

**RUSSIAN AGRICULTURAL  
BANK GROUP**

**International Financial Reporting Standards  
Consolidated Financial Statements and  
Independent Auditor's Report**

**31 December 2007**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank:

- 1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (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 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

- 3 Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, 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  
30 April 2008

**Russian Agricultural Bank Group**  
**Consolidated Balance Sheet**

<i>In thousands of Russian Roubles</i>	Note	31 December 2007	31 December 2006
<b>ASSETS</b>			
Cash and cash equivalents	7	33 990 183	13 615 695
Mandatory cash balances with the Central Bank of the Russian Federation		2 441 967	1 717 423
Trading securities	8	12 056 055	6 733 224
Repurchase receivable	8	98 326	152 573
Derivative financial instruments	32	276 806	170 404
Securities available for sale	9	1 156 720	-
Securities held to maturity	10	5 495 475	-
Due from other banks	11	1 627 975	2 864 625
Loans and advances to customers	12	291 583 137	155 865 243
Deferred income tax asset	27	5 815	184 758
Intangible assets	13	347 353	170 097
Premises and equipment	13	6 924 308	2 419 370
Current income tax prepayment	27	51 518	303 052
Other assets	14	404 563	384 163
<b>TOTAL ASSETS</b>		<b>356 460 201</b>	<b>184 580 627</b>
<b>LIABILITIES</b>			
Derivative financial instruments	32	3 559 959	641 254
Due to other banks	15	61 302 829	35 357 186
Customer accounts	16	95 957 714	34 462 791
Promissory notes issued	17	32 361 154	38 235 757
Other borrowed funds	18	95 288 645	37 700 589
Syndicated loans	19	15 572 209	2 615 630
Current income tax liability	27	-	3 190
Deferred tax liability	27	692 694	-
Other liabilities	20	580 923	297 386
Subordinated debts	21	17 320 463	13 337 088
<b>TOTAL LIABILITIES</b>		<b>322 636 590</b>	<b>162 650 871</b>
<b>EQUITY</b>			
Share capital	22	28 477 833	21 620 833
Revaluation reserve for premises and equipment	23	911 151	-
Revaluation reserve for available for sale securities	23	(1 658)	-
Retained earnings		4 435 587	308 366
<b>Net assets attributable to the Bank's equity holders</b>		<b>33 822 913</b>	<b>21 929 199</b>
Minority interest		698	557
<b>TOTAL EQUITY</b>		<b>33 823 611</b>	<b>21 929 756</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>356 460 201</b>	<b>184 580 627</b>

Approved for issue and signed on behalf of the Management Board on 30 April 2008.

S.G. Baranov

Deputy Chairman of the Executive Board



I.E. Galperin

Deputy Chief Accountant

**Russian Agricultural Bank Group**  
**Consolidated Income Statement**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
Interest income	24	32 603 226	14 953 028
Interest expense	24	(15 573 943)	(6 705 353)
<b>Net interest income</b>		<b>17 029 283</b>	<b>8 247 675</b>
Provision for loan impairment	11, 12	(3 112 996)	(2 631 382)
<b>Net interest income after provision for loan impairment</b>		<b>13 916 287</b>	<b>5 616 293</b>
Losses net of gains/gains less losses from trading securities		(189 242)	99 299
Gains less losses from trading in foreign currencies		63 268	6 768
Foreign exchange translation gains less losses		5 660 275	1 720 323
Losses, net of gains from derivative financial instruments		(4 156 845)	(1 541 277)
Fee and commission income	25	1 136 187	613 543
Fee and commission expense	25	(102 003)	(43 054)
Provision for other assets	14	(7 981)	(2 826)
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project		8 468	127 118
Other operating income		107 715	60 475
Administrative and other operating expenses	26	(10 593 349)	(5 480 576)
<b>Profit before tax</b>		<b>5 842 780</b>	<b>1 176 086</b>
Income tax expense	27	(1 488 953)	(322 909)
<b>Profit for the year</b>		<b>4 353 827</b>	<b>853 177</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		4 353 671	853 045
Minority interest		156	132
<b>Profit for the year</b>		<b>4 353 827</b>	<b>853 177</b>
<b>Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted</b>	35	<b>208</b>	<b>63</b>

**Russian Agricultural Bank Group**  
**Consolidated Statement of Changes in Equity**

	Notes	Attributable to the equity holders of the Bank					Minority interest	Total equity
		Share capital	Revaluation reserve for premises and equipment	Revaluation reserve for available for sale securities	Accumulated deficit/ Retained earnings	TOTAL		
<i>In thousands of Russian Roubles</i>								
Balance at 31 December 2005		11 519 833	-	-	(488 568)	11 031 265	437	11 031 702
Profit for the year		-	-	-	853 045	853 045	132	853 177
Share issue	22	10 101 000	-	-	-	10 101 000	-	10 101 000
Dividends declared		-	-	-	(56 111)	(56 111)	(12)	(56 123)
Balance at 31 December 2006		21 620 833	-	-	308 366	21 929 199	557	21 929 756
Revaluation of premises and equipment, net of deferred tax	13, 23	-	911 151	-	-	911 151	-	911 151
Revaluation of available for sale securities, net of deferred tax	9,23	-	-	(1 658)	-	(1 658)		(1 658)
Net income recognised directly in equity		-	911 151	(1 658)	-	909 493	-	909 493
Profit for the year		-	-	-	4 353 671	4 353 671	156	4 353 827
Total recognised income for 2007		-	911 151	(1 658)	4 353 671	5 263 164	156	5 263 320
Share issue	22	6 857 000	-	-	-	6 857 000	-	6 857 000
Dividends declared	28	-	-	-	(226 450)	(226 450)	(15)	(226 465)
Balance at 31 December 2007		28 477 833	911 151	(1 658)	4 435 587	33 822 913	698	33 823 611

**Russian Agricultural Bank Group**  
**Consolidated Statement of Cash Flows**

*In thousands of Russian Roubles*

	Note	2007	2006
<b>Cash flows from operating activities</b>			
Interest received		32 341 424	14 710 148
Interest paid		(13 713 088)	(5 693 979)
Income/expenses received/paid from trading in trading securities		(51 779)	75 473
Income received from trading in foreign currencies		63 271	6 783
Realised losses on derivative financial instruments		(1 344 542)	(1 073 007)
Fees and commissions received		1 132 712	613 543
Fees and commissions paid		(94 830)	(43 054)
Income received from the Ministry of Agriculture of the Russian Federation		8 468	127 118
Other operating income received		95 778	63 012
Staff costs paid		(6 669 645)	(3 311 452)
Administrative and other operating expenses paid		(3 327 393)	(1 877 599)
Income tax paid		(656 180)	(622 393)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>7 784 196</b>	<b>2 974 593</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(724 544)	(1 232 709)
Net increase in trading securities		(5 454 581)	(2 387 122)
Net decrease/(increase) in due from other banks		1 196 089	(1 400 994)
Net increase in loans and advances to customers		(138 835 282)	(114 132 212)
Net decrease/(increase) in other assets		8 787	(263 231)
Net increase in due to other banks		26 926 176	31 093 899
Net increase in customer accounts		61 301 304	19 708 919
Net (decrease)/increase in promissory notes issued		(6 601 790)	23 740 943
Net (decrease)/increase in other liabilities		(999)	49 055
<b>Net cash used in operating activities</b>		<b>(54 400 644)</b>	<b>(41 848 859)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment	13	(3 585 545)	(1 232 648)
Proceeds from disposal of premises and equipment		3 961	3 997
Dividend income received		900	1 409
Acquisition of intangible assets	13	(238 992)	(133 328)
Acquisition of securities held to maturity		(5 477 725)	-
Acquisition of investment securities available for sale	9	(1 156 725)	-
<b>Net cash used in investing activities</b>		<b>(10 454 126)</b>	<b>(1 360 570)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	22	6 857 000	9 608 000
Receipt of other borrowed funds	18	60 371 412	29 001 174
Receipt of syndicated loans	19	13 430 872	2 534 873
Repayment of syndicated loans	19	-	(2 100 000)
Receipt of subordinated debts	21	5 180 200	13 398 700
Repayment of subordinated debts	21	-	(165 000)
Dividends paid	28	(226 465)	(56 123)
<b>Net cash from financing activities</b>		<b>85 613 019</b>	<b>52 221 624</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(383 761)</b>	<b>(189 188)</b>
<b>Net increase in cash and cash equivalents</b>		<b>20 374 488</b>	<b>8 823 007</b>
Cash and cash equivalents at the beginning of the year		13 615 695	4 792 688
<b>Cash and cash equivalents at the end of the year</b>	7	<b>33 990 183</b>	<b>13 615 695</b>

## **1 Introduction**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2007 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiary, Closed Joint-Stock Company Chelyabinsky Commercial Land Bank (together referred to as the "Group"). The Group also consolidates a special purpose entity RSHB Capital S.A., a company incorporated in Luxembourg in 2005 and governed through its foundation documents under the laws of the Netherlands. RSHB Capital S.A. has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to Notes 18 and 21). Refer to Note 37 for information about the subsidiary and special purpose entity.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 76 (2006: 71) branches in the Russian Federation. The Bank's registered address is: 119034 Russia, Moscow, Gagarinsky lane, 3.

The number of the Group's employees at 31 December 2007 was 19 025 (31 December 2006: 10 986).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

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

## **2 Operating Environment of the Group**

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

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



## **2 Operating Environment of the Group (Continued)**

**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 Group 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 Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

## **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB under the historical cost convention, as modified by the revaluation of premises and equipment, available-for-sale securities and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivable and derivative financial instruments). 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, unless otherwise stated (refer to Note 5).

**Consolidated financial statements.** Subsidiaries are those 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. 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.

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.

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.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group's equity.

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

### **3 Summary of Significant Accounting Policies (Continued)**

*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 on an arm's length basis.

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

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

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

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

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

### **3 Summary of Significant Accounting Policies (Continued)**

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in their value. Cash and cash equivalents include interbank loans, deposits and reverse repo agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

**Mandatory cash balances with the CBRF.** Mandatory cash balances with the CBRF 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 consolidated cash flow statement.

**Trading securities.** Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. 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 recorded as dividend income within 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.

**Securities available for sale.** This category includes 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.

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

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

**Securities held to maturity.** This category includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Securities held to maturity are carried at amortised cost.

**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.

### **3 Summary of Significant Accounting Policies (Continued)**

**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.

**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 when deciding 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 Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and on the basis of the historical information on impairment of assets with similar credit risk characteristics. 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.

When impaired financial assets are renegotiated, the new asset is recognised at the present value of cash flows discounted using the original effective interest rate, which was applicable prior to the renegotiation.

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 original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

### **3 Summary of Significant Accounting Policies (Continued)**

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

**Sale and repurchase agreements.** Sale and repurchase agreements ("repo agreements") 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 receivable and measured at fair value. The corresponding liability is presented within amounts due to other banks or customer accounts and measured at amortized cost. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers. The difference between the acquisition and resell 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 trading securities, or in due from other banks or in loans and advances to customers and also in securities held to maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

**Investments in agricultural cooperatives.** Investments in agricultural cooperatives are made by the Bank as part of its participation in the National Project "Development of the Agro-Industrial Sector". These investments represent term contributions to cooperatives and bear fixed annual dividend income on amount of contributions made, which is included in interest income in the consolidated income statement. Investments in agricultural cooperatives are included in loans and advances to customers. Investments in agricultural cooperatives are carried at amortised cost.

**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 owned by the Group were for the first time revalued as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Revaluation recognized by method of proportion changes in cost and accumulated depreciation of revalued premises. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

### **3 Summary of Significant Accounting Policies (Continued)**

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

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

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

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

Premises owned by the Group and leasehold (premises) improvements	2.5%:
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Office and computer equipment	5%-20%.
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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 until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Intangible assets.** All of the 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. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

**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.

**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. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

**Promissory notes issued.** Promissory notes issued by the Group include promissory notes denominated in Russian Roubles, US Dollars and Euro. They are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

**Other borrowed funds.** Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost.

### **3 Summary of Significant Accounting Policies (Continued)**

**Syndicated loans.** Syndicated loans include the amounts attracted in US Dollars and Euro by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

**Subordinated debts.** Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

All derivative financial 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 financial instruments are included in gains/losses from derivative financial instruments. The Group does not apply hedge accounting.

**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 and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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.

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

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



### **3 Summary of Significant Accounting Policies (Continued)**

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the consolidated 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 consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the 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.

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.

Commission on agency services are recognised based on the applicable service contracts. Income received from the Ministry of Agriculture and expenses incurred related to the Bank's participation in the national project "Development of Agro-Industrial Sector" are recognised by reference to the stage of completion of the services.

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

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

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 (2006: USD 1 = RR 26.3311), EUR 1 = RR 35.9332 (2006: EUR 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 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. 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.



### **3 Summary of Significant Accounting Policies (Continued)**

**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 consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired and share capital issued 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. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan).

These payments are included in the staff costs in the consolidated income statement.

**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.

**Changes in accounting policies.** The accounting policies applied in the preparation of these consolidated financial statements are consistent with the accounting policies applied in the preparation of consolidated financial statements of the Group for the year ended 31 December 2006, except as detailed below and also application of new standards described in Note 5, which became effective from 1 January 2007.

The Group changed its accounting policy for a class of fixed assets: premises owned by the Group. The Group revalued the premises of the Group as at 31 December 2007. In the subsequent periods the above class of fixed assets shall be subject to regular revaluation in accordance with IAS 16 *Property, Plant and Equipment*. Refer to Note 13.

The Group changed its accounting policy for cash and cash equivalents and starting from 1 January 2007 also considers interbank loans, deposits and reverse repo agreements with other banks with original maturity of less than one month as part of cash equivalents.

Where necessary, corresponding figures have been adjusted to conform to the changes in accounting policies.

### 3 Summary of Significant Accounting Policies (Continued)

The effect of changes in the accounting policies on the consolidated balance sheet is as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2006</b>
<b>Increase in</b>	
Cash and cash equivalents	299 916
<b>Decrease in</b>	
Due from other banks	299 916

The effect of changes in the accounting policies on the consolidated cash flow statement is as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>
<b>Increase in</b>	
Cash and cash equivalents at the end of the year	299 916
Net decrease/(increase) in due from other banks	435 902
<b>Decrease in</b>	
Effect of exchange rate changes on cash and cash equivalents	135 986

**Changes in presentation.** The Group made voluntary changes in presentation as it believes that it will result in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the Group's financial position and financial performance.

The effect of the reclassifications on the consolidated balance sheet is as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2006</b>
<b>Increase in</b>	
Derivative financial instruments (asset)	170 404
Derivative financial instruments (liability)	641 254
Syndicated loans	2 615 630
<b>Decrease in</b>	
Other assets	170 404
Other liabilities	641 254
Due to other banks	2 615 630

The effect of reclassifications on the consolidated income statement is as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>
<b>Increase in</b>	
Foreign exchange translation gain less losses	43 415
<b>Decrease in</b>	
Gain from early retirement of debt	43 415

### **3 Summary of Significant Accounting Policies (Continued)**

The effect of reclassifications on the consolidated cash flow statement is as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>
<b>Increase in</b>	
Receipt of syndicated loans	2 534 873
<b>Decrease in</b>	
Net (decrease)/increase in due to other banks	434 873
Repayment of syndicated loans	2 100 000

Any further changes to these consolidated financial statements require approval of the Bank's Management Board 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 portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any objective 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 borrowers' financial situation (assessed on the basis of internal rating system) or 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 probability of default within pools of the total loans and advances to customers differs by +/- one percent, the provision would be approximately RR 26 687 thousand (2006: RR 35 056 thousand) higher or RR 26 687 thousand (2006: RR 36 954 thousand) lower. To the extent that the assessed loss identification period for 3% of loans collectively assessed for impairment differs by +/- 1 month, the provision would be approximately RR 25 031 thousand (2006: RR 71 837 thousand) higher or RR 24 739 thousand (2006: RR 70 999 thousand) lower.

**Held-to-maturity financial assets.** Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the whole category of held-to maturity financial assets is reclassified, their carrying amount will not essentially change. Refer to Note 33.

**Leasehold (premises) improvements' depreciation.** The Group estimates useful lives of leasehold (premises) equipment taking into consideration repeated extension of lease contracts, implementation of the policy of gradual purchase of the earlier leased buildings into the Group's ownership as well as "substance over form" principle.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

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

**Fair value of derivative financial instruments.** The fair values of financial derivative financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g., models). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

In the absence of direct and clear evidence on difference between contractual prices on derivative financial instruments and observable market prices for similar instruments on the most favourable open market accessible for the Group the fair value of derivative financial instruments at the date of initial recognition is considered to be the amount of net investment (or nil in case of no initial net investment). For currency swaps, in which the Group agreed to pay roubles and receive US dollars, Euro or Swiss Francs (Note 32), this is achieved by shifting rouble yield curve used to discount future cashflows in order to reflect the Group's credit risk.

This credit spread is subsequently adjusted only if there are observable market data about the Group's credit spread for similar contracts. To the extent that the shift of rouble yield curve used to discount future cashflows in order to reflect the Group's credit risk is averaged for currency swaps with similar conditions (currencies, original maturities, other terms), the fair value of currency swaps would be approximately RR 2 512 thousand less (2006: RR 2 125 thousand higher).

**Related party transactions.** The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in identification of related parties to be disclosed in the consolidated financial statements. Refer to Note 36.

#### 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. The new disclosures are made in these financial statements.

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

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

The new IFRIC interpretations 7 to 10 did not significantly affect the Group's financial statements. As a result of adoption of IFRS 7, the Group made certain changes in presentation. The effect of reclassifications was not significant.

## **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 is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

**Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).** The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its 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. The Group is currently assessing the impact of the amended standard on its 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 financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

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

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

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

## **7 Cash and Cash Equivalents**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Cash on hand	2 991 048	1 249 651
Cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	11 663 404
Correspondent accounts and deposits with maturity less than one months with other banks:		
- Russian Federation	8 008 658	441 644
- Other countries	2 279 030	59 006
- Settlement accounts with MICEX and RTS	102 358	2 189
Reverse repo agreements	923 610	199 801
<b>Total cash and cash equivalents</b>	<b>33 990 183</b>	<b>13 615 695</b>

At 31 December 2007 cash equivalents of RR 923 610 thousand (2006: RR 199 801 thousand) are effectively collateralised by securities purchased under reverse repo agreements at a fair value of RR 1 029 897 thousand (2006: RR 213 332 thousand), all of which the Group is entitled to sell or repledge.

Geographical and interest rate analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

**8 Trading Securities and Repurchase Receivable**

*In thousands of Russian Roubles*

	2007	2006
<b>Trading securities</b>		
Corporate bonds	3 525 374	1 670 004
Federal loan bonds (OFZ)	3 080 494	1 069 928
Corporate Eurobonds	2 875 834	692 358
Promissory notes	1 454 768	2 447 538
Municipal bonds	1 007 708	765 238
Corporate shares	111 877	88 158
<b>Total trading securities</b>	<b>12 056 055</b>	<b>6 733 224</b>
<b>Repurchase receivable</b>		
Municipal bonds	98 326	-
Corporate bonds	-	152 573
<b>Total repurchase receivable</b>	<b>98 326</b>	<b>152 573</b>

As the securities are carried at their fair values based on quoted market prices, the Group does not analyse or monitor impairment indicators on individual basis. Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)	Securities internationally rated lower than BB- (S&P)	Internationally unrated securities	Total
Corporate bonds	2 272 711	-	1 252 663	3 525 374
Federal loan bonds (OFZ)	3 080 494	-	-	3 080 494
Corporate Eurobonds	1 533 652	1 342 182	-	2 875 834
Promissory notes	796 674	184 471	473 623	1 454 768
Municipal bonds	1 007 708	-	-	1 007 708
<b>Total debt trading securities</b>	<b>8 691 239</b>	<b>1 526 653</b>	<b>1 726 286</b>	<b>11 944 178</b>
<b>Repurchase receivable</b>				
Municipal bonds	98 326	-	-	98 326

If a security's rating is unavailable the issuer's rating is used.

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

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)	Securities internationally rated lower than BB- (S&P)	Internationally unrated securities	Total
Corporate bonds	1 254 560	285 728	129 716	1 670 004
Federal loan bonds (OFZ)	1 069 928	-	-	1 069 928
Corporate Eurobonds	401 429	278 159	12 770	692 358
Promissory notes	1 507 145	940 393	-	2 447 538
Municipal bonds	765 238	-	-	765 238
<b>Total debt trading securities</b>	<b>4 998 300</b>	<b>1 504 280</b>	<b>142 486</b>	<b>6 645 066</b>
<b>Repurchase receivable</b>				
Corporate bonds	-	10 686	141 887	152 573

If a security's rating is unavailable the issuer's rating is used.

## **8 Trading Securities and Repurchase Receivable (Continued)**

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from April 2008 to March 2017 (2006: from January 2007 to February 2016), coupon rate from 6.7% to 13.5% p.a. (2006: from 7.1% to 10.7% p.a.) and yield to maturity or to next repricing date from 6.8% to 16.0% p.a. (2006: from 6.6% to 11.1% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from May 2010 to February 2036 (2006: from July 2010 to August 2018), coupon rate from 6.1% to 10.0% p.a. (2006: from 8.5% to 10.0% p.a.) and yield to maturity from 6.1% to 6.8% p.a. (2006: from 6.1% to 6.5% p.a.) depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2007 these bonds have maturity dates from March 2009 to June 2022 (2006: from June 2007 to October 2016), coupon rate from 6.7% to 10.9% p.a. (2006: from 7.5% to 9.8% p.a.) and yield to maturity from 6.6% to 12.2% p.a. (2006: from 5.4% to 9.6% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to June 2008 (2006: from January to December 2007). As at 31 December 2007 yield to maturity ranges from 7.5% to 10.0% p.a. (2006: from 8.7% to 17.3% p.a.).

Municipal bonds are represented by bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2007 these bonds have maturity dates from May 2008 to June 2015 (2006: from November 2007 to June 2015), coupon rate from 6.8% to 10.0% p.a. (2006: 6.8% to 13.3% p.a.) and yield to maturity from 6.0% to 7.8% p.a. (2006: from 6.0% to 9.0% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

Corporate shares are shares of Russian companies.

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

Geographical, interest rate and analyses of trading securities and repurchase receivable are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Note 36.

## **9 Securities Available for Sale**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Municipal Eurobonds	1 001 500	-
Corporate Eurobonds	155 220	-
<b>Total securities available for sale</b>	<b>1 156 720</b>	<b>-</b>

As the securities available for sale are carried at their fair values based on quoted market prices, the Group does not analyse or monitor individually impairment indicators. At 31 December 2007 securities available for sale are internationally rated not lower than BB- by S&P.

Municipal Eurobonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities through the vehicle companies. As at 31 December 2007 these bonds have maturity date in December 2012, semi-annual coupon rate 9.0% p.a. and yield to maturity from 9.0% p.a.

Corporate Eurobonds are bonds denominated in USD, issued by major Russian companies. At 31 December 2007 these bonds have maturity dates from April 2014 to August 2037, coupon rate from 7.3% to 9.3% p.a. and yield to maturity from 7.3% to 8.0% p.a. (2006: nil), depending on the type of the bond issue, the issuer and the market conditions.



## 9 Securities Available for Sale (Continued)

The movement in securities available for sale is in the table below:

<i>In thousands of Russian Roubles</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
<b>Balance at 1 January</b>		-	-
Purchase		1 156 725	-
Gains less losses from fair valuation	23	(2 182)	-
Interest income	24	1 635	-
Foreign exchange translation gains less losses on securities		542	-
<b>Balance at 31 December</b>		<b>1 156 720</b>	<b>-</b>

Geographical and interest rate analyses of securities available for sale are disclosed in Note 30. The information on securities available for sale issued by related parties is disclosed in Note 36.

## 10 Securities Held to Maturity

<i>In thousands of Russian Roubles</i>	<i>2007</i>	<i>2006</i>
Promissory notes	5 495 475	-
<b>Total securities held to maturity</b>	<b>5 495 475</b>	<b>-</b>

Analysis by credit quality of debt securities held to maturity at 31 December 2007 (2006: nil) is as follows:

<i>In thousands of Russian Roubles</i>	<b>Securities internationally rated not lower than BB- (S&amp;P)</b>	<b>Securities internationally rated lower than BB- (S&amp;P)</b>	<b>Internationally unrated securities</b>	<b>Total current amounts</b>
<b>Promissory notes</b>	981 079	3 334 127	1 180 269	<b>5 495 475</b>

If a security's rating is unavailable the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have impaired debt securities held to maturity, no provisions for impairment of these securities was established.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to December 2008. As at 31 December 2007 yield to maturity ranges from 7.0% to 11.1% p.a. (2006: nil).

For the estimated fair value of securities held to maturity refer to Note 33.

Geographical and interest rate analyses of securities available for sale are disclosed in Note 30.

**11 Due from Other Banks**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Current term placements with other banks	1 627 975	2 864 625
<b>Total due from other banks</b>	<b>1 627 975</b>	<b>2 864 625</b>

In 2007 no provision for impairment of due from other banks was created (2006: nil).

Analysis by credit quality of amounts due from other banks is as follows:

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Current and not impaired</b>		
Top 30 Russian banks (by net assets)	150 596	-
Other Russian banks	958 859	2 864 625
OECD banks and their subsidiary banks	173 413	-
Other non-resident banks	345 107	-
<b>Total current and not impaired</b>	<b>1 627 975</b>	<b>2 864 625</b>

Analysis of amounts due from other banks by collateral is as follows:

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Unsecured interbank loans	1 151 398	2 703 630
Interbank loans collateralised by:		
- securities	173 413	160 995
- other assets	303 164	-
<b>Total due from other banks</b>	<b>1 627 975</b>	<b>2 864 625</b>

As at 31 December 2007 the Group has placements with three Russian banks with aggregated balances of RR 901 845 thousand, or 55% of total due from other banks (2006: two banks with aggregated amount of RR 1 853 779 thousand, or 65% of total due from other banks), which mature from February to June 2008.

For the estimated fair value of due from other banks refer to Note 33.

Geographical and interest rate analyses of due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

## 12 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	2007	2006
Loans to legal entities		
- Loans to corporates	247 233 851	132 944 166
- Lending for food interventions	3 189 928	4 490 331
- Reverse repo agreements	2 466 091	797 386
- Investments in agricultural cooperatives	663 912	396 935
Loans to individuals	45 130 912	21 293 941
<b>Total loans and advances to customers (before impairment)</b>	<b>298 684 694</b>	<b>159 922 759</b>
Less: Provision for loan impairment	(7 101 557)	(4 057 516)
<b>Total loans and advances to customers</b>	<b>291 583 137</b>	<b>155 865 243</b>

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate from 1/2 to 2/3 of the rate of refinancing of the Bank of Russia of the contributions made. The Group's management has an intention to make cooperative member contributions for the period of 5 to 8 years and at the end of which to withdraw its contributions.

At 31 December 2007, loans and advances to customers of RR 2 466 091 thousand (2006: RR 797 386 thousand) are effectively collateralised by securities purchased under reverse repo agreements with a fair value of RR 2 832 727 thousand (2006: RR 886 818 thousand) which the Group has the right to sell or repledge securities in full.

Analysis of the movements in the provision for loan impairment is as follows:

<i>In thousands of Russian Roubles</i>	2007			2006		
	Loans to corporates	Loans to individuals	Total	Loans to corporates	Loans to individuals	Total
<b>Provision for loan impairment at 1 January</b>	<b>3 861 793</b>	<b>195 723</b>	<b>4 057 516</b>	<b>1 447 995</b>	<b>-</b>	<b>1 447 995</b>
Provision for loan impairment during the year	2 732 234	380 762	3 112 996	2 435 659	195 723	2 631 382
Loans and advances to customers written off during the year as uncollectible	(68 955)	-	(68 955)	(21 861)	-	(21 861)
<b>Provision for loan impairment at 31 December</b>	<b>6 525 072</b>	<b>576 485</b>	<b>7 101 557</b>	<b>3 861 793</b>	<b>195 723</b>	<b>4 057 516</b>

## 12 Loans and Advances to Customers (Continued)

In 2007 no provision for "Lending for food interventions", "Reverse repo agreements", "Investments in agricultural cooperatives" was created (2006: nil).

The economic sector structure of the credit portfolio is as follows:

<i>In thousands of Russian Roubles</i>	2007		2006	
	Amount	%	Amount	%
Agriculture	178 741 880	60	96 584 691	60
Individuals	45 130 912	15	21 293 941	13
Manufacturing	39 079 200	13	20 011 369	13
Trading	20 449 398	7	14 270 484	9
Construction	6 177 875	2	3 439 537	2
Other	9 105 429	3	4 322 737	3
<b>Total loans and advances to customers (before impairment)</b>	<b>298 684 694</b>	<b>100</b>	<b>159 922 759</b>	<b>100</b>

As at 31 December 2007 included in gross amount of loans are loans in the amount of RR 193 523 446 thousand (2006: RR 101 532 425 thousand), where borrowers are eligible for interest subsidies from Federal and regional budgets. Subsidies are paid directly to the borrowers at two thirds of the CBRF refinancing rate.

As at 31 December 2007, the aggregate amount of loans to individuals included loans in the amount of RR 35 300 549 thousand issued to individuals - sole farmers (2006: RR 16 945 011 thousand).

For the estimated fair value of loans and advances to customers refer to the Note 33.

**Loan portfolio analysis by credit quality.** The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of the borrower's activities taking into account its financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the effective Methodology of financial assets impairment evaluation the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment*".

## **12 Loans and Advances to Customers (Continued)**

As a *loss event* the Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- for loans issued to legal entities (including individual entrepreneurs – sole farmers):
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the Methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principle or interest overdue by more than 5 days;
- for loans issued to individuals:
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor, i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principle or interest overdue by more than 30 days.

As a *default* of a borrower/debtor the Group recognises objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- for legal entities (including individual entrepreneurs – sole farmers):
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - loans overdue by over 365 days;
- for individuals:
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

## 12 Loans and Advances to Customers (Continued)

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

<i>In thousands of Russian Roubles</i>	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
<b>1. Current and not impaired</b>						
- good financial position	-		2 466 091	663 912	-	3 130 003
- loans whose terms were renegotiated	-	3 189 928			-	3 189 928
<b>Total current and not impaired</b>	-	3 189 928	2 466 091	663 912	-	6 319 931
<b>2. Collectively assessed for impairment</b>						
<b>Current</b>						
- good financial position	122 981 259	-	-	-	-	122 981 259
- average financial position	77 135 145	-	-	-	-	77 135 145
- included in portfolios of similar risk loans	25 783 619	-	-	-	43 407 967	69 191 586
- loans whose terms were renegotiated	15 454 805	-	-	-	1 148 212	16 603 017
<b>Overdue</b>						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	493 930	-	-	-	99 531	593 461
<b>Total collectively assessed for impairment</b>	241 848 758	-			44 655 710	286 504 468
<b>3. Individually assessed for impairment</b>						
- poor financial position	1 458 730	-	-	-	-	1 458 730
- 6 to 30 days overdue	176 845	-	-	-	-	176 845
- 31 to 90 days overdue	1 053 547	-	-	-	147 758	1 201 305
- 91 to 180 days overdue	1 135 315	-	-	-	164 710	1 300 025
- 181 to 365 days overdue	732 473	-	-	-	95 965	828 438
- over 365 days overdue	828 183	-	-	-	66 769	894 952
<b>Total individually assessed for impairment</b>	5 385 093	-	-	-	475 202	5 860 295
<b>Total loans and advances to customers (before impairment)</b>	247 233 851	3 189 928	2 466 091	663 912	45 130 912	298 684 694
<b>Provision for loan impairment</b>	(6 525 072)	-	-	-	(576 485)	(7 101 557)
<b>Total loans and advances to customers</b>	240 708 779	3 189 928	2 466 091	663 912	44 554 427	291 583 137

**12 Loans and Advances to Customers (Continued)**

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

<i>In thousands of Russian Roubles</i>	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
<b>1. Current and not impaired</b>						
- good financial position	-	4 490 331	797 386	396 935	-	5 684 652
<b>Total current and not impaired</b>	-	4 490 331	797 386	396 935	-	5 684 652
<b>2. Collectively assessed for impairment</b>						
<b>Current</b>						
- good financial position	63 374 919	-	-	-	-	63 374 919
- average financial position	47 608 594	-	-	-	-	47 608 594
- included in portfolios of similar risk loans	14 682 761	-	-	-	19 938 737	34 621 498
- loans whose terms were renegotiated	4 297 573	-	-	-	1 130 012	5 427 585
<b>Overdue</b>						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	198 660	-	-	-	155 771	354 431
<b>Total collectively assessed for impairment</b>	130 162 507	-	-	-	21 224 520	151 387 027
<b>3. Individually assessed for impairment</b>						
- poor financial position	1 177 836	-	-	-	-	1 177 836
- 6 to 30 days overdue	146 129	-	-	-	-	146 129
- 31 to 90 days overdue	224 312	-	-	-	51 626	275 938
- 91 to 180 days overdue	363 725	-	-	-	8 501	372 226
- 181 to 365 days overdue	264 447	-	-	-	2 702	267 149
- over 365 days overdue	605 210	-	-	-	6 592	611 802
<b>Total individually assessed for impairment</b>	2 781 659	-	-	-	69 421	2 851 080
<b>Total loans and advances to customers (before impairment)</b>	132 944 166	4 490 331	797 386	396 935	21 293 941	159 922 759
<b>Provision for loan impairment</b>	(3 861 793)	-	-	-	(195 723)	(4 057 516)
<b>TOTAL loans and advances to customers</b>	129 082 373	4 490 331	797 386	396 935	21 098 218	155 865 243

## **12 Loans and Advances to Customers (Continued)**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Current loans	273 896 723	152 467 499
Loans whose terms were renegotiated	19 792 945	5 427 585
Overdue loans	4 995 026	2 027 675
Provision for loan impairment	(7 101 557)	(4 057 516)
<b>Total</b>	<b>291 583 137</b>	<b>155 865 243</b>

Overdue loans represent not only past due payments but also outstanding balance of such loans.

### **Loans collateral**

The Group uses various types of collateral, including mortgage, warranty, banking guarantee, government guarantees of a Russian Federation and municipal guarantees.

The Group accepts different types of collateral, such as inventories (finished products, raw materials, goods in turnover); equipment, including agricultural machinery; motor vehicles; real estate, land plots, construction in progress, sea and other vessels; farm animals; future crop; property acquired in the future; property rights.

Banking guarantee, warranty and other means provided for by the contract or the law may be used as additional collateral.

Under the terms and conditions of certain lending programs (e.g., "Reliable Customer") these additional means securing fulfilment of obligations can be used as primary collateral.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights perfection by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management;
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) relates to the following types: real estate – 32% (2006: 26%), equipment 24% (2006: 24%) and motor vehicles – 16% (2006: 16%).

According to the Group's internal policy documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts and loans issued to reliable borrowers under Unsecured Credit program for the period of up to 2 months and in the amount not in excess of RR 10 000 thousand;
- for individuals within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans", "Loans to the sole farmers", "Reliable Customer".



## **12 Loans and Advances to Customers (Continued)**

The Group has developed internal methodology, on the basis of which fair value of collateral should be determined. The value of collateral presented below was calculated based on this methodology:

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Collateral in respect of loans to corporate customers individually assessed for impairment</b>		
- equipment	2 189 122	1 145 165
- real estate	2 102 964	1 545 046
- motor vehicles	963 083	403 689
- goods in turnover	818 389	405 124
- farm animals, poultry	454 832	296 263
- future crop	233 272	68 175
- other assets	99 310	5 410
<b>Total value of collateral in respect of loans to corporate customers individually assessed for impairment</b>	<b>6 860 972</b>	<b>3 868 872</b>

Loans to individuals individually assessed for impairment are secured with various types of collateral with value determined based on the Group's internal methodology of RR 248 835 thousand (2006: RR 62 153 thousand) as well as by guarantees of third parties with nominal value of RR 667 353 thousand (2006: RR 157 297 thousand).

Actual realization cost of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed above.

Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

**13 Premises and Equipment**

	Note	Premises	Lease- hold (premi- ses) improve- ments	Office and computer equip- ment	Land	Total premises and equip- ment	Intan- gible assets	Total
<i>In thousands of Russian Roubles</i>								
<b>Cost at 1 January 2006</b>		<b>821 480</b>	<b>179 730</b>	<b>474 034</b>	-	<b>1 475 244</b>	<b>155 798</b>	<b>1 631 042</b>
Accumulated depreciation		(3 180)	(9 977)	(148 554)	-	(161 711)	(88 155)	(249 866)
<b>Carrying amount at 1 January 2006</b>		<b>818 300</b>	<b>169 753</b>	<b>325 480</b>	-	<b>1 313 533</b>	<b>67 643</b>	<b>1 381 176</b>
Additions		228 430	394 398	609 119	701	1 232 648	133 328	1 365 976
Disposals		-	(1 459)	(4 141)	-	(5 600)	-	(5 600)
Depreciation charge	26	(15 890)	(4 980)	(100 341)	-	(121 211)	(30 874)	(152 085)
<b>Carrying amount at 31 December 2006</b>		<b>1 030 840</b>	<b>557 712</b>	<b>830 117</b>	<b>701</b>	<b>2 419 370</b>	<b>170 097</b>	<b>2 589 467</b>
Cost at 31 December 2006		1 049 910	572 513	1 068 849	701	2 691 973	287 177	2 979 150
Accumulated depreciation		(19 070)	(14 801)	(238 732)	-	(272 603)	(117 080)	(389 683)
<b>Carrying amount at 31 December 2006</b>		<b>1 030 840</b>	<b>557 712</b>	<b>830 117</b>	<b>701</b>	<b>2 419 370</b>	<b>170 097</b>	<b>2 589 467</b>
Additions		1 832 282	588 327	965 703	199 233	3 585 545	238 992	3 824 537
Disposals		-	(4 109)	(3 514)	-	(7 623)	-	(7 623)
Depreciation charge	26	(36 594)	(15 500)	(219 773)	-	(271 867)	(61 736)	(333 603)
Changes in value resulting from revaluation		1 270 012	-	-	-	1 270 012	-	1 270 012
Changes in depreciation resulting from revaluation		(71 129)	-	-	-	(71 129)	-	(71 129)
<b>Carrying amount at 31 December 2007</b>		<b>4 025 411</b>	<b>1 126 430</b>	<b>1 572 533</b>	<b>199 934</b>	<b>6 924 308</b>	<b>347 353</b>	<b>7 271 661</b>
Cost at 31 December 2007		4 152 204	1 156 311	2 016 772	199 934	7 525 221	526 169	8 051 390
Accumulated depreciation		(126 793)	(29 881)	(444 239)	-	(600 913)	(178 816)	(779 729)
<b>Carrying amount at 31 December 2007</b>		<b>4 025 411</b>	<b>1 126 430</b>	<b>1 572 533</b>	<b>199 934</b>	<b>6 924 308</b>	<b>347 353</b>	<b>7 271 661</b>

Intangible assets mainly include capitalised computer software.

Carrying amount of premises without revaluation at 31 December 2007 is RR 2 826 528 thousand, including cost in amount of RR 2 882 192 thousand and accumulated depreciation RR 55 664 thousand.

Premises were independently valued as at 31 December 2007. The valuation was carried out by an independent firm of valuers, OOO Institute of Valuation of Property and Financial Activity, who hold a relevant professional qualification and who has recent experience in valuation of assets of similar location and category.

# **14 Other Assets**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Non-financial assets</b>		
Prepayment for construction in progress and services	276 796	267 352
Rent prepayment	42 707	24 667
Prepaid taxes	7 194	1 063
<b>Financial assets</b>		
Settlements on funds transfer operations	47 560	79 034
Other	46 400	20 160
Provision for impairment of other financial assets	(16 094)	(8 113)
<b>Total other assets</b>	<b>404 563</b>	<b>384 163</b>

Movements in the provision for impairment of other financial assets are as follows:

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Provision for impairment of other financial assets at 1 January</b>	<b>8 113</b>	<b>5 872</b>
Provision for impairment of other financial assets during the year	7 981	2 826
Other financial assets written off during the year as uncollectible	-	(585)
<b>Provision for impairment of other financial assets at 31 December</b>	<b>16 094</b>	<b>8 113</b>

For the estimated fair value of other financial assets refer to the Note 33.

Geographical analysis of other assets is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

# **15 Due to Other Banks**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Term borrowings from other banks	61 150 114	35 207 712
Correspondent accounts and overnight placements of other banks	66 687	17 453
Repo agreements	86 028	132 021
<b>Total due to other banks</b>	<b>61 302 829</b>	<b>35 357 186</b>

As at 31 December 2007 the Group had balances due to four foreign banks with aggregated amount of RR 42 381 414 thousand, or 69% of total due to other banks (2006: due to three banks with aggregated amount of RR 26 824 889 thousand, or 76% of total due to other banks).

For the estimated fair value of due to other banks refer to the Note 33.

Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

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**16 Customer Accounts**

<i>In thousands of Russian Roubles</i>	2007	2006
State and public organisations		
- Current/settlement accounts	5 944 482	1 208 315
- Term deposits	612 574	156 825
Other legal entities		
- Current/settlement accounts	28 712 038	10 675 414
- Term deposits	34 339 386	11 914 634
- Sale and repurchase agreements with securities	-	38 907
Individuals		
- Current/demand accounts	4 101 043	2 069 174
- Term deposits	22 248 191	8 399 522
<b>Total customer accounts</b>	<b>95 957 714</b>	<b>34 462 791</b>

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	2007		2006	
	Amount	%	Amount	%
Individuals	26 349 234	27	10 468 696	30
Manufacturing	19 159 207	20	4 612 042	14
Construction	11 825 755	12	1 524 980	4
Insurance	9 180 334	10	6 028 030	18
Agriculture	8 327 735	9	4 317 408	13
State and public organisations	6 557 056	7	1 365 140	4
Financial services and pension security	4 715 363	5	396 298	1
Trading	4 303 028	5	1 544 364	4
Leasing	3 295 912	3	2 996 332	9
Real estate	257 026	-	116 443	-
Other	1 987 064	2	1 093 058	3
<b>Total customer accounts</b>	<b>95 957 714</b>	<b>100</b>	<b>34 462 791</b>	<b>100</b>

As at 31 December 2007, the Group had one customer with balances above RR 3 400 000 thousand (2006: three customers with balances above RR 2 200 000 thousand). The aggregate balance of this customer was RR 13 552 721 thousand, or 18% of total customer accounts (2006: RR 8 259 047 thousand, or 24% of total customer accounts).

For the estimated fair value of customer accounts refer to Note 33.

Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

**17 Promissory Notes Issued**

<i>In thousands of Russian Roubles</i>	2007	2006
Promissory notes issued	32 361 154	38 235 757
<b>Total promissory notes issued</b>	<b>32 361 154</b>	<b>38 235 757</b>

## **17 Promissory Notes Issued (Continued)**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 10% p.a. and maturity dates from January 2008 to September 2014 (2006: promissory notes denominated Russian roubles and US Dollars with effective interest rate from 0% p.a. (for promissory notes on demand) up to 9% p.a. and maturity dates from January 2007 to November 2011).

At 31 December 2007, promissory notes issued, which were initially purchased by four counterparties, amounted RR 30 938 318 thousand or 96% of total promissory notes issued by the Group (2006: four counterparties purchased promissory notes of RR 36 020 979 thousand or 94% of total promissory notes issued).

For the estimated fair value of promissory notes issued refer to Note 33.

Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 30.

## **18 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Eurobonds issued	64 994 398	27 682 740
Bonds issued on domestic market	30 294 247	10 017 849
<b>Total other borrowed funds</b>	<b>95 288 645</b>	<b>37 700 589</b>

At 31 December 2007, the Group's other borrowed funds included Eurobonds denominated in US dollars and Swiss francs that are issued by the Group through its special purpose entity, RHSB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Eurobonds with nominal value of USD 350 000 thousand (2006: USD 350 000 thousand) have maturity on 29 November 2010 and semi-annual payment of coupon income. As at 31 December 2007, coupon rate was 6.875% p.a. (2006: 6.875% p.a.) and yield to maturity 6.2% p.a. (2006: 6.0% p.a.).

Eurobonds with nominal value of USD 700 000 thousand (2006: USD 700 000 thousand) have maturity on 16 May 2013 and semi-annual payment of coupon income. As at 31 December 2007, coupon income was 7.175% p.a. (2006: 7.175% p.a.) and yield to maturity 6.6% p.a. (2006: 6.1% p.a.).

In March 2007, the Group issued Eurobonds denominated in Swiss Francs in the total amount of CHF 375 000 thousand. These borrowings mature on 29 March 2010 and have a coupon rate payable annually. As at 31 December 2007, these bonds had coupon rate 3.583% p.a. and yield to maturity 4.1% p.a.

In May 2007, the Group issued Eurobonds denominated in US Dollars in the total amount of USD 1 250 000 thousand with maturity on 15 May 2017 and semi-annual payment of coupon income. As at 31 December 2007, these bonds had coupon rate 6.299% p.a. and yield to maturity 7.0% p.a.

In December 2004, the Group placed own bonds denominated in Russian Roubles in the amount of RR 3 000 000 thousand maturing in June 2008 with the quarterly payment of coupon income. As at 31 December 2007, coupon rate was 7.2% p.a. (2006: 7.2% p.a.) and yield to maturity 8.1% p.a. (2006: 7.0% p.a.).

In February 2006, the Group placed own bonds denominated in Russian Roubles in the amount of RR 7 000 000 thousand maturing in February 2011 with the quarterly payment of coupon income. As at 31 December 2007, coupon rate was 7.85% p.a. (2006: 7.85% p.a.) and yield to maturity 8.1% p.a. (2006: 7.3% p.a.).

In February 2007, the Group placed own bonds denominated in Russian Roubles in the amount of RR 10 000 000 thousand maturing in February 2017 with an early redemption option in February 2010 and the semi-annual payment of coupon income. As at 31 December 2007, coupon income was 7.34% p.a. and yield to the next repricing date (in February 2010) of 8.0% p.a.

## **18 Other Borrowed Funds (Continued)**

In October 2007, the Group placed own bonds denominated in Russian Roubles in the amount of RR 10 000 000 thousand maturing in September 2017 with an early redemption option in October 2008 and the semi-annual payment of coupon income. As at 31 December 2007, coupon rate was 8.2% p.a. and yield to the next repricing date (in October 2008) of 8.5% p.a.

For the estimated fair value of other borrowed funds refer to Note 33.

Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

## **19 Syndicated Loans**

At 31 December 2007, syndicated loans attracted by the Group totalled RR 15 572 209 thousand (2006: RR 2 615 630 thousand).

In October 2006 the Group attracted a syndicated loan in Euro from ten OECD banks with the total amount of Euro 75 000 thousand with maturity in October 2009 and current effective interest rate 6.2% p.a.

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 000 thousand, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B).

For the estimated fair value of syndicated loans refer to Note 33.

Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

## **20 Other Liabilities**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Accrued staff costs	409 708	207 175
Taxes other than on income payable	66 559	57 511
Other	104 656	32 700
<b>Total other non-financial liabilities</b>	<b>580 923</b>	<b>297 386</b>

Geographical analysis of other liabilities is disclosed in Note 30.

## **21 Subordinated Debts**

At 31 December 2007, the Group's subordinated debts totalled RR 17 320 463 thousand (2006: RR 13 337 088 thousand).

In September 2006, the Group attracted a subordinated debt totalling USD 500 000 thousand in Eurobonds issued by the Group through its special purpose entity, RHSB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2006: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 7.4% p.a. (2006: 6.2% p.a.). The Group has an option to terminate this subordinated debt in September 2011.

In June 2007, the Group attracted a subordinated debt totalling USD 200 000 thousand maturing in June 2017. The Group has an option to terminate in advance subordinated debt in next five years since attraction date.

For the estimated fair value of subordinated debts refer to Note 33.

Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

## 22 Share Capital

The Group's share capital issued and fully paid comprises:

<i>In thousands of Russian Roubles</i>	<b>Number of outstanding shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
<b>At 1 January 2006</b>	<b>10 770</b>	<b>10 770 000</b>	<b>11 519 833</b>
New ordinary shares issued	10 101	10 101 000	10 101 000
<b>At 31 December 2006</b>	<b>20 871</b>	<b>20 871 000</b>	<b>21 620 833</b>
New ordinary shares issued	6 857	6 857 000	6 857 000
<b>At 31 December 2007</b>	<b>27 728</b>	<b>27 728 000</b>	<b>28 477 833</b>

The Group's issued and fully paid authorised share capital comprises 27 728 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each share carries one vote.

In 2007, the Bank increased its share capital by issuing 6 857 ordinary shares with the total nominal amount of RR 6 857 000 thousand. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

## 23 Other Reserves

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>Revaluation reserves</b>		<b>Total other reserves</b>
		<b>Premises and equipment</b>	<b>Securities available for sale</b>	
<b>At 31 December 2006</b>		-	-	-
Revaluation	9, 13	1 198 883	(2 182)	1 196 701
Income tax effects	27	(287 732)	524	(287 208)
<b>At 31 December 2007</b>		<b>911 151</b>	<b>(1 658)</b>	<b>909 493</b>

**24 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Interest income</b>		
Loans and advances to customers	31 143 506	14 191 712
Trading securities	926 393	443 773
Cash equivalents	372 651	165 954
Due from other banks	141 291	151 589
Securities held to maturity	17 750	-
Securities available for sale	1 635	-
<b>Total interest income</b>	<b>32 603 226</b>	<b>14 953 028</b>
<b>Interest expense</b>		
Other borrowed funds	(4 980 493)	(2 190 617)
Term deposits of other banks	(3 193 049)	(1 232 973)
Promissory notes issued	(3 122 920)	(1 780 380)
Term deposits of individuals	(1 335 437)	(581 312)
Term deposits of legal entities	(1 136 670)	(520 919)
Subordinated debts	(1 089 398)	(257 423)
Syndicated loans	(697 654)	(131 359)
Current/settlement accounts	(17 840)	(10 368)
Other	(482)	(2)
<b>Total interest expense</b>	<b>(15 573 943)</b>	<b>(6 705 353)</b>
<b>Net interest income</b>	<b>17 029 283</b>	<b>8 247 675</b>

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in amount of RR 565 857 thousand (2006: RR 266 685 thousand).



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**25 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Fee and commission income</b>		
Commission on cash transactions	738 069	373 837
Commission on settlement transactions	289 529	172 823
Agency fees for debt collection and currency control	98 757	64 013
Other	9 832	2 870
<b>Total fee and commission income</b>	<b>1 136 187</b>	<b>613 543</b>
<b>Fee and commission expense</b>		
Commission on cash collection	(59 639)	(26 795)
Commission on settlement transactions	(39 389)	(15 651)
Other	(2 975)	(608)
<b>Total fee and commission expense</b>	<b>(102 003)</b>	<b>(43 054)</b>
<b>Net fee and commission income</b>	<b>1 034 184</b>	<b>570 489</b>

**26 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
Staff costs		6 961 850	3 556 721
Rental expenses		796 816	375 266
Other costs of premises and equipment		566 386	309 617
Taxes other than on income		388 532	215 983
Security		299 151	144 595
Depreciation of premises and equipment	13	271 867	121 211
Supplies and other materials		237 993	150 544
Communications		207 332	94 121
Advertising and marketing		157 849	70 647
Depreciation of intangible assets	13	61 736	30 874
Expenses relating to participation in the national project		7 301	94 937
Other		636 536	316 060
<b>Total administrative and other operating expenses</b>		<b>10 593 349</b>	<b>5 480 576</b>

Expenses relating to participation in the national project represent expenses incurred by the Group relating to information and marketing support of the national project "Development of Agro-Industrial Sector" and mainly include advertising and marketing. The Group received also income in the amount of RR 8 468 thousand (2006: RR 127 118 thousand) from the Ministry of Agriculture of the Russian Federation under the state contract concluded with the Ministry of Agriculture included in the consolidated income statement in connection with the above project.

Included in staff costs are statutory social security and pension contributions of RR 1 001 796 thousand (2006: RR 523 394 thousand), and also contributions to a non-state pension fund in the amount of RR 62 056 thousand (2006: RR 35 909 thousand).

## 27 Income Taxes

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	2007	2006
Current tax	904 524	400 589
Deferred tax	584 429	(77 680)
<b>Income tax expense for the year</b>	<b>1 488 953</b>	<b>322 909</b>

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.

<i>In thousands of Russian Roubles</i>	2007	2006
<b>IFRS profit before tax</b>	<b>5 842 780</b>	<b>1 176 086</b>
Theoretical tax charge at statutory rate (2007:24%; 2006: 24%)	1 402 267	282 261
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible staff costs	28 448	22 211
- Non deductible charity costs	22 522	9 005
- Other non deductible expenses	54 765	21 791
- Other non-temporary differences	1 202	409
- Income on government securities taxed at different rates	(20 251)	(12 768)
<b>Income tax expense for the year</b>	<b>1 488 953</b>	<b>322 909</b>

The Group has not recorded a deferred tax liability in respect of temporary differences of RR 20 379 thousand (2006: RR 7 272 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

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**27 Income Taxes (Continued)**

	2006	(Charged)/ credited to profit or loss	Charged directly to equity	2007
<i>In thousands of Russian Roubles</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Fair valuation of derivative financial instruments	(83 643)	(647 199)	-	(730 842)
Premises and equipment	(78 647)	(91 072)	(287 732)	(457 451)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(76 082)	(89 207)	-	(165 289)
Intangible assets	(8 961)	(25 116)	-	(34 077)
Accruals on due to other banks	(29 420)	(906)	-	(30 326)
Promissory notes issued	(9 470)	4 303	-	(5 167)
Provision for loan impairment	343 879	3 196	-	347 075
Accruals on loans	58 869	109 894	-	168 763
Accrued staff costs	48 543	45 426	-	93 969
Fair valuation of securities	5 855	81 722	524	88 101
Other	13 835	24 530	-	38 365
<b>Net deferred income tax asset/(liability)</b>	<b>184 758</b>	<b>(584 429)</b>	<b>(287 208)</b>	<b>(686 879)</b>
Recognised deferred income tax asset	184 758	(178 943)	-	5 815
Recognised deferred income tax liability	-	(405 486)	(287 208)	(692 694)
<b>Net deferred income tax asset/(liability)</b>	<b>184 758</b>	<b>(584 429)</b>	<b>(287 208)</b>	<b>(686 879)</b>
<i>In thousands of Russian Roubles</i>				
	2005	(Charged)/credited to profit or loss		2006
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Fair valuation of derivative financial instruments	-	(83 643)		(83 643)
Premises and equipment	(49 934)	(28 713)		(78 647)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(22 027)	(54 055)		(76 082)
Intangible assets	(23)	(8 938)		(8 961)
Accruals on due to other banks	(2 907)	(26 513)		(29 420)
Promissory notes issued	74 210	(83 680)		(9 470)
Provision for loan impairment	97 996	245 883		343 879
Accruals on loans	17 838	41 031		58 869
Accrued staff costs	512	48 031		48 543
Fair valuation of securities	(6 053)	11 908		5 855
Other	(2 534)	16 369		13 835
<b>Net deferred income tax asset</b>	<b>107 078</b>	<b>77 680</b>		<b>184 758</b>

## 28 Dividends

	Note	2007 Ordinary shares	2006 Ordinary shares
<i>In thousands of Russian Roubles</i>			
Dividends payable at 1 January		-	-
Dividends declared during the year		226 450	56 111
Dividends paid during the year		(226 450)	(56 111)
Dividends payable at 31 December		-	-
Dividends per share declared during the year	22	10,8	3,7

## 29 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 the basis of two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, operations on capital markets, foreign currency and derivative products, transactions with securities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

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

	Commercial banking	Retail banking	Unallocated funds	Total
<i>In thousands of Russian Roubles</i>				
External revenues	28 865 212	4 990 384	-	33 855 596
<b>Total revenues</b>	<b>28 865 212</b>	<b>4 990 384</b>	<b>-</b>	<b>33 855 596</b>
<b>Total revenues comprise:</b>				
- Interest income	27 760 364	4 842 862	-	32 603 226
- Fee and commission income	989 246	146 941	-	1 136 187
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	8 468	-	-	8 468
- Other operating income	107 134	581	-	107 715
<b>Total revenues</b>	<b>28 865 212</b>	<b>4 990 384</b>	<b>-</b>	<b>33 855 596</b>

**29 Segment Analysis (Continued)**

<i>In thousands of Russian Roubles</i>	<b>Commercial banking</b>	<b>Retail banking</b>	<b>Unallocated funds</b>	<b>Total</b>
<b>Total expenses comprise:</b>				
- Interest expense	(14 238 506)	(1 335 437)	-	(15 573 943)
- Fee and commission expense	(102 003)	-	-	(102 003)
- Other administrative and operating expenses	(9 860 266)	(733 083)	-	(10 593 349)
- Provisions	(2 740 215)	(380 762)	-	(3 120 977)
<b>Total expenses</b>	<b>(26 940 990)</b>	<b>(2 449 282)</b>	<b>-</b>	<b>(29 390 272)</b>
Intrasegment results	1 059 729	(1 059 729)	-	-
<b>Total expense</b>	<b>(25 881 261)</b>	<b>(3 509 011)</b>	<b>-</b>	<b>(29 390 272)</b>
<b>Segment result</b>	<b>2 983 951</b>	<b>1 481 373</b>	<b>-</b>	<b>4 465 324</b>
Unallocated net gains				1 377 456
Income tax expense				(1 488 953)
<b>Profit for the year</b>				<b>4 353 827</b>
<b>Segment assets</b>	<b>311 342 054</b>	<b>45 053 620</b>	<b>-</b>	<b>356 395 674</b>
Current and deferred tax assets	-	-	64 527	64 527
<b>Total assets</b>	<b>311 342 054</b>	<b>45 053 620</b>	<b>64 527</b>	<b>356 460 201</b>
<b>Segment liabilities</b>	<b>295 528 103</b>	<b>26 349 234</b>	<b>-</b>	<b>321 877 337</b>
Current and deferred tax liabilities	-	-	759 253	759 253
<b>Total liabilities</b>	<b>295 528 103</b>	<b>26 349 234</b>	<b>759 253</b>	<b>322 636 590</b>
<b>Other segment items</b>				
Capital expenditure	(3 421 813)	(402 724)	-	(3 824 537)
Depreciation	(298 475)	(35 128)	-	(333 603)

The Group changed the methodology of calculation of intrasegment results. The change was applied retrospectively from 1 January 2006. Management believes that the revised definition of intrasegment results better reflects objectives of reporting segment information. Due to this change revenues in the commercial banking segment increased (revenues in retail banking segment decreased) by RR 540 402 thousand in 2006.

The Group changed methodology for allocation of other administrative and operating expenses and commission income between segments. Due to this change revenues in the commercial banking segment decreased (revenues in the retail banking segment increased) by RR 61 787 thousand, expenses in the commercial banking segment increased (in the retail banking segment decreased) by RR 98 877 thousand in 2006.

## 29 Segment Analysis (Continued)

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

<i>In thousands of Russian Roubles</i>	<b>Commercial banking</b>	<b>Retail banking</b>	<b>Unallocated funds</b>	<b>Total</b>
External revenues	14 421 066	1 333 098	-	15 754 164
<b>Total revenues</b>	<b>14 421 066</b>	<b>1 333 098</b>	<b>-</b>	<b>15 754 164</b>
<b>Total revenues comprise:</b>				
- Interest income	13 693 738	1 259 290	-	14 953 028
- Fee and commission income	540 010	73 533	-	613 543
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	127 118	-	-	127 118
- Other operating income	60 200	275	-	60 475
<b>Total revenues</b>	<b>14 421 066</b>	<b>1 333 098</b>	<b>-</b>	<b>15 754 164</b>
<b>Total expenses comprise:</b>				
- Interest expense	(6 124 041)	(581 312)	-	(6 705 353)
- Fee and commission expense	(43 054)	-	-	(43 054)
- Other administrative and operating expenses	(5 152 646)	(327 930)	-	(5 480 576)
- Provisions	(2 438 485)	(195 723)	-	(2 634 208)
<b>Total expenses</b>	<b>(13 758 226)</b>	<b>(1 104 965)</b>	<b>-</b>	<b>(14 863 191)</b>
Intrasegment results	540 402	(540 402)	-	-
<b>Total expense</b>	<b>(13 217 824)</b>	<b>(1 645 367)</b>	<b>-</b>	<b>(14 863 191)</b>
<b>Segment result</b>	<b>1 203 242</b>	<b>(312 269)</b>	<b>-</b>	<b>890 973</b>
Unallocated net gains				285 113
Income tax expense				(322 909)
<b>Profit for the year</b>				<b>853 177</b>
<b>Segment assets</b>	<b>162 587 474</b>	<b>21 504 280</b>	<b>-</b>	<b>184 091 754</b>
Current and deferred tax assets	-	-	488 873	488 873
<b>Total assets</b>	<b>162 587 474</b>	<b>21 504 280</b>	<b>488 873</b>	<b>184 580 627</b>
<b>Segment liabilities</b>	<b>152 121 474</b>	<b>10 468 696</b>	<b>-</b>	<b>162 590 170</b>
Current and deferred tax liabilities	-	-	60 701	60 701
<b>Total liabilities</b>	<b>152 121 474</b>	<b>10 468 696</b>	<b>60 701</b>	<b>162 650 871</b>
<b>Other segment items</b>				
Capital expenditure	(1 240 033)	(125 943)	-	(1 365 976)
Depreciation	(138 063)	(14 022)	-	(152 085)

**Geographical segments.** The Group operates only in the Russian Federation. Substantially all revenues of the Group were received from contracting parties operating in the Russian Federation.

### **30 Financial Risk Management**

The purpose of the Group risk management policy is maintaining of acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, also by separate structural divisions and executives on the basis of their competence.

The responsibility for risk monitoring and evaluation rests with the Department for Risks Evaluation and Monitoring (hereinafter, the DREM) which performs its functions independently from business units and reports directly to the Chairman of Bank's Management Board Chairman. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The risks of ZAO Chelyabcomzembank, a subsidiary, are managed in a similar way.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that the Group incurs losses as a result of the default, overdue or partial default of the Group's borrowers. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees, letters of credit and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

The Bank applies a centralised system for managing credit risk. The credit risk approval competencies are determined as follows:

- The Supervisory Board approves decisions on loans in excess of RR 4 000 000 thousand (2006: RR 1 000 000 thousand) per one borrower or a group of related borrowers.
- The Bank's Management Board has the authority of determine credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 000 thousand (2006: RR 1 000 000 thousand) inclusive.
- The Credit Committee makes credit authorization decisions within the limits provided by the Management Board, including credit operations of up to RR 600 000 thousand (2006: RR 300 000 thousand) inclusive (limits on short-term and long-term (medium-term) loans are considered independently).
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

### **30 Financial Risk Management (Continued)**

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review no less than once a year credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration in one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

When selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in highly effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownership rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

**Market risk.** The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements.

In evaluating the Group's market risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's market risk are carried out on the basis of regulatory documents applicable to the Group.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes), developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and DREM within their competence.



### **30 Financial Risk Management (Continued)**

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board and the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, assigning credit ratings by international rating agencies and regulators rests with the Department for Evaluation and Monitoring of Liquidity and Market Risks (hereinafter, "the DEMLMR"). The DEMLMR is a division of DREM.

The DEMLMR's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operational Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DEMLMR, jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DEMLMR monitors limits and reports information on compliance with the set limits to the Bank's management. The DEMLMR also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DEMLMR reviews the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures);
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

### 30 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. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of reprising (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the Russian Accounting Rules ("RAR") with the assumption of stability of the structure of the Bank's assets and liabilities.

In evaluating the Group's interest risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's interest risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarises the Group's exposure to interest rate risk at 31 December 2007 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing financial assets*	37 494 369	36 076 191	46 830 534	65 403 808	148 634 377	115 892 893	450 332 172
Total interest bearing financial liabilities*	20 583 774	63 740 523	47 762 291	53 810 837	116 903 036	101 824 839	404 625 300
<b>Sensitivity gap on balance sheet items</b>	<b>16 910 595</b>	<b>(27 664 332)</b>	<b>(931 757)</b>	<b>11 592 971</b>	<b>31 731 341</b>	<b>14 068 054</b>	<b>45 706 872</b>

\* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

### 30 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2006. Included in the table are the Group's interest bearing assets and liabilities categorised by the earlier of contractual repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing assets*	16 860 575	18 726 090	30 901 842	44 076 998	52 866 665	64 014 752	227 446 922
Total interest bearing liabilities*	5 265 926	11 192 592	18 649 883	42 724 684	53 964 698	70 305 578	202 103 361
<b>Sensitivity gap on balance sheet items</b>	<b>11 594 649</b>	<b>7 533 498</b>	<b>12 251 959</b>	<b>1 352 314</b>	<b>(1 098 033)</b>	<b>(6 290 826)</b>	<b>25 343 561</b>

\* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand higher (2006: RR 283 655 thousand lower).

At 31 December 2007, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand lower (2006: RR 283 655 thousand higher).

The Bank's Management Board monitors the level of interest rates on assets and liabilities.

### 30 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

In % p.a.	2007				2006			
	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
<b>Assets</b>								
Cash and cash equivalents								
- cash balances with the Central Bank of the Russian Federation and settlement accounts with MICEX and RTS	0	-	-	-	0	-	-	-
- correspondent accounts and deposits with other banks with a maturity of less than one month	4	5	0	0	3	5	0	0
Mandatory cash balances with the Central Bank of the Russian Federation	0	-	-	-	0	-	-	-
Trading securities	8	8	-	-	9	8	-	-
Securities available for sale	9	7	-	-	-	-	-	-
Securities held to maturity	9	-	-	-	-	-	-	-
Due from other banks	9	11	4	-	7	10	4	-
Loans and advances to customers	14	9	9	6	14	10	10	-
<b>Liabilities</b>								
Due to other banks	8	7	5	-	8	7	5	-
Customer accounts*	9	6	6	-	9	4	6	-
Promissory notes issued	9	8	4	-	8	8	4	-
Other borrowed funds	8	7	-	4	8	7	-	-
Syndicated loans	-	6	6	-	-	-	5	-
Subordinated debts	-	7	-	-	-	7	-	-

\* - disclosed rates on term deposits

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

### Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DEMLMR to the Bank's management and heads of interested units in compliance with the acting internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

VaR is calculated by three methods (delta-normal, parametrical and historical) and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

### 30 Financial Risk Management (Continued)

The methods used by the Bank are back-tested on a monthly basis. VaR calculations are made together with stress-testing of the results with the assumption of normal distribution on the basis of a simulation model (Monte-Carlo method).

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR;
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

#### **Currency risk.**

In the table below VAR shows the absolute amount of losses for both long and short positions.

<i>In thousands of Russian Roubles</i>		2007	2006
<b>At the end of the year</b>	(short)/ long position	(776 833)	(519 957)
	VAR	2 012	902
<b>Average</b>	(short)/ long position	(1 536 002)	(1 027 576)
	VAR	3 336	3443
<b>Minimum</b>	(short)/ long position	149 071	(855 011)
	VAR	161	504
<b>Maximum</b>	(short)/ long position	(3 151 355)	(1 915 597)
	VAR	9 789	6 667

The Bank's currency risk as at the reporting date does not reflect typical risks during the year due to a decrease in the open currency position. Currency risk has slightly increased as compared to 2006, but this increase has not affected the Bank's exposure to currency risk, as open currency positions increased together with other assets and capital of the Bank. The above table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, assessed on the basis of VAR.

**Equity risk** taken by the Group is assessed as insignificant due to limited volumes of transactions. The table below shows equity risk analysis at 31 December 2007 and 31 December 2006. In evaluating the shares, the Bank does not consider instruments acquired in initial public offering due to the absence of historical quotes required for evaluation. As at 31 December 2007 the Group did not have investments in such instruments (2006: RR 53 660 thousands).

In the table below VAR shows the absolute amount of losses for both long and short positions. The information is provided only for days with open position.

<i>In thousands of Russian Roubles</i>		2007	2006
<b>At the end of the year</b>	(short)/ long position	111 877	34 520
	VAR	2 811	1 466
<b>Average</b>	(short)/ long position	49 884	18 423
	VAR	1 424	719
<b>Minimum</b>	(short)/ long position	2 910	4 472
	VAR	85	131
<b>Maximum</b>	(short)/ long position	199 708	39 619
	VAR	5 068	1 641

At 31 December 2007 the major part of the position is hedged by the derivative financial instrument on the underlying asset. The table includes information on absolute risk exposure without hedging effect. Refer to Note 32.

**30 Financial Risk Management (Continued)**

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

	Russia	OECD*	Other countries	Total
<i>In thousands of Russian Roubles</i>				
<b>Assets</b>				
Cash and cash equivalents	31 711 153	2 279 030	-	33 990 183
Mandatory cash balances with the Central Bank of the Russian Federation	2 441 967	-	-	2 441 967
Trading securities	12 056 055	-	-	12 056 055
Repurchase receivable	98 326	-	-	98 326
Derivative financial instruments	10	276 796	-	276 806
Securities available for sale	1 156 720	-	-	1 156 720
Securities held to maturity	5 495 475	-	-	5 495 475
Due from other banks	1 282 868	-	345 107	1 627 975
Loans and advances to customers	291 583 137	-	-	291 583 137
Deferred income tax asset	5 815	-	-	5 815
Intangible assets	347 353	-	-	347 353
Premises and equipment	6 924 308	-	-	6 924 308
Current income tax prepayment	51 518	-	-	51 518
Other assets	404 563	-	-	404 563
<b>Total assets</b>	<b>353 559 268</b>	<b>2 555 826</b>	<b>345 107</b>	<b>356 460 201</b>
<b>Liabilities</b>				
Derivative financial instruments	14 451	3 545 508	-	3 559 959
Due to other banks	7 330 943	53 897 119	74 767	61 302 829
Customer accounts	93 877 986	2 079 728	-	95 957 714
Promissory notes issued	32 361 154	-	-	32 361 154
Other borrowed funds	30 294 247	64 994 398	-	95 288 645
Syndicated loans	-	15 572 209	-	15 572 209
Current income tax liability	-	-	-	-
Deferred tax liability	692 694	-	-	692 694
Other liabilities	580 172	751	-	580 923
Subordinated debts	-	17 320 463	-	17 320 463
<b>Total liabilities</b>	<b>165 151 647</b>	<b>157 410 176</b>	<b>74 767</b>	<b>322 636 590</b>
<b>Net balance sheet position</b>	<b>188 407 621</b>	<b>(154 854 350)</b>	<b>270 340</b>	<b>33 823 611</b>
<b>Credit related commitments</b>	<b>2 196 408</b>	<b>-</b>	<b>-</b>	<b>2 196 408</b>

\*OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located. Cash and premises and equipment have been classified according to the country in which they are physically held.

**30 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD*</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	13 556 688	59 007	-	13 615 695
Mandatory cash balances with the Central Bank of the Russian Federation	1 717 423	-	-	1 717 423
Trading securities	6 733 224	-	-	6 733 224
Repurchase receivable	152 573	-	-	152 573
Derivative financial instruments	227	170 177	-	170 404
Securities available for sale	-	-	-	-
Securities held to maturity	-	-	-	-
Due from other banks	2 864 625	-	-	2 864 625
Loans and advances to customers	155 865 243	-	-	155 865 243
Deferred income tax asset	184 758	-	-	184 758
Intangible assets	170 097	-	-	170 097
Premises and equipment	2 419 370	-	-	2 419 370
Current income tax prepayment	303 052	-	-	303 052
Other assets	382 249	1 894	20	384 163
<b>Total assets</b>	<b>184 349 529</b>	<b>231 078</b>	<b>20</b>	<b>184 580 627</b>
<b>Liabilities</b>				
Derivative financial instruments	2 866	638 388	-	641 254
Due to other banks	2 303 608	30 385 735	2 667 843	35 357 186
Customer accounts	34 402 830	59 961	-	34 462 791
Promissory notes issued	38 235 757	-	-	38 235 757
Other borrowed funds	10 017 849	27 682 740	-	37 700 589
Syndicated loans	-	2 615 630	-	2 615 630
Current income tax liability	3 190	-	-	3 190
Deferred tax liability	-	-	-	-
Other liabilities	297 386	-	-	297 386
Subordinated debts	-	13 337 088	-	13 337 088
<b>Total liabilities</b>	<b>85 263 486</b>	<b>74 719 542</b>	<b>2 667 843</b>	<b>162 650 871</b>
<b>Net balance sheet position</b>	<b>99 086 043</b>	<b>(74 488 464)</b>	<b>(2 667 823)</b>	<b>21 929 756</b>
<b>Credit related commitments</b>	<b>1 441 169</b>	<b>-</b>	<b>-</b>	<b>1 441 169</b>

\*OECD – Organisation for Economic Cooperation and Development.

**Liquidity risk.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, 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.

### **30 Financial Risk Management (Continued)**

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Group's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system;
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury within their competence. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the monetary market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each reporting date.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position;
- reviewing the actual values and changes in mandatory liquidity ratios;
- forecasting the impact of transactions on mandatory liquidity ratios;
- setting limits on asset-side transactions by types of investments depending on the sources of funding;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in roubles and currencies, issuing promissory notes, increasing the volume of deposits (including interbank deposits) and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Bank's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.



**30 Financial Risk Management (Continued)**

The table below shows distribution of financial liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's balance sheet financial liabilities and off-balance credit related commitments. Such undiscounted cash flows differ from the amount included in the balance sheet, since the balance sheet amount is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

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

Overdue liabilities, including term deposits undrawn by the Bank's customers are categorised as demand and less than 30 days. The date of maturity of certain assets, for which there is no contractual maturity date is the expected date of disposal.

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
<b>Balance sheet financial liabilities</b>						
Gross settled derivative financial instruments						
- inflow	(265 422)	(20 982 075)	(16 431 222)	(66 087 099)	(34 381 160)	(138 146 978)
- outflow	355 034	22 754 967	17 274 870	72 023 912	37 828 144	150 236 927
Net settled derivative financial instruments (liabilities)	3 939	-	-	-	-	3 939
Due to other banks	4 876 422	3 798 535	3 209 941	37 816 895	23 632 124	73 333 917
Customer accounts	44 404 677	32 653 007	18 513 778	2 182 481	423 592	98 177 535
Promissory notes issued	6 131 952	15 545 407	11 749 626	50 663	55 048	33 532 696
Other borrowed funds	-	6 327 419	12 926 971	37 053 412	70 646 754	126 954 556
Syndicated loans	40 849	395 471	7 049 042	9 494 211	-	16 979 573
Subordinated debts	-	607 655	608 643	2 432 597	18 579 564	22 228 459
<b>Off-balance sheet financial liabilities</b>						
Letters of credit	128 112	680 437	494 451	672 522	83 828	2 059 350
Other credit related commitments	24 300 132	-	-	-	-	24 300 132
<b>Total potential future payments for financial obligations</b>	<b>79 975 695</b>	<b>61 780 823</b>	<b>55 396 100</b>	<b>95 639 594</b>	<b>116 867 894</b>	<b>409 660 106</b>

**30 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
<b>Balance sheet financial liabilities</b>						
Gross settled derivative financial instruments						
- inflow	(276 551)	(25 313 750)	(887 281)	(13 632 766)	(20 597 618)	(60 707 966)
- outflow	348 584	25 640 088	1 084 401	14 901 469	21 295 178	63 269 720
Net settled derivative financial instruments (liabilities)	2 866	-	-	-	-	2 866
Due to other banks	852 809	5 484 155	1 348 607	29 403 546	4 864 080	41 953 197
Customer accounts	15 134 455	9 622 047	9 289 322	1 368 324	-	35 414 148
Promissory notes issued	3 429 363	2 895 809	23 044 324	11 123 181	14 200	40 506 877
Other borrowed funds	-	1 359 716	1 359 716	8 115 763	40 594 875	51 430 070
Syndicated loans	30 943	30 271	61 550	2 848 101	-	2 970 865
Subordinated debts	-	458 819	458 819	1 835 278	15 000 828	17 753 744
<b>Off-balance sheet financial liabilities</b>						
Letters of credit	330 697	593 255	329 354	83 859	11 517	1 348 682
Other credit related commitments	13 392 321	-	-	-	-	13 392 321
<b>Total potential future payments for financial obligations</b>	<b>33 245 487</b>	<b>20 770 410</b>	<b>36 088 812</b>	<b>56 046 755</b>	<b>61 183 060</b>	<b>207 334 524</b>

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 31.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

In evaluating the Group's liquidity risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's liquidity risk are carried out on the basis of regulatory documents applicable to the Group.

**30 Financial Risk Management (Continued)**

The table below summarizes analysis of liquidity risk at 31 December 2007:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Overdue</b>	<b>Total</b>
<b>Total financial assets*</b>	58 536 653	28 024 090	47 157 959	65 339 821	148 587 510	122 106 326	2 371 103 472	123 462
<b>Total financial liabilities*</b>	53 027 707	35 807 731	37 398 918	61 742 114	131 139 123	126 949 084	-	446 064 677
<b>Net liquidity gap</b>	5 508 946	(7 783 641)	9 759 041	3 597 707	17 448 387	(4 842 758)	2 371 103	26 058 785
<b>Cumulative liquidity gap</b>	5 508 946	(2 274 695)	7 484 346	11 082 053	28 530 440	23 687 682	26 058 785	

\* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2006:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Overdue</b>	<b>Total</b>
<b>Total financial assets*</b>	24 159 412	18 976 577	30 386 362	44 084 099	52 812 620	63 277 134	993 169	234 689 373
<b>Total financial liabilities*</b>	18 161 028	12 012 512	19 070 523	43 104 519	54 129 566	70 883 715	-	217 361 863
<b>Net liquidity gap</b>	5 998 384	6 964 065	11 315 839	979 580	(1 316 946)	(7 606 581)	993 169	17 327 510
<b>Cumulative liquidity gap</b>	5 998 384	12 962 449	24 278 288	25 257 868	23 940 922	16 334 341	17 327 510	

\* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The 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.

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

### 31 Contingencies and Commitments

**Legal proceedings.** From time to time in the normal course of business, claims against the Group are received by court in justice. Based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements.

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

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

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

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is reliable and the Group's tax, currency and customs positions will be confirmed. Therefore, as at 31 December 2007 the Management has not created any provision for potential tax liabilities (2006: nil).

**Capital expenditure commitments.** At 31 December 2007, the Group had contractual capital expenditure commitments of RR 627 270 thousand (2006: RR 363 453 thousand).

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

<i>In thousands of Russian Roubles</i>	2007	2006
Less than 1 year	770 439	354 309
Due between 1 and 5 years	1 803 476	576 604
Later than 5 years	1 436 458	358 519
<b>Total operating lease commitments</b>	<b>4 010 373</b>	<b>1 289 432</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

### 31 Contingencies and Commitments (Continued)

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The 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:

<i>In thousands of Russian Roubles</i>	2007	2006
Undrawn credit lines	30 000	72 718
Letters of credit	2 059 350	1 348 682
Guarantees issued	107 058	19 769
<b>Total credit related commitments</b>	<b>2 196 408</b>	<b>1 441 169</b>

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.

Undrawn credit lines shown in the table above do not include cancellable commitments of RR 24 270 132 thousand (2006: RR 13 319 603 thousand), which are dependent on borrowers' compliance with certain creditworthiness criteria.

Movements in the provision for losses on credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	2007	2006
Provision for losses on credit related commitments at 1 January	-	801
Provision for losses on credit related commitments during the year	-	-
Use of provision for losses on credit related commitments during the year	-	(801)
<b>Provision for losses on credit related commitments at 31 December</b>	<b>-</b>	<b>-</b>

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	2007	2006
Russian Roubles	129 964	285 153
US Dollars	250 960	212 379
Euros	1 577 387	943 637
Other currencies	238 097	-
<b>Total</b>	<b>2 196 408</b>	<b>1 441 169</b>

### 31 Contingencies and Commitments (Continued)

**Fiduciary assets.** These assets are not included in the consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	2007	2006
Promissory notes issued by the Bank	805 587	626 751
Promissory notes and securities of Russian companies held with the Bank	149 947	331 007
OVGZ held with Vnesheconombank	39 274	-
Corporate shares held with the National Depository Centre	550	550
Shares and bonds of companies held with other depositories	60	-
OVGZ held in the Bank's depository	-	42 130

**Assets pledged and restricted.** At 31 December 2007, the Group had municipal bonds pledged under repo agreements with fair value of RR 98 326 thousand (2006: corporate bonds with fair value of RR 152 573 thousand). Refer to Note 8. In addition, mandatory cash balances with the CBRF of RR 2 441 967 thousand (2006: RR 1 717 423 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

### 32 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury through establishing limits on derivatives trading.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros and Swiss Francs to six OECD banks with maturities from June 2008 to July 2013 and deposits in Russian Roubles received from the same six banks with similar maturities ("back to back loans"). These transactions were aimed at hedging the currency exposure of the Group. These foreign exchange swaps are valued using the model assuming nil fair value at inception of the respective contracts. Currently, the Russian long-term swap market is not active, and market participants often have substandard credit ratings. Based on the above considerations, the management believes that standard market yield curves for respective swap currencies should be adjusted to account for the credit risk and other implied factors in initial pricing of the Group as a Russian counterparty.

## 32 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2007 and covers the contracts with settlement dates after the respective balance sheet date:

<i>In thousands of Russian Roubles</i>	Contracts with positive fair value	Contracts with negative fair value	Total
<b>Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of</b>			
USD receivable on settlement (+)	15 600 874	99 763 440	115 364 314
RR payable on settlement (-)	(15 446 384)	(103 226 020)	(118 672 404)
Euros receivable on settlement (+)	2 731 247	-	2 731 247
RR payable on settlement (-)	(2 608 941)	-	(2 608 941)
CHF receivable on settlement (+)	-	8 516 779	8 516 779
RR payable on settlement (-)	-	(8 599 707)	(8 599 707)
<b>Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of</b>			
USD receivable on settlement (+)	-	355 989	355 989
Euros payable on settlement (-)	-	(359 928)	(359 928)
<b>Futures on shares: fair value at the balance sheet date, of</b>			
RR receivable on settlement (+)	3 480	79 708	83 188
Short position in shares (-)	(3 470)	(90 220)	(93 690)
<b>Total net fair value</b>	<b>276 806</b>	<b>(3 559 959)</b>	<b>(3 283 153)</b>

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2006 and covers the contracts with settlement dates after the respective balance sheet date:

<i>In thousands of Russian Roubles</i>	Contracts with positive fair value	Contracts with negative fair value	Total
<b>Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of</b>			
USD receivable on settlement (+)	39 685 147	12 177 331	51 862 478
RR payable on settlement (-)	(39 558 592)	(12 815 719)	(52 374 311)
Euros receivable on settlement (+)	2 670 741	-	2 670 741
RR payable on settlement (-)	(2 627 119)	-	(2 627 119)
<b>Foreign exchange forward deals with settlement dates from 2 to 30 days: fair values at the balance sheet date, of</b>			
USD receivable on settlement (+)	-	1 579 866	1 579 866
RR payable on settlement (-)	-	(1 581 890)	(1 581 890)
<b>Foreign exchange forward deals with settlement dates up to 2 days: fair values at the balance sheet date, of</b>			
USD receivable on settlement (+)	-	763 602	763 602
RR payable on settlement (-)	-	(764 444)	(764 444)
RR receivable on settlement (+)	131 883	-	131 883
USD payable on settlement (-)	(131 656)	-	(131 656)
<b>Total net fair value</b>	<b>170 404</b>	<b>(641 254)</b>	<b>(470 850)</b>

### 33 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 the fair value is the quotation of the financial instrument 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, securities available for sale, securities categorised as "repurchase receivable", and derivative financial instruments are carried on the consolidated balance sheet at their fair value.

Refer to Note 32 for the description of the methodology of valuation of foreign exchange swaps. The fair value of other financial instruments is based on quoted market prices.

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

**Loans and receivables carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

**Liabilities carried at amortised cost.** The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2007	2006
<b>Due from other banks</b>		
Short-term placements with other banks with original maturity more than 1 month	4% -12%	4%-10%
<b>Loans and advances to customers</b>		
Corporate loans	8%-17%	8%-17%
Loans to individuals	10%-19%	10%-19%
<b>Securities held to maturity</b>	7%-11%	-
<b>Due to other banks</b>	3% -9%	3%-8%
<b>Customer accounts</b>		
- Term deposits of legal entities	2%-8%	2%-8%
- Term deposits of individuals	3%-11%	3%-11%
<b>Promissory notes issued</b>	4% - 10%	4%-9%
<b>Syndicated loans</b>	5%-6%	5%
<b>Subordinated debts</b>	7%	7%



### 33 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of Russian Roubles</i>				
<b>FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>				
Cash and cash equivalents				
- cash on hand	2 991 048	2 991 048	1 249 651	1 249 651
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	19 685 479	11 663 404	11 663 404
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656	11 313 656	702 640	702 640
Due from other banks	1 627 975	1 627 975	2 864 625	2 864 625
Securities held to maturity	5 495 475	5 495 475	-	-
Loans and advances to customers				
- Loans to corporates	240 708 779	240 644 789	129 082 373	129 082 373
- Lending for food interventions	3 189 928	3 189 928	4 490 331	4 490 331
- Reverse repo agreements	2 466 091	2 466 091	797 386	797 386
- Investments in agricultural cooperatives	663 912	663 912	396 935	396 935
- Loans to individuals	44 554 427	44 554 427	21 098 218	21 098 218
Other financial assets carried at amortised cost	77 866	77 866	91 081	91 081
<b>FINANCIAL ASSETS CARRIED AT FAIR VALUE</b>	<b>13 587 907</b>	<b>13 587 907</b>	<b>7 056 201</b>	<b>7 056 201</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>346 362 543</b>	<b>346 298 553</b>	<b>179 492 845</b>	<b>179 492 845</b>
<b>FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>				
Due to other banks				
- Term borrowings from other banks	61 150 114	61 150 114	35 207 712	35 207 712
- Correspondent accounts and overnight placements of other banks	66 687	66 687	17 453	17 453
- Repo agreements	86 028	86 028	132 021	132 021
Customer accounts				
- State and public organisations	6 557 056	6 557 056	1 365 140	1 365 140
- Other legal entities	63 051 424	63 051 424	22 628 955	22 628 955
- Individuals	26 349 234	26 349 234	10 468 696	10 468 696
Promissory notes issued	32 361 154	32 361 154	38 235 757	38 235 757
Other borrowed funds				
- Issued Eurobonds	64 994 398	64 370 774	27 682 740	29 178 036
- Bonds issued on domestic market	30 294 247	30 487 190	10 017 849	10 214 720
Syndicated loans	15 572 209	15 572 209	2 615 630	2 615 630
Subordinated debts	17 320 463	17 260 332	13 337 088	13 845 781
<b>FINANCIAL LIABILITIES CARRIED AT FAIR VALUE</b>	<b>3 559 959</b>	<b>3 559 959</b>	<b>641 254</b>	<b>641 254</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>321 362 973</b>	<b>320 872 161</b>	<b>162 350 295</b>	<b>164 551 155</b>

**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. Refer to Note 32.

### 34 Reconciliation of Classes of Financial Instruments with Measurement Categories

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007.

	Loans and receivables	Available for sale assets	Held-to- maturity assets	Financial assets at fair value through profit and loss	Total
<i>In thousands of Russian Roubles</i>					
<b>Financial assets</b>					
Cash and cash equivalents					2 991 048
- cash on hand	2 991 048				
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479				19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656				11 313 656
Trading securities					
- Debt securities	-	-	-	11 944 178	11 944 178
- Shares	-	-	-	111 877	111 877
Repurchase receivable	-	-	-	98 326	98 326
Derivative financial instruments	-	-	-	276 806	276 806
Securities available for sale	-	1 156 720	-	-	1 156 720
Securities held to maturity	-	-	5 495 475	-	5 495 475
Due from other banks	1 627 975	-	-	-	1 627 975
Loans and advances to customers					
- Loans to corporates	240 708 779	-	-	-	240 708 779
- Lending for food interventions	3 189 928	-	-	-	3 189 928
- Reverse repo agreements	2 466 091	-	-	-	2 466 091
- Investments in agricultural cooperatives	663 912	-	-	-	663 912
- Loans to individuals	44 554 427	-	-	-	44 554 427
Other financial assets	77 866	-	-	-	77 866
<b>TOTAL financial assets</b>	<b>327 279 161</b>	<b>1 156 720</b>	<b>5 495 475</b>	<b>12 431 187</b>	<b>346 362 543</b>
Non-financial assets					10 097 658
<b>TOTAL ASSETS</b>	<b>327 279 161</b>	<b>1 156 720</b>	<b>5 495 475</b>	<b>12 431 187</b>	<b>356 460 201</b>

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

**34 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)**

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2006.

	Loans and advances to customers	Financial assets at fair value through profit and loss	Total
<i>In thousands of Russian Roubles</i>			
<b>Financial assets</b>			
Cash and cash equivalents			
- cash on hand	1 249 651	-	1 249 651
- cash balances with the CBRF (other than mandatory reserve deposits)	11 663 404	-	11 663 404
- correspondent accounts and deposits with maturity less than one month in banks	702 640	-	702 640
Trading securities			
- Debt securities	-	6 645 066	6 645 066
- Shares	-	88 158	88 158
Repurchase receivable	-	152 573	152 573
Derivative financial instruments	-	170 404	170 404
Due from other banks	2 864 625		2 864 625
Loans and advances to customers			
- Loans to corporates	129 082 373	-	129 082 373
- Lending for food interventions	4 490 331	-	4 490 331
- Reverse repo agreements	797 386	-	797 386
- Investments in agricultural cooperatives	396 935	-	396 935
- Loans to individuals	21 098 218	-	21 098 218
Other financial assets	91 081	-	91 081
<b>TOTAL FINANCIAL ASSETS</b>	<b>172 436 644</b>	<b>7 056 201</b>	<b>179 492 845</b>
<b>NON-FINANCIAL ASSETS</b>			<b>5 087 782</b>
<b>TOTAL ASSETS</b>	<b>172 436 644</b>	<b>7 056 201</b>	<b>184 580 627</b>

### 35 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, excluding treasury shares.

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

<i>In thousands of Russian Roubles</i>	2007	2006
Profit attributable to ordinary shareholders	4 353 671	853 045
Profit for the year (all allocated to ordinary shareholders)	4 353 671	853 045
Weighted average number of ordinary shares in issue	20 946	13 453
<b>Basic and diluted earnings per ordinary share</b>	<b>208</b>	<b>63</b>

### 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. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note1). The outstanding balances with related parties were as follows:

<i>In thousands of Russian Roubles</i>	2007	2006
<b>Cash and cash equivalents</b>		
Cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	11 663 404
Mandatory cash balances with the Central Bank of the Russian Federation	2 441 967	1 717 423
Nostro accounts and placements with state-controlled banks with original maturities of less than one months (contractual interest rate: 2%-11% p.a. (2006: 1%-9% p.a.))	3 875 712	206 952
<b>Trading securities and repurchase receivable (contractual interest rate: 6%-10% p.a. (2006: 6%-17% p.a.))</b>		
Federal loan bonds (OFZ)	3 080 494	1 069 928
Municipal bonds	1 106 034	765 238
Corporate Eurobonds	2 981 346	408 812
Corporate shares	111 877	85 173
Promissory notes of the state-controlled banks	-	18 765
<b>Securities available for sale (contractual interest rate: 7%-9% p.a.)</b>		
Municipal Eurobonds	1 001 500	-
Corporate Eurobonds	102 115	-
<b>Loans and advances to customers</b>		
State-controlled companies (contractual interest rate: 7%-18% p.a. (2006: 7%-22% p.a.))	9 507 102	8 701 696
Key management and their family members (contractual interest rate: 5% p.a. (2006: 5%-11% p.a.))	5 876	5 993
<b>Provision for loan impairment at the year end</b>		
State-controlled companies	(93 414)	(92 563)

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**36 Related Party Transactions (Continued)**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Current income tax prepayment</b>	51 518	303 052
<b>Due to other banks</b>		
Current term placements (contractual interest rate: 1%-9% p.a. (2006: 1%-11% p.a.))	3 009 247	714 194
<b>Term deposits and current/settlement accounts</b>		
State-controlled companies (contractual interest rate for term deposits: 5%-9% p.a. for both years)	11 235 285	4 525 505
Key management and their family members (contractual interest rate for term deposits: for term deposits 3%-11% p.a. for both years)	184 299	106 173
<b>Current income tax liability</b>	0	3 190
<b>Revaluation reserve for available for sale securities</b>	(1 275)	-
<b>Credit related commitments</b>		
Guarantees issued	37 096	11 270
Letters of credit	-	99 571
Undrawn credit lines (without commitments to extend credit, which are contingent upon customer's maintaining specific credit standards)	30 000	72 718

The income and expense items with related parties were as follows:

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Interest income on cash and cash equivalents</b>		
The Central Bank of the Russian Federation	49 877	7 631
Transactions with state-controlled banks, including placements with original maturities of less than one months	75 441	26 600
<b>Interest income on trading securities</b>		
Government securities	225 038	145 403
State-controlled companies	120 176	44 893
<b>Results from operations with trading securities</b>		
Government securities	(41 880)	(19 999)
Securities of state-controlled companies	(17 703)	14 215
<b>Interest income on available for sale securities</b>		
Government securities	1 000	-
State-controlled companies	407	-
<b>Interest income on loans and advances to customers</b>		
State-controlled companies	944 859	706 786
Key management and their family members	329	357
<b>Provision for loan impairment on loans and advances to customers</b>		
State-controlled companies	(851)	(29 519)

**36 Related Party Transactions (Continued)**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
<b>Interest expense on due to other banks</b>		
The Central Bank of the Russian Federation	-	(2 619)
Transactions with other state-controlled banks	(65 479)	(45 572)
<b>Interest expense on subordinated debts</b>		
State-controlled companies	-	(1 757)
<b>Interest expense on customer accounts</b>		
State-controlled companies	(202 430)	(108 374)
Key management and their family members	(13 556)	(6 997)
Agency commission income from the Ministry of Finance of the Russian Federation for debt collection services	17 797	25 424
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project "Development of the Agro-Industrial Sector"	8 468	127 118
Expenses relating to participation in the project "Development of the Agro-Industrial Sector" net of taxes and staff costs	(7 301)	(94 937)
Other income (on guarantees and letters of credit issued)	1 538	384
Current income tax expense	(904 524)	(400 589)

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

<i>In thousands of Russian Roubles</i>	<b>Amounts lent to related parties during the year</b>	<b>Amounts repaid by related parties during the year</b>
<b>Cash and cash equivalents</b>		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 826 662 019	1 818 639 944
Nostro accounts and placements with state-controlled banks with original maturities less than one months	243 361 620	239 692 860
Mandatory cash balances with the Central Bank of the Russian Federation	1 933 427	1 208 883
<b>Trading securities and repurchase receivable</b>		
Government securities	29 912 003	27 560 641
State-controlled companies	12 730 441	10 149 968
<b>Securities available for sale</b>		
Government securities	1 001 500	-
State-controlled companies	102 115	-
<b>Loans and advances to customers</b>		
State-controlled companies	7 099 927	6 294 521
Key management and their family members	3 868	3 985
<b>Due to other banks</b>		
Current term placements from state-controlled banks	64 260 934	61 965 881
Current placements from CBRF	36 112	36 112
<b>Customer accounts</b>		
State-controlled companies	108 854 662	102 144 882
Key management and their family members	367 028	288 902

**36 Related Party Transactions (Continued)**

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

<i>In thousands of Russian Roubles</i>	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
<b>Cash and cash equivalents</b>		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 072 313 259	1 063 339 161
Nostro accounts and placements with state-controlled banks with original maturity less than one months	141 273 233	141 075 766
Mandatory cash balances with the Central Bank of the Russian Federation	1 309 024	76 315
<b>Trading securities and repurchase receivable</b>		
Government securities	11 840 249	11 327 185
State-controlled companies	4 435 242	4 168 776
<b>Due from other banks</b>		
Current term placements with state-controlled banks	100 000	100 000
<b>Loans and advances to customers</b>		
State-controlled companies	8 760 938	4 768 423
Key management and their family members	808	1 535
<b>Due to other banks</b>		
Current term placements from state-controlled banks	62 106 751	62 328 032
Current term placements from the CBRF	67 051	67 051
<b>Customer accounts</b>		
State-controlled companies	58 413 952	56 241 678
Key management and their family members	182 521	109 613

In 2007, the total remuneration of the members of the Management Board was RR 168 715 thousand (2006: RR 96 220 thousand).

<i>In thousands of Russian Roubles</i>	2007		2006	
	Expense	Accrued liability	Expense	Accrued liability
<b>Short-term benefits:</b>				
Salary, social security costs and short-term bonuses included in salary	152 629	9 218	85 513	6 671
<b>Post-employment benefits:</b>				
- Defined contribution retirement scheme	6 300	-	3 520	-
- State pension costs	568	-	516	-
<b>Total</b>	<b>159 497</b>	<b>9 218</b>	<b>89 549</b>	<b>6 671</b>

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

### 37 Principal Consolidated Subsidiary and Special Purpose Entity

As at 31 December 2007, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership	Country of incorporation
<b>Subsidiary</b>				
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99,47%	99,47%	Russia
<b>Special purpose entity</b>				
RSHB Capital S.A.	Eurobond issue	-	-	Luxembourg

RSHB Capital S.A. was registered in Luxembourg in 2005. The Company is owned by the foundations established under the laws of the Netherlands and has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to the Note 18 and 21).

### 38 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 ensure 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% in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

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

<i>In thousands of Russian Roubles</i>	2007	2006
Net assets under Russian legislation	31 179 151	22 160 537
Revaluation reserve	2 009 546	-
Subordinated debts	17 182 340	10 679 589
Other	(181 843)	(5 000)
<b>Total regulatory capital</b>	<b>50 189 194</b>	<b>32 835 126</b>

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:



**38 Management of Capital (Continued)**

<i>In thousands of Russian Roubles</i>	<b>2007</b>	<b>2006</b>
Share capital	28 477 833	21 620 833
Retained earnings	4 435 587	308 366
Total tier 1 capital	32 913 420	21 929 199
Revaluation reserves	909 493	-
Subordinated loan	16 456 710	10 964 600
Total tier 2 capital	17 366 203	10 964 600
<b>Total capital</b>	<b>50 279 623</b>	<b>32 893 799</b>

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Bank of Russia and loan covenants.

**39 Subsequent Events**

In February 2008, the Bank issued domestic bonds denominated in Russian Roubles in the amount of RR 5 000 000 thousand, maturing in February 2018 with semi-annual payment of coupon income at 8.75% p.a.

In April 2008, the Group issued Eurobonds denominated in Swiss Francs in the total amount of CHF 150 000 thousand. These borrowings mature in 4 years and have coupon rate of 6,263% p.a. payable annually.

In April 2008 the Group's share capital was increased in amount of RR 2 000 000 thousand.