OJSC “Bank “St Petersburg” Group

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

31 December 2007

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of OJSC "Bank "St Petersburg":

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

Management's Responsibility for the Consolidated Financial Statements

2. 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 controls 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.

Auditor's Responsibility

3. 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.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal controls. 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 consolidated financial statements.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
8 April 2008

In thousands of Russian Roubles	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	9 612 448	8 756 668
Mandatory cash balances with the Central Bank of the Russian Federation		1 551 913	773 158
Trading securities	8	11 650 690	6 084 480
Other securities at fair value through profit or loss	9	24	1 365 396
Repurchase receivables	10	517 834	-
Due from other banks	11	7 037 014	1 853 807
Loans and advances to customers	12	92 346 652	39 704 896
Other financial assets	13	155 007	75 437
Prepaid income tax		93 946	20 915
Deferred income tax asset	28	-	566
Premises and equipment	14	3 433 461	1 615 333
Intangible assets	14	1 016	2 993
Other assets	15	256 207	326 002
TOTAL ASSETS		**126 656 212**	**60 579 651**
LIABILITIES			
Due to other banks	16	677 266	767 935
Customer accounts	17	88 728 772	44 751 809
Bonds issued	18	6 587 222	4 269 548
Other debt securities in issue	19	7 425 303	2 755 799
Other borrowed funds	20	7 641 887	3 266 929
Other financial liabilities	21	57 012	49 829
Deferred income tax liability	28	248 131	116 270
Other liabilities	22	285 556	95 008
TOTAL LIABILITIES		**111 651 149**	**56 073 127**
EQUITY			
Share capital	23	3 564 330	3 483 580
Share premium	23	9 725 450	1 925 556
Revaluation reserve for premises and equipment		1 141 992	498 698
Retained earnings/ (accumulated deficit)		573 291	(1 401 310)
TOTAL EQUITY		**15 005 063**	**4 506 524**
TOTAL LIABILITIES AND EQUITY		**126 656 212**	**60 579 651**

Approved for issue and signed on behalf of the Supervisory Board on 8 April 2008.

A.V. Saveliev
Chairman of the Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	2007	2006
Interest income	25	9 175 824	4 365 201
Interest expense	25	(4 508 261)	(1 649 876)
Net interest income		**4 667 563**	**2 715 325**
Provision for loan impairment	11, 12	(1 006 886)	(483 894)
Net interest income after provision for loan impairment		**3 660 677**	**2 231 431**
Gains less losses from trading securities		71 346	110 370
(Losses less gains)/ gains less losses from other securities at fair value through profit or loss		(22 715)	2 029
Gains less losses from trading in foreign currencies		286 322	282 935
Foreign exchange translation gains less losses/(losses less gains)		57 780	(147 961)
Fee and commission income	26	1 065 048	650 596
Fee and commission expense	26	(175 670)	(75 373)
Release of provision for impairment of premises	14	33 566	-
Proceeds from disposal of investments in subsidiary		871	-
Other net operating income		89 759	42 761
Administrative and other operating expenses	27		
– Staff costs		(1 313 797)	(745 727)
– Other costs related to premises and equipment		(335 397)	(264 622)
– Other administrative and operating costs		(779 831)	(517 587)
Profit before tax		**2 637 959**	**1 568 852**
Income tax expense	28	(628 751)	(375 921)
Profit for the year		**2 009 208**	**1 192 931**
Basic and diluted earnings per ordinary share (in Russian Roubles per share)	29	**8.9**	**5.9**

		Attributable to equity holders of the Bank				Total equity
		Share capital	**Share premium**	**Revaluation reserve for premises**	**Retained earnings/ (accumu-lated deficit)**	
Balance as at 1 January 2006		**3 284 230**	**2 124 906**	**510 909**	**(2 603 411)**	**3 316 634**
Premises:						
- Disposal of premises	14	-	-	(12 211)	12 211	-
Net income recognised directly in equity		-	-	(12 211)	12 211	-
Profit for the year		-	-	-	1 192 931	1 192 931
Total recognised income for 2006		-	-	(12 211)	1 205 142	1 192 931
Share issue	23	199 350	(199 350)	-	-	-
Dividends declared						
- Ordinary shares	30	-	-	-	(2 820)	(2 820)
- Preference shares	30	-	-	-	(221)	(221)
Balance as at 31 December 2006		**3 483 580**	**1 925 556**	**498 698**	**(1 401 310)**	**4 506 524**
Premises:						
- Revaluation	14			846 439		846 439
Income tax recognised directly in equity	28	-	-	(203 145)		(203 145)
Result recorded directly in equity		-	-	643 294	-	643 294
Profit for the year		-	-	-	2 009 208	2 009 208
Total recognised income for 2007		-	-	643 294	2 009 208	2 652 502
Share issue	23	80 750	7 799 894	-	-	7 880 644
Dividends declared						
- Ordinary shares	30				(32 396)	(32 396)
- Preference shares	30				(2 211)	(2 211)
Balance as at 31 December 2007		**3 564 330**	**9 725 450**	**1 141 992**	**573 291**	**15 005 063**

In thousands of Russian Roubles	Note	2007	2006
Cash flows from operating activities			
Interest income received on loans and correspondent accounts		8 570 696	4 081 669
Interest income received on securities		544 393	233 777
Interest expense paid on due to other banks		(81 153)	(44 263)
Interest expense paid on customer deposits		(2 617 356)	(1 060 149)
Interest expense paid on other debt securities in issue		(167 958)	(144 985)
Net income received from trading in trading securities		93 074	95 809
Net income received from trading in other foreign currencies		278 351	275 710
Fees and commissions received		1 089 385	650 596
Fees and commissions paid		(175 670)	(75 373)
Other net operating income received		66 399	26 093
Staff costs		(1 115 020)	(785 885)
Costs related to premises and equipment		(158 996)	(135 522)
Other administrative and operating costs		(774 737)	(531 030)
Income tax paid		(703 853)	(338 457)
Cash flows from operating activities before changes in operating assets and liabilities		**4 847 555**	**2 247 990**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(778 755)	(272 705)
Net increase in trading securities		(5 634 528)	(3 575 051)
Net decrease/(increase) in other securities at fair value through profit or loss		1 241 984	(1 042 583)
Net (increase)/decrease in repurchase receivables		(501 949)	466 582
Net (increase)/decrease in due from other banks		(5 281 649)	206 393
Net increase in loans and advances to customers		(54 315 361)	(21 507 395)
Net increase in other financial assets		(62 519)	(27 842)
Net increase in other assets		(16 592)	(174 363)
Net increase/(decrease) in due to other banks		261 864	(442 173)
Net increase in customer accounts		43 648 395	21 426 883
Net increase/(decrease) in other debt securities in issue		4 559 283	(80 113)
Net (decrease)/increase in other financial liabilities		(10 097)	27 910
Net increase in other liabilities		14 741	9 590
Net cash used in operating activities		**(12 027 628)**	**(2 736 877)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	14	(1 117 339)	(364 863)
Proceeds from disposal of premises and equipment and intangible assets		4 755	22 137
Cash outflow from disposal of subsidiary	37	(4 040)	-
Dividend income received		11 917	3 369
Net cash used in operating activities		**(1 104 707)**	**(339 357)**
Cash flows from financing activities			
Issue of ordinary shares			-
- Share capital	23	80 750	-
- Share premium	23	7 732 405	-
Issue of bonds		2 454 620	4 229 915
Proceeds from other borrowed funds		6 113 621	3 233 303
Repayment of other borrowed funds		(1 683 781)	(13 286)
Interest paid on issued bonds		(455 063)	(48 400)
Interest paid on other borrowed funds		(312 798)	(100 633)
Dividends paid	30	(33 571)	(2 961)
Net cash from financing activities		**13 896 183**	**7 297 938**
Effect of exchange rate changes on cash and cash equivalents		**91 932**	**(21 981)**
Net increase in cash and cash equivalents		**855 780**	**4 199 723**
Cash and cash equivalents at the beginning of the year		8 756 668	4 556 945
Cash and cash equivalents at the end of the year	7	**9 612 448**	**8 756 668**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for OJSC “Bank “St Petersburg” (the “Bank”) and a controlled special purpose entity BSPB Finance plc (together referred to as the “Group” or OJSC “Bank “St Petersburg” Group”).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the privatization process of the former Leningrad regional office of Zhilsotsbank. The Bank is an open joint stock company limited by shares.

As at 31 December 2007, 24.6% of the ordinary shares of the Bank are controlled by Mr. Saveliev (31 December 2006: 19.9%). The rest of the management of the Bank controls a further 24.3% of the ordinary shares of the Bank (31 December 2006: 30.9%). As at 31 December 2007, the company “Systemnye Tehnologii”, which is controlled by the management of the Bank, owned 11.0% of the ordinary shares of the Bank. Mr. Saveliev has a call option to purchase 100% of the interest in the company “Systemnye Tehnologii”. This option arose in 2007 and could be exercised at any time before 1 March 2008. In March 2008, the option was extended until 2010 (see Note 39). There is no contractual agreement between any members of management team and Mr Saveliev on joint control of the Bank. There is no ultimate controlling party in the Bank.

Other shareholders of the Bank are: 11.4% (31 December 2006: 15.0%) of the shares are controlled by Mr. Troitskiy and 11.4% (31 December 2006: 15.1%) of the shares are controlled by Mr. Korzhev. The remaining 28.3% (31 December 2006: 5.2%) of the shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1997. The Bank takes part in the state deposit insurance scheme introduced by Federal Law No.177-FZ “Deposits of individuals insurance in the Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2007, the Bank had 11 branches within the Russian Federation: 10 branches are located in the North-West region of Russia, and one branch in Moscow (2006: the Bank had 9 branches within the Russian Federation: 8 branches are located in the North-West region of Russia, and one branch in Moscow).

Special purpose entity BSPB Finance plc is used by the Bank for its Eurobond issue (see Note 18).

Registered address and place of business. The Bank’s registered address and place of business is: 193167, Russian Federation, Saint Petersburg, Nevskiy Porspect, 178.

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

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

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

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, trading securities and other securities categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements.

Consolidation. Subsidiaries are companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

In 2007 the Bank disposed of its interest in its subsidiary Leasing Company "St Petersburg" (see Note 37).

The Group holds zero interest in the share capital of a fully consolidated special purpose entity BSPB Finance plc. However, the Group obtains all the rewards and risks from the activities of this company. Refer to Note 38.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

Trading securities. Trading securities are securities, which are either acquired for generating profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 6 months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

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

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management provision, and information on that basis is regularly provided to and reviewed by the Bank's top management personnel.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

- the borrower considers bankruptcy or a financial reorganisation;

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

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

- implementation of the borrower's investment plans is delayed;

- the Group expects difficulties in servicing the borrower's debt due to volatility of the borrower's cash flows caused by its cyclic activity or irregularity of proceeds.

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Investment securities available for sale are carried at cost, as the Group can not measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Advances payable. Advances payable are recognised, if the Group made a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts, as appropriate.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in due from other banks and loans and advances to customers, based on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

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

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings/(accumulated deficit) when the surplus is realised, i.e. either on the retirement or disposal of the asset.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

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

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

Premises: 50 years;

Office and computer equipment: 5 years;

Leasehold improvements: over the term of the underlying lease.

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, eg its maintenance, are expensed when incurred.

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

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

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

Other borrowed funds. Other borrowed funds include liabilities to state or corporate customers and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange forwards, futures and swaps, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognized as gains less losses arising from trading in foreign currency in the consolidated statement of income. The Group does not enter into derivative financial instruments for hedging purposes.

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

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

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

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

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

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

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

Foreign currency translation. Functional currency of the Group's entities is the currency of the primary economic environment in which the entity operates. The Bank's and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

3 Basis of Preparation and Significant Accounting Policies (Continued)

Currency monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the CBRF at the respective balance sheet date. Translation differences on monetary assets and liabilities are included in foreign exchange translation gains and losses in the profit or loss. Translation at the rates effective as at the end of the reporting period does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As at 31 December 2007, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 and EURO 1 = RR 35.9332 (2006: USD 1 = RR 26.3311 and EURO 1 = RR 34.6965).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 34. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts due to adoption of IFRS 7. The effect of reclassifications is as follows:

In thousands of Russian Roubles	**2006**
Increase in	
Other financial assets	75 437
Other liabilities	49 829
Decrease in	
Other assets	(75 437)
Other financial liabilities	(49 829)

Any further changes to these consolidated financial statements require approval of the Group's management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 47 250 thousand higher or RR 47 250 thousand lower (2006: RR 21 329 thousand higher or RR 21 329 thousand lower).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Revaluation of premises. The fair values of premises of the Group are determined by using valuation methods and are based on their market value. Market values of the Group's premises are obtained from the report of independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed using *sales comparison* approach i.e. comparison with other premises which were sold or are offered for sale. For details please refer to Note 14. To the extent that the assessed change in the fair value of the Group's premises differs by 10%, the effect of the revaluation adju stment would be approximately RR 266 810 thousand (before deferred tax) as at 31 December 2007 (2006: RR 131 674 thousand).

Frequency of revaluation of premises. The premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Group's management uses judgement for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

Tax legislation. The tax legislation of the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Refer to Note 34.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

5 Adoption of New or Revised Standards and Interpretations

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

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

New interpretations. The Group has adopted the following new interpretations which became effective from 1 January 2007:

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

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

6 New Accounting Pronouncements

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to significantly affect the Group's consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management does not expect IAS 23 to significantly affect the Group's consolidated financial statements.

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

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not expect this amendment to IFRS 2 to significantly affect the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Management does not expect IFRS 3 to significantly affect the Group's consolidated financial statements.

New interpretations. The Group has not early adopted the following new interpretations:

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

Management does not expect the new interpretations to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2007**	**2006**
Cash on hand	2 469 383	1 493 524
Cash balances with the CBRF (other than mandatory reserve deposits)	3 437 183	3 145 336
Correspondent accounts and overnight placements with other banks		
- Russian Federation	374 601	2 265 220
- Other countries	3 188 235	1 540 619
Settlement accounts with trading systems	143 046	311 969
Total cash and cash equivalents	**9 612 448**	**8 756 668**

Currency analysis of cash and cash equivalents is disclosed in Note 32.

Interest rate analysis of cash and cash equivalents is disclosed in Note 32.

8 Trading Securities

In thousands of Russian Roubles	2007	2006
Federal loan bonds (OFZ bonds)	4 476 304	2 476 819
Russian Federation Eurobonds	4 074 171	1 163 317
Corporate bonds	1 697 080	1 614 032
Municipal bonds	592 958	537 428
Total debt securities	**10 840 513**	**5 791 596**
Corporate shares	810 177	292 884
Total trading securities	**11 650 690**	**6 084 480**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from 29 April 2009 to 8 February 2036 (2006: 30 April 2008 to 6 February 2036), coupon rates of 5.8-10.0% p. a. (2006: 5.8-10.0% p. a.) and yields to maturity from 5.9% to 6.8% p. a. as at 31 December 2007 (2006: from 5.8% to 7.0% p. a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from 31 March 2030 (2006: from 31 March 2010 to 31 March 2030), coupon rates of 7.5% p.a. in 2007 (2006: 5.0 – 8.3% p.a.) and yields to maturity 5.5% as at 31 December 2007 (2006: from 5.4% to 5.7% p.a.).

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and are freely tradable in the Russian market. These bonds have maturity dates from 19 June 2008 to 19 July 2012 (2006: from 19 April 2007 to 23 November 2011), coupon rates of 8.4 - 13.5% p.a. in 2007 (2006: 9.3 – 13.5% p.a.) and yields to maturity from 8.6% to 16.0% p. a. as at 31 December 2007 (2006: from 8.3% to 12.7% p. a.), depending on the type of bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of St. Petersburg and Moscow Region (2006: municipal administrations of St. Petersburg and Moscow Region). These bonds are issued at a discount to nominal value, have maturity dates from 21 April 2009 to 16 April 2014 (2006: from 18 May 2006 to 6 August 2014), coupon rates of 8.0 – 11.5% p.a. (2006: 9.0 – 11.0% p.a.) and yields to maturity from 6.2% to 7.0% p.a. as at 31 December 2007 (2006: from 6.6% to 6.9% p.a.), depending on the type of bond issue.

Corporate shares are shares of Russian companies.

Trading securities are carried at fair value which also reflects the credit risk of these securities. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators. The Group holds no overdue trading securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	Federal loan bonds	Russian Federation Eurobonds	Municipal bonds	Corporate bonds	Total
Group A	4 476 304	4 074 171	368 205	-	8 918 680
Group B	-	-	224 753	1 697 080	1 921 833
Total debt trading securities	**4 476 304**	**4 074 171**	**592 958**	**1 697 080**	**10 840 513**

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2006 is as follows:

In thousands of Russian Roubles	Federal loan bonds	Russian Federation Eurobonds	Municipal bonds	Corporate bonds	Total
Group A	2 476 819	1 163 317	526 293	-	4 166 429
Group B	-	-	11 135	1 614 032	1 625 167
Total debt trading securities	**2 476 819**	**1 163 317**	**537 428**	**1 614 032**	**5 791 596**

Debt trading securities of the Group are divided by credit quality types and parameters into the following groups:

Group A – debt financial instruments with low credit risks; the issuers are at least BBB- rated.

Group B – other debt instruments.

Currency and maturity analyses of trading securities are disclosed in Note 32. Interest rate analysis of trading securities is disclosed in Note 32.

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

9 Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	2007	2006
VneshEconomBank 3% coupon bonds (VEB bonds)	24	1 365 396
Total other securities at fair value through profit or loss	**24**	**1 365 396**

The Group irrevocably designated the above securities that are not part of its trading book as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of the investments based on their fair values in accordance with the documented provision on risk management.

VEB bonds are interest bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual effective annual yield of 3.0% p.a. The bonds have maturity date 14 May 2008 (2006: from 14 May 2008 to 14 May 2011) and yield to maturity of 6.0% as at 31 December 2007 (2006: from 6.2% to 6.9% p.a., depending on the type of bond issue).

The securities at fair value through profit or loss are carried at fair value which also reflects the credit risk of these securities. These securities are recorded at fair value based on observable market data. The Group holds no overdue securities at fair value through profit or loss.

The securities at fair value through profit or loss are included in Group A referred to in Note 8.

Currency and maturity analyses of other securities at fair value through profit or loss are disclosed in Note 32. Interest rate analysis of other securities at fair value through profit or loss is disclosed in Note 32.

10 Repurchase Receivables

In thousands of Russian Roubles	2007	2006
Municipal bonds	517 834	-
Total repurchase receivables	**517 834**	**-**

Repurchase receivables are represented by Russian Rouble denominated municipal bonds issued by the municipal administration of St Petersburg. These bonds are purchased at a discount to nominal value. These bonds have maturity dates from 18 June 2008 to 6 August 2014, coupon rate of 9 - 10% p.a., and yield to maturity from 3.1% to 6.5% as at 31 December 2007, depending on the type of bond issue. The term of repurchase transactions is 195 days with the effective rate of 5.3% p.a. As at 31 December 2007, the customer accounts included sale and repurchase agreements with legal entities for RR 492 712 thousand. Refer to Notes 17 and 34.

The securities of the Group classified as repurchase receivables are included in Group A referred to in Note 8.

Currency and maturity analyses of repurchase receivables are disclosed in Note 32. Interest rate analysis of repurchase receivables is disclosed in Note 32.

11 Due from Other Banks

In thousands of Russian Roubles	2007	2006
Term placements with other banks	6 739 348	1 858 220
Sale and repurchase agreements on securities	300 133	-
Less: Provision for impairment of due from other banks	(2 467)	(4 413)
Total due from other banks	**7 037 014**	**1 853 807**

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Russian Roubles	2007	2006
Provision for impairment of due from other banks as at 1 January	**4 413**	**15 205**
Recovery of provision for loan impairment of due from other banks during the year	(1 946)	(10 792)
Provision for impairment of due from other banks as at 31 December	**2 467**	**4 413**

As at 31 December 2007, due from other banks in the amount of RR 2 467 thousand (2006: RR 2 627 thousand) are impaired. The remaining due from other banks are qualified as current.

The Bank is using the system of limits for granting loans to other banks, as shown in Note 32. The current interbank loan portfolio is an instrument of liquidity management of the Group.

The management believes that the Group is not exposed to significant credit risk in relation to current amounts of due from other banks. When making lending decisions, the loans to other banks are assessed based on the range of factors. After the loan is granted the Group monitors the borrowers' financial position for impairment. For the purpose of credit quality evaluation all loans to other banks are classified as “prime” unless they have any signs of impairment or any overdue amounts.

The Group's loans to other banks are not collateralised.

As at 31 December 2007 and 31 December 2006, the carrying value of due from other banks was approximately equal to their fair value due to the short-term nature of due from other banks. Refer to Note 35.

Currency and maturity analyses of due from other banks are disclosed in Note 32. Interest rate analysis of due from other banks is disclosed in Note 32. The information on related party balances is disclosed in Note 36.

12 Loans and Advances to Customers

In thousands of Russian Roubles	**2007**	**2006**
Corporate loans		
– loans to cover liquidity gap	61 275 836	28 458 148
– investment loans	21 971 101	9 333 029
– loans to entities financed by the government	2 598 882	1 463 600
– sale and purchase agreements	616 518	-
Loans to individuals		
– mortgage loans	4 274 713	787 596
– car loans	1 641 927	460 056
– other loans to individuals	2 560 495	807 223
Less: Provision for loan impairment	(2 592 820)	(1 604 756)
Total loans and advances to customers	**92 346 652**	**39 704 896**

At 31 December 2007, loans and advances to customers of RR 616 518 thousand are effectively collateralised by corporate shares with high stock exchange rates purchased under sale and repurchase agreements with the fair value of RR 728 270 thousand (2006: no loans and advances to customers effectively collateralised by securities purchased under reverse sale and repurchase agreements), for all of which the Group had a right to sell or repledge.

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

	Corporate loans				**Loans to individuals**			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	sale and purchase agreements	mortgage loans	car loans	other loans to indivi-duals	**Total**
Provision for loan impairment at 31 December 2006	**1 039 964**	**439 948**	**62 666**	**-**	**25 538**	**13 202**	**23 438**	**1 604 756**
Provision for impairment during the year	278 961	604 694	26 916	-	55 744	21 874	20 643	1 008 832
Amounts written off during the year as uncollectible	(13 008)	-	-	-	-	-	-	(13 008)
Disposal of subsidiary	(7 760)	-	-	-	-	-	-	(7 760)
Provision for loan impairment at 31 December 2007	**1 298 157**	**1 044 642**	**89 582**	**-**	**81 282**	**35 076**	**44 081**	**2 592 820**

12 Loans and Advances to Customers (Continued)

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

	Corporate loans				Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	sale and purchase agreements	mortgage loans	car loans	other loans to indivi-duals	**Total**
Provision for loan impairment at 31 December 2005	**973 375**	**149 867**	**16 168**	**-**	**704**	**40**	**38 116**	**1 178 270**
Provision for impairment during the year	134 589	290 081	46 498	-	24 834	13 162	(14 478)	494 686
Amounts written off during the year as uncollectible	(68 000)	-	-	-	-	-	(200)	(68 200)
Provision for loan impairment at 31 December 2006	**1 039 964**	**439 948**	**62 666**	**-**	**25 538**	**13 202**	**23 438**	**1 604 756**

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

In thousands of Russian Roubles	2007		2006	
	Amount	**%**	**Amount**	**%**
Real estate	16 310 925	17.2	8 077 938	19.5
Trade	15 242 551	16.1	6 557 787	15.9
Leasing and financial services	13 263 299	14.0	5 499 006	13.3
Construction	11 651 470	12.3	3 866 777	9.4
Individuals	8 477 134	8.9	2 054 874	5.0
Heavy machinery and ship-building	8 474 636	8.9	4 684 695	11.3
Production and food industry	5 335 203	5.6	3 590 147	8.7
Chemical industry	2 622 630	2.8	721 309	1.7
Federal and municipal transportation and storage facilities	2 598 882	2.7	1 463 600	3.5
Transport	2 227 345	2.3	1 230 455	3.0
Telecommunications	1 499 997	1.6	-	-
Energy	692 993	0.7	1 182 027	2.9
Other	6 542 407	6.9	2 381 037	5.8
Total loans and advances to customers (before impairment)	**94 939 472**	**100.0**	**41 309 652**	**100.0**

As at 31 December 2007, the Group had 20 largest borrowers with aggregated loan amounts of RR 29 846 976 thousand (2006: 13 602 723 thousand), or 31.4% (2006: 32.9%) of the gross loan portfolio before impairment.

12 Loans and Advances to Customers (Continued)

Information about collateral of current and not impaired loans and advances to customers at 31 December 2007 is as follows:

	Corporate loans				Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	sale and purchase agreements	mortgage loans	car loans	other loans to individuals	**Total**
Loans collateralised by	**52 838 634**	**20 051 537**	**2 559 204**	**616 518**	**3 971 446**	**1 618 932**	**2 011 448**	**83 667 719**
1. Cash deposits and promissory notes issued by the Bank	3 039 745	356 000	-	-	790	-	26 935	**3 423 470**
2. Real estate	19 338 944	17 530 669	237 464	-	3 970 656	-	710 804	**41 788 537**
3. Guarantees and sureties of legal entities	13 888 368	2 121 935	2 311 757	-	-	13 249	1 168 377	**19 503 686**
4. Premises and equipment	5 746 604	4 884	9 983	-	-	1 605 683	7 386	**7 374 540**
5. Other assets	10 824 973	38 049	-	616 518	-	-	97 946	**11 577 486**
Unsecured loans	7 271 984	505 956	39 678	-	290 786	704	540 848	**8 649 956**
Total	**60 110 618**	**20 557 493**	**2 598 882**	**616 518**	**4 262 232**	**1 619 636**	**2 552 296**	**92 317 675**

Information about collateral of current an not impaired loans and advances to customers at 31 December 2006 is as follows:

	Corporate loans			Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	mortgage loans	car loans	other loans to individuals	**Total**
Loans collateralised by	25 331 136	8 487 984	1 449 900	606 947	420 201	680 375	**36 976 543**
1. Cash deposits and promissory notes issued by the Bank	30 010	79 500	-	150	-	67 155	**176 815**
2. Real estate	7 035 408	6 555 192	3 125	592 263	-	178 668	**14 364 656**
3. Guarantees and sureties of legal entities	12 010 473	1 837 342	1 411 775		5 055	417 538	**15 682 183**
4. Premises and equipment	1 848 058	15 950	35 000	-	415 146	6 207	**2 320 361**
5. Other assets	4 407 187		-	14 534	-	10 807	**4 432 528**
Unsecured loans	2 843 994	387 181	13 700	180 649	38 868	125 218	**3 589 610**
Total	**28 175 130**	**8 875 165**	**1 463 600**	**787 596**	**459 069**	**805 593**	**40 566 153**

12 Loans and Advances to Customers (Continued)

The loans and advances to customers and the related provisions for impairment as at 31 December 2007 are as follows:

In thousands of Russian Roubles	**Current loans and advances to customers (before provision for impairment)**	**Provision for impairment**	**Total current loans and advances to customers (after provision for impairment)**	**Provision for impairment to current loans**
Loans and advances to legal entities:				
Loans individually tested for impairment, but not impaired	4 832 722	-	4 832 722	-
Loans collectively tested for impairment, but not impaired				
- prime	61 530 043	1 204 188	60 325 855	1.96%
- standard	17 532 493	845 115	16 687 378	4.82%
Loans individually tested for impairment and impaired loans				
- doubtful loans	2 388 201	204 200	2 184 001	8.55%
- uncollectible loans	178 879	178 879	-	100.00%
Total loans and advances to legal entities	**86 462 338**	**2 432 382**	**84 029 956**	**2.81%**
Loans and advances to individuals:				
Loans collectively tested for impairment				
- prime	8 434 163	159 483	8 274 680	1.89%
- standard	42 971	955	42 016	2.22%
Total loans and advances to individuals	**8 477 134**	**160 438**	**8 316 696**	**1.89%**
Total loans and advances to customers	**94 939 472**	**2 592 820**	**92 346 652**	**2.73%**

12 Loans and Advances to Customers (Continued)

The loans and advances to customers and the related provisions for impairment as at 31 December 2006 are as follows:

In thousands of Russian Roubles	Current loans and advances to customers (before provision for impairment)	Provision for impairment	Total current loans and advances to customers (after provision for impairment)	Provision for impairment to current loans
Loans and advances to legal entities:				
Loans individually tested for impairment, but not impaired	-	-	-	-
Loans collectively tested for impairment, but not impaired				
- prime	10 936 124	238 083	10 698 041	2.18%
- standard	27 591 170	1 089 444	26 501 726	3.95%
Loans Individually tested for impairment and impaired loans				
- doubtful loans	579 009	66 577	512 432	11.50%
- uncollectible loans	148 474	148 474	-	100.00%
Total loans and advances to legal entities	**39 254 777**	**1 542 578**	**37 712 199**	**3.93%**
Loans and advances to individuals:				
Loans collectively tested for impairment				
- prime	2 052 260	60 775	1 991 485	2.96%
- standard	1 262	50	1 212	3.96%
- uncollectible loans	1 353	1 353	-	100.00%
Total loans and advances to individuals	**2 054 875**	**62 178**	**1 992 697**	**3.03%**
Total loans and advances to customers	**41 309 652**	**1 604 756**	**39 704 896**	**3.88%**

12 Loans and Advances to Customers (Continued)

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

	Corporate loans				Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	sale and purchase agreements	mortgage loans	car loans	other loans to individuals	**Total**
Current and not impaired								
Prime	60 110 618	3 762 174	2 138 863	616 518	4 262 232	1 619 636	2 552 296	**75 062 337**
Standard	-	13 150 624	460 019	-	-	-	-	**13 610 643**
Loans revised in 2007*	-	3 644 695	-	-	-	-	-	**3 644 695**
Total current and not impaired	**60 110 618**	**20 557 493**	**2 598 882**	**616 518**	**4 262 232**	**1 619 636**	**2 552 296**	**92 317 675**
Overdue but not impaired								
less than 5 days overdue	-	-	-	-	-	107	881	**988**
6 to 30 days overdue	11 746	-	-	-	7 420	14 393	2 503	**36 062**
over 30 days overdue	-	-	-	-	5 061	7 791	4 815	**17 667**
Total overdue but not impaired	**11 746**			**-**	**12 481**	**22 291**	**8 199**	**54 717**
Individually impaired								
not overdue	926 018	1 413 608	-	-	-	-	-	**2 339 626**
91 to 180 days overdue	79 840	-	-	-	-	-	-	**79 840**
over 180 days overdue	147 614	-	-	-	-	-	-	**147 614**
Total individually impaired	**1 153 472**	**1 413 608**	**-**	**-**	**-**	**-**	**-**	**2 567 080**
Total loans and advances to customers (before provision for impairment)	**61 275 836**	**21 971 101**	**2 598 882**	**616 518**	**4 274 713**	**1 641 927**	**2 560 495**	**94 939 472**
Less provision for impairment	**(1 298 157)**	**(1 044 642)**	**(89 582)**	**-**	**(81 282)**	**(35 076)**	**(44 081)**	**(2 592 820)**
Total loans and advances to customers	**59 977 679**	**20 926 459**	**2 509 300**	**616 518**	**4 193 431**	**1 606 851**	**2 516 414**	**92 346 652**

* Loans revised are represented by loans, the terms of which were revised in 2007. If these loans were not rolled over, the borrowers would not have been able to repay them fully within the contracted maturity periods.

12 Loans and Advances to Customers (Continued)

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

	Corporate loans			Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	mortgage loans	car loans	other loans to individuals	**Total**
Current and not impaired							
Prime	10 936 125	-	-	787 596	459 070	805 593	**12 988 384**
Standard	17 239 005	7 704 017	1 463 600				**26 406 622**
Loans revised in 2006*	-	1 171 148	-	-	-	-	**1 171 148**
Total current and not impaired	**28 175 130**	**8 875 165**	**1 463 600**	**787 596**	**459 070**	**805 593**	**40 566 154**
Overdue but not impaired							
less than 5 days overdue	-	-	-	-	-	14	**14**
6 to 30 days overdue	12 000	1 400	-	-	457	178	**14 035**
Total overdue but not impaired	**12 000**	**1 400**	**-**	**-**	**457**	**192**	**14 049**
Individually impaired							
Not overdue	122 545	456 464	-	-			**579 009**
16 to 30 days overdue	-	-	-	-	-	16	**16**
31 to 60 days overdue	-	-	-	-	525	39	**564**
61 to 90 days overdue	-	-	-	-	-	28	**28**
91 to 180 days overdue	82 000	-	-	-	5	53	**82 058**
over 180 days overdue	66 474	-	-	-	-	1 300	**67 774**
Total individually impaired	**271 019**	**456 464**	**-**	**-**	**530**	**1 436**	**729 449**
Total loans and advances to customers (before provision for impairment)	**28 458 148**	**9 333 029**	**1 463 600**	**787 596**	**460 056**	**807 223**	**41 309 652**
Less provision for impairment	**(1 039 964)**	**(439 948)**	**(62 666)**	**(25 538)**	**(13 202)**	**(23 438)**	**(1 604 756)**
Total loans and advances to customers	**27 418 184**	**8 893 081**	**1 400 934**	**762 058**	**446 854**	**783 785**	**39 704 896**

* Loans revised are represented by loans, the terms of which were revised in 2006. If these loans were not rolled over, the borrowers would not have been able to repay them fully within the contracted maturity periods.

Current and not impaired loans are loans not overdue as at the balance sheet date and in respect of which the management of the Group is not aware of any factors which may make it impossible for the borrowers to repay the full amounts owed to the Group in time, and loans with sufficient collateral to cover the full amount of the borrower’s debt.

Overdue but not impaired loans are technically overdue loans or overdue loans with sufficient collateral to cover the full amount of the borrower’s debt.

12 Loans and Advances to Customers (Continued)

The primary factors that the Group considers when deciding whether a loan is individually impaired is its overdue status and/or occurrence of any factors which may make it impossible for the borrowers to repay full amounts owed to the Group in time.

The credit quality analysis is performed for the current, not overdue and not impaired loans based on the expert’s judgement of the borrower’s financial position and its ability to repay loans. The credit quality analysis table divides the current, not overdue and not impaired loans into the following quality categories:

Prime loans include loans with low credit risk payable when due under the loan agreement. Complex analysis of the operating and business activities of the borrowers under this category and other data confirm that their activity is sustainable and there are no negative trends that may have an adverse effect on the financial stability of these borrowers in the future.

Standard loans include loans with moderate credit risk. Complex analysis of the operating and business activities of the borrowers under this category and other data confirm that their operating activity is sustainable. However, the analysis of their business activity identified negative factors which may sometimes cause delays in repayment under respective loan agreements.

Interest recorded in the profit or loss on overdue and impaired loans during 2007 equals to RR 208 122 thousand (2006: RR 54 664 thousand).

Fair value of collateral in respect of loans overdue but not impaired loans and loans individually impaired at 31 December 2007 was as follows:

	Corporate loans			Loans to individuals			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	mortgage loans	car loans	other loans to individuals	**Total**
Overdue but not impaired							
1. Cash deposits and promissory notes issued by the Bank	-	-	-	-	-	163	**163**
2. Real estate	-	-		12 481	-	-	**12 481**
3. Guarantees	1 000	-	-	-		1 433	**2 433**
4. Equipment	473	-	-	-	22 291	-	**22 764**
5. Other assets	4 173	-	-	-	-	-	**4 173**
Total overdue but not impaired	**5 646**	**-**	**-**	**12 481**	**22 291**	**1 596**	**42 014**
Individually impaired							
1. Cash deposits and promissory notes issued by the Bank	15 000	-	-	-	-	-	**15 000**
2. Real estate	24 030	3 803 173	-	-	-	-	**3 827 203**
3. Guarantees	1 033 156	2 998 830	-	-	-	-	**4 031 986**
4. Equipment	58 636	-	-	-	-	-	**58 636**
5. Other assets	5 841	-	-	-	-	-	**5 841**
Total individually impaired	**1 136 663**	**6 802 003**	**-**	**-**	**-**	**-**	**7 938 666**
Total	**1 142 309**	**6 802 003**	**-**	**12 481**	**22 291**	**1 596**	**7 980 680**

12 Loans and Advances to Customers (Continued)

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

	Corporate loans			**Loans to individuals**			
In thousands of Russian Roubles	loans to cover liquidity gap	investment loans	loans to entities financed by the government	mortgage loans	car loans	other loans to individuals	**Total**
Overdue but not impaired							
1. Guarantees	-	-	-	-	-	170	**170**
2. Other assets	-	-	-	-	575	-	**575**
Total overdue but not impaired	**-**	**-**	**-**	**-**	**575**	**170**	**745**
Individually impaired							
1. Cash deposits and promissory notes issued by the Bank	-	61 690	-	-	-	16	**61 706**
2. Real estate	31 281	268 120	-	-	-	-	**299 401**
3. Guarantees	163 616	1 877	-	-	-	627	**166 120**
4. Equipment	165 652	-	-	-	713	-	**166 365**
5. Other assets	81 950	280	-	-	-	561	**82 791**
Total individually impaired	**442 499**	**331 967**	**-**		**713**	**1 204**	**776 383**
Total	**442 499**	**331 967**	**-**	**-**	**1 288**	**1 374**	**777 128**

At 31 December 2007, the estimated fair value of loans and advances to customers was RR 93 908 851 thousand (2006: RR 40 534 967 thousand). Refer to Note 35.

Currency and maturity analyses of loans and advances to customers are disclosed in Note 32. Interest rate analysis of loans and advances to customers is disclosed in Note 32. The information on related party balances is disclosed in Note 36.

13 Other Financial Assets

In thousands of Russian Roubles	**Note**	**2007**	**2006**
Plastic cards receivables		95 935	39 270
Settlements on conversion operations		30 681	22 561
Fair value of financial derivatives	34	17 051	2 238
Investment securities available for sale		11 340	11 368
Total other financial assets		**155 007**	**75 437**

13 Other Financial Assets (Continued)

Other financial assets of the Group do not include individually impaired and overdue assets. In 2007, the Group created no provision for other financial assets (2006: no provision).

Investment securities available for sale represent equity securities carried at cost. Their fair value may not be reliably estimated since they are neither listed on the market nor traded. The Group's management believes that the difference between the fair and carrying values of the securities available for sale is not material. The Group will sell these securities in case of favourable market movements.

The carrying value of all categories of other financial assets is approximately equal to their fair value as at 31 December 2007 and 31 December 2006. Refer to Note 35.

Currency and maturity analyses of other financial assets are disclosed in Note 32.

14 Premises and Equipment and Intangible Assets

	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2006		1 168 681	449 702	9 005	17 726	1 645 114
Accumulated depreciation and impairment losses		(33 566)	(203 899)	-	(13 321)	(250 786)
Net book amount as at 1 January 2006		**1 135 115**	**245 803**	**9 005**	**4 405**	**1 394 328**
Additions		162 321	188 342	13 473	727	364 863
Transfers between categories		5 710	1 601	(7 311)	-	-
Disposals		(19 600)	(1 881)	-	(1 058)	(22 539)
Depreciation charge	27	(30 475)	(86 770)	-	(1 081)	(118 326)
Net book amount as at 31 December 2006		**1 253 071**	**347 095**	**15 167**	**2 993**	**1 618 326**
Cost as at 31 December 2006		1 316 743	632 777	15 167	9 992	1 974 679
Accumulated depreciation and impairment losses		(63 672)	(285 682)	-	(6 999)	(356 353)
Net book amount as at 31 December 2006		**1 253 071**	**347 095**	**15 167**	**2 993**	**1 618 326**
Additions		553 454	249 166	314 707	12	1 117 339
Transfers between categories			14 111	(14 111)	-	-
Disposals		(2 001)	(4 377)	-	(911)	(7 289)
Depreciation charge	27	(47 576)	(125 250)	-	(1 078)	(173 904)
Revaluation		846 439	-	-	-	846 439
Release of provision for impairment through profit or loss		33 566	-	-	-	33 566
Net book amount as at 31 December 2007		**2 636 953**	**480 745**	**315 763**	**1 016**	**3 434 477**
Cost as at 31 December 2007		2 668 103	822 399	315 763	6 386	3 812 651
Accumulated depreciation		(31 150)	(341 654)	-	(5 370)	(378 174)

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

14 Premises and Equipment and Intangible Assets (Continued)

The premises of the Group have been revalued as at 30 June 2007. The revaluation has been performed by an independent professional real estate appraisal company, which is registered in St Petersburg. The basis for the appraisal was market value.

Definition of the market value is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on sales of the comparable items that took place in the market.

As at 31 December the carrying value includes revaluation of the Group's premises in the amount of RR 1 502 619 thousand (2006: RR 656 180 thousand), including RR 846 439 thousand recognised as a result of revaluation of the premises as at 30 June 2007. As at 30 June 2007 the Bank has recorded a deferred tax liability of RR 203 145 thousand related to the amount of revaluation. In respect of the building for which the Group previously created an impairment provision recorded the release of provision in the amount of RR 33 566 thousand was recognised in the consolidated income statement as a result of revaluation as at 30 June 2007. If the assets of the Group were recorded at cost adjusted to the equivalent of the purchasing power of the Russian Rouble as at 31 December 2002 for the premises purchased before 1 January 2003 less accumulated depreciation, their carrying value as at 31 December 2007 would equal to RR 1 124 051 thousand (2006: RR 587 382 thousand).

15 Other Assets

In thousands of Russian Roubles	Note	2007	2006
Advances payable		155 295	249 004
Deferred expenses		78 900	42 323
Prepaid taxes other than on income		16 314	32 825
Other		5 698	1 850
Total other assets		**256 207**	**326 002**

Advances payable include advances made by the Group in relation to purchase of new computer software and equipment, as well as prepayments for repair works of existing premises. As at 31 December 2006 the receivables and advances also included advances made by the Group in relation to the purchase of new premises.

Currency and maturity analyses of other assets are disclosed in Note 32.

16 Due to Other Banks

In thousands of Russian Roubles	2007	2006
Current term placements of other banks	635 069	750 209
Correspondent accounts and overnight placements of other banks	42 197	17 726
Total due to other banks	**677 266**	**767 935**

As at 31 December 2007 and 31 December 2006, the carrying value of due to other banks was approximately equal to their fair value since due to other banks is short-term. Refer to Note 35.

Currency and maturity analyses of due to other banks are disclosed in Note 32.

Interest rate analysis of due to other banks is disclosed in Note 32.

17 Customer Accounts

In thousands of Russian Roubles	2007	2006
State and public organisations		
- Current/settlement accounts	1 319 910	303 625
- Term deposits	4 920 868	2 347 817
Other legal entities		
- Current/settlement accounts	24 040 675	15 931 672
- Term deposits	27 738 723	10 536 393
- Reverse sale and repurchase agreements	492 712	-
Individuals		
- Current/demand accounts	5 505 729	3 674 246
- Term deposits	24 710 155	11 958 056
Total customer accounts	**88 728 772**	**44 751 809**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

In thousands of Russian Roubles	2007		2006	
	Amount	%	Amount	%
Individuals	30 215 884	34.1	15 632 302	34.9
Trade	10 583 808	11.9	3 443 186	7.7
Construction	8 480 095	9.6	4 922 044	11.0
Cities and municipalities	6 191 715	7.0	2 634 713	5.9
Financial services	6 563 381	7.4	3 281 224	7.3
Production	5 073 424	5.7	3 828 411	8.6
Energy	5 001 781	5.6	1 220 868	2.7
Transport	4 674 449	5.3	2 357 302	5.3
Public utilities	4 014 146	4.5	1 530 624	3.4
Communications	2 486 462	2.8	197 471	0.4
Real estate	2 229 305	2.5	3 130 467	7.0
Art, science and education	1 471 001	1.7	1 110 816	2.5
Medical institutions	333 909	0.4	228 912	0.5
Other	1 409 412	1.5	1 233 469	2.8
Total customer accounts	**88 728 772**	**100.0**	**44 751 809**	**100.0**

For management purposes the Group management does not calculate concentration of the largest customers in the total customer accounts.

As at 31 December 2007, included in customer accounts were reverse sale and repurchase agreements with legal entities in the amount of RR 492 712 thousand. Securities pledged under these reverse sale and repurchase agreements are municipal bonds with the fair value of RR 517 834 thousand (2006: no reverse sale and repurchase agreements were included in customer accounts). Refer to Notes 10 and 34.

As at 31 December 2007, included in customer accounts are deposits of RR 1 347 709 thousand held as collateral for irrevocable commitments under import letters of credit (2006: RR 1 022 040 thousand). Refer to Note 34.

As at 31 December 2007, the estimated fair value of customer accounts was RR 88 613 947 thousand (2006: RR 44 918 163 thousand). Refer to Note 35.

Currency and maturity analyses of customer accounts are disclosed in Note 32. Interest rate analysis of customer accounts is disclosed in Note 32. The information on related party balances is disclosed in Note 36.

18 Bonds Issued

In thousands of Russian Roubles	2007	2006
Eurobonds	3 065 263	3 271 546
Subordinated Eurobonds	2 522 904	-
Bonds	999 055	998 002
Total bonds issued	**6 587 222**	**4 269 548**

In November 2006, the Group placed interest-bearing US Dollar-denominated Eurobonds (one bond – USD 100 000) in the amount of 1 250 bonds. The issue was arranged by ABN AMRO Bank N.V. and Dresdner Bank AG. The issue was registered on Ireland Stock Exchange. As at 31 December 2007, the carrying value of these bonds was USD 124 877 thousand, the equivalent of RR 3 065 263 thousand (2006: the carrying value of these bonds was USD 124 246 thousand, the equivalent of RR 3 271 546 thousand). Eurobonds have maturity on 25 November 2009, nominal coupon rate of 9.501% p.a. and effective interest rate of 10.44% p.a. The Group should observe certain covenants, relating to Eurobond issue. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group fully meets all covenants of the loan agreements. (Refer to Note 34).

In July 2007 the Group placed interest-bearing US Dollar-denominated subordinated Eurobonds (one bond – USD 100 000) in the amount of 1 000 bonds. The issue was arranged by J.P. Morgan and UBS. The issue was registered on Ireland Stock Exchange. As at 31 December 2007, the carrying value of these bonds was USD 102 782 thousand, the equivalent of RR 2 522 904 thousand. Subordinated Eurobonds have maturity on 24 July 2017 and bear an early redemption option at nominal value on 24 July 2012, nominal coupon rate of 10.5% p.a. and effective interest rate of 11.33% p.a. The Group should observe certain covenants, relating to Eurobond issue. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group fully meets all covenants of the loan agreements. (Refer to Note 34).

In the event of liquidation of the Bank, the claims of repayment of subordinated Eurobonds are subordinated to the claims of all other creditors and depositors of the Bank.

On 14 June 2006, the Group placed Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000) in the amount of 1 000 000 bonds. As at 31 December 2007, the carrying value of these bonds was RR 999 055 thousand (2006: RR 998 002 thousand). The bonds have maturity date on 22 June 2009. Coupon rate established for the first four coupon periods is 9.6% p.a. For the coupon periods starting from the fifth period (17 June 2007) coupon rate shall be 9.0% p.a. These bonds bear an early redemption option at nominal value on the third day of the ninth coupon period, namely 20 June 2008.

As at 31 December 2007, the estimated fair value of bonds issued was RR 6 371 661 thousand (2006: RR 4 269 548 thousand). Refer to Note 35.

Currency and maturity analyses of bonds issued are disclosed in Note 32. Interest rate analysis of bonds issued is disclosed in Note 32.

19 Other Debt Securities in Issue

In thousands of Russian Roubles	2007	2006
Promissory notes	7 381 245	2 488 345
Deposit certificates	44 058	267 454
Total other debt securities in issue	**7 425 303**	**2 755 799**

As at 31 December 2007, the estimated fair value of other debt securities in issue was RR 7 434 146 thousand (2006: RR 2 759 432 thousand). Refer to Note 35.

Currency and maturity analyses of other debt securities in issue are disclosed in Note 32. Interest rate analysis of other debt securities in issue is disclosed in Note 32.

20 Other Borrowed Funds

In thousands of Russian Roubles	**2007**	**2006**
Syndicated loan	4 893 544	795 166
Subordinated loans	1 221 894	2 185 167
Funds attracted from EBRD	745 678	267 379
Funds attracted from Nordic Investment Bank	706 522	-
Funds attracted from International Moscow Bank	74 249	-
Funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under the Housing facility program	-	16 824
Funds attracted from the Ministry of Finance of the Russian Federation under FIDP facility	-	2 393
Total other borrowed funds	**7 641 887**	**3 266 929**

On 29 June 2007 the Group attracted a syndicated loan in the amount of USD 100 000 thousand arranged by Standart Bank Plc. The participants of the loan are 16 non-resident banks and 4 resident banks. As at 31 December 2007 the carrying value of this loan was USD 101 878 thousand, the equivalent of RR 2 500 719 thousand. The syndicated loan has maturity date on 21 June 2008. The interest rate on this loan is LIBOR + 2.15% p.a. As at 31 December 2007 the interest rate was 7.29% p.a.

On 29 November 2007 the Group attracted a syndicated loan in the amount of USD 70 000 thousand in 2 tranches. The first tranche of USD 44 500 thousand has the maturity date on 22 November 2008. The second tranche of USD 25 500 thousand has the maturity date on 22 May 2009. The loan is arranged by Commerzbank ICICI Bank and UniCredit Group. The participants of the loan are 15 non-resident banks and 3 resident banks. As at 31 December 2007 the carrying value of this loan was USD 69 612 thousand, the equivalent of RR 1 708 710 thousand. The interest rate on this loan is LIBOR + 2.0% p.a. for the first tranche and LIBOR + 2.25% p.a. for the second tranche. As at 31 December 2007 the interest rates were 7.06% and 7.31%, respectively.

On 31 July 2006, the Group attracted a syndicated loan in the amount of USD 30 000 thousand arranged by ABN AMRO Bank N.V. The syndicated loan has maturity date on 30 July 2007 with possibility to extend it for 364 days at the discretion of the Group’s management. On 25 July 2007 this loan was extended in the amount of USD 27 500 thousand. The participants of the extended syndicated loan are 8 non-resident banks. The syndicated loan maturity date is 19 July 2008. As at 31 December 2007, the carrying value of this loan was USD 27 871 thousand, the equivalent of RR 684 115 thousand (2006: the carrying value was USD 30 199 thousand, the equivalent of RR 795 166 thousand). The interest rate on this loan is LIBOR plus 2.4% p.a. As at 31 December 2007, the interest rate was 7.34% p.a. (2006: the interest rate was 7.8% p.a.).

In September 2006, the Group attracted subordinated loans from shareholders and other related companies in the amount of RR 875 000 thousand with maturity in September 2012. As at 31 December 2006, the carrying value of these subordinated loans was RR 875 000 thousand. During 2007 these loans were repaid early under agreements with the companies providing subordinated loans and upon approval of the Bank of Russia. A proportion of the loans in the amount of RR 665 000 thousand was allocated to increase the Bank’s share capital upon approval of the Bank of Russia.

In December 2006, the Group attracted a subordinated loan in the amount of USD 50 000 thousand with maturity in March 2012 financed by issuing credit linked notes. The provider of this subordinated loan was Investment bank TRUST. As at 31 December 2007, the carrying value of this subordinated loan was USD 49 779 thousand, the equivalent of RR 1 221 894 thousand (2006: USD 49 757 thousand, the equivalent of RR 1 310 167 thousand). This subordinated loan was attracted at the fixed interest rate of 11% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated loans are subordinated to the claims of all other creditors and depositors of the Bank.

20 Other Borrowed Funds (Continued)

On 25 October 2006, 26 February 2007 and 27 June 2007, the Group attracted three tranches of the loan provided by the European Bank of Reconstruction and Development (EBRD) in the amount of USD 10 000 thousand each, which should be repaid in November 2010. This loan was issued for the purposes of funding small and medium businesses. As at 31 December 2007, the carrying value of this loan was USD 30 379 thousand, the equivalent of RR 745 678 thousand (2006: USD 10 154 thousand, the equivalent of RR 267 379 thousand). The interest rate on this loan is LIBOR plus 3% p.a. (as at 31 December 2007, the interest rate was 7.8% p.a.).

On 6 September 2007 and 20 November 2007 the Group attracted two tranches of the credit facility provided by Nordic Investment Bank (Finland). The Group allocated the raised amounts for funding certain projects. When selecting projects to be funded the Group will take into account both economic, environmental and energy efficiency of the projects. As at 31 December 2007 the carrying value of this loan was USD 28 783 thousand, the equivalent of RR 706 522 thousand. The loan maturity date of these credit facility is on 3 October 2015. The interest rate on the loan ranges from 7.85% to 8.65% p.a., depending on maturity dates of the tranches.

On 9 October 2007 the Group attracted the loan from the International Moscow Bank in the amount of USD 3 000 thousand. As at 31 December 2007, the carrying value of this loan was USD 3 025 thousand, the equivalent of RR 74 249 thousand. The loan maturity date is on 6 April 2009. The interest rate on the loan ranges from 7.4% to 7.75% p.a., depending on the maturity dates of the tranches.

During 2007, the Group repaid the loans provided by the Ministry of Finance and the Ministry of Construction of the Russian Federation under the program of the World Bank for Reconstruction and Development, as well as the amounts provided to the Group by the Ministry of Finance of the Russian under the program of development of financial institutions.

The Group should observe certain covenants relating to attraction of syndicated loans, subordinated loans and EBRD funds. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group fully meets all covenants of the loan agreements. (Refer to Note 34).

As at 31 December 2007 and 31 December 2006 the carrying value of other borrowed funds was approximately equal to their estimated fair value (Refer to Note 35).

Currency and maturity analyses of other borrowed funds are disclosed in Note 32. Interest rate analysis of other borrowed funds is disclosed in Note 32. The information on related party balances is disclosed in Note 36.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2007	2006
Plastic card payables		24 941	32 795
Fair value of guarantees and import letters of credit		24 337	12 501
Fair value of derivative financial instruments	34	6 882	
Settlements on conversion operations		769	3 012
Provision for losses on credit related commitments		83	1 481
Total other liabilities		**57 012**	**49 829**

The carrying value of all other financial liabilities is approximately equal to their fair value as at 31 December 2007 and 31 December 2006. Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 32.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	Note	2007	2006
Commitments to employees		255 862	55 578
Taxes payable other than on income		20 226	14 503
Payables		1 602	20 053
Dividends payable	30	1 511	
Other		6 355	4 399
Total other liabilities		**285 556**	**95 008**

Currency and maturity analyses of other liabilities are disclosed in Note 32.

23 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
As at 1 January 2006	**20 140**	**2 010**	**3 124 869**	**2 124 906**	**159 361**	**5 409 136**
New shares issued	181 260	18 090	181 260	(199 350)	18 090	-
As at 31 December 2006	**201 400**	**20 100**	**3 306 129**	**1 925 556**	**177 451**	**5 409 136**
New shares issued	80 750	-	80 750	**7 799 894**	**-**	**7 880 644**
As at 31 December 2007	**282 150**	**20 100**	**3 386 879**	**9 725 450**	**177 451**	**13 289 780**

Nominal registered amount of the Group's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 302 250 thousand (31 December 2006: RR 221 500 thousand). At 31 December 2007, all of the Group's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2006: RR 1 per share). Each share carries one vote.

The preference shares have a nominal value of RR 1 (2006: RR 1) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 11% p.a. and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid. Dividend payments on preference shares for the periods where preference shares were given the right to vote are not subsequently compensated from future profit of the Bank.

On 28 July 2006, the St Petersburg Office of the Central Bank of the Russian Federation registered the issue of 181 260 000 ordinary and 18 090 000 preference shares of the Bank. The Bank's charter capital was increased through capitalisation of share premium. According to the terms of the additional issue of the Bank's shares, each shareholder received 9 issued shares per each existing share. As a result of this issue, the Bank's charter capital increased by RR 199 350 thousand.

On 31 March 2007, the St Petersburg Office of the Central Bank of the Russian Federation registered the issue of 30 000 000 ordinary registered uncertified shares of the Bank. The shares were sold by public subscription. The established share price was RR 53 per share. The share issue resulted in the increase in the Bank's share capital to RR 251 500 thousand.

23 Share Capital (Continued)

On 30 November 2007, the St Petersburg Office of the Central Bank of Russian Federation registered the issue of 50 750 000 additional ordinary registered uncertified shares of the Bank. The shares were sold by public subscription. The shares were placed inside and outside the Russian Federation among institutional investors on the over-the-counter market, for which purpose the depository Bank of New-York issued global depository receipts (GDRs) in the amount of 35 559 999 receipts. The established prices of ordinary shares of the Bank constituted RR 133.23 or USD 5.40 per share. The share issue resulted in the increase in the Bank's share capital to RR 302 250 thousand.

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

24 Other Reserves

In accordance with the Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2007 are RR 3 679 549 thousand (2006: RR 2 643 234 thousand).

25 Interest Income and Expense

In thousands of Russian Roubles	**2007**	**2006**
Interest income		
Loans and advances to customers	8 407 578	3 999 024
Debt trading securities	496 350	215 696
Due from other banks	179 276	114 529
Other debt securities at fair value through profit or loss	88 050	31 283
Correspondent accounts with other banks	4 570	4 669
Total interest income	**9 175 824**	**4 365 201**
Interest expense		
Term deposits of legal entities	1 706 248	489 383
Term deposits of individuals	1 405 253	748 023
Other debt securities in issue	527 482	88 033
Bonds issued	390 776	66 279
Other borrowed funds	275 178	170 756
Other debt securities in issue	121 421	44 228
Current/settlement accounts	81 903	43 174
Due to other banks		
Total interest expense	**4 508 261**	**1 649 876**
Net interest income	**4 667 563**	**2 715 325**

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	2007	2006
Fee and commission income		
- Commission on settlement transactions	367 893	265 037
- Commission on plastic cards and cheques settlements	233 076	118 280
- Commission on cash transactions	183 031	139 988
- Commission on guarantees and letters of credit issued	148 842	54 286
- Commission on cash collection	54 576	39 054
- Commission on foreign exchange transactions	42 159	20 226
- Commission on underwriting transactions	26 571	7 031
- Commission on custody operations	7 731	6 356
- Other	1 169	338
Total fee and commission income	**1 065 048**	**650 596**
Fee and commission expense		
- Commission on guarantees and letters of credit	65 781	13 260
- Commission on settlement transactions	55 663	36 534
- Commission on plastic cards and cheques settlements	35 005	14 845
- Commission on banknote transactions	8 688	8 088
- Commission on cash collection and cash transactions	422	594
- Other	10 111	2 052
Total fee and commission expense	**175 670**	**75 373**
Net fee and commission income	**889 378**	**575 223**

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2007	2006
Staff costs		1 313 797	745 727
Depreciation of premises, equipment and amortisation of intangible assets	14	173 904	118 326
Other costs, related to premises and equipment		161 493	146 296
Property rent expenses		127 545	71 333
Contributions to deposits insurance scheme		98 107	57 798
Transportations costs		93 347	57 246
Security expenses		91 768	58 019
Taxes other than on income		84 434	98 260
Advertising and marketing services		47 643	20 623
Postal, cable and telecommunication expenses		45 758	37 258
Professional services		12 609	14 814
Charity expenses		11 518	8 505
Other administrative expenses		167 102	93 731
Total administrative and other operating expenses		**2 429 025**	**1 527 936**

The information on related party transactions is disclosed in Note 36.

28 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2007	2006
Current tax	698 311	329 459
Deferred tax	(69 560)	46 462
Income tax expense for the year	**628 751**	**375 921**

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

In thousands of Russian Roubles	2007	2006
IFRS profit before taxation	**2 637 959**	**1 568 852**
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	633 110	376 524
Tax effect of items which are not deductible for taxation purposes:		
- Non deductible expenses	19 200	18 223
- Income tax paid in the current reporting period and related to the prior reporting period	6 037	-
- Income on government securities taxed at different rates	(32 375)	(18 826)
- Other	2 779	-
Income tax expense for the year	**628 751**	**375 921**

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

28 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2006	Credited to profit or loss	Charged directly to equity	Disposal of subsidiary	31 December 2007
Tax effect of deductible temporary differences					
Accrued income/expense	39 993	64 397		-	104 390
Provision for loan impairment	128 432	961	-	(28 918)	100 475
Other	5 072	21 679	-	(999)	25 752
Net deferred tax assets	**173 497**	**87 037**	**-**	**(29 917)**	**230 617**
Less offsetting with deferred tax liabilities	(172 931)	(87 037)	-	29 351	**(230 617**)
Recognised deferred tax asset	**566**	**-**	**-**	**(566)**	**-**
Tax effect of taxable temporary differences					
Premises and equipment	(242 710)	(25 936)	(203 145)	31 075	(440 716)
Fair valuation of trading and other securities	(29 224)	11 904	-	-	(17 320)
Valuation of bonds issued at amortised cost	(5 242)	(6 435)	-	-	(11 677)
Valuation of other borrowed funds at amortised cost	(1 533)	(625)	-	-	(2 158)
Other	(10 492)	3 615	-	-	(6 877)
Gross deferred tax liability	**(289 201)**	**(17 477)**	**(203 145)**	**31 075**	**(478 748)**
Less offsetting with deferred tax assets	172 931	87 037	-	(29 351)	230 617
Recognised deferred tax liability	**(116 270)**	**69 560**	**(203 145)**	**1 724**	**(248 131)**

28 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2005	Credited to profit or loss	31 December 2006
Tax effect of deductible temporary differences			
Provision for loan impairment	139 999	(11 567)	128 432
Accrued income/expense	32 164	7 829	39 993
Fair valuation of loans and advances to customers	854	(854)	-
Other	7 688	(2 616)	5 072
Net deferred tax assets	**180 705**	**(7 208)**	**173 497**
Less offsetting with deferred tax liabilities	(179 598)	6 667	(172 931)
Recognised deferred tax asset	**1 107**	**(541)**	**566**
Tax effect of taxable temporary differences			
Premises and equipment	(239 883)	(2 827)	(242 710)
Fair valuation of trading and other securities	(8 686)	(20 538)	(29 224)
Valuation of bonds issued at amortised cost	-	(5 242)	(5 242)
Valuation of other borrowed funds at amortised cost	-	(1 533)	(1 533)
Fair valuation of due from other banks	(1 359)	1 359	-
Other	(19)	(10 473)	(10 492)
Gross deferred tax liability	**(249 947)**	**(39 254)**	**(289 201)**
Less offsetting with deferred tax assets	179 598	(6 667)	172 931
Recognised deferred tax liability	**(70 349)**	**(45 921)**	**(116 270)**

29 Earnings per Share

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

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

In thousands of Russian Roubles	Note	2007	2006
Profit attributable to the Group's shareholders		2 009 208	1 192 931
Less: preference dividends	30	(2 211)	(221)
Profit attributable to the Bank's ordinary shareholders		2 006 997	1 192 710
Weighted average number of ordinary shares in issue (thousands)	23	226 669	201 400
Basic and diluted earnings per share (expressed in RR per share)		**8.9**	**5.9**

30 Dividends

In thousands of Russian Roubles	2007		2006	
	Ordinary	Preference	Ordinary	Preference
Dividends payable as at 1 January	**475**	**-**	**395**	**-**
Dividends declared during the year	32 396	2 211	2 820	221
Dividends paid during the year	**(31 360)**	**(2 211)**	**(2 740)**	**(221)**
Dividends payable as at 31 December	**1 511**	**-**	**475**	**-**
Dividends per share declared during the year (RR per share)	**0.14**	**0.11**	**0.14**	**0.11**

All dividends are declared and paid in Russian Roubles.

31 Segment Analysis

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

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

- Corporate banking – representing settlement and current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – representing financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individuals.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on the market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

31 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallo-cated	Elimina-tions	Total
2007						
External revenues	8 421 479	811 951	1 097 201	-	-	**10 330 631**
Revenues from other segments	4 115 061	7 908 033	2 497 056	-	(14 520 150)	**-**
Total revenues						
	12 536 540	**8 719 984**	**3 594 257**	**-**	**(14 520 150)**	**10 330 631**
Total revenues comprise:						
- Interest income						
- Fee and commission income	11 743 736	8 676 279	3 275 959	-	(14 520 150)	9 175 824
- Other operating income	725 064	43 705	296 279	-	-	1 065 048
	67 740	-	22 019	-	-	89 759
Segment results						
Unallocated costs	**1 813 785**	**1 035 525**	**933 929**	**-**	**-**	**3 783 239**
						(1 145 280)
Profit before tax						
Income tax expense						**2 637 959**
						(628 751)
Profit						**2 009 208**
Segment assets	**88 312 289**	**26 443 344**	**10 100 698**	**1 799 881**	**-**	**126 656 212**
Segment liabilities	**65 938 191**	**14 906 375**	**30 215 884**	**590 699**	**-**	**111 651 149**
Other segment items						
Capital expenditures	(316 756)	(35 333)	(185 086)	(580 164)	-	(1 117 339)
Depreciation charge	(54 799)	(5 043)	(32 375)	(81 687)	-	(173 904)
(Provision)/recovery of provision for loan impairment	(910 572)	1 946	(98 260)		-	(1 006 886)
Release of provision for impairment through profit or loss				33 566	-	33 566
Other non-cash expenses	(408 331)	(7 964)	(286 243)	(108 356)	-	(810 894)

31 Segment Analysis (Continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallo-cated	Elimina-tions	Total
2006						
External revenues	4 303 958	389 342	367 187	-	-	**5 060 487**
Revenues from other segments	1 775 015	3 578 980	1 362 979	-	(6 716 974)	**-**
Total revenues	**6 078 973**	**3 968 322**	**1 730 166**	**-**	**(6 716 974)**	**5 060 487**
Total revenues comprise:						
- Interest income	5 570 068	3 945 157	1 566 950	-	(6 716 974)	4 365 201
- Fee and commission income	466 808	23 165	160 623	-	-	650 596
- Other operating income	42 097	-	2 593	-	-	44 690
Segment results	**1 113 315**	**606 702**	**583 259**	**-**	**-**	**2 303 276**
Unallocated costs						(734 424)
Profit before tax						**1 568 852**
Income tax expense						(375 921)
Profit						**1 192 931**
Segment assets	**40 084 778**	**16 647 638**	**2 849 067**	**998 168**	**-**	**60 579 651**
Segment liabilities	**31 900 600**	**8 304 412**	**15 632 302**	**235 813**	**-**	**56 073 127**
Other segment items						
Capital expenditures	(107 572)	(21 264)	(50 012)	(186 015)	-	(364 863)
Depreciation charge	(37 820)	(6 258)	(17 143)	(57 105)	-	(118 326)
(Provision)/recovery of provision for loan impairment	(459 785)	10 792	(34 901)		-	(483 894)
Other non-cash expenses	(57 669)	(1 888)	(149 596)	(16 516)	-	(225 669)

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

In thousands of Russian Roubles	North-West Region	Moscow	Total
2007			
Segment assets	109 150 441	17 505 771	126 656 212
External revenues	8 932 916	1 397 715	10 330 631
Capital expenditures	(1 097 440)	(19 899)	(1 117 339)
Credit related commitments	21 166 426	402 003	21 568 429
2006			
Segment assets	53 157 150	7 422 501	60 579 651
External revenues	4 417 232	643 255	5 060 487
Capital expenditures	(351 318)	(13 545)	(364 863)
Credit related commitments	10 352 421	351 705	10 704 126

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

32 Financial Risk Management

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

The Group’s management risk function includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on the economic, business and regulatory changes.

The Group’s main bodies performing the financial risk management functions are: the Supervisory Board, Management Board, Asset and Liability Management Committee, and Credit Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. Accordingly, the Supervisory Board establishes benchmarks which determine the Bank’s risk limits (in particular, the maximum amount of overdue debt in the loan portfolio, concentration of assets by industry, etc.). On a quarterly basis the Supervisory Board reviews and approves the reports submitted by the Bank’s management on implementation of the Bank’s strategic development plan (including assessment of risk levels) and reports on the Bank’s lending operations which contain information on the credit risk as the Bank’s main financial risk. The ongoing monitoring of strategic indicators (both business indicators and risk limits) is performed by the Supervisory Board on a monthly basis.

The Management Board is responsible for exercising general control over financial risk management. The Management Board has approved of the Risk Management Policy, the compliance with which is supervised by reviews and approvals of quarterly risk management reports. The said reports are prepared by the Department of Banking Risks and contain the description of the Group’s risk position, both at the consolidated level and exposure to specific risks. The Bank’s Management Board makes decisions on the risks that may be accepted by the Group or on arrangements to maintain the Group as a going concern in case of emergency when the decision-making process is beyond the scope of the Asset and Liability Management Committee and the Credit Committee.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for the credit risk). Weekly, the Asset and Liability Management Committee adopts resolutions on management of the Group’s balance sheet structure and the related liquidity risks, on determining and changing market risk limits. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for the credit risk) and has the right to make decisions on financial risk management in case of emergency.

The Department of Banking Risks is responsible for the compliance with the Risk Management Policy, monitoring of the cumulative bank exposure level, development of methods of assessment of certain financial and non-financial risk level, management procedures for these risks, compliance by the Bank divisions with existing procedures and limits restricting the level of these risks.

The Treasury Department is responsible for current management and operational control of certain risks, in particular, the liquidity risk, currency and interest risks.

The Bank’s Management Board, Big Credit Committee and Small Credit Committees of the Bank’s branch subdivisions are responsible for making decisions on management of the Bank’s credit risks. The Bank’s Management Board approves the Credit Policy (a document containing guidelines on principles and procedures of credit risk management in the Bank and determining authority of the Bank’s Big Credit Committee and Small Credit Committee). The Bank’s Big Credit Committee and Small Credit Committees adopt resolutions on separate credit risk-related transactions or determine credit risk limits for certain borrowers (within the scope established by the Management Board in the credit policy). Whenever decisions on certain loans are out of the scope of Small Credit Committees, the respective authority is delegated to the Big Credit Committee and the Bank’s Management Board.

Since credit risk is the main risk of the Group, the current management of the Group’s credit risk is mostly performed by its specialized subdivision, the Credit Division, exercising operational control over the credit risk level.

32 Financial Risk Management (Continued)

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts of the principal debt or interest in full when due.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of respective financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group's overall approach to credit risk management is defined in the Credit Policy, which is annually approved by the Bank's Management Board. The Bank's credit policy reflects the general approach to the Group's credit risk management, credit risk management policy, the respective functions of the Bank's subdivisions, particularities of credit risk management for one borrower or a group of related borrowers, and the industry limits in lending operations.

To maintain credit risks at an appropriate level the Group uses the following *risk management tools:*

For separate borrowers:

- Establishing limits for separate borrowers and groups of related borrowers;
- Assessment of the borrowers' financial position at the moment of the loan application and during the term of the loan;
- Evaluation of the market value of the collateral for a loan, evaluation of financial position of guarantors;
- Control over availability and safety of the pledge, both preliminary (before the pledge agreement is concluded) and subsequent control within the agreement term;
- Control over timely performance of the borrower's obligations to the Bank;
- Defining the credit quality category of the loan, which conforms to the credit risk level.

For the loan portfolio in general:

- Development of uniform procedures and methods of issue of loans and subsequent monitoring of the borrowers, as well as timely obtaining information on the borrowers;
- Control over compliance by the Bank's subdivisions with resolutions adopted by the Bank's competent authorities and internal documents (such as credit policy, internal limits, etc).

The Group management controls credit risks and the loan portfolio quality based on the following *reporting forms*:

Daily reports which form the basis for management decisions and are submitted to the Credit Director and the Deputy Chairman of the Management Board, responsible for lending operations:

- Changes in the quality categories of loans in the loan portfolio;
- Calculation of credit risk exposure per one borrower or a group of related borrowers;
- Calculation of covenants (industry risks, credit exposure of large customers, loans granted to related borrowers, calculation of cumulative loans granted to the Bank's 20 largest borrowers).

Weekly and monthly reports submitted for the purposes of meetings conducted by the Bank's Asset and Liability Management Committee, Management Board and Supervisory Board:

- General structure of the loans issued by the Bank by branches/additional offices;
- Movement of loans (broken down by the loans issued, rolled-oever, overdue or repaid);
- Performance of the Bank's branches/departments in terms of the amount of the loans granted, borrowers' industries, etc;
- Performance of the Bank in terms of credit products issued to individual and corporate customers.

32 Financial Risk Management (Continued)

Decision to grant loans

For credit risk management purposes the Bank adopted a collegial decision-making system for granting loans (except for common loans granted to individuals under the Bank's target programs). The branches have Small Credit Committees which grant loans within the established limits. The limits of authority of the Small Credit Committees in branches are determined on the basis of their credit performance in the previous year, the structure and quality of their loan portfolios and qualifications of the employees by subdivision. The specific limits are determined in the Bank's Credit Policy approved by the Bank's Management Board.

For loans to individuals limits are established by types of credit products. The maximum limit is established for mortgage loans – RUR 25 000 thousand, for car loans – RUR 3 600 thousand, for other loans – RUR 3 000 thousand.

If the loan amount exceeds the limit of the respective Small Credit Committee the decision to grant a loan is made by the Bank's collegial body, the Big Credit Committee. The Big Credit Committee is authorised to grant loans to corporate entities or a group of related corporate entities in the amount not exceeding RUR 400,000 thousand.

If the loan to be issued exceeds the set limit of the Big Credit Committee, the decision to grant a loan is made by the Bank's collegial executive body – the Management Board.

The loans to the borrowers related to the Group are granted with prior consent of the Bank's Supervisory Board.

Limits established by the Group for credit risk management purposes:

1. Limits for separate borrowers and for a group of related individuals.

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of global financial institutions, which are the Group's creditors.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Bank takes into account all the information the Group managed to obtain. When establishing an individual limit, the Group performs analysis of the financial statements, cash flows, available credit history of each borrower in a group of related borrowers, the need of the group of related borrowers in credit resources, as well as availability of funds for redemption of the loan. Also the Group takes into account the property pledged as collateral for a loan. The Group has established the following priority of collateral based on liquidity of collateral:

1. deposits with the Bank and promissory notes issued by the Bank;
2. real estate;
3. guarantees and sureties of legal entities;
4. fixed assets;
5. other assets.

2. Overall loan portfolio limits.

- Cumulative credit risk exposure to a separate borrower or a group of related borrowers (not exceeding 25% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision in April 1998 (Basel I));
- Amount of loans and advances to borrowers related to the Bank (not exceeding 25% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I));
- Cumulative amount of loans, bank guarantees and sureties provided by the Bank to its shareholders (having the right to 5 and more percent of the Bank's voting stock) - not exceeding 50% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I);

32 Financial Risk Management (Continued)

- Amount of overdue loans in the loan portfolio – not exceeding 3%.
- Ratio of the maximum aggregate risk in the real estate and construction sector to the cumulative loan portfolio of 32.5%, and it is to be further reduced to 30.0% by the end of 2008.
- Ratio of the maximum risk in any economic sector to the cumulative loan portfolio of 20%.

For off-balance sheet financial instruments the Group uses the same credit policy as it does for balance sheet financial instruments, including transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any of the Bank's offered products (guarantees, letters of credit, credit facilities, etc.) within the established limit.

The Bank uses the system of limits restricting the maximum debt of counterparty banks when conducting transactions on the interbank lending market and performing purchase and sale of financial assets, including term currency operations when the counterparty bears the credit risk in settlements. The respective limits are established for each financial institution on the basis of its credit quality analysis performed by the Bank's competent collegial bodies (Management Board, Credit Committee). The limits established for resident banks are subject to review at least each quarter. The limits established for non-resident banks are subject to review at least semi-annually.

Geographical risk. The Group's exposure to the geographical risk is insignificant since substantially all assets and liabilities of the Group are concentrated in the Russian Federation.

Market risks. The Group takes on exposure to the market risks arising from open positions in interest rate, currency and equity products, that are exposed to general and specific market movements.

The Department of the Bank's risks is responsible for developing methods of appraisal of currency, interest and equity risks, management procedures for these risks, and for identification and analysis of the current risk level. This Department controls the compliance by the Group's subdivisions with the existing procedures and limits which mitigate market risks. The Department of the Banking Risks reports to the Group's management on a regular basis. The review of the main risks is communicated to the Bank's management and the Asset and Liability Management Committee of the Bank.

Market risk management is defined as a method of limitation of possible losses which can be incurred for by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of limits on transactions and performing other arrangements as described below.

Currency risk. Currency risk is the risk of changes in income or carrying value of the Group's financial instrument portfolio due to exchange rate fluctuations.

The Treasury Department of the Bank monitors the Bank's open currency position on a daily basis.

For currency management purposes the Group uses the system of mandatory limits established by the CBRF, including limits on open position of the Bank in a foreign currency (up to 10% of the equity estimated in compliance with the CBRF) and the limit on the open position in all foreign currencies (up to 20% of the equity estimated in compliance with the CBRF).

The Group follows a conservative currency risk management policy and opens currency position mostly in the currencies most frequently used in the Russian Federation (US Dollars and Euros) below the currency exposure limits established by the CBRF.

32 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2007. The Group does not apply the presented currency risk analysis for management purposes:

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
Assets					
Cash and cash equivalents	5 665 183	2 865 412	1 047 342	34 511	9 612 448
Mandatory cash balances with CBRF	1 551 913	-	-	-	1 551 913
Trading securities	7 576 519	4 074 171	-	-	11 650 690
Other securities at fair value through profit or loss	-	24	-	-	24
Repurchase receivables	517 834	-	-	-	517 834
Due from other banks	1 915 757	3 760 262	1 360 995	-	7 037 014
Loans and advances to customers	74 342 448	15 912 001	2 092 203	-	92 346 652
Other financial assets	154 676	86	245	-	155 007
Prepaid income tax	93 946	-	-	-	93 946
Premises and equipment	3 433 461	-	-	-	3 433 461
Intangible assets	1 016	-	-	-	1 016
Other assets	254 394	605	27	1 181	256 207
Total assets	**95 597 147**	**26 612 561**	**4 500 812**	**35 692**	**126 656 212**
Liabilities					
Due to other banks	613 700	55 443	7 550	573	677 266
Customer accounts	78 146 564	6 447 650	4 128 205	6 353	88 728 772
Bonds issued	999 055	5 588 167	-	-	6 587 222
Other debt securities in issue	7 100 073	179 115	146 115	-	7 425 303
Other borrowed funds	-	7 641 887	-	-	7 641 887
Other financial liabilities	36 486	2 337	18 189	-	57 012
Deferred income tax liability	248 131	-	-	-	248 131
Other liabilities	283 202	2 354	-	-	285 556
Total liabilities	**87 427 211**	**19 916 953**	**4 300 059**	**6 926**	**111 651 149**
Less fair value of currency derivatives	(10 169)	-	-	-	(10 169)
Net balance sheet position, excluding currency derivatives	**8 069 767**	**6 695 608**	**200 753**	**28 766**	**14 994 894**
Currency derivatives (Note 34)	**7 730 036**	**(7 325 320)**	**(394 547)**	**-**	**10 169**
Net balance sheet position, including currency derivatives	**15 799 803**	**(629 712)**	**(193 794)**	**28 766**	**15 005 063**

32 Financial Risk Management (Continued)

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2006. The Group does not apply the presented currency risk analysis for management purposes:

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
Assets					
Cash and cash equivalents	6 913 804	1 284 162	512 561	46 141	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	-	773 158
Trading securities	4 921 163	1 163 317	-	-	6 084 480
Other securities at fair value through profit or loss	-	1 365 396	-	-	1 365 396
Due from other banks	342 666	1 511 141	-	-	1 853 807
Loans and advances to customers	32 234 915	6 175 146	1 294 835	-	39 704 896
Other financial assets	71 229	2 510	1 698	-	75 437
Prepaid income tax	20 915	-	-	-	20 915
Deferred income tax asset	566	-	-	-	566
Premises and equipment	1 615 333	-	-	-	1 615 333
Intangible assets	2 993	-	-	-	2 993
Other assets	323 656	1 481	334	531	326 002
Total assets	**47 220 398**	**11 503 153**	**1 809 428**	**46 672**	**60 579 651**
Liabilities					
Due to other banks	616 548	119 917	30 849	621	767 935
Customer accounts	37 936 076	5 114 302	1 674 477	26 954	44 751 809
Bonds issued	998 002	3 271 546	-	-	4 269 548
Other debt securities in issue	2 583 734	30 284	141 781	-	2 755 799
Other borrowed funds	877 347	2 389 582	-	-	3 266 929
Other financial liabilities	31 559	3 069	15 201	-	49 829
Deferred income tax liability	116 270	-	-	-	116 270
Other liabilities	93 602	1 396	-	10	95 008
Total liabilities	**43 253 138**	**10 930 096**	**1 862 308**	**27 585**	**56 073 127**
Less fair value of currency derivatives	(2 198)	-	-	-	(2 198)
Net balance sheet position, excluding currency derivatives	**3 965 062**	**573 057**	**(52 880)**	**19 087**	**4 504 326**
Currency derivatives (Note 34)	**673 206**	**(636 312)**	**(34 696)**	**-**	**2 198**
Net balance sheet position, including currency derivatives	**4 638 268**	**(63 255)**	**(87 576)**	**19 087**	**4 506 524**

32 Financial Risk Management (Continued)

The table below summarises the foreign currency exchange rate risk for the Group's monetary financial instruments as at 31 December 2007 and 31 December 2006:

	As at 31 December 2007				As at 31 December 2006			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Russian Roubles	90 914 153	86 895 878	7 730 036	**11 748 311**	44 446 758	43 041 785	673 206	**2 078 179**
US Dollars	26 611 956	19 914 599	(7 325 320)	**(627 963)**	11 501 672	10 928 700	(636 312)	**(63 340)**
Euros	4 500 785	4 300 059	(394 547)	**(193 821)**	1 809 094	1 862 308	(34 696)	**(87 910)**
Other	34 511	6 926	-	**27 585**	46 141	27 575	-	**18 566**
Total	**122 061 405**	**111 117 462**	**10 169**	**10 954 112**	**57 803 665**	**55 860 368**	**2 198**	**1 945 495**

The currency derivatives position in each column represents the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents fair value of the derivatives.

As at 31 December 2007, the Group forecasted US Dollar/Russian Rouble weakening by 0.6% and Euro/Russian Rouble weakening by 2.3% during 2008.

As at 31 December 2006, the Group forecasted US Dollar/Russian Rouble weakening by 5.1% and Euro/Russian Rouble weakening by 0.6% during 2007.

The following table presents the financial result recognised by the Group in accordance with the above movement in US Dollar and Euro exchange rates applied to respective currency positions of the Bank as at the balance sheet date, with all other variables held constant:

(In thousands of Russian Roubles)	**At 31 December 2007**
US Dollar/ Russian Rouble weakening by 0.6%	3 768
Euro/ Russian Rouble weakening by 2.3%	4 458
Total	**8 226**

(In thousands of Russian Roubles)	**At 31 December 2006**
US Dollar/ Russian Rouble weakening by 5.1%	3 230
Euro/ Russian Rouble weakening by 0.6%	527
Total	**3 757**

Movements in other currencies' exchange rates will have no material effect on the profit or loss of the Group.

32 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. As a result of such changes interest margins may reduce and create losses for the Group.

The table below summarises the effective interest rates by currency for major debt instruments. The analysis has been prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

In % p.a.	2007				2006			
	RR	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0.0	6.54	5.53	0.00	0.88	4.16	2.56	0.00
Debt trading securities	7.82	5.53	-	-	8.24	5.63	-	-
Other debt securities at fair value through profit or loss	-	5.99	-	-	-	6.87	-	-
Due from other banks	5.31	4.94	4.21	-	11.99	5.35	-	-
Loans and advances to customers	13.10	12.5	12.10	-	13.09	12.42	12.25	-
Liabilities								
Due to other banks	5.02	3.99	-	0.00	2.45	4.70	2.88	0.00
Customer accounts								
- current and settlement accounts	0.11	0.02	0.05	0.00	0.33	0.02	0.05	0.01
- term deposits								
- individuals	9.29	8.53	7.69	-	9.80	8.15	7.27	-
- legal entities	8.38	8.96	7.10	-	7.14	6.81	6.26	-
Bonds issued	9.61	10.90	-	-	10.24	10.44	-	-
Other debt securities in issue	8.03	9.73	1.24	-	5.93	9.79	8.05	-
Other borrowed funds	-	8.51	-	-	11.85	9.59	-	-

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

Interest rate risk management represents management of the Group’s assets and liabilities to maximize profit and reduce losses from possible fluctuations of the interest rates and the balance sheet structure. The Group believes that the interest rate management is an important part of the Group management, which significantly affects the Group’s financial performance.

The Group’s interest rate risk management is performed by the following bodies:

- Management Board – in terms of strategic management of the balance sheet structure;
- Asset and Liability Management Committee – in terms of approval and control over the structure of the assets and liabilities, management of interest rates and portfolio of securities, approval of methods (procedures) of the interest rate risk evaluation;
- Treasury Department – in terms of evaluation of the Group’s exposure to the interest rate risk; current management of the balance sheet structure, short-term asset management, definition of interest rate risk levels acceptable for the Group and making interest rate risk management proposals to the Asset and Liability Management Committee.

In case the existing interest rate movement forecast predicts a significant reduction of the Group’s net interest margin, the Asset and Liability Management Committee makes a decision to regulate the interest rate risk level. The regulation arrangements of the Group may include:

32 Financial Risk Management (Continued)

- alterations in the size and structure of the fixed-income investment portfolio as an instrument which allows of a prompt change of the interest rate risk position;
- changes in base interest rates to manage the structure of assets and liabilities;
- other arrangements which allow to change the share of the floating income instruments in assets and liabilities.

For management purposes the Group sets the forecasted change in the net interest income in case of movement in the rate of the benchmark market instrument of one percentage point as an interest rate risk criterion. As the benchmark instrument the Group uses Russian Federation bonds as it reflects the current interest rates in the national economy of the Russian Federation.

On the basis of the pricing mechanism for the market securities with fixed income, when the market level of interest rates is changed, a fast (one off) change of net interest income takes place related to revaluation of such securities' portfolio as a response to movement in the market level of interest rates. The further revision of rates on other assets and liabilities sensitive to changes in interest rates is extended for a certain period and on the basis of the Bank’s asset and liability structure by maturity and according to the existing practice of interest rate revision, it is normally completed within 180 days.

For a 30-day period the Group considers the changes in the net interest income for the first month from the date of movement in the market interest rates. For a 180-day period the Group considers the change of the net interest income for the sixth month from the date of movement in the market interest rates. Since all interest rates on financial assets and liabilities will be revised subject to compliance with the equability interest rate revision assumptions, the Group will evaluate its general exposure to the interest rate risk as “exposure to the interest rate risk within the period of 30 days + 5/2 of the exposure to the interest rate risk within the period of 180 days”. The Group’s exposure to the interest rate risk is determined separately for Russian Roubles and foreign currencies.

The following table presents sensitivities of the fair values of debt securities of the Group which form part of the trading portfolio and other securities of the Group recorded at fair value through profit or loss, on the basis of the coupon rates movement forecast for the next reporting year, with all other variables held constant:

In thousands of Russian Roubles	**At 31 December 2007**
Decrease by 0.5 basis points	(233 362)

In thousands of Russian Roubles	**At 31 December 2006**
Decrease by 0.02 basis points	(6 702)

32 Financial Risk Management (Continued)

The following table presents the Group’s exposure to the movement in the net interest income from fixed and floating rate financial instruments (except for the debt securities which form part of the Group’s trading portfolio and other securities recorded at fair values through profit or loss) based on forecasted movements in interest rates of financial assets and liabilities for the next reporting period, with all other variables held constant as at 31 December 2007:

In thousands of Russian Roubles	**Interest rate movement**	**Net interest income movement**
Loans and advances to customers	0.5%	205 532
Irrevocable undrawn credit lines	0.5%	9
Customer accounts	(0.2%)	80 707
Bonds issued	(0.5%)	10 958
Other debt securities in issue	(0.2%)	9 941
Other borrowed funds	(0.5%)	25 757
Total net interest income movement	**-**	**332 904**

As at 31 December 2006:

(in thousands of Russian Roubles)	**Interest rate movement**	**Net interest income/ expense movement**
Loans and advances to customers	(0.5%)	(93 798)
Irrevocable undrawn credit lines	(0.5%)	(240)
Customer accounts	0.05%	(6 965)
Bonds issued	(0.54%)	10 745
Other debt securities in issue	0.05%	(1 135)
Other borrowed funds	(0.54%)	2 773
Total net interest expense movement	**-**	**(88 620)**

The Group has not evaluated the movement of the net interest income from correspondent accounts, due from and to other banks since the Group management has forecasted a zero movement in the interest rate for these instruments.

Equity risk. The Group takes on exposure to the risk of the movements in quotations of the equity instruments, purchased by the Group.

The Asset and Liability Management Committee sets the limits restricting possible losses related to the effects of the equity risk. If the risk becomes material the mitigation arrangements shall be determined by the Management Board.

The limits are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments.

32 Financial Risk Management (Continued)

The Department of Banking Risks controls the equity risk on a daily basis and is obliged to present to the Asset and Liability Management Committee the results of the estimates which show whether the set limits may be exceeded in case of a continuous unfavourable situation on the equity market, as well as the matters related to possible equity risk mitigation in transactions with a certain group of equity instruments.

The following instruments are applied to manage the equity risk:

- Diversification of the portfolio of equity securities, including setting limits on different types of equity securities;
- Setting and monitoring compliance with cumulative and individual limits for equity instruments;
- Setting and monitoring compliance with the "stop-loss" limits to reduce the losses of the Group.

The following table presents the Group's exposure to the effects of the movement in the fair values of equity instruments in the trading portfolio based on the forecasted movements in equity securities prices for the next reporting year, with all other variables held constant:

In thousands of Russian Roubles	**At 31 December 2007**
Decrease in share quotations by 6.1%	(49 700)

In thousands of Russian Roubles	**At 31 December 2006**
Increase in share quotations by 22.3%	65 156

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group's customers.

The Group seeks to maintain a diversified and stable structure of liabilities, which comprise primarily issued debt securities, long-term and short-term deposits of other banks, corporate and retail customer deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts provide a long-term and stable source of funding for the Group.

The Group has established multi-level liquidity management system. On a daily basis the Treasury Department controls the Group's liquidity position. The long-term liquidity is forecasted by the Asset and Liability Management Committee. In some cases decisions on liquidity may be made by the Management and Supervisory Boards who also control the general liquidity of the Group.

Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group's activity the management may demand higher amounts of liquidity assets, if required.

32 Financial Risk Management (Continued)

The Group’s management applies the following main instruments of liquidity management:

- In the short term the most effective way to manage liquidity is to manage the volume and structure of the liquid assets. The management of the Group maintains the portfolio of liquid assets (including trading securities) which can be used for prompt and loss-free repayment of the Bank’s debt;
- For long-term liquidity management the Group applies interest rate system;
- In certain cases the management may impose restrictions on some transactions to regulate the Group’s balance sheet structure. The limits are set when other instruments of liquidity management are insufficient to maintain liquidity;
- Raising long-term funds. During 2006 and 2007, the Group raised significant amounts on global log-term resource and equity markets. In particular, the Group issued bonds for USD 225 000 thousand, obtained several syndicated and subordinated bank loans and placed its shares for over USD 270 000 thousand.

The Group’s liquidity management policy includes the following:

- daily forecasts of cash flows by currencies and calculation of the cash-flow related amount of current liquidity reserves;
- management of concentration and structure of borrowed funds;
- development of liquidity maintenance plans;
- diversification of the funding sources;
- control over compliance of the Group with the statutory liquidity requirements;
- setting interest rates for raising/granting funds by instruments and periods.

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis and includes daily estimates of the level of liquid assets necessary to settle obligations of the Bank to customers and counterparties in full as they fall due. It is implemented based on statistical and chronological analysis of the balances on customers’ current accounts, forecasted guaranteed random customer deposits in correspondent accounts, movement of funds on accounts, analysis and processing of the information on the Bank’s obligations and requirements under term contracts in short-term periods. The received analytical data serves as a basis for management of the Bank’s liquidity position – replenishment of the payment cycle of the Bank and its customers with funds from the liquidity assets.

Medium-term liquidity (for the period of up to 3 months) monitoring ensures creation of the asset portfolio which may fully cover (with a certain emergency reserve) all needs of the current liquidity management within the planning time horizon.

Long-term liquidity (over 3 months) monitoring is based on analysis of the Group’s liquidity gaps. The Group developed an analytical form to evaluate liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity. For example, for current accounts of customers the Group uses the statistical data on sustainability, and for securities – possible periods of selling portfolios without profitability losses. The Groups regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. The management analyses net liquidity gap and cumulative liquidity gap.

32 Financial Risk Management (Continued)

The following tables are based on the above principles and show distribution of assets and liabilities as at 31 December 2007 and 31 December 2006 by expected maturity periods. This table is prepared by the Group for management purposes on the basis of accounting data prepared under the Russian Accounting Rules.

As at 31 December 2007:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Assets	36 032 398	24 674 595	36 403 345	30 146 250	127 256 588
Liabilities and equity	37 750 195	23 012 513	20 279 524	46 214 356	127 256 588
Net liquidity gap	(1 717 797)	1 662 082	16 123 821	(16 068 106)	
Cumulative liquidity gap	(1 717 797)	(55 715)	16 068 106		

As at 31 December 2006:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Assets	20 477 669	11 768 101	17 776 834	11 977 444	62 000 048
Liabilities and equity	16 949 701	9 057 574	13 848 124	22 144 649	62 000 048
Net liquidity gap	3 527 968	2 710 527	3 928 710	(10 167 205)	
Cumulative liquidity gap	3 527 968	6 238 496	10 167 205		

When performing its operating activity the Bank also focuses on compliance with the requirements of the CB RF on maintaining the minimum sufficient (maximum allowable) ratios of instant (up to 1 day), current (up to 30 days) and long-term (over 1 year) liquidity. These ratios are:

- Instant liquidity ratio (N2) which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

According to the Group's management view based on daily calculations of the Treasury Department, within 2006 and 2007 the Bank complied with the liquidity ratios established by the CBRF.

The table below shows assets and liabilities as at 31 December 2007 and 31 December 2006 by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and based on management's view that it is a fairer portrayal of the Group's liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of the respective liabilities are also included within this category.

32 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2007 prepared under IFRS is set out below. The Group does not use the presented analysis by contractual maturity for liquidity management purposes.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	9 612 448	-	-	-	-	9 612 448
Mandatory cash balances with CBRF	1 551 913	-	-	-	-	1 551 913
Trading securities	11 650 690	-	-	-	-	11 650 690
Other securities at fair value through profit or loss	-	24	-	-	-	24
Repurchase receivables	517 834	-	-	-	-	517 834
Due from other banks	6 967 014	70 000	-	-	-	7 037 014
Loans and advances to customers	11 028 153	28 031 756	31 991 062	17 936 254	3 359 427	92 346 652
Other financial assets	143 667		-	-	11 340	155 007
Prepaid income tax	-	93 946	-	-	-	93 946
Premises and equipment	-	-	-	-	3 433 461	3 433 461
Intangible assets	-	-	-	-	1 016	1 016
Other assets	87 645	56 299	31 267	36 066	44 930	256 207
Total assets	**41 559 364**	**28 252 025**	**32 022 329**	**17 972 320**	**6 850 174**	**126 656 212**
Liabilities						
Due to other banks	486 439	190 827	-	-	-	677 266
Customer accounts	44 196 665	30 801 753	12 386 553	1 343 801	-	88 728 772
Bonds issued		999 055		3 065 263	2 522 904	6 587 222
Other debt securities in issue	2 048 036	4 056 727	1 164 695	155 845		7 425 303
Other borrowed funds		2 510 013	1 971 165	2 911 074	249 635	7 641 887
Other financial liabilities	32 957	4 322	10 458	3 259	6 016	57 012
Deferred income tax liability	-	-	-	248 131	-	248 131
Other liabilities	45 138	239 353	544	521	-	285 556
Total liabilities	**46 809 235**	**38 802 050**	**15 533 415**	**7 727 894**	**2 778 555**	**111 651 149**
Net liquidity gap	**(5 249 871)**	**(10 550 025)**	**16 488 914**	**10 244 426**	**4 071 619**	**15 005 063**
Cumulative liquidity gap as at 31 December 2007	**(5 249 871)**	**(15 799 896)**	**689 018**	**10 933 444**	**15 005 063**	

32 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2006 prepared under IFRS is set out below.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	8 756 668	-	-	-	-	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	-	-	773 158
Trading securities	6 084 480	-	-	-	-	6 084 480
Other securities at fair value through profit or loss	-	-	-	1 365 396	-	1 365 396
Due from other banks	1 511 141	342 666	-	-	-	1 853 807
Loans and advances to customers	3 164 016	13 617 446	13 966 332	8 234 327	722 775	39 704 896
Other financial assets	28 433	35 636	-	-	11 368	75 437
Prepaid income tax	-	20 915	-	-	-	20 915
Deferred income tax asset	-	-	-	566	-	566
Premises and equipment	-	-	-	-	1 615 333	1 615 333
Intangible assets				-	2 993	2 993
Other assets	102 712	109 730	75 186	38 374	-	326 002
Total assets	**20 420 608**	**14 126 393**	**14 041 518**	**9 638 663**	**2 352 469**	**60 579 651**
Liabilities						
Due to other banks	738 353	29 582	-	-	-	767 935
Customer accounts	22 054 484	12 748 081	9 781 741	167 503	-	44 751 809
Issued bonds	-	998 002	-	3 271 546	-	4 269 548
Other debt securities in issue	1 191 822	1 271 595	292 382	-		2 755 799
Other borrowed funds	6 674	-	801 885	273 203	2 185 167	3 266 929
Other financial liabilities	43 269	2 353	-	119	4 088	49 829
Deferred income tax liability	-	-	-	116 270	-	116 270
Other liabilities	36 243	57 346	1 419	-	-	95 008
Total liabilities	**24 070 845**	**15 106 959**	**10 877 427**	**3 828 641**	**2 189 255**	**56 073 127**
Net liquidity gap	**(3 650 237)**	**(980 566)**	**3 164 091**	**5 810 022**	**163 214**	**4 506 524**
Cumulative liquidity gap as at 31 December 2006	**(3 650 237)**	**(4 630 803)**	**(1 466 712)**	**4 343 310**	**4 506 524**	

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

The Group provides an opportunity to the majority of its borrowers to roll-over credit agreements, the majority of loans are issued for project finance and the term of the roll-over is separately specified in the loan agreement. In accordance with its credit policy the Group issues short-term loans, with the possibility of their further prolongation to finance medium - and long-term projects of borrowers. Customers can extend the maturity of the loans, subject to approval by the Credit Committee and/or the Management Board. Most borrowers of the Group take the opportunity to prolong their loans, and this is regularly approved by the Group's Management Board. For such transactions contractual maturity of loans is shorter than their expected maturity which may have negative impact on the liquidity position of the Group presented above.

32 Financial Risk Management (Continued)

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

The main differences between liquidity tables prepared under IFRS by contractual maturity and the above tables prepared by the Group for management purposes are as follows:

1. the total balance sheet value differs by the provision for loan impairment of loans and advances to customers recorded by the Group on the liabilities side for management purposes, whereas for the purposes of IFRS financial statements the amount of loans and advances to customers is reduced by the provision;
2. the Group accounts for mandatory cash balances with the CB RF as an asset, retiring in more than one year since the Group may not use these resources to cover the creditors' demands;
3. for management purposes the loans and advances to customers are recorded by contractual maturity of the total loan amounts when they fall due, whereas for the purposes of IFRS financial statements the loans are broke down by tranches, which is especially important for the loans granted to individuals and repaid by equal monthly instalments. For management purposes the Bank does not take into account of the roll-over option, which is granted to the majority of its borrowers;
4. the Bank also applies internal methods to determine the maturity of current accounts and deposits on demand since these deposits are considered to be a long-term source of funding the Group's transactions. Therefore, the current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for Group management purposes.

The tables below show distribution of liabilities as at 31 December 2007 and 31 December 2006 by remaining contractual maturity. The amounts in tables reflect contractual undiscounted cash flows and differ from the balance sheet amounts based on discounted cash flows. The Bank does not apply the presented analysis by undiscounted cashflows in liquidity management.

As at 31 December 2007:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Due to other banks	486 890	193 758	-	-	-	**680 648**
Customer accounts	44 303 999	31 531 577	13 315 456	1 570 520	-	**90 721 552**
Issued bonds	131 940	1 286 192	279 713	4 413 155	3 765 874	**9 876 874**
Other debt securities in issue	2 049 406	4 159 715	1 251 377	166 142	-	**7 626 640**
Other borrowed funds	1 355	2 798 127	2 169 488	3 609 423	277 068	**8 855 461**
Other financial liabilities	32 592	-	-	-	-	**32 592**
Total undiscounted future cash flows to settle financial liabilities	**47 006 182**	**39 969 369**	**17 016 034**	**9 759 240**	**4 042 942**	**117 793 767**
Irrevocable undrawn credit lines	-	449	1 256	50	-	**1 755**
Operating lease commitments	137	33 390	25 374	133 108	-	**192 009**
Capital expenditure commitments	8 803	52 820	107 109	45 484	-	**214 216**
Total future cash flows	**47 015 122**	**40 056 028**	**17 149 773**	**9 937 882**	**4 042 942**	**118 201 747**

32 Financial Risk Management (Continued)

As at 31 December 2006:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Due to other banks	738 994	29 722	-	-	**-**	**768 716**
Customer accounts	22 090 628	13 004 131	10 287 207	192 322	**-**	**45 574 288**
Issued bonds	1 185	1 205 482	351 220	3 917 674	**-**	**5 475 561**
Other debt securities in issue	1 190 691	1 292 956	312 394	-	-	**2 796 041**
Other borrowed funds	12 951	97 533	907 057	926 700	2 214 885	**4 159 126**
Other financial liabilities	35 847	-	-	-	**-**	**35 847**
Total undiscounted future cash flows to settle financial liabilities	**24 070 296**	**15 629 824**	**11 857 878**	**5 036 696**	**2 214 885**	**58 809 579**
Irrevocable undrawn credit lines	-	46 705	-	1 256	-	**47 961**
Operating lease commitments	2 122	10 609	12 731	17 292	**-**	**42 754**
Capital expenditure commitments	3 430	17 178	20 620	-	**-**	**41 228**
Total future cash flows	**24 075 848**	**15 704 316**	**11 891 229**	**5 055 244**	**2 214 885**	**58 941 522**

33 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the Basel Prudential Requirements for Banks (Basel I).

(i) Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above 10%. Regulatory capital is based on the Bank's reports prepared under Russian statutory accounting standards and comprises:

In thousands of Russian Roubles	**31.12.2007**	**31.12.2006**
Total capital	17 786 779	5 731 910
Total regulatory capital	15.7%	11.3%

Compliance with capital adequacy ratio set by the CB RF is monitored monthly with reports containing its calculation reviewed and signed by the Bank's Deputy Chairman of the Management Board and Chief Accountant, as well as with daily calculations of the Treasury Department.

The Group's management believes that during 2006 and 2007 the capital adequacy ratio was not below the set minimum level.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Bank's Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank is planning its business scope under strategic and financial plans developed along with identification of the needs in risk coverage for three years and one year, respectively. When the required amount of capital is defined the Banks determines the sources of its increase: borrowings on capital markets, share issue and the scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved by the following collegial management bodies in the established priority: the Asset and Liability Management Committee, Management Board, Supervisory Board of the Bank.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan of increasing of assets. In some cases the management uses administrative measures to influence the balance sheet structure through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

(iii) According to the loan agreements with its creditors the Bank has a commitment to maintain the minimum capital adequacy ratio of at least 11%, which is calculated under the requirements of Basel I (refer to Note 34).

This ratio is calculated on a quarterly basis; the forecasted amount of capital and capital adequacy are defined by the Bank's Strategic Development Plan with due account of the arrangements ensuring compliance with the adequacy requirements.

33 Management of Capital (Continued)

The composition of the Group's capital calculated in accordance with Basel I is as follows:

In thousands of Russian Roubles	**31.12.2007**	**31.12.2006**
Capital	**18 505 482**	**6 510 437**
Tier 1	***13 863 071***	**4 007 826**
Paid-in share capital	3 564 330	3 483 580
Reserves and profit	10 298 741	524 246
including		
- Share premium	9 725 450	1 925 556
- Retained earnings	573 291	(1 401 310)
Tier 2	***4 642 411***	**2 502 611**
Revaluation reserves	1 141 992	498 698
Subordinated loans	3 500 419	2 003 913
Risk weighted assets	**112 735 292**	**50 977 045**
Risk weighted balance sheet assets	97 941 613	44 255 643
Risk weighted trade assets	9 719 335	4 927 250
Risk weighted off-balance-sheet assets	5 074 344	1 794 152
Total capital adequacy ratio	**16.41%**	**12.77%**
Total tier 1 capital	**12.30%**	**7.86%**

The Group's management believes that during 2006 and 2007 the capital adequacy ratio set under Basel I requirements was not below the minimum level agreed on with the creditors of the Bank.

The reconciliation of the Bank's capital adequacy ratio calculated under the requirements of the CBRF and the capital calculated under Basel I requirements is as follows:

	31.12.2007	**31.12.2006**
Capital under the CBRF	**17 786 779**	**5 731 910**
Differences in revaluation reserve for premises	292 489	(350 805)
Differences in the limits for tier 2	-	888 957
Differences in provisions for impairment	(228 994)	(141 211)
Differences in accounting of securities	109 494	98 460
Differences in accumulated depreciation	129 002	63 639
Differences in accrued interest income and expense	200 551	115 771
Differences in accounting of deferred expenses	85 785	44 821
Other differences	130 376	(37 225)
Capital under Basel I requirements	**18 505 482**	**6 499 097**

34 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, third parties' claims against the Group are received. On the basis of its own estimates and internal professional advice the management is of the opinion that no material losses will be incurred in respect of claims and accordingly no loss provision has been made in these consolidated financial statements.

Tax legislation. Russian tax 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 Group may be challenged by the relevant regional and federal authorities.

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

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

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. These reclassifications do not have an effect on the Group's profit before taxation or the tax charge recorded in these consolidated financial statements.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities was recorded (2006: no provision).

Capital expenditure commitments. At 31 December 2007 the Group had contractual capital expenditure commitments in respect of reconstruction and purchase of premises totalling RR 214 216 thousand. In 2007 the Group allocated the necessary resources in respect of these commitments. Management believes that future net income and funding will be sufficient to cover this and any similar commitments.

As at 31 December 2007, the Group's management decided to construct new premises for the Head Office scheduled to be completed by the end of 2010. According to the current estimation of the Group's management, the total capital expenditure on construction of the new Head Office building will amount to approximately RR 3 200 000 thousand.

As at 31 December 2006, the Group had capital expenditure commitments in respect of reconstruction and purchase of premises totalling RR 41 228 thousand.

34 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

In thousands of Russian Roubles	2007	2006
Within 1 year	58 901	25 462
Later than 1 year and not later than 5 years	133 108	17 292
Total operating lease commitments	**192 009**	**42 754**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country, in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, changes in the shareholders structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with the Group's related and unrelated parties, the share of overdue balances in the Group's credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the Group's expenditure pattern;

Reporting requirements, obliging the Group to provide its audited financial statements to the lender, as well as certain additional information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

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

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

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	2007	2006
Revocable undrawn credit lines	13 124 163	7 575 739
Guarantees issued	4 227 330	1 471 497
Import letters of credit	4 215 264	1 622 911
Irrevocable undrawn credit lines	1 755	47 961
Total credit related commitments	**21 568 512**	**10 718 108**

34 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. As at 31 December 2007, estimated fair value of guarantees and letters of credit was equal to RR 24 337 thousand (2006: 12 501 thousand). Refer to Note 35.

As at 31 December 2007, customer accounts include deposits amounting to RR 1 347 709 thousand representing security on irrevocable liabilities on import letters of credit (2006: RR 1 022 040 thousand). Refer to Note 17.

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not its assets. Nominal values disclosed below are normally different from the fair values of respective securities. In accordance with the common business practices no insurance cover was provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	**2007 Nominal value**	**2006 Nominal value**
Corporate shares held in custody of:		
- Petersburg Central Registration Company	170 159	142 864
- Depository Clearing Company	573	220
- National Depository Centre	60	60
- other registrars and depositories	72 446	56 947
- registers of share issuers	172 123	171 162
Bonds of subjects of the Russian Federation held in custody of:		
- St Petersburg Settlement and Depository Centre	58	58
- National Depository Centre	-	11 150
Russian Federation Eurobonds held in custody of:		
- National Depository Centre	-	26

Assets pledged. As at 31 December 2007, the Group had the following assets pledged as collateral:

In thousands of Russian Roubles		**2007**		**2006**	
	Note	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Repurchase receivables	10, 17	517 834	492 712	-	-
Total		**517 834**	**492 712**	**-**	**-**

In addition, mandatory cash balances with the CBRF in the amount of RR 1 551 913 thousand (2006: RR 773 158 thousand) represent mandatory reserve deposit which is not available to finance the Group's day to day operations.

Derivative financial instruments. Contracts on currency derivative financial instruments entered into by the Group have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

34 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards and futures contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after 31 December 2007. The contracts are short term in nature.

In thousands of Russian Roubles		2007		2006	
		Net asset forwards	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		1 837 801	149 732	87 367	-
- USD payable on settlement (-)		(3 718 749)	(5 888 658)	(1 210 804)	(947 920)
- Euros receivable on settlement (+)		-	475 037	52 045	-
- Euros payable on settlement (-)		(794 124)	(75 460)	(86 741)	-
- RR receivable on settlement (+)		4 491 467	5 742 313	1 247 716	947 880
- RR receivable on settlement (-)		(1 799 344)	(409 846)	(87 345)	-
Total on forwards		**17 051**	**(6 882)**	**2 238**	**(40)**
In thousands of Russian Roubles		2007		2006	
		Net asset futures	**Net liability futures**	**Net asset futures**	**Net liability futures**
Foreign exchange futures: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		294 554	-	1 984 048	737 271
- USD payable on settlement (-)		-	-	(737 271)	(549 003)
- RR receivable on settlement (+)		-	-	737 271	549 003
- RR payable on settlement (-)		(294 554)	-	(1 984 048)	(737 271)
Total on futures		**-**	**-**	**-**	**-**
Net fair value of currency derivative financial instruments	13, 21	**17 051**	**(6 882)**	**2 238**	**(40)**

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss are carried in the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

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

35 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial guarantees and letters of credit. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to Note 34.

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial assets as at 31 December 2007:

In thousands of Russian Roubles	**Trading assets**	**Assets designated at FVTPL**	**Loans and receivables**	**Available -for-sale assets**	**Total carrying value of assets**	**Fair value of assets**
ASSETS						
Cash and cash equivalents						
- Cash on hand	-	-	2 469 383	-	2 469 383	2 469 383
- Balances with the CBRF	-	-	3 437 183	-	3 437 183	3 437 183
- Correspondent accounts and overnight placements with other banks	-	-	3 562 836	-	3 562 836	3 562 836
- Settlement accounts with trading systems	-	-	143 046	-	143 046	143 046
Mandatory cash balances with the CBRF	-	-	1 551 913	-	1 551 913	1 551 913
Trading securities	-	-	-	-		
- Federal loan bonds	4 476 304	-	-	-	4 476 304	4 476 304
- Russian federation Eurobonds	4 074 171	-	-	-	4 074 171	4 074 171
- Corporate bonds	1 697 080	-	-	-	1 697 080	1 697 080
- Municipal bonds	592 958	-	-	-	592 958	592 958
- Corporate shares	810 177	-	-	-	810 177	810 177
Other securities at fair value through profit or loss	-	24	-	-	24	24
Repurchase receivables	-	-	517 834	-	517 834	517 834
Due from other banks	-	-	-	-		
- Short-term placements with other banks	-	-	6 736 881	-	6 736 881	6 736 881
- Reverse sale and repurchase agreements	-	-	300 133	-	300 133	300 133
Loans and advances to customers	-	-				
- Corporate loans	-	-		-		
- loans to cover liquidity gap		-	59 977 679	-	59 977 680	61 087 942
- investment loans	-	-	20 926 459	-	20 926 459	21 263 747
- loans to entities financed from budget	-	-	2 509 300	-	2 509 300	2 537 561
Reverse sale and repurchase agreements	-	-	616 518	-	616 518	616 518
- Loans to individuals	-	-		-		
- mortgage loans	-	-	4 193 431	-	4 193 431	4 235 484
- car loans	-	-	1 606 851	-	1 606 851	1 626 873
- other consumer loans	-	-	2 516 414	-	2 516 414	2 540 726
Other assets	-	-	143 667	11 340	155 007	155 007
TOTAL FINANCIAL ASSETS	**11 650 690**	**24**	**111 209 528**	**11 340**	**122 871 582**	**124 433 781**

35 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	**Liabilities at carried at amortised cost**	**Carrying value of liabilities**	**Fair value of liabilities**
LIABILITIES			
Due to other banks			
- Correspondent accounts and overnight placements of other banks	42 197	42 197	42 197
- Short-term placements of other banks	635 069	635 069	635 069
Customer accounts			
- State and public organisations			
- Current/settlement accounts	1 319 910	1 319 910	1 319 910
- Term deposits	4 920 868	4 920 868	4 926 265
- Other legal entities			
- Current/settlement accounts	24 040 675	24 040 675	24 040 675
- Term deposits	27 738 723	27 738 723	27 879 699
- Reverse sale and purchase agreements	492 712	492 712	492 712
- Individuals			
- Current/demand accounts	5 505 729	5 505 729	5 505 729
- Term deposits	24 710 155	24 710 155	24 953 888
Bonds issued			
– Eurobonds	3 065 263	3 065 263	3 065 263
– Subordinated Eurobonds	2 522 904	2 522 904	2 307 343
– Bonds	999 055	999 055	999 055
Other debt securities in issue			
- Promissory notes	7 381 245	7 381 245	7 389 729
- Deposit certificates	44 058	44 058	44 417
Other borrowed funds			
- Subordinated loan	1 221 894	1 221 894	1 260 853
- Syndicated loan	4 893 544	4 893 544	4 893 544
- Funds attracted from EBRD	745 678	745 678	745 678
- Funds attracted from Nordic Investment Bank	706 522	706 522	706 522
- Funds attracted from International Moscow Bank	74 249	74 249	74 249
Other liabilities	57 012	57 012	57 012
TOTAL FINANCIAL LIABILITIES	**111 117 462**	**111 117 462**	**111 339 809**

35 Fair Value of Financial Instruments (Continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial assets as at 31 December 2006:

In thousands of Russian Roubles	Trading assets	Assets designated at FVTPL	Loans and receivables	Available-for-sale assets	Total carrying value of assets	Fair value of assets
ASSETS						
Cash and cash equivalents						
- Cash on hand	-	-	1 493 524	-	1 493 524	1 493 524
- Balances with the CBRF	-	-	3 145 336	-	3 145 336	3 145 336
- Correspondent accounts and overnight placements with other banks	-	-	3 805 839	-	3 805 839	3 805 839
- Settlement accounts with trading systems	-	-	311 969	-	311 969	311 969
Mandatory cash balances with the CBRF	-	-	773 158	-	773 158	773 158
Trading securities						
- Federal loan bonds	2 476 819	-	-	-	2 476 819	2 476 819
- Russian federation Eurobonds	1 163 317	-	-	-	1 163 317	1 163 317
- Corporate bonds	1 614 032	-	-	-	1 614 032	1 614 032
- Municipal bonds	537 428	-	-	-	537 428	537 428
- Corporate shares	292 884	-	-	-	292 884	292 884
Other securities at fair value through profit or loss		1 365 396	-	-	1 365 396	1 365 396
Due from other banks						
- Short-term placements with other banks	-	-	1 853 807	-	1 853 807	1 853 807
Loans and advances to customers						
- Corporate loans		-				
- loans to cover liquidity gap	-	-	27 418 184	-	27 418 184	28 455 523
- investment loans	-	-	8 893 081	-	8 893 081	8 320 813
- loans to entities financed from budget	-	-	1 400 934	-	1 400 934	1 748 594
- Loans to individuals		-				
- mortgage loans	-	-	762 058	-	762 058	769 156
- car loans	-	-	446 854	-	446 854	446 858
- other consumer loans	-	-	783 785	-	783 785	794 023
Other assets	-	-	64 069	11 368	75 437	75 437
TOTAL FINANCIAL ASSETS	**6 084 480**	**1 365 396**	**51 152 598**	**11 368**	**58 613 842**	**59 443 913**

35 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	**Liabilities at carried at amortised cost**	**Carrying value of liabilities**	**Fair value of liabilities**
LIABILITIES			
Due to other banks			
- Correspondent accounts and overnight placements of other banks	17 726	17 726	17 726
- Short-term placements of other banks	750 209	750 209	750 209
Customer accounts			
- State and public organisations			
- Current/settlement accounts	303 625	303 625	303 625
- Term deposits	2 347 817	2 347 817	2 326 435
- Other legal entities			-
- Current/settlement accounts	15 931 672	15 931 672	15 931 672
- Term deposits	10 536 393	10 536 393	10 607 713
- Individuals			-
- Current/demand accounts	3 674 246	3 674 246	3 674 246
- Term deposits	11 958 056	11 958 056	12 074 472
Bonds issued			
– Eurobonds	3 271 546	3 271 546	3 271 546
– Bonds	998 002	998 002	998 002
Other debt securities in issue			
- Promissory notes	2 488 345	2 488 345	2 490 262
- Deposit certificates	267 454	267 454	269 170
Other borrowed funds			
- Subordinated loan	2 185 167	2 185 167	2 185 167
- Syndicated loan	795 166	795 166	795 166
- Funds attracted from EBRD	267 379	267 379	267 379
- Funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under the Housing facility program	16 824	16 824	16 824
- Funds attracted from the Ministry of Finance of the Russian Federation under FIDP facility	2 393	2 393	2 393
Other liabilities	49 829	49 829	49 829
TOTAL FINANCIAL LIABILITIES	**55 861 849**	**55 861 849**	**56 031 836**

36 Related Party Transactions

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

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Loans and advances to customers (contractual interest rates: 9.0%-15.0%)	3 576	68 826	-
Impairment provision for loans and advances to customers	(59)	(1 530)	-
Due from other banks (contractual interest rates: 2.0%-11.0%)	146 179	155 026	1 028 283

36 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	Shareholders	Management of the Group	Entities under common control
Interest income	1 915	7 616	15 165
Interest expense	(8 108)	(2 263)	(30 700)
Recovery of provision for loan impairment	11 642	552	11 486
Fee and commission income	299	129	14 748

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

In thousands of Russian Roubles	Shareholders	Management of the Group	Entities under common control
Amounts lent to related parties during the period	2 494	102 748	1 163 735
Amounts repaid by related parties during the period	180 791	97 782	1 504 635

At 31 December 2006, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Shareholders	Management of the Group	Entities under common control
Correspondent accounts and overnight placements with other banks	-	-	265
Due from other banks (contractual interest rates: 7.0%-7.5%)	-	-	104 164
Impairment provision for due from other banks	-	-	(1 789)
Loans and advances to customers (contractual interest rates: 5.5%-17.0%)	181 873	63 860	236 471
Impairment provision for loans and advances to customers	(11 701)	(2 082)	(9 697)
Customer accounts (contractual interest rates: 6.75%-10.5%)	623 859	112 881	810 969
Other borrowed funds (contractual interest rates: 11.5% - 12.0%)	665 000	-	210 000
Guarantees issued by the Group at the year end	-	-	505 092

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

In thousands of Russian Roubles	Shareholders	Management of the Group	Entities under common control
Interest income	14 912	1 767	45 529
Interest expense	(25 418)	(3 186)	(11 858)
(Provision)/recovery of provision for loan impairment	(5 039)	(2 082)	1 903
Fee and commission income	230	-	8 514

36 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Amounts lent to related parties during the period	179 414	67 217	3 578 565
Amounts repaid by related parties during the period	76 968	6 512	3 519 580

In 2007, remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounted to RR 230 251 thousand (2005: RR 171 525 thousand).

37 Disposal of Subsidiary

In 2007, the Group disposed of its interest in its subsidiary Leasing Company "St Petersburg". From 1 January to the date of disposal the income from this subsidiary amounted to RR 11 864 thousand and was recorded in the consolidated statement of income for 2007. The fair value of assets and liabilities of this subsidiary as at the date of disposal are as follows:

	Leasing Company "St Petersburg"
Cash and cash equivalents	6 510
Loans and advances to customers	311 853
Premises and equipment	59
Other assets	65 030
Due to other banks	(346 254)
Deferred tax liabilities	(1 158)
Other liabilities	(23 911)
Fair value of net assets of the subsidiary	**12 129**
Total carrying value of disposed net assets	**12 129**
Revenue from disposal	**13 000**
including:	
- receivables arising	10 530
- cash proceeds	2 470
Less: cash and cash equivalents of the disposed subsidiary	(6 510)
Cash outflow from disposal of subsidiary	**(4 040)**
Result from disposal of subsidiary	**871**

38 Consolidation of the Special Purpose Entity

As at 31 December 2007, the Group has consolidated the special purpose entity BSPB Finance plc. This special purpose entity was established in 2006 for the purpose of the Group's Eurobonds issue.

As at 31 December 2007, the Group exercised its control over the activity of the special purpose entity, as all financial and operational activities of this special purpose entity were conducted on behalf of the Group and according to Group's specific business needs. The Group had rights to obtain the majority of the benefits of the special purpose entity and therefore was exposed to risks incident to its activities.

39 Subsequent Events

In the beginning of 2008 the Bank has opened a new branch outsied the North-West region of Russia. The branch was opened in Nizhniy Novgorod.

Mr. Saveliev's option to purchase 100% of interest in the company "Systemnye Tehnologii" was extended on the same terms until 1 March 2010. Refer to Note 1.