

As of December 31, 2007 and 2006 the Bank had a negative accumulated liquidity gap. The Bank's liquidity risk management policy seeks to ensure that any negative liquidity gap can be maintained at a level that the Bank can comfortably fulfil. This policy prescribes the weekly monitoring of assets and liabilities behaviour, active management of their structure, and use of various treasury tools and methodologies.

The Bank's Treasury prepares cash and liquidity reports on a daily and weekly basis, respectively, regularly computes the volatility-related factors using statistical analyses, and provides the Bank's management with various stress-test scenarios and recommendations. The results of those tests are considered weekly by the ALCO.

A significant portion of the demand deposits is stable and historically has not been demanded by customers, even taking into account the statistical volatilities and fluctuations during the past three years. Therefore, for management analysis, such portion is transferred to a later time bucket as related to the liquidity risk management.

Large accounts of legal entities are being managed on an individual basis. The Bank influences its liquidity situation through regular adjustments of the interest rates on funds borrowed and loaned.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 19.

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk (continued)

As of December 31, 2007 the Bank attracted loans from foreign banks totaling RUB 1,681 (2006 – RUB 30,161). These loans are subject to financial covenants, some of which were violated as of the reporting date. According to contractual arrangements the creditors have a right to withdraw the provided financing in case of violation of financial covenants. Thus, these loans have been included in category "on demand" in the tables above. As of the date of the authorization of the financial statements the creditors have not withdrawn any funds under the respective loan agreements.

Maturity profile of the Bank's financial liabilities at December 31, 2007 based on contractual undiscounted repayment obligations is following:

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*More than 3 years*	*Total*
Amount due to credit institutions	13,431	14,454	18,740	18,548	16,647	14,052	**95,872**
Amounts due to customers	112,382	40,197	25,665	32,841	8,328	325	**219,738**
Promissory notes and certificates of deposit issued	2,765	2,042	2,311	7,348	784	70	**15,320**
Other borrowed funds	37	–	506	218	4,304	–	**5,065**
Derivative financial liabilities	10,562	8,699	464	4,483	–	–	**24,208**
Other liabilities	472	1,114	687	185	87	–	**2,545**
Total	**139,649**	**66,506**	**48,373**	**63,623**	**30,150**	**14,447**	**362,748**
Credit related commitments	**75,945**	**–**	**–**	**–**	**–**	**–**	**75,945**

Maturity profile of the Bank's financial liabilities at December 31, 2006 based on contractual undiscounted repayment obligations is following:

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*3 months to 1 year*	*1 to 3 years*	*More than 3 years*	*Total*
Amount due to credit institutions	30,854	2,629	3,637	11,067	5,607	3,551	**57,345**
Amounts due to customers	89,622	36,234	16,413	40,159	3,416	1,578	**187,422**
Promissory notes and certificates of deposit issued	2,799	2,677	1,735	3,559	378	114	**11,262**
Other borrowed funds	1,357	4,113	–	–	–	–	**5,470**
Derivative financial liabilities	9,509	4,100	10	1,316	–	–	**14,935**
Other liabilities	254	1,059	476	142	245	148	**2,324**
Total	**134,395**	**50,812**	**22,271**	**56,243**	**9,646**	**5,391**	**278,758**
Credit related commitments	**58,478**	**–**	**–**	**–**	**–**	**–**	**58,478**

Market risk

Market risk is the risk that the fair value of assets or future cash flows from financial instruments will diminish due to adverse changes in the interest rates, share prices or currency rates.

The Bank distinguishes the market risk related to trading activities in financial markets (**price risk**) and the market risk related to the structure of the Bank's assets and liabilities (**currency risk** and **interest rate risk**).

Market risk assessment methods

The Bank assesses market risk at both the overall level as well as of its components: the price, currency and interest rate risks. For its securities portfolio the Bank applies VaR methodology as a uniform measure of market risks that helps to assess its possible losses in case of adverse changes in financial market conditions.

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk assessment methods (continued)

A **price risk** is the risk that the fair values of the Bank's shares, units in investment funds and instruments with fixed income decrease as a result of adverse changes in their prices.

VaR for each type of securities is measured on the basis of historical simulation by using the correlation between different assets of the same type. Aggregated VaR for on the market risk of securities is calculated as sum of VaR without considering diversification between different types of assets. All calculations are made for a 10-day interval by using a confidence level of 99%.

The methods of VaR calculations used by the Bank have all the shortcomings common to the VaR methodology:

- It is assumed that historical volatilities of risk factors and their future movements remain the same;
- Losses beyond the confidence level used in calculations are not disclosed;
- Even though positions may changed throughout the day, the VaR only represents the risk of the open posisitons at the close of the reporting dates.

Additional assumptions implied are the following:

- VaR is measured on the basis of historical data for previous 360 (2006 – 180) days, which may cause less accurate calculations;
- if there is no historical data for less than 30% of the days, the information on the previous days is applied, which may reduce amount of VaR;
- for securities which lack from 30% to 70% of the required historical statistics, an expert estimate of VaR is used, equal to the greater of the 10-day parametric VaR and the 10-day historical VaR computed for intervals using the statistics available;
- for securities which lack historical data or such data cover less than 30% of the required volume, the maximum VaR value for a similar type of security is used as an expert estimate, adjusted for lower liquidity. To assess the equity market price risk for equity shares, a VaR estimate, equal to 30% of the fair value of the related underlying position, is used. For fixed income instruments, 7% of the fair value of the underlying position is used as a VaR estimate.

10-day VaR on securities calculated using a confidence level of 99%:

	2007	*2006*
OJSC "LUKoil" ordinary shares	815	1,537
Corporate and municipal bonds	705	523
Corporate shares	390	2,392
Treasury bills of foreign governments	231	45
Corporate Eurobonds	56	23
Units in LUKoil equity investment funds	49	68
Russian Federation Eurobonds	46	12
Russian State bonds (OFZ)	45	16
Total	**2,337**	**4,616**

In addition to VaR methodology, the Bank also uses a **sensitivity analysis** for certain risk factors and **stress-testing**.

Currency risk is the risk of a potential loss on the Bank's positions opened in foreign currencies or precious metals due to adverse changes in foreign exchange rates or the set prices of precious metals.

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk assessment methods (continued)

The Bank's exposure to currency risk:

	2007					*2006 (Restated)*				
	Rubles	*USD*	*EUR*	*Other*	*Total*	*Rubles*	*USD*	*EUR*	*Other*	*Total*
Assets:										
Cash and cash equivalents	41,473	4,262	2,019	93	**47,847**	26,770	4,467	1,124	107	**32,468**
Precious metals	–	–	–	357	**357**	–	–	–	91	**91**
Trading securities	26,388	14,149	17	–	**40,554**	49,337	13,906	–	–	**63,243**
Trading securities pledged under repurchase agreements	165	3,368	–	–	**3,533**	1,105	–	–	–	**1,105**
Amounts due from credit institutions	4,589	1,590	13	–	**6,192**	6,708	8,794	117	–	**15,619**
Derivative financial assets	494	4	29	603	**1,130**	5	3	25	8	**41**
Loans to customers	156,165	66,956	5,965	15	**229,101**	108,699	44,313	4,475	8	**157,495**
Available-for-sale securities	3,289	–	3	–	**3,292**	3,663	–	3	–	**3,666**
Net investment in finance leases	9,832	5,745	4,573	–	**20,150**	3,976	2,843	4,161	–	**10,980**
Property and equipment	8,780	–	–	–	**8,780**	5,803	–	–	–	**5,803**
Goodwill	4,527	–	–	–	**4,527**	4,527	–	–	–	**4,527**
Current tax asset	740	–	–	–	**740**	411	–	–	–	**411**
Deferred tax assets	65	–	–	–	**65**	117	–	–	–	**117**
Other assets	7,017	1,300	128	1	**8,446**	9,933	1,047	97	2	**11,079**
	263,524	**97,374**	**12,747**	**1,069**	**374,714**	**221,054**	**75,373**	**10,002**	**216**	**306,645**
Liabilities:										
Amounts due to credit institutions	13,550	63,182	9,215	19	**85,966**	9,244	35,300	8,420	1,714	**54,678**
Derivative financial obligations	11	28	58	739	**836**	–	–	6	32	**38**
Amounts due to customers	183,659	23,850	7,317	186	**215,012**	157,568	19,723	5,589	72	**182,952**
Promissory notes and certificates of deposit issued	11,566	2,957	159	–	**14,682**	9,479	1,092	397	–	**10,968**
Other borrowed funds	2,883	2,148	–	–	**5,031**	–	5,027	–	–	**5,027**
Deferred tax liabilities	616	–	–	–	**616**	2,717	–	–	–	**2,717**
Other liabilities	2,852	586	889	2	**4,329**	3,640	190	183	1	**4,014**
Minority interest in limited liability companies and unit investment funds	443	–	–	–	**443**	263	–	–	–	**263**
	215,580	**92,751**	**17,638**	**946**	**326,915**	**182,911**	**61,332**	**14,595**	**1,819**	**260,657**
Net balance sheet position	**47,944**	**4,623**	**(4,891)**	**123**	**47,799**	**38,143**	**14,041**	**(4,593)**	**(1,603)**	**45,988**
Net off balance sheet position – derivatives	**2,665**	**(5,772)**	**3,410**	**(303)**	**–**	**6,301**	**(12,885)**	**4,943**	**1,641**	**–**
Net off balance sheet position – commitments and contingencies	**47,760**	**21,889**	**10,419**	**–**	**80,068**	**37,084**	**18,283**	**6,156**	**8**	**61,531**

The Bank Treasury is responsible for day-to-day management and control of open positions in foreign currencies. An analysis of the sensitivity of the profit and losses statement to the changes in the Ruble exchange rate (when other parameters remain unchanged) is given below:

	December 31, 2007	***December 31, 2006***	***December 31, 2007***	***December 31, 2006***
Currency	***Change in currency rate***		***Effect on profit before tax***	
USD	+4,0%	+4,0%	(7)	48
	-5,5%	-5,5%	(10)	(66)
EUR	+3,5%	+3,5%	(98)	11
	-6,0%	-6,0%	147	(20)
Other currencies	+22.1%	+22.1%	(12)	4
	-22.1%	-22.1%	12	(4)

The effect on profit before taxes is calculated on the basis of changes in the currency exchange rates that are applied to the sum of net balance sheet position and resent value of net off balance sheet position for derivatives.

Interest rate risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the Bank's assets, liabilities and off-balance sheet instruments sensitive to such changes, except for financial instruments held for trading.

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk assessment methods (continued)

The Bank Treasury manages the interest rate risk on the basis of a gap-analysis and an analysis of the current level of the operating margin. Each week, the Bank Treasury informs the ALCO about the level of interest rate risk.

The sensitivity of the income statement and equity to changes in market interest rates (when the other factors remain unchanged) calculated for floating interest rate financial instruments is following:

Sensitivity for interest rate risk:

Currency	*Change in interest rates in basis points*	*December 31, 2007* Sensitivity of net interest income	*December 31, 2006* Sensitivity of net interest income	*December 31, 2007* Change in equity	*December 31, 2006* Change in equity
RUB	+100	–	(53)	–	(53)
	-100	–	53	–	53
USD	+70	(283)	(181)	(283)	(181)
	-70	283	181	283	181
EUR	+90	(53)	(41)	(53)	(41)
	-90	53	41	53	41

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

Operational risk is managed by performing self-assessments throughout the Bank's departments with the purpose of identifying key operational risks improving measures taken to reduce the risk level, as well as for building Key Risk Indicators. Information on events that generate operational risks is input into the Bank's Operational Risks Database, which can be used to analyze the general level of the operational risk in the Bank and can provide statistical data for the quantitative methods of operational risk assessment.

30. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2007	*Fair value 2007*	*Unrecognised gain/(loss) 2007*	*Carrying value 2006*	*Fair value 2006*	*Unrecognised gain/(loss) 2006*
Financial assets						
Cash and cash equivalents	47,847	47,847	–	32,468	32,468	–
Trading securities	40,554	40,554	–	63,243	63,243	–
Trading securities pledges under purchase agreements	3,533	3,533	–	1,105	1,105	–
Amounts due from credit institutions	6,192	6,293	101	15,619	15,492	(127)
Derivative financial assets	1,130	1,130	–	41	41	–
Loans to customers	229,101	229,069	(32)	157,495	157,958	463
Available-for-sale securities	3,292	3,292	–	3,666	3,666	–
Net investments in finance leases	20,150	20,220	70	10,980	11,348	368
Financial liabilities						
Amounts due to credit institutions	85,966	85,621	345	54,678	55,162	(484)
Derivative financial liabilities	836	836	–	38	38	–
Amounts due to customers	215,012	214,573	439	182,952	182,739	213
Promissory notes and certificates of deposits issued	14,682	14,902	(220)	10,968	11,144	(176)
Other borrowed funds	5,031	4,955	76	5,027	5,054	(27)
Total unrecognised change in unrealised fair value			**779**			**230**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(Millions of Russian Rubles)

30. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2007	*Valuation techniques – market observable inputs 2007*	*Valuation techniques – non-market observable inputs 2007*	*Total 2007*
Financial assets				
Trading securities	40,554	–	–	**40,554**
Trading securities pledged under repurchase agreements	3,533	–	–	**3,533**
Derivative financial assets	1,130	–	–	**1,130**
Available-for-sale securities	1,900	1,220	172	**3,292**
Financial liabilities				
Derivative financial liabilities	836	–	–	**836**
Other liabilities – securities sold, but not yet purchased	88	–	–	**88**

	Quoted market price 2006	*Valuation techniques – market observable inputs 2006*	*Valuation techniques – non-market observable inputs 2006*	*Total 2006*
Financial assets				
Trading securities	63,243	–	–	**63,243**
Trading securities pledged under repurchase agreements	1,105	–	–	**1,105**
Derivative financial assets	41	–	–	**41**
Available-for-sale securities	1,935	–	1,731	**3,666**
Financial liabilities				
Derivative financial liabilities	38	–	–	**38**

31. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Significant volume of related party transactions are carried out by the Bank with other members of Financial Corporation URALSIB as the Bank plays an important role in the Group, providing a full range of financial and banking services. All members of FC Uralsib are regarded as related parties since they represent entities under common control. Additionally, there are also other entities under common control, which are not members of FC Uralsib.

(Millions of Russian Rubles)

31. Related party transactions (continued)

The Bank enters into transactions with related parties under the following conditions: loans are granted on market conditions, transactions with securities are performed based on current market conditions and prices except as disclosed below, the amounts due to related parties are attracted at market conditions. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees received for any related party receivables.

In December 2007 the Bank executed transaction on purchase of 1,650,000 OJSC "LUKoil" ordinary shares at price which was lower than market from related party (member of FC URALSIB). Unrealised gain from revaluation of these securities at purchase comprised RUB 460 and additional unrealized loss of RUB 118 from subsequent revaluation till the end of the year.

Gains less losses from derivatives include unrealised gain from revaluation of forward sell contracts on 1,139,000 OJSC "LUKoil" ordinary shares concluded close to the year end with related parties at price which was higher than market as of the year end. Unrealised gain from revaluation of these forward sell contracts comprised RUB 493.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2007			*2006*			
	Companies of Financial Corporation Uralsib	***Other entities under common control***	***Key management personnel***	***Lukoil related companies***	***Companies of Financial Corporation Uralsib***	***Other entities under common control***	***Key management personnel***
Loans outstanding at January 1, gross	7,652	18,490	19	46	1,953	12,981	18
Loans issued during the year	46,794	95,833	143	3,547	14,033	56,600	60
Loan repaid during the year	(46,333)	(93,223)	(65)	(2,792)	(8,333)	(51,144)	(59)
Difference from exchange fluctuations	–	7	–	–	(1)	53	–
Loans outstanding at December 31, gross	**8,113**	**21,107**	**97**	**801**	**7,652**	**18,490**	**19**
Less: allowance for impairment at December 31	(1)	(176)	(1)	(11)	–	(322)	(1)
Loans outstanding at December 31, net	**8,112**	**20,931**	**96**	**790**	**7,652**	**18,168**	**18**
Cash and cash equivalents	140	2,522	–	1,060	–	1,140	–
Trading securities	–	1,506	–	14,602	–	470	–
Amounts due from credit institutions, gross	935	376	–	–	347	81	–
Derivative financial assets	262	232	–	898	1	–	–
Available–for–sale securities	1,236	–	–	–	–	–	–
Other assets	1,566	53	–	–	1,076	5,587	–
Amounts due to credit institutions	1,173	319	–	–	1,096	144	–
Amounts due to customers	12,967	31,797	–	391	10,853	26,653	79
Promissory notes and certificates of deposit issued	–	131	–	61	2	170	–
Other liabilities	39	10	–	–	–	241	–
Commitments and contingencies, gross	947	661	–	4	1,129	910	–
Interest income	286	1,931	–	58	291	1,587	–
Interest expense	(182)	(1,537)	–	(92)	(44)	(781)	–
– Gains from trading securities	481	75	–	–	193	1,879	–
– Losses from trading securities	(956)	(1,983)	–	–	(609)	(2,601)	–
– Gains (losses) from revaluation of trading securities	–	–	–	2,583	–	–	–
Net gains/(losses) from trading securities	**(475)**	**(1,908)**	**–**	**2,583**	**(416)**	**(722)**	**–**
Net gains from available-for-sale securities	–	1,205	–	–	–	1,240	–
Net gains from derivatives	262	232	–	–	–	–	–
Foreign exchange gains less losses							
– Gains from foreign exchange	81	188	–	19	55	187	–
– Losses from foreign exchange	(37)	(138)	–	(19)	(18)	(123)	–
Net gains from foreign exchange	**44**	**50**	**–**	**–**	**37**	**64**	**–**
Net fee and commission income							
– Fees and commissions income	11	4	–	1	6	2	–
– Fees and commissions expenses	(6)	–	–	(11)	(40)	–	–
Net fee and commission income	**5**	**4**	**–**	**(10)**	**(34)**	**2**	**–**
Dividend income	–	–	–	220	–	–	–
Administrative and operating expenses – Occupancy and rent	399	–	–	–	282	–	–
Salaries and other short-term benefits	–	–	249	–	–	–	617
Social security costs	–	–	7	–	–	–	16

(Millions of Russian Rubles)

32. Trust activities

The Bank provides custody, trustee and investment management service to third parties that involve the Bank making asset management, purchase and sales decisions in relation to a wide range of financial instruments. The assets that are held in a fiduciary capacity are not included in the Bank's financial statements. The trust assets comprise:

	2007	*2006*
Marketable securities	16,263	7,888
Settlement accounts with MICEX and brokerage houses	991	158
Cash	12	8
Trust assets	**17,266**	**8,054**

33. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- Full compliance with the capital requirements imposed by the Central Bank of Russia (CBR) and Russian legislation;
- Maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties;
- Ensuring that the amount of capital is sufficient for business expansion and development

Minimum capital requirement under Russian legislation

During 2006, the Russian parliament (Duma) adopted amendments to the federal laws "On Banks and Banking Activities" and "On the Central Bank of Russian Federation", requiring Russian banks to maintain, at all times, capital equal to at least 5 mln. Euros. The Bank complied with this requirement during the reporting periods.

Capital adequacy under Russian Accounting Legislation

Bank management constantly monitors the adequacy of the Bank's capital and its compliance with regulatory capital requirements. The Bank uses rules and ratios established by CBR regulations. All necessary capital adequacy calculations required by Russian legislation are submitted to the CBR on a monthly basis.

The CBR requires banks to maintain a capital adequacy ratio of 10% with respect to risk-weighted assets, as computed in accordance with RAL. As of December 31, 2007 and 2006, the Bank's CBR-defined capital adequacy ratio exceeded the required statutory minimum.

	December 31, 2007 *	*December 31, 2006* *
Main capital	31,885	25,794
Additional capital	9,151	8,224
Less: deductions from capital	36	52
Total regulatory capital	**41,000**	**33,966**
Risk-weighted assets	**344,660**	**301,856**
Capital adequacy ratio	11.9%	11.3%

* The information presented in the table is based on separate statutory financial statements of Open joint stock company "BANK URALSIB".

(Millions of Russian Rubles)

33. Capital adequacy (continued)

Capital adequacy under the Basel Accord guidelines (the "Basel ratio")

For Basel ratio calculation purposes, two levels of capital are distinguished:

1. Tier 1 capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.
2. Tier II capital is "supplementary" bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

In computing regulatory capital, Tier 1 and Tier 2 capital amounts are reduced by post-acquisition changes in the Bank's share in net assets of associates.

The table below presents the composition of capital complying with Basel and discloses the capital adequacy ratio for the years ended December 31, 2006 and 2007:

	December 31, 2007	*December 31, 2006*
Tier 1 capital	40,797	40,442
Tier 2 capital	8,572	1,038
Less: investments in associates	(136)	–
Total regulatory capital	**49,233**	**41,480**
Risk-weighted assets:		
On balance sheet	338,444	297,188
Off balance sheet	27,913	18,557
Total risk-weighted assets	**366,357**	**315,745**
Basel ratio	13.4%	13.1%
Tier 1	11.1%	12.8%

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the Basel Accord. During 2007 and 2006, the Bank and its individual banking subsidiaries complied with Basel capital requirements.

The Bank's overall capital management policy is aimed at the dynamic optimization of capital required for the Bank's expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders' vision and strategy of long-term Bank development.

As compared with 2006, the above policy of capital management remained unchanged.