# Bank Petrocommerce 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 Board of Directors of Bank Petrocommerce:

1 We have audited the accompanying consolidated financial statements of Bank Petrocommerce 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 Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material 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

19 June 2008
Moscow, Russian Federation

| *In thousands of Russian Roubles* | Note | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 27 142 574 | 16 319 839 |
| Mandatory cash balances with central banks | | 2 465 568 | 2 243 064 |
| Trading securities | 8 | 14 676 220 | 14 450 761 |
| Due from other banks | 9 | 1 277 299 | 373 659 |
| Loans and advances to customers | 10 | 135 895 710 | 108 948 841 |
| Investment securities available for sale | 11 | 1 780 827 | 1 032 404 |
| Repurchase receivable | 12 | 2 062 174 | 1 230 240 |
| Prepaid income tax | | 249 380 | 322 783 |
| Deferred income tax asset | 26 | 6 538 | 15 329 |
| Premises and equipment | 13 | 2 851 213 | 2 638 913 |
| Other assets | 14 | 1 338 318 | 716 799 |
| **TOTAL ASSETS** | | **189 745 821** | **148 292 632** |
| **LIABILITIES** | | | |
| Due to other banks | 15 | 15 965 432 | 13 801 709 |
| Customer accounts | 16 | 113 359 765 | 82 596 442 |
| Debt securities in issue | 17 | 15 908 771 | 11 978 734 |
| Other borrowed funds | 18 | 19 900 489 | 19 075 731 |
| Current income tax liability | | 80 750 | 55 154 |
| Deferred income tax liability | 26 | 129 814 | 113 949 |
| Other liabilities | 19 | 1 685 566 | 917 916 |
| Subordinated debt | 20 | 3 745 136 | 4 002 016 |
| **TOTAL LIABILITIES** | | **170 775 723** | **132 541 651** |
| **EQUITY** | | | |
| Share capital | 21 | 6 752 558 | 6 752 558 |
| Fair value reserve for investment securities available for sale | | (23 253) | (17 641) |
| Retained earnings | 22 | 12 065 205 | 8 893 534 |
| **Net assets attributable to the Bank's equity holders** | | **18 794 510** | **15 628 451** |
| **Minority interest** | | **175 588** | **122 530** |
| **TOTAL EQUITY** | | **18 970 098** | **15 750 981** |
| **TOTAL LIABILITIES AND EQUITY** | | **189 745 821** | **148 292 632** |

Approved for issue by the Executive Board and signed on its behalf on 19 June 2008.

Nikitenko V.N.
President

Funtova E.V.
Chief Accountant

The notes set out on pages 5 to 67 form an integral part of these consolidated financial statements.

| *In thousands of Russian Roubles* | Note | 2007 | 2006 |
|---|---|---|---|
| Interest income | 23 | 15 950 564 | 10 065 405 |
| Interest expense | 23 | (8 211 779) | (4 812 317) |
| **Net interest income** | | **7 738 785** | **5 253 088** |
| Provision for loan impairment | 9, 10 | (246 930) | (1 207 601) |
| **Net interest income after provision for loan impairment** | | **7 491 855** | **4 045 487** |
| Fee and commission income | 24 | 2 226 257 | 1 849 146 |
| Fee and commission expense | 24 | (478 587) | (293 153) |
| (Losses net of gains)/gains less losses from trading securities | | (206 298) | 2 944 538 |
| Gains less losses from trading in foreign currencies | | 545 069 | 398 939 |
| (Losses net of gains)/gains less losses from operations with financial derivatives | | (118 594) | 212 |
| Foreign exchange translation losses net of gains | | (278 091) | (16 652) |
| (Losses net of gains)/gains less losses arising from investment securities available for sale | | (1 281) | 1 108 |
| Other operating income | | 199 271 | 156 131 |
| Administrative and other operating expenses | 25 | (4 972 116) | (3 985 509) |
| Share based compensation | 30 | (418 064) | - |
| **Profit before tax** | | **3 989 421** | **5 100 247** |
| Income tax expense | 26 | (1 172 636) | (1 260 682) |
| **Profit for the year** | | **2 816 785** | **3 839 565** |
| **Profit attributable to** | | | |
| Equity holders of the Bank | | 2 761 435 | 3 793 238 |
| Minority interest | | 55 350 | 46 327 |
| **Profit for the year** | | **2 816 785** | **3 839 565** |

| *In thousands of Russian Roubles* | Note | Attributable to equity holders of the Bank: Share capital | Fair value reserve for investment securities available for sale | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2006** | | **6 752 558** | **(9 691)** | **5 132 509** | **11 875 376** | **79 910** | **11 955 286** |
| Investment securities available for sale: | | | | | | | |
| - Fair value losses net of gains | | - | (10 287) | - | (10 287) | (75) | (10 362) |
| - Disposals | | - | (1 200) | - | (1 200) | 92 | (1 108) |
| Income tax recorded in equity | 26 | - | 2 463 | - | 2 463 | 98 | 2 561 |
| Foreign currency translation gains less losses/(losses net of gains) | | - | 1 074 | (32 213) | (31 139) | (3 822) | (34 961) |
| Net loss recognised directly in equity | | - | (7 950) | (32 213) | (40 163) | (3 707) | (43 870) |
| Profit for the year | | - | - | 3 793 238 | 3 793 238 | 46 327 | 3 839 565 |
| **Total (expense)/income for 2006** | | **-** | **(7 950)** | **3 761 025** | **3 753 075** | **42 620** | **3 795 695** |
| **Balance at 31 December 2006** | | **6 752 558** | **(17 641)** | **8 893 534** | **15 628 451** | **122 530** | **15 750 981** |
| Investment securities available for sale: | | | | | | | |
| - Fair value losses net of gains | | - | (9 849) | - | (9 849) | (358) | (10 207) |
| - Disposals | | - | 1 231 | - | 1 231 | 50 | 1 281 |
| Income tax recorded in equity | 26 | - | 1 757 | - | 1 757 | 59 | 1 816 |
| Foreign currency translation gains less losses/(losses net of gains) | | - | 1 249 | (7 828) | (6 579) | (2 043) | (8 622) |
| Share based compensation | 30 | - | - | 418 064 | 418 064 | - | 418 064 |
| Net gain recognised directly in equity | | - | (5 612) | 410 236 | 404 624 | (2 292) | 402 332 |
| Profit for the year | | - | - | 2 761 435 | 2 761 435 | 55 350 | 2 816 785 |
| **Total (expense)/income for 2007** | | **-** | **(5 612)** | **3 171 671** | **3 166 059** | **53 058** | **3 219 117** |
| **Balance at 31 December 2007** | | **6 752 558** | **(23 253)** | **12 065 205** | **18 794 510** | **175 588** | **18 970 098** |

The notes set out on pages 5 to 67 form an integral part of these consolidated financial statements.

| *In thousands of Russian Roubles* | Note | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 15 486 908 | 9 573 397 |
| Interest paid | | (8 207 413) | (3 774 062) |
| Income received from trading in trading securities | | 1 024 226 | 3 674 127 |
| Income received from trading in foreign currencies | | 545 069 | 398 939 |
| (Expenses paid)/income received from financial derivatives | | (114 411) | 6 004 |
| Fees and commissions received | | 2 133 727 | 1 793 625 |
| Fees and commissions paid | | (477 834) | (293 028) |
| Other operating income received | | 77 652 | 115 844 |
| Administrative and other operating expenses paid | | (4 475 338) | (3 651 760) |
| Income tax paid | | (1 047 165) | (1 709 842) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **4 945 421** | **6 133 244** |
| **Changes in operating assets and liabilities** | | | |
| Net increase in mandatory cash balances with central banks | | (225 259) | (557 890) |
| Net (increase)/decrease in trading securities | | (1 346 810) | 1 823 586 |
| Net increase in due from other banks | | (959 437) | (180 914) |
| Net increase in loans and advances to customers | | (29 308 650) | (59 231 879) |
| Net increase in repurchase receivable | | (971 650) | (984 111) |
| Net increase in other assets | | (393 564) | (141 657) |
| Net increase in due to other banks | | 2 489 209 | 6 944 150 |
| Net increase in customer accounts | | 31 085 952 | 24 506 806 |
| Net increase in debt securities in issue | | 3 992 160 | 3 864 775 |
| Net increase in other liabilities | | 566 805 | 383 050 |
| **Net cash from/(used in) operating activities** | | **9 874 177** | **(17 440 840)** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities available for sale | | (4 297 848) | (2 018 128) |
| Proceeds from disposal of investment securities available for sale | | 3 572 691 | 2 390 781 |
| Acquisition of premises and equipment | 13 | (673 880) | (694 945) |
| Proceeds from disposal of premises and equipment | | 96 958 | 17 564 |
| Dividend income received | | 119 966 | 38 165 |
| **Net cash used in investing activities** | | **(1 182 113)** | **(266 563)** |
| **Cash flows from financing activities** | | | |
| Proceeds from other borrowed funds | | 6 792 354 | 17 246 518 |
| Repayment of other borrowed funds | | (4 424 916) | (1 496 818) |
| Proceeds from subordinated debt | | - | 4 058 409 |
| Dividends paid | 27 | (2) | (587) |
| **Net cash from financing activities** | | **2 367 436** | **19 807 522** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(244 522)** | **(132 774)** |
| **Accrued interest income on cash and cash equivalents** | | **7 757** | **1 639** |
| **Net increase in cash and cash equivalents** | | **10 822 735** | **1 968 984** |
| Cash and cash equivalents at the beginning of the year | | 16 319 839 | 14 350 855 |
| **Cash and cash equivalents at the end of the year** | 7 | **27 142 574** | **16 319 839** |

## 1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for OAO Bank Petrocommerce (the "Bank") and its subsidiaries (together referred to as the "Group" or "Bank Petrocommerce Group").

The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBRF"), legislation of the Russian Federation and that of countries in which the Group subsidiaries are registered.

OAO Bank Petrocommerce is an open joint-stock commercial bank owned by shareholders whose liability is limited. The Bank was established in the Russian Federation as a partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a partnership to an open joint stock company. The principal activity of the Bank includes deposit taking and lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank's operations are conducted in both Russian and international markets. The Bank's activities are regulated by the Central Bank of the Russian Federation.

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's office is registered at the following address: Petrovka 24, Moscow, 127051, Russia. At 31 December 2007 the Bank had 18 branches (2006: 18 branches) in the Russian Federation. The average number of the Bank's employees during the year was 2 636 (2006: 2 375).

The main shareholder of the Bank is IFD Kapital Group. It owns 87.94% of voting shares (439 694 599 ordinary shares). IFD Kapital Group is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services, administration of pension funds and the provision of insurance services within the Russian Federation. Also refer to Note 21.

The main subsidiaries of Bank Petrocommerce Group are the following subsidiaries: OAO Komi Regional Bank Ukhtabank, ZAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and Petrocommerce Invest S.A. Also refer to Note 34.

Below is the description of the main activity of the principal subsidiaries.

***Joined-Stock Company Komi Regional Bank Ukhtabank*** (hereinafter, "Ukhtabank") is a commercial bank owned by shareholders whose liability is limited. The Bank's principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Oktyabrskaya str., 14, Komi Republic, Ukhta, 169300, Russia. As at 31 December 2007 the Bank had six branches within the Russian Federation (2006: six branches). The average number of the Ukhtabank's employees during the year was 543 (2006: 544). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.

***ZAO Bank Petrocommerce-Ukraine*** (hereinafter, "Petrocommerce-Ukraine") was registered on 26 September 1996 by the National Bank of Ukraine as a joint-stock company under the name Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Petrocommerce-Ukraine. The current banking licence #108-1 was received by Petrocommerce-Ukraine on 9 April 2002. Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. Petrocommerce-Ukraine's head office is located in Kiev. As at 31 December 2007 Petrocommerce-Ukraine had four branches in Ukraine (2006: four branches). The average number of the Petrocommerce-Ukraine's employees during the year was 539 (2006: 510).

## 1 Introduction (Continued)

***Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie,*** an open joint-stock company (hereinafter, "Stavropolpromstroybank"), was created in December 1991 as the Commercial Bank Stavropolie as a result of restructuring of commercial bank "Stavropolye" previously founded on 26 December 1990. In March 1996 the bank changed its legal form and became an open joined-stock company. In May 2002, Stavropolpromstroibank was acquired by the Group. Stavropolpromstroybank has banking licence #1288. Stavropolpromstroibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroibank's head office is located in Stavropol. As at 31 December 2007 Stavropolpromstroibank had seven branches within the Russian Federation (2006: seven branches). The average number of the Stavropolpromstroibank's employees during the year was 706 (2006: 609).

***Commercial Bank Unibank S.A.*** (hereinafter, "Unibank") was created in the Republic of Moldova in August 1992. In December 2002 it became a subsidiary of the Group. Unibank has a type "B" licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. As at 31 December 2007 Unibank had five branches in the Republic of Moldova (2006: five branches). The average number of the Unibank's employees during the year was 242 (2006: 247).

***Petrocommerce Invest S.A.*** was founded in February 2006. The country of incorporation is Luxembourg. The registration number is B114800. Main activity of the company is attraction of medium- and long-term funds on international financial markets for the benefit of the Group.

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

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, lending, deposit taking, guarantees, trade finance, securities and foreign currency transactions. At 31 December 2007, a substantial portion of the Group's liabilities (26% of total liabilities) (2006: 14% of total liabilities) are due to related parties. Refer to Note 33.

## 2 Operating Environment of the Group

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 changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. The operating environment in the Ukraine and the Republic of Moldova, where the Group's subsidiaries operate, is broadly comparable to that of the Russian Federation described above.

***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. Such circumstances may affect the ability to refinance its existing borrowings, customer accounts and other liabilities, and also may affect the fair value of loans and advances. In accordance with IFRS the decreasing of the fair value of the asset below its amortised cost resulted from increasing of the basis interest rate is not neceserily indicates the impairment. 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") under the historical cost convention, as modified by revaluation of trading securities, investment securities available for sale, and financial derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies' law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS. 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.

***Restatement of interim condensed consolidated financial information for six months ended 30 June 2007.*** During the reporting period the Group's management performed a detailed review of the Group's IFRS interim condensed consolidated financial information for the six months ended 30 June 2007, and the Group's accounting policies. This review necessitated adjustments to the IFRS interim condensed consolidated financial information for the six months ended 30 June 2007, as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The nature and effect of the adjustments are detailed below.

During the first six months of 2007 IFD Kapital Group sold 4.130% shares of the Bank to a company acting in the benefit of the President of the Bank, at nominal value. Also 0.128% shares of the Bank have been purchased from minorities. As a result, the share capital of the Bank owned by this company increased up to 7.271%. Finalisation of legal formalities of transferring the legal ownership of the above mentioned company to the President of the Bank is planned to happen by mid 2009. For the purpose of IFRS financial statements prepared in accordance with IFRS 2 "Share-based Payment" requirements and the substance over form argument, the management believes this transaction took place during the first half of 2007. However, the Group did not account for this transaction in its IFRS interim condensed consolidated financial information for the six months ended 30 June 2007 as a share-based transaction based on IFRS 2 "Share-based Payment". The Group will adjust its financial information considering the impact of accounting for the transaction in accordance with IFRS 2 "Share-based Payment". This share-based payment adjustment required a corresponding restatement of interim consolidated income statement for the six months ended 30 June 2007. There is no effect on retained earnings and total equity of the Group for the period of the six months ended 30 June 2007, as the consolidated income statement was adjusted in correspondence with the consolidated statement of equity. Refer to Note 30.

The effect of restatement on the interim consolidated income statement for six months ended 30 June 2007 is as follows:

| *In thousands of Russian Roubles* | |
|---|---|
| **Net profit for the six month ended 30 June 2007 (as previously reported)** | **1 080 595** |
| Effect of accounting of the share-based payment (Note 30) | (418 064) |
| **Net profit for the six month ended 30 June 2007 (restated amount)** | **662 531** |

The next interim financial statements of the Group for the six months ended 30 June 2008 will have a full disclosure of the adjustment described above as well as a restatement of the corresponding information for the six months ended 30 June 2007 in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

***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. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

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

## 3 Summary of Significant Accounting Policies (Continued)

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

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.

Foreign currency translation gains less losses/(losses net of gains) in the consolidated statement of changes in equity include the result of net assets revaluation arising on the consolidation of the Group's subsidiaries whose functional currency differs from the Group's presentation currency (Russian Rouble). The cumulative balance of currency translation differences recorded in equity at 31 December 2007 amounted to a loss of RR 64 505 thousand (2006: RR 54 634 thousand).

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. These measurement terms are presented below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the 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 arms 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.

## 3 Summary of Significant Accounting Policies (Continued)

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the 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 and derivatives; and recognised in equity for assets classified as available for sale.

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Mandatory cash balances with central banks.*** Mandatory cash balances with the CBRF and other central banks are carried at amortised cost and represent non-interest bearing mandatory reserve deposits in central banks which are not available to finance the Group's day to day operations. Therefore, they 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, i.e. within twelve months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

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

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

***Loans and advances to customers.*** Loans and advances to customers, including loans provided under factoring agreements, 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.

If, as a result of revised terms regarding impaired financial assets, such revised terms considerably differ from the previous ones, the new asset is initially recorded at its fair value.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the 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 the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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

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

***Credit related commitments.*** The 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.

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

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

***Sale and repurchase agreements.*** Sale and repurchase agreements ("repo agreements"), which effectively ensure the creditor's profitability to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivable. The corresponding liabilities are presented within due to other banks or customer accounts.

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

***Promissory notes purchased.*** Promissory notes purchased are included in trading securities, in due from other banks, in loans and advances to customers or in investment securities available for sale, depending on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

***Derecognition of financial assets.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred substantially all the risks and rewards of ownership of the assets while (i) the Group has transferred substantially all risks and rewards of ownership, or (ii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained 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 as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

## 3 Summary of Significant Accounting Policies (Continued)

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 the carrying value is charged in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

***Depreciation.*** 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:

| | |
|---|---|
| Buildings | 2% per annum; and |
| Office and computer equipment | 20-33% per annum. |

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.

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

Leases embedded in other contracts is presented separately if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

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

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

***Debt securities in issue.*** Debt securities in issue include bonds, promissory notes, deposit and saving certificates issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the 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 early retirement of debt.

***Other borrowed funds.*** Other borrowed funds include medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group purchases its own other borrowed funds, 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 or losses arising from early retirement of debt.

***Subordinated debt.*** Subordinated debt is a non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation.

***Derivative financial instruments.*** Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as either gains/losses arising from operations with derivatives. The Group does not apply hedge accounting.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with applicable 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.

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

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

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

***Preference shares.*** Preference shares are classified as equity and are not redeemable.

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

***Income and expense recognition.*** Interest income and expense are recorded in the 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.

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

***Foreign currency translation.*** The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's 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 profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

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

***Fiduciary assets and trust activities.*** 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 30. For the purposes of disclosure, fiduciary and trust 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.

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

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these 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 and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

***Share based payments to key management.*** For equity-settled share-based payment transactions with key management the Group, measures the services received and the corresponding increase in equity, directly, at the fair value of the services received. Because of the difficulty of measuring directly the fair value of the services received by the Group from key management, the Group measures the fair value of the services received by reference to the fair value of the equity instruments granted to key management.

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

| *In thousands of Russian Roubles* | 2006 |
|---|---|
| **Balance sheet** | |
| **Increase in** | |
| Prepaid income tax | 322 783 |
| Current tax liability | 55 154 |
| **Decrease in** | |
| Other assets | 322 783 |
| Other liabilities | 55 154 |

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

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported 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 of investment securities available for sale.*** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer a loss of RR 30 404 thousand (2006: RR 25 592 thousand), which would be recorded in the consolidated income statement. This loss is currently recorded in the consolidated statement of changes in equity under IAS 39.

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

***Fair value of derivatives.*** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. 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.

***Special purpose entities.*** Judgement is required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. In assessing ability of the Group to control the special purpose entities management takes into consideration the factors presented in SIC 12 "Consolidation - Special Purpose Entities", such as the SPE conducting activities on behalf of the Group and whether the Group controls a majority of the benefits of the SPE's operations. Refer to Note 34.

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

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

## 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 and 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 éxposures 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 will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces 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 introduces disclosures about level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated 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 consolidated financial statements.

## 6 New Accounting Pronouncements

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

***IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).*** The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Currently, the management evaluates the effect of this Standard on disclosing information on segments in the Group's consolidated financial statements.

***IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).*** The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of the immediate recognition as expenses the borrowing costs related 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. Currently, the management evaluates the effect of this Standard on disclosing information in the Group's consolidated financial statements.

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

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

***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 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 March 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 consolidated financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Cash on hand | 5 468 688 | 3 873 287 |
| Balances with central banks (other than mandatory reserve deposits) | 8 980 778 | 6 600 519 |
| Correspondent accounts and overnight placements with other banks | | |
| - Russian Federation | 635 221 | 968 910 |
| - Other countries | 1 383 265 | 1 376 000 |
| Placements with other banks with original maturities of less than three months | 5 122 201 | 1 784 990 |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | 4 726 381 | 802 775 |
| Settlement accounts with trading systems | 826 040 | 913 358 |
| **Total cash and cash equivalents** | **27 142 574** | **16 319 839** |

At 31 December 2007 cash and cash equivalents of RR 4 726 381 thousand (2006: RR 802 775 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 5 565 887 thousand (2006: RR 1 006 728 thousand).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 8 Trading Securities

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Federal loan bonds (OFZ bonds) | 6 681 310 | 5 643 697 |
| Corporate bonds | 4 863 577 | 1 395 267 |
| Municipal bonds and bonds of the Russian Federation's regions | 1 073 639 | 219 878 |
| US Treasury Strip securities | 589 477 | 676 846 |
| Corporate Eurobonds | 261 613 | 535 135 |
| Bonds of the Bank of Russia | - | 283 795 |
| Promissory notes | - | 250 362 |
| Russian Federation Eurobonds | - | 150 500 |
| Credit-linked notes | - | 51 438 |
| **Total debt securities** | **13 469 616** | **9 206 918** |
| Quoted corporate shares | 1 206 604 | 5 175 681 |
| Global depository receipts | - | 68 162 |
| **Total equity securities** | **1 206 604** | **5 243 843** |
| **Total trading securities** | **14 676 220** | **14 450 761** |

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate bonds are debt securities denominated in Russian Roubles, issued by large Russian companies in financial, energy, oil and gas, banking and other sectors.

Municipal bonds and bonds of Russian Federation's regions represent debt securities denominated in Russian Roubles.

## 8 Trading Securities (Continued)

US Treasury Strip securities represent zero-coupon debt securities issued in the United States of America under Separate Trading of Registered Interest and Principal securities (STRIP) program, and are freely tradable internationally.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally.

Corporate shares mainly include shares of major Russian oil and gas, metallurgical, chemical, machine-building and other sectors. These shares are freely tradable in Russia.

The analysis of the Group's trading debt securities at 31 December 2007 is set out below:

| | Maturity | | Annual coupon rate | | Annual yield to maturity | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Federal loan bonds (OFZ bonds) | April 2008 | November 2021 | 5.8 | 10.0 | 5.4 | 6.5 |
| Corporate bonds | September 2008 | November 2018 | 7.0 | 13.7 | 6.8 | 15.6 |
| Municipal bonds and bonds of the Russian Federation's regions | May 2010 | April 2014 | 7.8 | 12.5 | 7.0 | 9.8 |
| US Treasury Strip securities | May 2011 | February 2017 | - | - | 3.1 | 4.2 |
| Corporate Eurobonds | February 2009 | June 2022 | 6.7 | 8.9 | 7.2 | 9.3 |

The analysis of the Group's trading debt securities at 31 December 2006 is set out below:

| | Maturity | | Annual coupon rate | | Annual yield to maturity | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Federal loan bonds (OFZ bonds) | June 2007 | November 2021 | 6.0 | 10.0 | 5.7 | 6.5 |
| Corporate bonds | June 2008 | June 2018 | 5.5 | 11.0 | 6.9 | 9.7 |
| US Treasury Strip securities | February 2011 | February 2011 | - | - | 4.6 | 4.6 |
| Corporate Eurobonds | June 2007 | October 2010 | 8.0 | 10.5 | 6.6 | 13.2 |
| Bonds of the Bank of Russia | September 2009 | September 2009 | - | - | 4.8 | 4.8 |
| Promissory notes | January 2007 | July 2007 | - | - | 7.6 | 21.0 |
| Russian Federation Eurobonds | March 2030 | March 2030 | 5.0 | 5.0 | 5.9 | 5.9 |
| Municipal bonds and bonds of the Russian Federation's regions | December 2007 | June 2015 | 10.0 | 13.5 | 5.5 | 7.3 |
| Credit-linked notes | October 2014 | October 2014 | 9.6 | 9.6 | 5.2 | 5.2 |

Trading securities are carried at fair value which also reflects any credit risk of these securities. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor any impairment indices. As at 31 December 2007 and 31 December 2006, the Group holds no overdue nor impaired trading securities. For credit quality analysis also refer to Note 29.

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

At 31 December 2007, trading securities with a fair value of RR 2 573 796 thousand (2006: RR 2 485 872 thousand) were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2007, the Group had no deposits from the CBRF attracted within this credit limit (2006: nil). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 9 Due from Other Banks

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Term placements with other banks with original maturities of more than three months | 1 277 532 | 374 253 |
| Overdue placements with other banks | 12 450 | 13 473 |
| Less: Provision for impairment of due from other banks | (12 683) | (14 067) |
| **Total due from other banks** | **1 277 299** | **373 659** |

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Term placements with other banks with original maturities of more than three months | Overdue placements with other banks | Term placements with other banks with original maturities of more than three months | Overdue placements with other banks |
| **Provision for impairment of due from other banks at 1 January** | **594** | **13 473** | **880** | **7 090** |
| (Recovery of)/provision for impairment of due from other banks during the year | (317) | - | (214) | 6 948 |
| Effect of translation to presentation currency | (44) | (1 023) | (72) | (565) |
| **Provision for impairment of due from other banks at 31 December** | **233** | **12 450** | **594** | **13 473** |

The analysis of due from other banks by credit quality at 31 December 2007 and 31 December 2006 is set out below:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Term placements with other banks with original maturities of more than three months | Overdue placements with other banks | Term placements with other banks with original maturities of more than three months | Overdue placements with other banks |
| **Due from other banks (before provision for impairment)** | | | | |
| - Russian Federation banks | 1 030 940 | - | 11 | - |
| - OECD countries banks | - | - | 6 907 | - |
| - Non-OECD countries banks | 246 592 | 12 450 | 367 335 | 13 473 |
| **Total due from other banks (before provision for impairment)** | **1 277 532** | **12 450** | **374 253** | **13 473** |
| **Less: Provision for impairment** | **(233)** | **(12 450)** | **(594)** | **(13 473)** |
| **Total due from other banks** | **1 277 299** | **-** | **373 659** | **-** |

## 9 Due from Other Banks (Continued)

The overdue placements with other banks represent individually impaired placements with other banks past due more than one year.

As at 31 December 2007 term placements with other banks with original maturities of more than three months include a balance of RR 1 030 940 thousand (2006: nil) that represents a placement to a Russian bank collateralised by a real estate with a fair value of RR 1 655 641 thousand (2006: nil).

As at 31 December 2007, term placements with other banks totalling RR 246 087 thousand (2006: RR 353 416 thousand) were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 15 and 30.

The carrying value of each category of due from other banks approximates their fair value as at 31 December 2007 and 31 December 2006. At 31 December 2007, the estimated fair value of due from other banks was RR 1 277 299 thousand (2006: RR 373 659 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

## 10 Loans and Advances to Customers

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **Corporate entities** | | |
| Commercial loans | 100 008 626 | 83 515 576 |
| Reverse sale and repurchase agreements | 18 482 159 | 11 109 292 |
| Factoring | 10 256 269 | 10 949 842 |
| **Individuals** | | |
| Loans to individuals | 10 637 694 | 6 938 323 |
| Reverse sale and repurchase agreements | 151 129 | - |
| Less: Provision for loan impairment | (3 640 167) | (3 564 192) |
| **Total loans and advances to customers** | **135 895 710** | **108 948 841** |

At 31 December 2007, loans and advances to customers of RR 18 633 288 thousand (2006: RR 11 109 292 thousand) were effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RR 21 488 151 thousand (2006: RR 13 749 193 thousand).

Movements in the provision for loan impairment are as follows:

| | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| **Provision for loan impairment at 1 January 2007** | **3 263 695** | **-** | **109 440** | **191 057** | **-** | **3 564 192** |
| Provision/(recovery of provision) for loan impairment during the year | 71 378 | - | (10 549) | 186 418 | - | 247 247 |
| Loans and advances to customers written off during the year as uncollectible | (162 414) | - | - | (121) | - | (162 535) |
| Effect of translation to presentation currency | (8 000) | - | (268) | (469) | - | (8 737) |
| **Provision for loan impairment at 31 December 2007** | **3 164 659** | **-** | **98 623** | **376 885** | **-** | **3 640 167** |

## 10 Loans and Advances to Customers (Continued)

| *In thousands of Russian Roubles* | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| **Provision for loan impairment at 1 January 2006** | **2 261 717** | **-** | **41 937** | **116 925** | **-** | **2 420 579** |
| Provision for loan impairment during the year | 1 058 372 | - | 67 722 | 74 773 | - | 1 200 867 |
| Loans and advances to customers written off during the year as uncollectible | (44 653) | - | - | (31) | - | (44 684) |
| Effect of translation to presentation currency | (11 741) | - | (219) | (610) | - | (12 570) |
| **Provision for loan impairment at 31 December 2006** | **3 263 695** | **-** | **109 440** | **191 057** | **-** | **3 564 192** |

## 10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2007 is set out below:

| *In thousands of Russian Roubles* | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| *Current and not impaired loans* | | | | | | |
| - standard | 95 600 601 | 18 482 159 | 10 245 922 | 9 552 662 | 151 129 | 134 032 473 |
| - watch list | 1 451 884 | - | - | 531 073 | - | 1 982 957 |
| **Total current and not impaired loans** | **97 052 485** | **18 482 159** | **10 245 922** | **10 083 735** | **151 129** | **136 015 430** |
| *Past due but not impaired loans* | | | | | | |
| - less than 1 month overdue | 1 482 056 | - | 5 651 | 366 494 | - | 1 854 201 |
| **Total past due but not impaired loans** | **1 482 056** | **-** | **5 651** | **366 494** | **-** | **1 854 201** |
| *Individually impaired loans* | | | | | | |
| - current | 153 878 | - | - | 27 089 | - | 180 967 |
| - less than 1 month overdue | 3 430 | - | - | 103 | - | 3 533 |
| - 1 to 3 months overdue | 115 759 | - | - | 6 568 | - | 122 327 |
| - 3 to 6 months overdue | 110 941 | - | 4 696 | 9 857 | - | 125 494 |
| - 6 to 12 months overdue | 397 835 | - | - | 38 943 | - | 436 778 |
| - over 1 year overdue | 692 242 | - | - | 104 905 | - | 797 147 |
| **Total individually impaired loans** | **1 474 085** | **-** | **4 696** | **187 465** | **-** | **1 666 246** |
| **Total loans and advances to customers (before provision for impairment)** | **100 008 626** | **18 482 159** | **10 256 269** | **10 637 694** | **151 129** | **139 535 877** |
| **Less: Provision for loan impairment** | **(3 164 659)** | **-** | **(98 623)** | **(376 885)** | **-** | **(3 640 167)** |
| **Total loans and advances to customers** | **96 843 967** | **18 482 159** | **10 157 646** | **10 260 809** | **151 129** | **135 895 710** |

## 10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2006 is set out below:

| | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| *Current and not impaired loans* | | | | | | |
| - standard | 80 952 297 | 11 109 292 | 10 946 412 | 6 654 122 | - | 109 662 123 |
| - watch list | 1 112 536 | - | - | 124 647 | - | 1 237 183 |
| **Total current and not impaired loans** | **82 064 833** | **11 109 292** | **10 946 412** | **6 778 769** | **-** | **110 899 306** |
| *Past due but not impaired loans* | | | | | | |
| - less than 1 month overdue | 61 825 | - | - | 2 695 | - | 64 520 |
| **Total past due but not impaired loans** | **61 825** | **-** | **-** | **2 695** | **-** | **64 520** |
| *Individually impaired loans* | | | | | | |
| - current | 180 371 | - | - | 36 783 | - | 217 154 |
| - less than 1 month overdue | 41 651 | - | 3 430 | 2 911 | - | 47 992 |
| - 1 to 3 months overdue | 108 062 | - | - | 2 292 | - | 110 354 |
| - 3 to 6 months overdue | 84 703 | - | - | 12 500 | - | 97 203 |
| - 6 to 12 months overdue | 180 051 | - | - | 39 000 | - | 219 051 |
| - over 1 year overdue | 794 080 | - | - | 63 373 | - | 857 453 |
| **Total individually impaired loans** | **1 388 918** | **-** | **3 430** | **156 859** | **-** | **1 549 207** |
| **Total loans and advances to customers (before provision for impairment)** | **83 515 576** | **11 109 292** | **10 949 842** | **6 938 323** | **-** | **112 513 033** |
| **Less: Provision for loan impairment** | **(3 263 695)** | **-** | **(109 440)** | **(191 057)** | **-** | **(3 564 192)** |
| **Total loans and advances to customers** | **80 251 881** | **11 109 292** | **10 840 402** | **6 747 266** | **-** | **108 948 841** |

The watch list loans represent loans with credit risk higher than remote. The primary factors that the Group considers whether a loan is impaired are its overdue status, individual signs of impairment and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

## 10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans overdue, but not impaired and loans individually designated as impaired, at 31 December 2007 and 31 December 2006 was as follows:

| *In thousands of Russian Roubles* | Commercial loans | Loans to individuals | Total |
|---|---|---|---|
| **31 December 2007** | | | |
| *Fair value of collateral on past due but not impaired loans* | | | |
| - real estate | 2 454 630 | 405 942 | 2 860 572 |
| - equipment and motor vehicles | 246 829 | 7 956 | 254 785 |
| - other assets | 64 925 | 88 | 65 013 |
| *Fair value of loan collaterals individually designated as impaired* | | | |
| - financial claims to the Group and cash | 2 914 | - | 2 914 |
| - tradable securities | 235 224 | 503 | 235 727 |
| - real estate | 1 617 468 | 8 618 | 1 626 086 |
| - equipment and motor vehicles | 307 463 | 24 191 | 331 654 |
| - other assets | 1 306 936 | 376 | 1 307 312 |
| **Total** | **6 236 389** | **447 674** | **6 684 063** |

| *In thousands of Russian Roubles* | Commercial loans | Loans to individuals | Total |
|---|---|---|---|
| **31 December 2006** | | | |
| *Fair value of collateral on past due but not impaired loans* | | | |
| - real estate | 32 155 | 626 | 32 781 |
| - equipment and motor vehicles | 21 766 | 970 | 22 736 |
| - other assets | 49 926 | 54 | 49 980 |
| *Fair value of loan collaterals individually designated as impaired* | | | |
| - financial claims to the Group and cash | 2 633 | - | 2 633 |
| - tradable securities | 1 142 075 | - | 1 142 075 |
| - real estate | 1 003 276 | 1 805 | 1 005 081 |
| - equipment and motor vehicles | 808 011 | 20 277 | 828 288 |
| - other assets | 712 517 | 346 | 712 863 |
| **Total** | **3 772 359** | **24 078** | **3 796 437** |

In this classification, the financial claims to the Group and cash represent the most reliable security.

Fair value of collateral on loans individually assessed as impaired exceeds the amount of carrying value of these loans at 31 December 2007 and 31 December 2006 as in the event of default the collateral is likely to be sold with a discount to its fair value upon completion of all legally required procedures. Refer also to Note 29 for risk management policies applied by the Group in relation to fair value of collateral calculation.

## 10 Loans and Advances to Customers (Continued)

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

| *In thousands of Russian Roubles* | 2007 Amount | 2007 % | 2006 Amount | 2006 % |
|---|---|---|---|---|
| Trade | 28 195 320 | 20 | 27 853 213 | 25 |
| Manufacturing | 27 401 270 | 20 | 20 000 396 | 18 |
| Finance sector | 21 405 789 | 15 | 18 481 540 | 16 |
| Construction | 13 975 319 | 10 | 8 504 500 | 8 |
| Agriculture | 11 288 042 | 8 | 8 389 447 | 8 |
| Individuals | 10 788 823 | 8 | 6 938 323 | 6 |
| Transport | 8 313 536 | 6 | 7 032 455 | 6 |
| Food processing | 7 318 968 | 5 | 7 815 776 | 7 |
| Oil and energy | 5 693 641 | 4 | 5 028 895 | 4 |
| Other | 5 155 169 | 4 | 2 468 488 | 2 |
| **Total loans and advances to customers (before provision for impairment)** | **139 535 877** | **100** | **112 513 033** | **100** |

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2007 is set out below:

| | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| Unsecured loans | 9 351 847 | - | 10 256 269 | 1 639 271 | - | 21 247 387 |
| Loans collateralised by: | | | | | | |
| - financial claims to the Group and cash | 426 933 | - | - | 481 749 | - | 908 682 |
| - tradable securities | 2 771 934 | 18 482 159 | - | 51 018 | 151 129 | 21 456 240 |
| - real estate | 40 633 673 | - | - | 2 473 046 | - | 43 106 719 |
| - equipment and motor vehicles | 16 608 709 | - | - | 334 878 | - | 16 943 587 |
| - warranties and banking guarantees | 17 064 311 | - | - | 5 646 530 | - | 22 710 841 |
| - other assets | 13 151 219 | - | - | 11 202 | - | 13 162 421 |
| **Total loans and advances to customers** | **100 008 626** | **18 482 159** | **10 256 269** | **10 637 694** | **151 129** | **139 535 877** |

## 10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2006 is set out below:

| *In thousands of Russian Roubles* | Corporate entities | | | Individuals | | Total |
|---|---|---|---|---|---|---|
| | Commercial loans | Reverse sale and repurchase agreements | Factoring | Loans to individuals | Reverse sale and repurchase agreements | |
| Unsecured loans | 13 837 173 | - | 10 949 842 | 1 078 620 | - | 25 865 635 |
| Loans collateralised by: | | | | | | |
| - financial claims to the Group and cash | 452 528 | - | - | 416 072 | - | 868 600 |
| - tradable securities | 8 094 584 | 11 109 292 | - | 96 636 | - | 19 300 512 |
| - real estate | 25 498 886 | - | - | 878 357 | - | 26 377 243 |
| - equipment and motor vehicles | 11 114 980 | - | - | 256 382 | - | 11 371 362 |
| - warranties and banking guarantees | 10 861 003 | - | - | 4 137 930 | - | 14 998 933 |
| - other assets | 13 656 422 | - | - | 74 326 | - | 13 730 748 |
| **Total loans and advances to customers** | **83 515 576** | **11 109 292** | **10 949 842** | **6 938 323** | **-** | **112 513 033** |

Unsecured commercial loans represent mainly loans on which the collateral has not yet been registered with state bodies. On loans issued within factoring agreements the Group has the possibility of claims recourse from the debtor to the seller. Refer to Note 29. If there are several types of collateral, with the aggregate collateral value exceeding the amount of the respective loan, the amount of outstanding loans was presented in the following way: it was allocated to different types of collateral in the order of decreasing liquidity and reliability of collateral.

The carrying value of each class of loans and advances to customers approximates fair value as at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of loans and advances to customers was RR 140 921 002 thousand (2006: RR 108 948 841 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 11 Investment Securities Available for Sale

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Corporate bonds | 501 480 | 659 830 |
| Municipal bonds and bonds of the Russian Federation's regions | 233 483 | 125 947 |
| Promissory notes | 213 777 | 67 189 |
| State debt securities of non-OECD countries | 68 114 | 57 358 |
| Debt securities of central banks of non-OECD countries | 60 552 | 79 085 |
| Corporate Eurobonds | 2 564 | 2 827 |
| Vnesheconombank bonds (OVGVZ) | 2 227 | 2 331 |
| **Total debt securities** | **1 082 197** | **994 567** |
| Private equity fund investments | 656 898 | - |
| Quoted corporate shares | 23 259 | 19 393 |
| Unquoted corporate shares | 18 473 | 18 444 |
| **Total equity securities** | **698 630** | **37 837** |
| **Total investment securities available for sale** | **1 780 827** | **1 032 404** |

## 11 Investment Securities Available for Sale (Continued)

Corporate bonds represent debt securities issued by large companies and banks. Corporate bonds are freely tradable in the Russian Federation.

Municipal bonds and bonds of Russian Federation's regions represent interest bearing securities denominated in Russian Roubles. These bonds are tradable on the MICEX and other Russian stock exchanges.

Promissory notes represent interest-bearing securities issued by Russian banks.

State debt securities of non-OECD countries represent interest-bearing bonds issued by the Ministry of Finance of Moldova.

Debt securities of central banks of non-OECD countries represent zero-coupon bonds issued by the Bank of Moldova at a discount.

Private equity fund investments represent investments in a private equity fund which invests mainly in unlisted equity securities of companies from a wide range of industries in the Russian Federation and CIS. Private equity fund investments are carried at their estimated fair value.

The analysis of the Group's debt investment securities available for sale at 31 December 2007 is set out below:

| | **Maturity** | | **Annual coupon rate** | | **Annual yield to maturity** | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Corporate bonds | March 2008 | November 2012 | 7.7 | 16.0 | 7.5 | 18.7 |
| Municipal bonds and bonds of the Russian Federation's regions | June 2008 | April 2014 | 7.0 | 12.0 | 5.4 | 10.8 |
| Promissory notes | February 2008 | December 2008 | - | - | 7.9 | 9.4 |
| State debt securities of non-OECD countries | January 2008 | December 2009 | 12.7 | 17.2 | 10.0 | 16.1 |
| Debt securities of central banks of non-OECD countries | January 2008 | January 2008 | - | - | 13.9 | 14.3 |
| Corporate Eurobonds | October 2010 | October 2010 | 8.4 | 8.4 | 7.3 | 7.3 |
| Vnesheconombank bonds (OVGVZ) | May 2008 | May 2008 | 3.0 | 3.0 | 6.0 | 6.0 |

The analysis of the Group's debt investment securities available for sale at 31 December 2006 is set out below:

| | **Maturity** | | **Annual coupon rate** | | **Annual yield to maturity** | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Corporate bonds | February 2007 | September 2013 | 7.8 | 12.0 | 7.5 | 10.1 |
| Municipal bonds and bonds of the Russian Federation's regions | September 2007 | October 2011 | 7.8 | 12.0 | 6.9 | 8.3 |
| Debt securities of central banks of non-OECD countries | January 2007 | January 2007 | - | - | 14.6 | 15.5 |
| State debt securities of non-OECD countries | January 2007 | September 2008 | 10.0 | 11.7 | 3.1 | 16.5 |
| Promissory notes | Demand | April 2007 | - | - | 0.0 | 9.0 |
| Corporate Eurobonds | October 2010 | October 2010 | 8.4 | 8.4 | 6.7 | 6.7 |
| Vnesheconombank bonds (OVGVZ) | May 2008 | May 2008 | 3.0 | 3.0 | 5.7 | 5.7 |

For credit quality analysis also refer Note 29. Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 12 Repurchase Receivable

Repurchase receivable represents securities sold under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge.

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Federal loan bonds (OFZ bonds) | 1 735 762 | 613 176 |
| Corporate bonds | 326 412 | - |
| **Total debt securities** | **2 062 174** | **613 176** |
| Quoted corporate shares | - | 617 064 |
| **Total equity securities** | **-** | **617 064** |
| **Total repurchase receivable** | **2 062 174** | **1 230 240** |

The analysis of the Group's repurchase receivable at 31 December 2007 is set out below:

| | **Maturity** | | **Annual coupon rate** | | **Annual yield to maturity** | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Federal loan bonds (OFZ bonds) | April 2008 | August 2018 | 5.8 | 10.0 | 5.4 | 6.4 |
| Corporate bonds | December 2009 | June 2018 | 7.0 | 8.3 | 6.8 | 7.9 |

The analysis of the Group's repurchase receivable at 31 December 2006 is set out below:

| | **Maturity** | | **Annual coupon rate** | | **Annual yield to maturity** | |
|---|---|---|---|---|---|---|
| *In % p.a.* | from | to | from | to | from | to |
| Federal loan bonds (OFZ bonds) | April 2008 | August 2018 | 6.0 | 10.0 | 5.8 | 6.4 |

For credit quality analysis also refer Note 29. At 31 December 2007 due to other banks includes RR 1 254 745 thousand (2006: RR 685 918 thousand) received under repurchase agreements with securities at a fair value of RR 1 299 743 thousand (2006: RR 799 362 thousand). Refer to Notes 15 and 30.

At 31 December 2007 customer accounts include RR 747 193 thousand (2006: RR 429 928 thousand) received under repurchase agreements with securities at a fair value of RR 762 431 thousand (2006: RR 430 878 thousand). Refer to Notes 16 and 30.

As at 31 December 2007 the estimated fair value of repurchase receivable was RR 2 062 174 thousand (2006: RR 1 230 240 thousand).

Geographical, currency, maturity and interest rate analyses of repurchase receivable are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 13 Premises and Equipment

| *In thousands of Russian Roubles* | Premises | Office and computer equipment | Construction in progress | Total |
|---|---|---|---|---|
| **Carrying amount at 1 January 2006** | **1 274 274** | **764 933** | **266 547** | **2 305 754** |
| **Cost** | | | | |
| Opening balance | 1 395 208 | 1 423 057 | 266 547 | 3 084 812 |
| Additions | 20 874 | 241 300 | 432 771 | 694 945 |
| Transfers | 29 966 | 103 633 | (133 599) | - |
| Disposals | (8 466) | (49 330) | (24 102) | (81 898) |
| Effect of translation to presentation currency | (6 964) | (14 997) | (108) | (22 069) |
| **Closing balance** | **1 430 618** | **1 703 663** | **541 509** | **3 675 790** |
| **Accumulated depreciation** | | | | |
| Opening balance | 120 934 | 658 124 | - | 779 058 |
| Depreciation charge (Note 25) | 27 163 | 272 196 | - | 299 359 |
| Disposals | (1 748) | (26 926) | - | (28 674) |
| Effect of translation to presentation currency | (1 982) | (10 884) | - | (12 866) |
| **Closing balance** | **144 367** | **892 510** | - | **1 036 877** |
| **Carrying amount at 31 December 2006** | **1 286 251** | **811 153** | **541 509** | **2 638 913** |
| **Cost** | | | | |
| Opening balance | 1 430 618 | 1 703 663 | 541 509 | 3 675 790 |
| Additions | 111 361 | 398 630 | 163 889 | 673 880 |
| Transfers | 373 583 | 102 347 | (475 930) | - |
| Disposals | (86 753) | (72 319) | (254) | (159 326) |
| Effect of translation to presentation currency | (1 620) | (6 760) | 78 | (8 302) |
| **Closing balance** | **1 827 189** | **2 125 561** | **229 292** | **4 182 042** |
| **Accumulated depreciation** | | | | |
| Opening balance | 144 367 | 892 510 | - | 1 036 877 |
| Depreciation charge (Note 25) | 33 742 | 324 903 | - | 358 645 |
| Disposals | (8 653) | (49 581) | - | (58 234) |
| Effect of translation to presentation currency | (1 029) | (5 430) | - | (6 459) |
| **Closing balance** | **168 427** | **1 162 402** | - | **1 330 829** |
| **Carrying amount at 31 December 2007** | **1 658 762** | **963 159** | **229 292** | **2 851 213** |

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, assets are transferred to premises and equipment.

## 14 Other Assets

| In thousands of Russian Roubles | 2007 | 2006 |
|---|---|---|
| **Other financial assets** | | |
| Receivables on commissions | 283 049 | 104 024 |
| Settlements on plastic cards operations | 159 645 | 98 918 |
| Term deals settlements deposits | 57 806 | - |
| Derivatives | 46 194 | 113 |
| Cash transfers | 12 224 | 7 950 |
| Conversion deals settlements | 5 048 | 6 902 |
| Other financial assets | 33 547 | 1 194 |
| **Total other financial assets** | **597 513** | **219 101** |
| **Other non-financial assets** | | |
| Receivables and advance payments | 470 653 | 307 958 |
| Settlements on non-banking operations | 228 404 | 154 011 |
| Prepaid other taxes | 15 513 | 2 450 |
| Settlements on other operations | 26 235 | 33 279 |
| **Total other non-financial assets** | **740 805** | **497 698** |
| **Total other assets** | **1 338 318** | **716 799** |

Geographical, currency and maturity analyses of other assets are disclosed in Note 29.

## 15 Due to Other Banks

| In thousands of Russian Roubles | 2007 | 2006 |
|---|---|---|
| Correspondent accounts and overnight placements of other banks | 260 481 | 650 938 |
| Term deposits of other banks | 12 821 032 | 11 531 173 |
| Sale and repurchase agreements with other banks | 2 883 919 | 1 088 049 |
| Sale and repurchase agreements with the CBRF | - | 531 549 |
| **Total due to other banks** | **15 965 432** | **13 801 709** |

At 31 December 2007, the fair value of securities transferred to other banks under sale and repurchase agreements in the amount of RR 2 883 919 thousand (2006: RR 1 088 049 thousand), comprised RR 3 003 921 thousand (2006: RR 1 214 177 thousand). The Group purchased part of these securities with a fair value of RR 1 704 177 thousand (2006: RR 528 406 thousand) under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 1 299 744 thousand (2006: RR 685 771 thousand) are included in repurchase receivable. Refer to Notes 12 and 30.

At 31 December 2006, the fair value of securities transferred to the CBRF under sale and repurchase agreements in the amount of RR 531 549 thousand, comprised RR 545 350 thousand. The Group purchased part of these securities with a fair value of RR 431 759 thousand under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 113 591 thousand are included in repurchase receivable. Refer to Notes 12 and 30.

## 15 Due to Other Banks (Continued)

As at 31 December 2007, term deposits of other banks of RR 228 975 thousand (2006: RR 353 505 thousand) were collateralised by term placements with other banks of RR 246 087 thousand (2006: RR 353 416 thousand). Refer to Notes 9 and 30.

The carrying value of each class of due to other banks approximates their fair value as at 31 December 2007 and 31 December 2006. As at 31 December 2007 the estimated fair value of due to other banks was RR 15 965 432 thousand (2006: RR 13 801 709 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 16 Customer Accounts

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **State and public organisations** | | |
| - Current/settlement accounts | 6 473 168 | 5 776 675 |
| - Term deposits | 3 172 381 | 2 872 |
| **Corporate entities** | | |
| - Current/settlement accounts | 18 917 127 | 16 258 262 |
| - Term deposits | 40 030 023 | 26 640 859 |
| - Sale and repurchase agreements | 998 151 | 1 218 701 |
| **Individuals** | | |
| - Current/demand accounts | 9 593 023 | 7 794 762 |
| - Term deposits | 34 175 892 | 24 904 311 |
| **Total customer accounts** | **113 359 765** | **82 596 442** |

Economic sector concentrations within customer accounts are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Amount | % | Amount | % |
| Individuals | 43 768 915 | 38 | 32 699 073 | 40 |
| Finance sector | 25 903 219 | 23 | 7 504 260 | 9 |
| Trade | 10 194 357 | 9 | 8 953 009 | 11 |
| State and public organisations | 9 645 549 | 9 | 5 779 547 | 7 |
| Services | 6 583 110 | 6 | 8 501 359 | 10 |
| Oil production and refining | 4 146 031 | 4 | 4 377 750 | 5 |
| Construction | 3 870 909 | 3 | 5 428 506 | 7 |
| Manufacturing | 2 562 425 | 2 | 1 604 281 | 2 |
| Energy | 1 199 377 | 1 | 4 829 457 | 6 |
| Other | 5 485 873 | 5 | 2 919 200 | 3 |
| **Total customer accounts** | **113 359 765** | **100** | **82 596 442** | **100** |

At 31 December 2007, included in customer accounts are deposits of RR 3 466 626 thousand (2006: RR 2 138 918 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit for settlements in the Russian Federation. Refer to Note 30.

## 16 Customer Accounts (Continued)

At 31 December 2007, the fair value of securities transferred to customers under sale and repurchase agreements in the amount of RR 998 151 thousand (2006: RR 1 218 701 thousand), comprised RR 1 015 152 thousand (2006: RR 1 197 668 thousand). The Group purchased part of these securities with a fair value of RR 252 722 thousand (2006: RR 766 790 thousand) under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 762 430 thousand (2006: RR 430 878 thousand) are included in repurchase receivable. Refer to Notes 12 and 30.

The carrying value of each class of customer accounts approximates their fair value as at 31 December 2007 and 31 December 2006. As at 31 December 2007 the estimated fair value of customer accounts was RR 111 714 209 thousand (2006: RR 82 596 442 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 17 Debt Securities in Issue

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Promissory notes | 10 952 984 | 8 466 696 |
| Bonds | 2 950 285 | 2 966 772 |
| Deposit and saving certificates | 2 005 502 | 545 266 |
| **Total debt securities** | **15 908 771** | **11 978 734** |

Issued promissory notes represent debt securities denominated in Russian Roubles, US Dollars and Euro with maturity from "demand" to December 2027 (2006: from "demand" to December 2021). The effective interest rates on these promissory notes range from 0.0% to 10.8% (2006: from 0.0% to 12.7%).

Bonds are debt securities denominated in Russian Roubles and issued in the Russian Federation in August 2006 (2006: August 2006). These bonds mature in August 2009 (2006: August 2009), and have a fixed coupon rate of 8.5% (2006: 8.5%) and yield to maturity of 8.9% (2006: 8.9%).

Deposit and saving certificates are debt securities denominated in Russian Roubles with maturities from January 2008 to December 2008 (2006: from January 2007 to December 2007). The effective interest rates on these deposit and saving certificates range from 9.5% to 11.1% (2006: from 7.5% to 11.0%).

At 31 December 2007 the estimated fair values of promissory notes, bonds and deposit and savings certificates were RR 11 386 166 thousand, RR 2 935 543 thousand and RR 2 005 502 thousand respectively.

At 31 December 2006 the estimated fair values of promissory notes, bonds and deposit and savings certificates were RR 8 470 191 thousand, RR 2 976 502 thousand and RR 545 266 thousand respectively. Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 18 Other Borrowed Funds

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Term borrowings | 15 864 405 | 15 581 019 |
| Syndicated loans | 4 036 084 | 3 494 712 |
| **Total other borrowed funds** | **19 900 489** | **19 075 731** |

## 18 Other Borrowed Funds (Continued)

Term borrowings represent medium and long-term funds attracted by the Group on the international financial markets.

In March 2006 the Group issued Euro Medium Term Notes with a nominal value of USD 225 000 thousand, a fixed nominal interest rate of 8.0%, maturity in March 2009 and the effective interest rate of 8.7%.

In December 2006 the Group issued Loan Participation Notes with a nominal value of USD 300 000 thousand, a fixed nominal interest rate of 8.75%, maturity in December 2009 and the effective interest rate of 9.3%.

In March 2007 the Group issued additional Loan Participation Notes with a nominal value of USD 125 000 thousand, a fixed nominal interest rate of 8.75%, maturity in December 2009 and the effective interest rate of 9.3%.

A syndicated loan in the amount of USD 14 000 thousand was received by the Group in October 2005 from two Croatian banks. This loan matures in October 2010 and has a floating interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2007, the effective interest rate for this loan was 9.0% p.a. (2006: 9.1%).

A syndicated loan of USD 14 338 thousand was received by the Group in June 2006 from the above two Croatian banks. This loan matures in June 2011 and has a floating interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2007, the effective interest rate for this loan was 7.2% p.a. (2006: 7.4%).

A syndicated loan of USD 14 398 thousand was received by the Group in October 2006 from the above two Croatian banks. This loan matures in October 2011 and has a floating interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2007, the effective interest rate for this loan was 7.1% p.a. (2006: 7.3%).

A syndicated loan of USD 135 000 thousand was received by the Group in June 2007 from a consortium of Russian and foreign banks. This loan matures in June 2008 and has a floating interest rate of 6 month LIBOR plus 0.9% p.a. As at 31 December 2007, the effective interest rate for this loan was 7.1% p.a.

At 31 December 2006 the Group had Loan Participation Notes issued in February 2004 through a large foreign bank with a nominal of USD 120 000 thousand, a fixed interest rate of 9.0%, maturity date in February 2007 and the effective interest rate of 10.1%. In November 2004, part of the securities with a nominal value of USD 55 560 thousand was claimed by holders for early redemption and repaid by the Group in connection with notification of bond holders of changes in the shareholding structure of the Bank. Then Loan Participation Notes were redeemed on time.

As at 31 December 2006, the Group had a syndicated loan of USD 91 500 thousand, received in April 2006 from a consortium of Russian and foreign banks. This loan has maturity date in April 2007 and a floating interest rate of 3 month LIBOR plus 1.9% p.a. As at 31 December 2006, the effective interest rate for this loan was 8.6% p.a. The loan was repaid in due time.

At 31 December 2007 the fair values of term borrowings and syndicated loans were RR 15 946 574 thousand and RR 4 077 691 thousand respectively.

At 31 December 2006 the fair values of term borrowings and syndicated loans were RR 15 830 804 thousand and RR 3 525 952 thousand respectively. Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29.

## 19 Other Liabilities

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **Other financial liabilities** | | |
| Settlements on factoring operations | 917 334 | 384 444 |
| Settlements on plastic cards operations | 186 712 | 143 767 |
| Derivatives | 50 377 | 5 905 |
| Accrued financial liabilities | 46 096 | 19 361 |
| Cash transfers | 11 189 | 8 704 |
| Other financial liabilities | 6 478 | 13 394 |
| **Total other financial liabilities** | **1 218 186** | **575 575** |
| **Other non-financial liabilities** | | |
| Accrued staff costs | 234 764 | 170 982 |
| Settlements on bank operations | 74 725 | 6 394 |
| Other taxes payable | 64 306 | 58 176 |
| Other non-financial liabilities | 93 585 | 106 789 |
| **Total other non-financial liabilities** | **467 380** | **342 341** |
| **Total other liabilities** | **1 685 566** | **917 916** |

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 29.

## 20 Subordinated Debt

In November 2006, the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% and maturity in May 2012. Under the contract, the debt ranks after all other creditors in case of liquidation of the Bank. As at 31 December 2007, the effective interest rate for this subordinated loan was 9.1% (2006: 9.7%).

In October 2007 the Group renegotiated the maturity terms of the subordinated debt till November 2016.

As at 31 December 2007 the estimated fair value of this subordinated debt was RR 3 745 136 thousand (2006: RR 4 002 016 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of the subordinated debt are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 21 Share Capital

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Number of shares, in thousand units | Nominal value | Inflation adjusted amount | Number of shares, in thousand units | Nominal value | Inflation adjusted amount |
| Ordinary shares | 500 000 | 5 000 000 | 6 752 558 | 450 000 | 4 500 000 | 6 228 658 |
| Preference shares | - | - | - | 500 | 500 000 | 523 900 |
| **Total share capital** | **500 000** | **5 000 000** | **6 752 558** | **450 500** | **5 000 000** | **6 752 558** |

## 21 Share Capital (Continued)

All ordinary shares have a nominal value of RR 10 per share. All ordinary shares rank equally and each share carries one vote. The amount of dividend is determined and approved at the Bank's annual general meeting.

Preference shares in the amount of 500 thousand units with nominal value of RR 1 000 each were converted into 50 000 thousand convertible preference shares with nominal value of RR 10 per share. Then convertible preference shares were converted into ordinary shares.

In December 2006, the ownership structure of the Bank was changed within the companies of IFD Kapital Group. As a result of this change and upon additional acquisition of shares from other shareholders, at 31 December 2007 Reserve Invest Holding (Cyprus) Limited owns 87.94% of the Bank's share capital (2006: 89.25%).

## 22 Retained Earnings

In accordance with Russian legislation, the Group allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with the Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2007 are RR 11 149 345 thousand (31 December 2006: RR 8 724 370 thousand).

## 23 Interest Income and Expense

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 13 206 590 | 8 627 282 |
| Debt trading securities | 1 083 617 | 751 061 |
| Reverse sale and repurchase agreements ("reverse repo agreements") | 1 060 390 | 254 103 |
| Correspondent accounts and due from other banks | 503 061 | 301 109 |
| Debt investment securities available for sale | 96 906 | 130 582 |
| Other | - | 1 268 |
| **Total interest income** | **15 950 564** | **10 065 405** |
| **Interest expense** | | |
| Deposits of individuals | 2 534 715 | 1 907 670 |
| Other borrowed funds | 1 646 536 | 812 219 |
| Term deposits of legal entities | 1 397 930 | 966 906 |
| Debt securities in issue | 1 121 328 | 734 950 |
| Due to other banks | 727 502 | 249 585 |
| Sale and repurchase agreements ("repo agreements") | 433 438 | 79 992 |
| Subordinated debt | 338 520 | 52 351 |
| Current accounts of legal entities | 11 656 | 8 550 |
| Other | 154 | 94 |
| **Total interest expense** | **8 211 779** | **4 812 317** |
| **Net interest income** | **7 738 785** | **5 253 088** |

## 24 Fee and Commission Income and Expense

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on settlement transactions | 1 073 409 | 830 925 |
| Commission on cash transactions | 569 882 | 464 644 |
| Commission for trust management | 143 211 | 179 727 |
| Guarantees issued | 105 118 | 66 642 |
| Commission on cash collection | 84 247 | 63 387 |
| Fiduciary commissions | 552 | 465 |
| Other | 249 838 | 243 356 |
| **Total fee and commission income** | **2 226 257** | **1 849 146** |
| **Fee and commission expense** | | |
| Commission on settlement transactions | 275 298 | 200 930 |
| Commission on cash collection | 66 366 | 43 318 |
| Commission on cash transactions | 32 940 | 15 506 |
| Other | 103 983 | 33 399 |
| **Total fee and commission expense** | **478 587** | **293 153** |
| **Net fee and commission income** | **1 747 670** | **1 555 993** |

## 25 Administrative and Other Operating Expenses

| *In thousands of Russian Roubles* | Note | 2007 | 2006 |
|---|---|---|---|
| Staff costs | | 2 903 678 | 2 241 325 |
| Office maintenance | | 524 547 | 458 818 |
| Depreciation of premises and equipment | 13 | 358 645 | 299 359 |
| Rent | | 263 549 | 224 955 |
| State deposit insurance system membership fee | | 195 456 | 157 195 |
| Advertising and marketing services | | 127 572 | 68 436 |
| Taxes other than on income | | 87 967 | 83 914 |
| Expenses related to premises and equipment | | 81 287 | 120 605 |
| Other | | 429 415 | 330 902 |
| **Total administrative and other operating expenses** | | **4 972 116** | **3 985 509** |

Included in staff costs are statutory social security and pension contributions of RR 362 657 thousand (2006: RR 296 952 thousand).

## 26 Income Taxes

Income tax expense comprises the following:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Current tax charge | 1 146 164 | 1 376 036 |
| Deferred tax | 26 472 | (115 354) |
| **Income tax expense for the year** | **1 172 636** | **1 260 682** |

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

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **IFRS profit before taxation** | **3 989 421** | **5 100 247** |
| Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%) | 957 461 | 1 224 059 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non deductible expenses | 58 374 | 31 356 |
| - Income on government securities taxed at different rates | (100 310) | (68 834) |
| - Unrecognised tax losses | 63 878 | - |
| - Share based compensation | 100 335 | - |
| - Other non temporary differences | 92 898 | 74 101 |
| **Income tax expense for the year** | **1 172 636** | **1 260 682** |

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

## 26 Income Taxes (Continued)

| *In thousands of Russian Roubles* | 1 January 2007 | Charged to profit or loss | Credited directly to equity | 31 December 2007 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | |
| Provision for loan impairment | 208 404 | (409 400) | - | (200 996) |
| Premises and equipment | (97 896) | (38 977) | - | (136 873) |
| Fair valuation of trading investments | (337 542) | 330 263 | - | (7 279) |
| Fair valuation of investment securities available for sale | (3 624) | (944) | 1 816 | (2 752) |
| Debt securities in issue | 38 997 | (4 607) | - | 34 390 |
| Accruals | 124 499 | 45 652 | | 170 151 |
| Other | (31 458) | 51 541 | - | 20 083 |
| **Net deferred tax liability** | **(98 620)** | **(26 472)** | **1 816** | **(123 276)** |
| Recognised deferred tax asset | 15 329 | (8 791) | - | 6 538 |
| Recognised deferred tax liability | (113 949) | (17 681) | 1 816 | (129 814) |
| **Net deferred tax liability** | **(98 620)** | **(26 472)** | **1 816** | **(123 276)** |

| *In thousands of Russian Roubles* | 1 January 2006 | Credited to profit or loss | Credited directly to equity | 31 December 2006 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | |
| Provision for loan impairment | 211 214 | (2 810) | - | 208 404 |
| Premises and equipment | (100 052) | 2 156 | - | (97 896) |
| Fair valuation of trading investments | (436 499) | 98 957 | - | (337 542) |
| Fair valuation of investment securities available for sale | 3 065 | (9 250) | 2 561 | (3 624) |
| Debt securities in issue | 20 510 | 18 487 | - | 38 997 |
| Accruals | 94 143 | 30 356 | - | 124 499 |
| Other | (8 916) | (22 542) | - | (31 458) |
| **Net deferred tax liability** | **(216 535)** | **115 354** | **2 561** | **(98 620)** |
| Recognised deferred tax asset | 15 867 | (538) | - | 15 329 |
| Recognised deferred tax liability | (232 402) | 115 892 | 2 561 | (113 949) |
| **Net deferred tax liability** | **(216 535)** | **115 354** | **2 561** | **(98 620)** |

## 26 Income Taxes (Continued)

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 accrue 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.

A deferred tax asset in the amount of RR 6 538 thousand (2006: RR 15 329 thousand) and a deferred tax liability in the amount of RR 129 814 thousand (2006: RR 113 949 thousand) have been recorded in the consolidated balance sheet after offsetting of the gross amounts presented above.

## 27 Dividends

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| **Dividends payable at 1 January** | 719 | 1 306 |
| Dividends paid during the year | 2 | 587 |
| **Dividends payable at 31 December** | 717 | 719 |

On 26 May 2006, the Annual General Shareholders' Meeting resolved not to pay dividends based on the results for the 2005 financial year.

On 25 May 2007, the Annual General Shareholders' Meeting resolved not to pay dividends based on the results for the 2006 financial year.

## 28 Segment Analysis

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, trust management, custody, plastic cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, factoring and foreign currency products.
- Financial market transactions – representing stock and money market transactions, brokerage and depositary services, securities, foreign exchange trading and trading in derivative financial instruments, sale and repurchase ("repo") agreements, attraction of long-term funds on international financial markets.

Starting from 2007 the Group has been applying a transfer pricing system. Under this system funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group, which are determined by reference to the market yield curves. In addition, the internal management accounting system allows reallocation of certain operating expenses between the reportable segments. The presentation of the comparative information for the period ended 31 December 2006 has been changed to conform to the current period presentation.

## 28 Segment Analysis (Continued)

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

| *In thousands of Russian Roubles* | Retail banking | Corporate banking | Financial markets | Eliminations | Total |
|---|---|---|---|---|---|
| **2007** | | | | | |
| External revenues | 2 376 602 | 13 277 894 | 2 721 596 | - | 18 376 092 |
| Intersegment revenues | 3 208 917 | 4 799 330 | 4 099 985 | (12 108 232) | - |
| **Total revenues** | **5 585 519** | **18 077 224** | **6 821 581** | **(12 108 232)** | **18 376 092** |
| **Total revenues comprise:** | | | | | |
| Interest income | | | | | 15 950 564 |
| Fee and commission income | | | | | 2 226 257 |
| Other operating income | | | | | 199 271 |
| **Total revenues** | | | | | **18 376 092** |
| **Segment results** | **377 178** | **6 726 255** | **(482 144)** | **-** | **6 621 289** |
| Unallocated costs | | | | | (2 631 868) |
| **Profit before tax** | | | | | **3 989 421** |
| Income tax expense | | | | | (1 172 636) |
| **Profit for the year** | | | | | **2 816 785** |
| **Other segment items** | | | | | |
| Capital expenditure | 245 690 | 404 572 | 23 618 | - | 673 880 |
| Depreciation charge | (152 925) | (189 036) | (16 684) | - | (358 645) |
| (Provision)/recovery of provision for loan impairment | (186 418) | (60 829) | 317 | - | (246 930) |
| **Segment assets** | 17 122 249 | 112 461 301 | 51 667 690 | - | **181 251 240** |
| Deferred income tax asset | | | | | 6 538 |
| Other unallocated assets | | | | | 8 488 043 |
| **Total assets** | | | | | **189 745 821** |
| **Segment liabilities** | 46 156 865 | 69 773 556 | 50 530 502 | - | **166 460 923** |
| Deferred income tax liabilities | | | | | 129 814 |
| Other unallocated liabilities | | | | | 4 184 986 |
| **Total liabilities** | | | | | **170 775 723** |

## 28 Segment Analysis (Continued)

| *In thousands of Russian Roubles* | Retail banking | Corporate banking | Financial markets | Eliminations | Total |
|---|---|---|---|---|---|
| 2006 | | | | | |
| External revenues | 1 801 303 | 8 948 861 | 1 320 518 | - | 12 070 682 |
| Intersegment revenues | 2 249 765 | 3 844 790 | 2 141 173 | (8 235 728) | - |
| **Total revenues** | **4 051 068** | **12 793 651** | **3 461 691** | **(8 235 728)** | **12 070 682** |
| **Total revenues comprise:** | | | | | |
| Interest income | | | | | 10 065 405 |
| Fee and commission income | | | | | 1 849 146 |
| Other operating income | | | | | 156 131 |
| **Total revenues** | | | | | **12 070 682** |
| **Segment results** | **86 512** | **3 621 338** | **2 638 013** | - | **6 345 863** |
| Unallocated costs | | | | | (1 245 616) |
| **Profit before tax** | | | | | **5 100 247** |
| Income tax expense | | | | | (1 260 682) |
| **Profit for the year** | | | | | **3 839 565** |
| **Other segment items** | | | | | |
| Capital expenditure | 255 237 | 414 218 | 25 490 | - | 694 945 |
| Depreciation charge | (133 233) | (156 559) | (9 567) | - | (299 359) |
| Provision for loan impairment | (74 773) | (1 126 094) | (6 734) | - | (1 207 601) |
| **Segment assets** | 10 309 306 | 102 251 972 | 34 233 364 | - | **146 794 642** |
| Deferred income tax asset | | | | | 15 329 |
| Other unallocated assets | | | | | 1 482 661 |
| **Total assets** | | | | | **148 292 632** |
| **Segment liabilities** | 33 501 976 | 49 491 432 | 44 981 664 | - | **127 975 072** |
| Deferred income tax liabilities | | | | | 113 949 |
| Other unallocated liabilities | | | | | 4 452 630 |
| **Total liabilities** | | | | | **132 541 651** |

## 28 Segment Analysis (Continued)

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

| *In thousands of Russian Roubles* | Russia | OECD | Other | Total |
|---|---|---|---|---|
| **2007** | | | | |
| Segment assets | 176 836 366 | 7 091 425 | 5 818 030 | 189 745 821 |
| Segment liabilities | 125 892 540 | 33 025 267 | 11 857 916 | 170 775 723 |
| External revenues | 17 251 819 | 361 166 | 763 107 | 18 376 092 |
| Credit related commitments | 6 353 755 | 522 472 | 1 793 496 | 8 669 723 |
| Capital expenditure | 638 206 | - | 35 674 | 673 880 |
| **2006** | | | | |
| Segment assets | 136 636 136 | 3 901 047 | 7 755 449 | 148 292 632 |
| Segment liabilities | 97 690 820 | 27 404 307 | 7 446 524 | 132 541 651 |
| External revenues | 10 099 680 | 305 577 | 1 665 425 | 12 070 682 |
| Credit related commitments | 4 847 214 | 22 482 | 1 839 414 | 6 709 110 |
| Capital expenditure | 669 375 | - | 25 570 | 694 945 |

External revenues, assets, liabilities and credit related commitments have generally been allocated based on ultimate domicile of the counterparty, i.e. based on their respective geographical locations.

## 29 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The Group's risk management policy is intended to ensure an optimal balance between the acceptable level of risk undertaken by the Group and the return from banking activities to restrict potential adverse effects on the Group's financial performance, to ensure sustainability of the business of the Group and as well as to protect the rights and interests of the Group's stakeholders - shareholders, clients, counterparties and others. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. The risk management objectives, policies and procedures are similar for the Bank and its subsidiaries.

***Risk management structure.*** The risk management governance system of the Group includes setting, implementing and controlling risk management policies and procedures and subsequent updating of policies and procedures based on current economic, business and regulatory environment.

The Board of Directors is responsible for the overall supervision of the risk management system.

The Executive Board has overall responsibility over asset and liability management including approval of key risk management policies and procedures and large risk exposures, assessment of risk management system bodies and approval of contingency plans.

The Executive Board, Financial and Economic Committee and Credit Committees make decisions that set out the risk management procedures that fall within the competence of the respective unit and establish limits on the risks related to particular operations.

The Financial and Economic Committee is a coordinating body responsible for the management of the assets and liabilities of the Group.

The Risk Control Department is directly responsible for the developing of policies on assessment of current level of risks, risk management procedures, identification and analysis of different types of risk and monitoring of compliance of the procedures and established limits bounding the risks. The Risk Control Department is independent from business units, its members have voting rights on the decisions of the Financial and Economic Committee and voting rights and veto power on Credit Committies. The Risk Control Department reports to the Group's management on a regular basis. The review of major risks is communicated to the Board of Directors on a semi-annual basis in the report on risk management, which includes credit, market, liquidity, operating and reputation risks.

***Credit risk.*** The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group in the result of default. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-balance sheet items, such as guarantees and loan commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees and credit related commitments, the maximum level of credit risk is equal to the amount of liabilities. Refer to Note 30.

The following committees are responsible for approval of corporate and retail transactions which might create credit risk exposure:

- The Financial and Economic Committee establishes credit risk management procedures for REPO transactions, the procedure for use of credit risk limits by counterparty on REPO transactions and settlements, and also determines credit risk limits for banks, including for transactions with their own debt securities, for transactions with government securities and by security type (for investments and reverse REPO transactions);
- The Credit Committee approves decisions on issued loans with limits exceeding RR 150 million (RR 30 million for individuals) under standard lending programs, all non-standard loan applications and also approves the limits for corporate debt securities. The Bank's Credit Committee sets credit limits for lending business units;
- The Small Credit Committee approves decisions on issued loans with limits up to RR 150 million (RR 30 million for individuals);
- The Branch Credit Committee considers lending applications from customers and takes lending decisions on the basis of the established credit limits.

The credit risk management system implies setting of limits which includes individual counterparty limits, industry limits, as well as limits restricting credit product type, currency, period, type of collateral and other.

The Group developed a methodology that enables evaluation of creditworthiness and credit quality of all types of counterparties: corporate clients, small and medium businesses, security issuers, banks, individuals, counterparties within the scope of financing on terms of claim assignment (factoring), insurance companies, etc.

The Group's credit risk management system includes a model, which allows to assess expected losses on the credit portfolio (the 'expected loss model') by using (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default'; and (iii) the likely economic loss ratio on the defaulted obligations (the 'loss given default'). By calculating these measurements the Group determines a risk premium for covering expected losses on the credit portfolio. This model takes into consideration such parameters as financial position of a counterparty, credit risk exposure, lending period, offered collateral and other factors that adjust the final risk premium. The Group continuously improves its credit risk measurement model. However, these measurements should be contrasted with impairment allowances recorded by the Group in these consolidated financial statements as required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses. Refer to Note 3.

The Group actively continues to develop its risk management system for lending to individuals. The scoring models that are used in lending to individuals enable the Group to reduce its risks at credit issue; however, the Group continues to enhance the efficiency of its systems.

Fair value of collateral is determined by the Group's experts in respect of the group of related borrowers by types of supposed collateral. Fair value normally exceeds the amount of established limit by 20%-80%, depending on the borrower's financial position, the type of collateral, the borrower's credit history and transparency of its reporting. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Group usually takes collateral as security for all loans and credit facilities granted to its customers. Loans, even to related parties, are generally over-secured in terms of value of the security. However, borrowers regarded as "prime" by the Group may be granted short-term treasury loans without collateral. The main types of collateral or credit support taken are financial claims to the Group, guarantees, Russian Government securities, shares in blue-chip companies, liquid promissory notes, real estate, goods, wares and merchandise and similar monetary assets. Pledges of, amongst other things, equipment are a typical form of security taken by the Group. According to the Group's internal procedures, collateral should be provided (where it is required) to cover outstanding liabilities during the whole the term of a loan.

The major part of factoring finance provided by the Group implies the possibility of claim recourse from the Debtor to the Seller. The Group treats this as a security to mitigate its risks.

Transactions of the Group can give rise to a settlement risk at the time of settlement for transactions. Settlement risk is the risk of losses resulting from the counterparty's inability to meet its obligations to provide cash, securities or other assets stipulated by the contract.

For certain types of transactions the Group reduces this risk by making settlements in form of "delivery versus payment" or by clearing agents in order to be sure that final settlements will be completed only after both parties fulfil their contractual obligations in full. Undertaking an exposure to the settlement risk on unconditional settlement transactions requires availability of credit risk limits and (or) special limits of settlement risk by counterparty. Such limits constitute part of the above process of approval/monitoring of limits per counterparty.

***Market risk.*** The Group is exposed to market risk related to open positions on (a) currency, (b) interest rate and (c) equity instruments which are subject to risk of general and specific market changes. The Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Management of market risks includes limitation of possible losses on own positions that may be incurred by the Group over a specified time horizon with a given level of confidence as a result of movements in exchange rates, market prices and interest rates by establishing limits for each type of transactions, and control over compliance with the set limits.

The Financial and Economic Committee sets limits to restrict possible losses arising form market risks. The Risk Control Department is responsible for developing recommendations on setting and revising risk minimisation limits and procedures.

Market risks are managed on the basis of the following methods:

- Diversification of the active portfolio in the money and stock market, using, inter alia, a multilevel system of limits;
- Daily revaluations of positions on the basis of market prices;
- Implementation and monitoring of compliance over aggregate and private limits on all money/stock market instruments;
- Implementation and permanent monitoring of compliance with stop-out limits to restrict the Group's losses on instruments;
- Limits on investments in securities are revised with consideration of their liquidity (possibility of immediate disposal of the portfolio without significant effect on the market price).

## 29 Financial Risk Management (Continued)

Before opening of the limits for debt securities, including repurchase receivables and securities available for sale, the Group assesses both the credit quality of the issuer and the liquidity of the securities. The credit quality requirements applied to the issuers are higher than the criteria applied to the borrowers. These criteria additionally include higher requirements to some financial performance indicators (i.e. gearing, financial efficiency etc.), the total assets and net assets of the issuer should not be less than total assets and net assets of the largest borrowers of the Group, the terms of issue stipulate the ability for early redemption in case of the change of the owner, the quality of the issuer, assessed in accordance with internal rating methodology, should not be worse than the quality of the borrower entitiled to receive the unsecured loan for the term similar to the term to maturity of the security, and the holding companies are also obliged to present audited consolidated financial statements.

Additional criteria taken into account in course of liquidity analysis are the volume of transactions on the organised exchange markets, spread between sale and purchase prices and the spread between the security prices and risk-free assets of the same currency and maturity.

The limits for trading securities are opened only in case if the investment plan stipulates the sale of this security within 12 months and the liquidity of the security allows to sell it within 1-3 months without decrease in value.

The Group uses the VaR (value-at-risk) method for most trading positions and stress tests for non-liquid financial instruments. The VaR method is a method of evaluating potential losses that may occur on risk positions as a result of a change in market rates and prices over a specified time horizon with given level of confidence. The VaR model used by the Group is based on a 99% confidence level and stipulates a 1 to 10 day holding period depending on the item category. The VaR model represents forecasting based on historical data. The model builds probability future development scenarios based on historical data of market quotations with consideration of interdependence between different markets and instruments. Potential changes in market prices are calculated with reference to market data for the last twelve months.

Although the VaR methodology is an important instrument for evaluation of the probable market risk value, it has several constraints, especially in respect of low liquid markets:

- Using historical data as the basis for estimation of future events may not reflect all possible scenarios;
- Implementation of 1 to 10 day holding period stipulates that the Group considers to sell or hedge the position within 1 to 10 days. In practice, this is always the case. However, in case of low market liquidity even a 10 day period may not be sufficient;
- A confidence level of 99% does not consider losses that may occur beyond this level. Probability distribution of losses that may occur beyond the 99% level is not evaluated;
- Since the VaR amount is calculated on the basis of closing trading sessions data, it does not always reflect intraday fluctuations.

The Group does not confine market risk evaluation to VaR calculation only, as this method is associated with certain constraints described above. Constraints inherent in the VaR method are corrected by revising limits on open positions set with consideration of instruments' liquidity, limits on volumes of transactions in respect of each trading portfolio. In addition, the Group also uses stress-tests for modelling possible financial effect of certain exceptional market scenarios for the Group's capital position.

Information on the level of VaR associated with the Group's currency risk and securities price risk at 31 December 2007 and at 31 December 2006 is provided below:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Fixed income securities price risk | 378 341 | 330 349 |
| Equity securities price risk | 245 242 | 1 034 278 |
| Currency rate risk exposure | 3 540 | 9 272 |

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

| *In thousands of Russian Roubles* | Russia | OECD | Other | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 20 276 208 | 6 292 643 | 573 723 | 27 142 574 |
| Mandatory cash balances with central banks | 2 342 572 | - | 122 996 | 2 465 568 |
| Trading securities | 14 086 742 | 589 478 | - | 14 676 220 |
| Due from other banks | 1 030 940 | - | 246 359 | 1 277 299 |
| Loans and advances to customers | 131 404 348 | 839 | 4 490 523 | 135 895 710 |
| Investment securities available for sale | 1 646 527 | 4 608 | 129 692 | 1 780 827 |
| Repurchase receivable | 2 062 174 | - | - | 2 062 174 |
| Other financial assets | 346 384 | 201 256 | 49 873 | 597 513 |
| **Total financial assets** | **173 195 895** | **7 088 824** | **5 613 166** | **185 897 885** |
| **Non-financial assets** | | | | |
| Prepaid income tax | 237 235 | - | 12 145 | 249 380 |
| Deferred income tax asset | - | - | 6 538 | 6 538 |
| Premises and equipment | 2 744 909 | - | 106 304 | 2 851 213 |
| Other non-financial assets | 658 327 | 2 601 | 79 877 | 740 805 |
| **Total assets** | **176 836 366** | **7 091 425** | **5 818 030** | **189 745 821** |
| **Financial liabilities** | | | | |
| Due to other banks | 7 233 961 | 8 463 860 | 267 611 | 15 965 432 |
| Customer accounts | 96 502 681 | 6 356 761 | 10 500 323 | 113 359 765 |
| Debt securities in issue | 15 908 771 | - | - | 15 908 771 |
| Other borrowed funds | 710 190 | 18 166 404 | 1 023 895 | 19 900 489 |
| Other financial liabilities | 1 147 164 | 33 366 | 37 656 | 1 218 186 |
| Subordinated debt | 3 745 136 | - | - | 3 745 136 |
| **Total financial liabilities** | **125 247 903** | **33 020 391** | **11 829 485** | **170 097 779** |
| **Non-financial liabilities** | | | | |
| Current tax liability | 72 960 | - | 7 790 | 80 750 |
| Deferred income tax liability | 129 814 | - | - | 129 814 |
| Other non-financial liabilities | 441 863 | 4 876 | 20 641 | 467 380 |
| **Total liabilities** | **125 892 540** | **33 025 267** | **11 857 916** | **170 775 723** |
| **Net balance sheet position** | **50 943 826** | **(25 933 842)** | **(6 039 886)** | **18 970 098** |
| **Credit related commitments (Note 30)** | **6 353 755** | **522 472** | **1 793 496** | **8 669 723** |

Assets, liabilities and credit related commitments have been based on the country, in which the counterparty is located. The column "OECD countries" in the table above includes mainly balances with counterparties from the USA, Germany and UK. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the region in which they are physically held.

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

| *In thousands of Russian Roubles* | Russia | OECD | Other | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 12 519 077 | 3 047 322 | 753 440 | 16 319 839 |
| Mandatory cash balances with central banks | 2 113 545 | - | 129 519 | 2 243 064 |
| Trading securities | 13 722 477 | 728 284 | - | 14 450 761 |
| Due from other banks | 11 | 6 907 | 366 741 | 373 659 |
| Loans and advances to customers | 102 774 868 | 38 987 | 6 134 986 | 108 948 841 |
| Investment securities available for sale | 826 652 | 7 435 | 198 317 | 1 032 404 |
| Repurchase receivable | 1 230 240 | - | - | 1 230 240 |
| Other financial assets | 141 443 | 68 706 | 8 952 | 219 101 |
| **Total financial assets** | **133 328 313** | **3 897 641** | **7 591 955** | **144 817 909** |
| **Non-financial assets** | | | | |
| Prepaid income tax | 312 470 | - | 10 313 | 322 783 |
| Deferred income tax asset | 8 286 | - | 7 043 | 15 329 |
| Premises and equipment | 2 534 152 | - | 104 761 | 2 638 913 |
| Other non-financial assets | 452 915 | 3 406 | 41 377 | 497 698 |
| **Total assets** | **136 636 136** | **3 901 047** | **7 755 449** | **148 292 632** |
| **Financial liabilities** | | | | |
| Due to other banks | 7 123 484 | 6 410 449 | 267 776 | 13 801 709 |
| Customer accounts | 73 842 638 | 3 651 228 | 5 102 576 | 82 596 442 |
| Debt securities in issue | 11 459 890 | - | 518 844 | 11 978 734 |
| Other borrowed funds | 245 859 | 17 334 790 | 1 495 082 | 19 075 731 |
| Other financial liabilities | 514 102 | 7 824 | 53 649 | 575 575 |
| Subordinated debt | 4 002 016 | - | - | 4 002 016 |
| **Total financial liabilities** | **97 187 989** | **27 404 291** | **7 437 927** | **132 030 207** |
| **Non-financial liabilities** | | | | |
| Current tax liability | 55 111 | - | 43 | 55 154 |
| Deferred income tax liability | 113 141 | - | 808 | 113 949 |
| Other non-financial liabilities | 334 579 | 16 | 7 746 | 342 341 |
| **Total liabilities** | **97 690 820** | **27 404 307** | **7 446 524** | **132 541 651** |
| **Net balance sheet position** | **38 945 316** | **(23 503 260)** | **308 925** | **15 750 981** |
| **Credit related commitments (Note 30)** | **4 847 214** | **22 482** | **1 839 414** | **6 709 110** |

***Currency risk.*** Currency risk is the risk that the Group's income or financial instruments portfolio may change due to exchange rate fluctuations.

The Financial and Economic Committee manages the volume of currency risk by setting a limit on the level of open currency positions. The Department for Financial Market Operations manages the level of open currency positions within the set limits. The Treasury transfers open currency position to the Department for Financial Market Operations through concluding intragroup transactions. The Risk Control Department monitors the aggregate currency risk level.

## 29 Financial Risk Management (Continued)

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

| *In thousands of Russian Roubles* | RR | USD | Euro | Other | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 19 329 124 | 6 153 291 | 1 219 502 | 440 657 | 27 142 574 |
| Mandatory cash balances with central banks | 2 342 572 | 42 297 | 13 048 | 67 651 | 2 465 568 |
| Trading securities | 14 011 378 | 664 842 | - | - | 14 676 220 |
| Due from other banks | - | 1 096 797 | - | 180 502 | 1 277 299 |
| Loans and advances to customers | 94 133 694 | 35 708 758 | 4 088 745 | 1 964 513 | 135 895 710 |
| Investment securities available for sale | 984 838 | 661 689 | 4 608 | 129 692 | 1 780 827 |
| Repurchase receivable | 2 062 174 | - | - | - | 2 062 174 |
| Other financial assets | 439 556 | 79 767 | 56 831 | 21 359 | 597 513 |
| **Total financial assets** | **133 303 336** | **44 407 441** | **5 382 734** | **2 804 374** | **185 897 885** |
| **Non-financial assets** | | | | | |
| Prepaid income tax | 237 235 | - | - | 12 145 | 249 380 |
| Deferred income tax asset | - | - | - | 6 538 | 6 538 |
| Premises and equipment | 2 744 909 | - | - | 106 304 | 2 851 213 |
| Other non-financial assets | 663 749 | 10 091 | 2 897 | 64 068 | 740 805 |
| **Total assets** | **136 949 229** | **44 417 532** | **5 385 631** | **2 993 429** | **189 745 821** |
| **Financial liabilities** | | | | | |
| Due to other banks | 7 132 008 | 6 237 912 | 2 315 645 | 279 867 | 15 965 432 |
| Customer accounts | 96 078 142 | 11 787 340 | 3 537 150 | 1 957 133 | 113 359 765 |
| Debt securities in issue | 15 864 379 | 43 853 | 539 | - | 15 908 771 |
| Other borrowed funds | - | 19 900 489 | - | - | 19 900 489 |
| Other financial liabilities | 1 114 381 | 65 758 | 4 863 | 33 184 | 1 218 186 |
| Subordinated debt | - | 3 745 136 | - | - | 3 745 136 |
| **Total financial liabilities** | **120 188 910** | **41 780 488** | **5 858 197** | **2 270 184** | **170 097 779** |
| **Non-financial liabilities** | | | | | |
| Current tax liability | 72 960 | - | - | 7 790 | 80 750 |
| Deferred income tax liability | 129 814 | - | - | - | 129 814 |
| Other non-financial liabilities | 441 984 | 14 530 | 2 962 | 7 904 | 467 380 |
| **Total liabilities** | **120 833 668** | **41 795 018** | **5 861 159** | **2 285 878** | **170 775 723** |
| **Net balance sheet position** | **16 115 561** | **2 622 514** | **(475 528)** | **707 551** | **18 970 098** |
| **Derivatives on financial instruments (Note 31)** | **3 253 623** | **(3 292 122)** | **9 810** | **24 506** | **(4 183)** |

At 31 December 2006, the Group had the following positions in currency:

| *In thousands of Russian Roubles* | RR | USD | Euro | Other | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 11 665 967 | 2 089 756 | 1 853 262 | 710 854 | 16 319 839 |
| Mandatory cash balances with central banks | 2 113 545 | 36 956 | 6 461 | 86 102 | 2 243 064 |
| Trading securities | 12 990 167 | 1 413 919 | 46 675 | - | 14 450 761 |
| Due from other banks | 22 | 314 112 | 905 | 58 620 | 373 659 |
| Loans and advances to customers | 69 691 900 | 30 519 985 | 6 416 999 | 2 319 957 | 108 948 841 |
| Investment securities available for sale | 824 320 | 5 159 | 4 608 | 198 317 | 1 032 404 |
| Repurchase receivable | 1 230 240 | - | - | - | 1 230 240 |
| Other financial assets | 203 148 | 3 422 | 672 | 11 859 | 219 101 |
| **Total financial assets** | **98 719 309** | **34 383 309** | **8 329 582** | **3 385 709** | **144 817 909** |
| **Non-financial assets** | | | | | |
| Prepaid income tax | 312 470 | - | - | 10 313 | 322 783 |
| Deferred income tax asset | 8 286 | - | 2 | 7 041 | 15 329 |
| Premises and equipment | 2 534 151 | - | - | 104 762 | 2 638 913 |
| Other non-financial assets | 475 663 | 18 | 3 087 | 18 930 | 497 698 |
| **Total assets** | **102 049 879** | **34 383 327** | **8 332 671** | **3 526 755** | **148 292 632** |
| **Financial liabilities** | | | | | |
| Due to other banks | 6 910 398 | 3 436 686 | 2 897 230 | 557 395 | 13 801 709 |
| Customer accounts | 63 823 376 | 11 431 114 | 4 949 192 | 2 392 760 | 82 596 442 |
| Debt securities in issue | 11 053 311 | 821 112 | 104 311 | - | 11 978 734 |
| Other borrowed funds | - | 19 075 731 | - | - | 19 075 731 |
| Other financial liabilities | 489 553 | 36 097 | 6 019 | 43 906 | 575 575 |
| Subordinated debt | - | 4 002 016 | - | - | 4 002 016 |
| **Total financial liabilities** | **82 276 638** | **38 802 756** | **7 956 752** | **2 994 061** | **132 030 207** |
| **Non-financial liabilities** | | | | | |
| Current tax liability | 55 111 | - | - | 43 | 55 154 |
| Deferred income tax liability | 113 141 | - | - | 808 | 113 949 |
| Other non-financial liabilities | 325 145 | 8 363 | 2 479 | 6 354 | 342 341 |
| **Total liabilities** | **82 770 035** | **38 811 119** | **7 959 231** | **3 001 266** | **132 541 651** |
| **Net balance sheet position** | **19 279 844** | **(4 427 792)** | **373 440** | **525 489** | **15 750 981** |
| **Derivatives on financial instruments (Note 31)** | **(4 237 145)** | **5 253 269** | **(1 021 916)** | **-** | **(5 792)** |

## 29 Financial Risk Management (Continued)

Movements in foreign exchange rates may affect the borrowers' repayment ability and incurrence of loan losses. At the same time, the Group seeks to provide to corporate clients loans in the currency which meets the requirements of the borrower's business structure in order to minimise the incurrence of loan losses due to realisation of potential currency risk for the borrower.

***Liquidity risk.*** Liquidity risk is the risk of difficulties arising with repayment of the Group's financial liabilities. Liquidity risk arises when the maturity of assets and liabilities does not match. Given the diversity of the Group's transactions and associated uncertainty, the full matching of maturities of assets and liabilities is not a standard practice for financial institutions, which enables them to increase profitability of operations, but, at the same time, increases the risk of losses or the risk that the Group will be unable to meet its obligations.

The objective of liquidity management is to establish and maintain such condition of the Group's asset and liability structure by type and basic maturity that would enable the Group to timely fulfil its obligations to creditors, to satisfy the demand of Group's clients for cash borrowings and to maintain the Group's reputation as a reliable financial institution that is paying special attention to liquidity risk regulation.

The Group seeks to maintain a diversified and stable structure of sources of financing consisting of issued debt securities, long-term and short-term deposits of banks, deposits of major corporate and retail clients as well as a diversified portfolio of highly liquid assets so that the Group could be able to promptly react to unforeseen liquidity requirements.

The Financial and Economic Committee is responsible for liquidity management organisation. In order to streamline the liquidity management procedures the Group separately conducts short-term liquidity management, day-to-day management of which is performed by the Treasury and structured liquidity management, where decisions are taken by the Financial and Economic Committee and information is prepared by the Risk Control Department.

Liquidity risk management is centralised in the Treasury by entering into transfer deals for all term transactions among the Treasury and business units. The deals are concluded for the period corresponding to the period of transactions at transfer rates.

The Group's liquidity management policy comprises:

- daily projecting of cash flows by major currencies and calculation of the required level of current liquidity which complies these cash flows;
- maintaining current liquidity in the amount sufficient for full coverage of the liabilities with maturity within 30 days;
- maintaining diversified structure of the sources and structure of financing;
- management of the concentration and structure of borrowed funds;
- development and implementation of debt financing plans;
- development of additional plans for liquidity and specified financing level maintenance;
- control over the compliance of the Group's balance sheet liquidity ratios with statutory ratios;
- establishing of limits and rates for attraction/placement of funds by instruments and of transfer rates.

The Treasury receives information on planned transactions from the business units. If the dates for notification about the planned transactions are not observed and also if the transaction exceeds the established limits on amount the Treasury has the right to ban this transaction of the business unit.

Monitoring of current and projected current liquidity position is done daily on the basis of preparation of payment schedule and forecast of short-term resources requirements. Monitoring of structural liquidity position is done by means of regular preparation of current and projected reports on assets and liabilities gaps (GAP-report).

The Bank Petrocommerce and its Russian subsidiaries calculate liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios include:

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

## 29 Financial Risk Management (Continued)

The Bank was in compliance with liquidity ratios calculated in accordance with the requirement of the Central Bank of Russian Federation at 31 December 2007 and at 31 December 2006.

Subsidiary banks in Ukraine and Moldova calculate liquidity ratios in accordance with the requirements of national banks of these countries accordingly.

The table below shows liabilities as at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, including prices specified in deliverable forward agreements to purchase financial assets for cash. These undiscounted cash flows differ from the amounts stated in the balance sheet, as the balance sheet amounts are based on discounted cash flows.

When the amount payable is not fixed, the amount in the table is determined on the basis of the terms available on the balance sheet date. Currency payments are restated applying spot exchange rate at the reporting date.

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2007 is as follows:

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | Later than 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to other banks | 7 593 095 | 2 870 031 | 4 233 273 | 1 692 670 | 74 084 | 16 463 153 |
| Customer accounts | 56 157 498 | 31 556 403 | 25 806 521 | 2 810 431 | 16 976 | 116 347 829 |
| Debt securities in issue | 1 168 149 | 2 034 302 | 8 622 706 | 4 881 233 | 440 871 | 17 147 261 |
| Other borrowed funds | - | 4 202 391 | 796 038 | 17 505 762 | - | 22 504 191 |
| Other financial liabilities | 70 421 | 1 136 806 | 839 | 10 120 | - | 1 218 186 |
| Subordinated debt | 85 665 | 79 910 | 241 486 | 1 285 583 | 4 921 850 | 6 614 494 |
| Derivative financial instruments | | | | | | |
| - Additions | (10 776 304) | (2 592 869) | (24 507) | - | - | (13 393 680) |
| - Disposals | 10 802 100 | 2 617 165 | 24 792 | - | - | 13 444 057 |
| **Total** | **65 100 624** | **41 904 139** | **39 701 148** | **28 185 799** | **5 453 781** | **180 345 491** |
| Other credit related commitments | 1 052 086 | 4 577 475 | 1 045 089 | 1 995 073 | - | 8 669 723 |

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2006 is as follows:

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | Later than 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to other banks | 7 417 075 | 1 952 172 | 4 116 022 | 663 299 | 3 911 | 14 152 479 |
| Customer accounts | 47 888 485 | 19 345 615 | 15 779 370 | 1 139 025 | 20 111 | 84 172 606 |
| Debt securities in issue | 1 469 635 | 3 141 921 | 4 435 347 | 3 586 460 | 381 042 | 13 014 405 |
| Other borrowed funds | 93 987 | 4 948 501 | 724 246 | 16 782 216 | - | 22 548 950 |
| Other financial liabilities | 560 503 | 5 997 | 7 869 | 1 206 | - | 575 575 |
| Subordinated debt | 52 749 | 91 156 | 278 235 | 1 385 104 | 4 174 926 | 5 982 170 |
| Derivative financial instruments | | | | | | |
| - Additions | (6 142 657) | - | - | - | - | (6 142 657) |
| - Disposals | 6 148 562 | - | - | - | - | 6 148 562 |
| **Total** | **57 488 339** | **29 485 362** | **25 341 089** | **23 557 310** | **4 579 990** | **140 452 090** |
| Other credit related commitments | 949 217 | 2 686 310 | 1 691 695 | 1 381 888 | - | 6 709 110 |

## 29 Financial Risk Management (Continued)

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

The entire portfolio of trading securities and repurchase receivable are classified within demand and less than one month as these portfolios are of trading nature and Management believes this is a fairer portrayal of its liquidity position.

The liquidity position of the Group at 31 December 2007 is set out below:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **From 1 to 5 years** | **Later than 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 27 142 574 | - | - | - | - | - | 27 142 574 |
| Mandatory cash balances with central banks | 2 465 568 | - | - | - | - | - | 2 465 568 |
| Trading securities | 14 676 220 | - | - | - | - | - | 14 676 220 |
| Due from other banks | 229 219 | 26 | - | 1 048 054 | - | - | 1 277 299 |
| Loans and advances to customers | 23 211 282 | 42 811 450 | 25 450 346 | 41 939 675 | 2 482 957 | - | 135 895 710 |
| Investment securities available for sale | 67 096 | 306 814 | 100 542 | 588 870 | 18 875 | 698 630 | 1 780 827 |
| Repurchase receivable | 2 062 174 | - | - | - | - | - | 2 062 174 |
| Other financial assets | 164 931 | 363 847 | 68 735 | - | - | - | 597 513 |
| **Total financial assets** | **70 019 064** | **43 482 137** | **25 619 623** | **43 576 599** | **2 501 832** | **698 630** | **185 897 885** |
| **Non-financial assets** | | | | | | | |
| Prepaid income tax | 125 427 | 123 953 | - | - | - | - | 249 380 |
| Deferred income tax asset | - | - | 6 538 | - | - | - | 6 538 |
| Premises and equipment | - | - | - | - | - | 2 851 213 | 2 851 213 |
| Other non-financial assets | 619 154 | 53 847 | 10 129 | 57 675 | - | - | 740 805 |
| **Total assets** | **70 763 645** | **43 659 937** | **25 636 290** | **43 634 274** | **2 501 832** | **3 549 843** | **189 745 821** |
| **Financial liabilities** | | | | | | | |
| Due to other banks | 7 468 656 | 2 806 492 | 4 026 200 | 1 590 084 | 74 000 | - | 15 965 432 |
| Customer accounts | 55 833 426 | 30 945 275 | 23 960 901 | 2 611 020 | 9 143 | - | 113 359 765 |
| Debt securities in issue | 1 165 098 | 1 817 674 | 8 008 340 | 4 476 788 | 440 871 | - | 15 908 771 |
| Other borrowed funds | - | 3 418 921 | 110 029 | 16 371 539 | - | - | 19 900 489 |
| Other financial liabilities | 70 421 | 1 136 806 | 839 | 10 120 | - | - | 1 218 186 |
| Subordinated debt | - | - | - | - | 3 745 136 | - | 3 745 136 |
| **Total financial liabilities** | **64 537 601** | **40 125 168** | **36 106 309** | **25 059 551** | **4 269 150** | **-** | **170 097 779** |
| **Non-financial liabilities** | | | | | | | |
| Current tax liabilities | 80 750 | - | - | - | - | - | 80 750 |
| Deferred income tax liability | 15 562 | - | 114 252 | - | - | - | 129 814 |
| Other non-financial liabilities | 347 663 | 117 648 | 622 | 1 447 | - | - | 467 380 |
| **Total liabilities** | **64 981 576** | **40 242 816** | **36 221 183** | **25 060 998** | **4 269 150** | **-** | **170 775 723** |
| **Net liquidity gap** | **5 782 069** | **3 417 121** | **(10 584 893)** | **18 573 276** | **(1 767 318)** | **3 549 843** | **18 970 098** |
| **Cumulative liquidity gap** | **5 782 069** | **9 199 190** | **(1 385 703)** | **17 187 573** | **15 420 255** | **18 970 098** | **-** |

## 29 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2006 is set out below:

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | Later than 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 16 319 839 | - | - | - | - | - | 16 319 839 |
| Mandatory cash balances with central banks | 2 243 064 | - | - | - | - | - | 2 243 064 |
| Trading securities | 14 450 761 | - | - | - | - | - | 14 450 761 |
| Due from other banks | 364 420 | 1 208 | - | 8 031 | - | - | 373 659 |
| Loans and advances to customers | 13 239 866 | 29 093 389 | 20 939 427 | 42 359 993 | 3 316 166 | - | 108 948 841 |
| Investment securities available for sale | 98 814 | 211 003 | 55 628 | 613 987 | 15 133 | 37 839 | 1 032 404 |
| Repurchase receivable | 1 230 240 | - | - | - | - | - | 1 230 240 |
| Other financial assets | 92 815 | 126 104 | 73 | 109 | - | - | 219 101 |
| **Total financial assets** | **48 039 819** | **29 431 704** | **20 995 128** | **42 982 120** | **3 331 299** | **37 839** | **144 817 909** |
| **Non-financial assets** | | | | | | | |
| Prepaid income tax | 180 260 | 142 523 | - | - | - | - | 322 783 |
| Deferred income tax asset | - | - | 1 060 | 14 269 | - | - | 15 329 |
| Premises and equipment | - | - | - | - | - | 2 638 913 | 2 638 913 |
| Other non-financial assets | 132 243 | 67 971 | 15 705 | 9 169 | 272 610 | - | 497 698 |
| **Total assets** | **48 352 322** | **29 642 198** | **21 011 893** | **43 005 558** | **3 603 909** | **2 676 752** | **148 292 632** |
| **Financial liabilities** | | | | | | | |
| Due to other banks | 6 297 088 | 1 920 467 | 3 911 504 | 1 229 237 | 443 413 | - | 13 801 709 |
| Customer accounts | 47 857 869 | 18 429 880 | 15 289 939 | 1 007 425 | 11 329 | - | 82 596 442 |
| Debt securities in issue | 1 570 296 | 2 959 385 | 3 933 842 | 3 134 169 | 381 042 | - | 11 978 734 |
| Other borrowed funds | - | 4 368 046 | 121 171 | 14 586 514 | - | - | 19 075 731 |
| Other financial liabilities | 560 503 | 5 997 | 7 869 | 1 206 | - | - | 575 575 |
| Subordinated debt | - | - | - | | 4 002 016 | - | 4 002 016 |
| **Total financial liabilities** | **56 285 756** | **27 683 775** | **23 264 325** | **19 958 551** | **4 837 800** | **-** | **132 030 207** |
| **Non-financial liabilities** | | | | | | | |
| Current tax liabilities | 55 154 | - | - | - | - | - | 55 154 |
| Deferred income tax liability | 24 516 | - | 89 433 | - | - | - | 113 949 |
| Other non-financial liabilities | 174 153 | 162 336 | 4 725 | 1 127 | - | - | 342 341 |
| **Total liabilities** | **56 539 579** | **27 846 111** | **23 368 483** | **19 959 678** | **4 837 800** | **-** | **132 541 651** |
| **Net liquidity gap** | **(8 187 257)** | **1 796 087** | **(2 346 590)** | **23 045 880** | **(1 233 891)** | **2 676 752** | **15 750 981** |
| **Cumulative liquidity gap** | **(8 187 257)** | **(6 391 170)** | **(8 737 760)** | **14 308 120** | **13 074 229** | **15 750 981** | **-** |

## 29 Financial Risk Management (Continued)

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 customers accounts provide a long-term and stable source of funding for the Group. Apart from the above stated, the Group also monitors the level of mismatch in maturity of assets and liabilities within the major time intervals.

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

***Management of capital.*** The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of the Russian Federation, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Refer to Note 30.

The Group's policy is aimed to maintain the level of capital sufficient to keep the trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets and monitors compliance with regulatory capital ratios on the part of the Group's Russian banks and the Group in general. National banks of Ukraine and Moldova Republic set and monitor compliance with regulatory capital ratios mandatory for Petrocommerce-Ukraine and Unibank respectively.

The Group manages capital adequacy using capital ratio projections based on the Basel Agreement and the CBRF requirements with the quarter to year horizon. Growth rates for asset-side transactions in the medium- and long term are planned with consideration of capital requirements. The Group develops and implements capital growth measures when appropriate.

To ensure compliance with the capital adequacy ratio in the short run (up to one month), the Group uses a system of limits on the use of capital. Limits on the use of capital are revised on a monthly basis and are generally set for business units with consideration of loan portfolio growth planning for the nearest month, projected expenses and possible losses resulting from crystallisation of credit and/or market risks in the short run. The collegial body in charge of approval of capital management procedures and setting limits on the use of capital is the Financial and Economic Committee. The body in charge of development of capital management procedures and compliance with the set limits on the use of capital is the Risk Control Department. Business units should comply with set limits on the use of capital. Compliance with limits is monitored on a daily basis.

Currently, under requirements of the CBRF, the Bank and the Group have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above certain minimal level. As at 31 December 2007 this minimal level was set at 10% (2006: 10%).

At 31 December 2007 and at 31 December 2006, the Bank's and the Group's capital adequacy ratio complied with the statutory level. Apart from this, the Group and the Bank should comply with the minimum capital level stipulated by the terms of the Bank's and the Group's obligations, including requirements to the capital adequacy level calculated on the basis of the Basel Agreement (generally known as Basel I). Refer to Note 30.

## 29 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 also increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks at 31 December 2007. The table also presents the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | Later than 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 27 142 574 | - | - | - | - | - | 27 142 574 |
| Mandatory cash balances with central banks | 2 465 568 | - | - | - | - | - | 2 465 568 |
| Trading securities | - | 602 403 | 847 128 | 10 920 842 | 1 099 243 | 1 206 604 | 14 676 220 |
| Due from other banks | 229 219 | 26 | - | 1 048 054 | - | - | 1 277 299 |
| Loans and advances to customers | 23 224 753 | 43 115 631 | 25 352 162 | 41 720 207 | 2 482 957 | - | 135 895 710 |
| Investment securities available for sale | 67 096 | 425 476 | 231 683 | 355 178 | 18 875 | 682 519 | 1 780 827 |
| Repurchase receivable | - | 395 623 | 308 162 | 1 226 234 | 132 155 | - | 2 062 174 |
| Other financial assets | - | - | - | - | - | 597 513 | 597 513 |
| **Total financial assets** | **53 129 210** | **44 539 159** | **26 739 135** | **55 270 515** | **3 733 230** | **2 486 636** | **185 897 885** |
| **Non-financial assets** | | | | | | | |
| Prepaid income tax | - | - | - | - | - | 249 380 | 249 380 |
| Deferred income tax asset | - | - | - | - | - | 6 538 | 6 538 |
| Premises and equipment | - | - | - | - | - | 2 851 213 | 2 851 213 |
| Other non-financial assets | - | - | - | - | - | 740 805 | 740 805 |
| **Total assets** | **53 129 210** | **44 539 159** | **26 739 135** | **55 270 515** | **3 733 230** | **6 334 572** | **189 745 821** |
| **Financial liabilities** | | | | | | | |
| Due to other banks | 7 679 923 | 4 411 192 | 3 874 317 | - | - | - | 15 965 432 |
| Customer accounts | 68 745 926 | 27 804 021 | 14 508 381 | 2 292 294 | 9 143 | - | 113 359 765 |
| Debt securities in issue | 1 165 098 | 1 817 674 | 8 008 340 | 4 476 788 | 440 871 | - | 15 908 771 |
| Other borrowed funds | - | 4 036 084 | - | 15 864 405 | - | - | 19 900 489 |
| Other financial liabilities | - | - | - | - | - | 1 218 186 | 1 218 186 |
| Subordinated debt | 3 745 136 | - | - | - | - | - | 3 745 136 |
| ***Total financial liabilities*** | **81 336 083** | **38 068 971** | **26 391 038** | **22 633 487** | **450 014** | **1 218 186** | **170 097 779** |
| **Non-financial liabilities** | | | | | | | |
| Current tax liabilities | - | - | - | - | - | 80 750 | 80 750 |
| Deferred income tax liability | - | - | - | - | - | 129 814 | 129 814 |
| Other non-financial liabilities | - | - | - | - | - | 467 380 | 467 380 |
| **Total liabilities** | **81 336 083** | **38 068 971** | **26 391 038** | **22 633 487** | **450 014** | **1 896 130** | **170 775 723** |
| **Net sensitivity gap** | **(28 206 873)** | **6 470 188** | **348 097** | **32 637 028** | **3 283 216** | **4 438 442** | **18 970 098** |

## 29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2006:

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | Later than 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 16 319 839 | - | - | - | - | - | 16 319 839 |
| Mandatory cash balances with central banks | 2 243 064 | - | - | - | - | - | 2 243 064 |
| Trading securities | 4 763 | 582 534 | 723 277 | 7 153 782 | 742 562 | 5 243 843 | 14 450 761 |
| Due from other banks | 364 420 | 1 208 | - | 8 031 | - | - | 373 659 |
| Loans and advances to customers | 13 239 866 | 29 925 412 | 20 734 084 | 41 733 313 | 3 316 166 | - | 108 948 841 |
| Investment securities available for sale | 98 814 | 211 003 | 55 628 | 613 987 | 15 133 | 37 839 | 1 032 404 |
| Repurchase receivable | - | - | - | 553 814 | 59 362 | 617 064 | 1 230 240 |
| Other financial assets | - | - | - | - | - | 219 101 | 219 101 |
| **Total financial assets** | **32 270 766** | **30 720 157** | **21 512 989** | **50 062 927** | **4 133 223** | **6 117 847** | **144 817 909** |
| **Non-financial assets** | | | | | | | |
| Prepaid income tax | - | - | - | - | - | 322 783 | 322 783 |
| Deferred income tax asset | - | - | - | - | - | 15 329 | 15 329 |
| Premises and equipment | - | - | - | - | - | 2 638 913 | 2 638 913 |
| Other non-financial assets | - | - | - | - | - | 497 698 | 497 698 |
| **Total assets** | **32 270 766** | **30 720 157** | **21 512 989** | **50 062 927** | **4 133 223** | **9 592 570** | **148 292 632** |
| **Financial liabilities** | | | | | | | |
| Due to other banks | 6 307 883 | 2 478 196 | 3 904 338 | 667 879 | 443 413 | - | 13 801 709 |
| Customer accounts | 47 857 869 | 18 429 880 | 15 289 939 | 1 007 351 | 11 403 | - | 82 596 442 |
| Debt securities in issue | 1 570 296 | 2 959 385 | 3 933 842 | 3 134 169 | 381 042 | - | 11 978 734 |
| Other borrowed funds | 2 489 335 | 2 759 972 | - | 13 826 424 | - | - | 19 075 731 |
| Other financial liabilities | - | - | - | - | - | 575 575 | 575 575 |
| Subordinated debt | - | 4 002 016 | - | - | - | - | 4 002 016 |
| **Total financial liabilities** | **58 225 383** | **30 629 449** | **23 128 119** | **18 635 823** | **835 858** | **575 575** | **132 030 207** |
| **Non-financial liabilities** | | | | | | | |
| Current tax liability | - | - | - | - | - | 55 154 | 55 154 |
| Deferred income tax liability | - | - | - | - | - | 113 949 | 113 949 |
| Other non-financial liabilities | - | - | - | - | - | 342 341 | 342 341 |
| **Total liabilities** | **58 225 383** | **30 629 449** | **23 128 119** | **18 635 823** | **835 858** | **1 087 019** | **132 541 651** |
| **Net sensitivity gap** | **(25 954 617)** | **90 708** | **(1 615 130)** | **31 427 104** | **3 297 365** | **8 505 551** | **15 750 981** |

## 29 Financial Risk Management (Continued)

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates in amounts and periods which differ; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors the level of mismatch of interest rate repricing terms and dates and manages interest rate risk by regulating the level of the mismatch. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions in respect of dates and repricing terms.

The table below summarises the effective interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on period-end effective rates.

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| *In % p.a.* | RR | USD | Euro | Other | RR | USD | Euro | Other |
| **Assets** | | | | | | | | |
| Correspondent accounts and overnight placements with other banks | 3.0 | 1.5 | 0.5 | 0.2 | 2.3 | 4.4 | 2.1 | 3.1 |
| Placements with other banks with original maturities of less than three months | 4.4 | 4.5 | 4.0 | - | 6.5 | 5.3 | 3.6 | 13.9 |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | 7.1 | - | - | - | 7.7 | - | - | - |
| Debt trading securities | 7.8 | 3.9 | - | - | 6.4 | 6.3 | - | - |
| Due from other banks | - | 11.6 | - | 2.6 | - | 5.0 | 2.2 | 8.4 |
| Loans and advances to customers | 10.7 | 12.7 | 10.7 | 15.7 | 12.1 | 12.3 | 8.9 | 17.3 |
| Debt investment securities available for sale | 9.0 | 6.7 | - | 13.3 | 8.5 | 6.2 | - | 12.8 |
| Repurchase receivable | 6.2 | - | - | - | 6.2 | - | - | - |
| **Liabilities** | | | | | | | | |
| Due to other banks | 5.4 | 6.3 | 5.5 | 3.3 | 4.7 | 6.7 | 5.0 | 6.3 |
| Customer accounts | | | | | | | | |
| - current and settlement accounts | 0.3 | 0.1 | 0.1 | 1.6 | 0.1 | 0.1 | 0.2 | 0.9 |
| - term deposits | 7.4 | 7.4 | 5.3 | 14.0 | 7.5 | 6.6 | 5.3 | 9.0 |
| Debt securities in issue | 8.5 | 6.5 | 0.0 | - | 7.7 | 4.8 | 2.5 | - |
| Other borrowed funds | - | 8.8 | - | - | - | 9.1 | - | - |
| Subordinated debt | - | 9.1 | - | - | - | 9.7 | - | - |

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

Interest risk management by means of monitoring of the mismatching of the maturities of interest bearing assets and liabilities is supplemented by the procedure of monitoring of the Group's net interest income sensitivity to various standard and non-standard interest rate change scenario. Also, for the purpose of balance sheet interest rate risk management the Group regulates conditions of early repayment of assets and liabilities. In order to limit mismatch in the conditions of early repayment of the Group's assets and liabilities, certain clauses are introduced into standard forms of contracts on term transactions that protect from the risk of early repayment and from failure to meet deadlines for fulfilment of commitments.

## 29 Financial Risk Management (Continued)

The analysis of the sensitivity of net interest income on the Group's non-trading book for one year based on the increase or decrease in market interest rates, prepared on the basis of a simplified scenario of parallel decrease or increase of yield curves by 100 basis points on the assumption of the absence of asymmetric changes in yield curves and presence of a constant balance sheet position, is set out below.

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Parallel increase by 100 basis points | (107 397) | (5 983) |
| Parallel decrease by 100 basis points | 107 397 | 5 983 |

## 30 Contingencies and Commitments

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

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

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

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

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

## 30 Contingencies and Commitments (Continued)

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters management estimates that the Group has other possible obligations from exposure to other than remote tax risks in the range from zero to RR 186 099 thousand (31 December 2006: from zero to RR 273 223 thousand). The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

***Capital commitments.*** At 31 December 2007 the Group has contractual capital expenditure commitments in respect of premises and equipment for the total amount of RR 539 249 thousand (2006: RR 67 324 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Not later than 1 year | 290 584 | 188 887 |
| Later than 1 year and not later than 5 years | 765 042 | 420 892 |
| Later than 5 years | 808 372 | 783 860 |
| **Total operating lease commitments** | **1 863 998** | **1 393 639** |

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to other borrowed funds. Non-compliance with such covenants may result in claims from creditors for early repayment of debt by the Group.

One of these covenants is fulfilment by the Group of minimum capital adequacy requirements calculated 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.

The composition of the Group's capital calculated in accordance with Basle Accord at 31 December 2007 and at 31 December 2006 is as follows:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Tier 1 capital | 18 993 351 | 15 768 622 |
| Tier 2 capital | 3 734 672 | 3 994 078 |
| **Total equity** | **22 728 023** | **19 762 700** |
| **Total risk weighted assets** | **165 936 990** | **138 056 726** |
| Total capital-to-risk-weighted-assets ratio (%) (total capital adequacy ratio) | 13.7% | 14.3% |
| Total Tier 1 capital-to-risk–weighted-assets ratio (%) (Tier 1 capital adequacy ratio) | 11.4% | 11.4% |

Also the Group's objective of capital management is to comply with the capital requirements set by the Central Bank of the Russian Federation. Refer to note 29.

***Share-based payments to key management.*** During the first six months of 2007 IFD Kapital Group sold 4.130% shares of the Bank to a company acting in the benefit of the President of the Bank, at nominal value. Also 0.128% shares of the Bank have been purchased from minorities. As a result, the share capital of the Bank owned by this company increased up to 7.271%. Finalisation of legal formalities of transferring the legal ownership of the above mentioned company to the President of the Bank is planned to happen by mid 2009. For the purpose of IFRS financial statements prepared in accordance with IFRS 2 "Share-based Payment" requirements, and the substance over from argument management believes this transaction took place during the first half of 2007. This share based compensation was fully vested at the date. As a result of this trasaction made at nominal value, acquisition share based compensation, in accordance with IFRS 2 "Share-based Payment", in the amount of RR 418 064 thousand was recorded in the consolidated income statement and consolidated statement of changes in equity of the Group.

***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.

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. The outstanding credit related commitments of the Group are as follows:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Guarantees issued | 6 831 804 | 3 841 829 |
| Export letters of credit | 1 299 015 | 133 287 |
| Import letters of credit | 360 893 | 2 566 825 |
| Letters of credit for payments in the Russian Federation | 178 011 | 167 169 |
| **Total credit related commitments** | **8 669 723** | **6 709 110** |

Deposits of RR 3 466 626 thousand (2006: RR 2 138 918 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit with settlement in the Russian Federation are recorded in customer accounts (Refer to Note 16). These letters of credit are not included in the table above.

At 31 December 2007 the Group had commitments in relation to credit lines totalling RR 16 881 003 thousand (2006: RR 15 576 861 thousand). The Group had no irrevocable commitments (2006: RR 36 046 thousand).

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

Credit related commitments are denominated in currencies as follows:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Russian Roubles | 5 198 158 | 1 643 885 |
| USD | 2 803 765 | 3 709 712 |
| Euro | 577 195 | 1 326 698 |
| Other | 90 605 | 28 815 |
| **Total credit related commitments** | **8 669 723** | **6 709 110** |

***Trust activities.*** The Group provides asset management services to its customers in its own name but on their accounts. These are assets that are not included in the Group's consolidated balance sheet as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

## 30 Contingencies and Commitments (Continued)

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Corporate shares | 4 306 616 | 3 110 729 |
| Corporate bonds | 1 788 694 | 2 246 486 |
| Cash funds | 160 359 | 377 357 |
| Municipal bonds and bonds of the Russian Federation's regions | 607 | 333 634 |
| Federal loan bonds (OFZ bonds) | - | 447 482 |
| Other | 497 681 | 284 629 |
| **Total assets in trust management** | **6 753 957** | **6 800 317** |

***Fiduciary assets.*** These assets are held in the custody of the Group and not included in the Group's consolidated balance sheet as they are not assets of the Group. Investment units are recorded at their estimated fair value. Other securities are disclosed at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

| *In thousands of Russian Roubles* | 2007 | 2006 |
|---|---|---|
| Corporate shares | 1 458 764 | 1 613 157 |
| Corporate Eurobonds | 208 643 | 92 159 |
| Promissory notes | 13 507 | 28 069 |
| Corporate bonds | 17 928 | 12 349 |
| Investment units | - | 1 765 108 |
| Other | 170 | 15 302 |

***Assets pledged and restricted.*** At 31 December 2007, the Group has the following assets pledges as collateral:

| | | 2007 | | 2006 | |
|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Note | Assets pledged | Related liability | Assets pledged | Related liability |
| Trading securities pledged for the credit limit of the CBRF | 8 | 2 573 796 | - | 2 485 872 | - |
| Trading securities pledged under sale and repurchase agreements | 12, 15, 16 | 2 062 174 | 2 001 938 | 1 230 240 | 1 115 846 |
| Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements | 15, 16 | 1 956 899 | 1 880 132 | 1 726 955 | 1 722 453 |
| Term deposits of other banks | 9, 15 | 246 087 | 228 975 | 353 416 | 353 505 |

## 31 Derivative Financial Instruments

Foreign exchange and other 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. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative financial instruments held are set out in the following table. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Principal or agreed amount | Positive fair value | Negative fair value | Principal or agreed amount | Positive fair value | Negative fair value |
| **Forwards** | | | | | | |
| Foreign currency | | | | | | |
| - purchase of USD for RR | 9 068 337 | 2 089 | (37 841) | 4 752 764 | - | (3 931) |
| - purchase of USD for EUR | - | - | - | 1 021 860 | 103 | (1 790) |
| - purchase of EUR for RR | 9 810 | - | (15) | 1 631 | 2 | - |
| - purchase of EUR for USD | - | - | - | - | - | - |
| - purchase of RR for USD | 14 061 957 | 32 269 | (11 968) | 521 180 | 8 | (184) |
| - Other | 24 506 | - | (286) | - | - | - |
| Securities | | | | | | |
| - sale of securities | 985 862 | 11 836 | (267) | - | - | - |
| **Futures** | | | | | | |
| Foreign currency | | | | | | |
| - purchase of USD | 3 557 321 | - | - | - | - | - |
| - sale of USD | 1 815 557 | - | - | - | - | - |
| **Total derivative financial instruments** | | **46 194** | **(50 377)** | | **113** | **(5 905)** |

## 32 Fair Value of Financial Instruments

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

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

***Financial instruments carried at fair value.*** Trading securities, investment securities available for sale, derivative financial instruments and repurchase receivable are carried on the consolidated balance sheet at their fair value. Fair values were determined 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 bearing placements is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

***Liabilities carried at amortised cost.*** The fair value of bonds and Eurobonds in issue is based on quoted 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 remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, 17, 18 and 20 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively.

## 33 Related Party Transactions

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

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. A majority stake in IFD Kapital Group is beneficially owned by Mr. Alekperov and Mr. Fedun (the "ultimate beneficiaries") and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with the Bank's significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced at market rates.

## 33 Related Party Transactions (Continued)

At 31 December 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Shareholders | Other | Shareholders | Other |
| Correspondent accounts and overnight deposits with other banks (contractual interest rate: 2007: 0.0%; 2006: 0.0%) | - | 1 582 | - | 2 575 |
| Trading securities | - | 377 092 | - | 1 124 321 |
| Loans and advances to customers | | | | |
| Loans and advances (contractual interest rate: 2007: 10.0%-20.0%; 2006: 7.2%-16.0%) | 61 277 | 287 687 | 2 359 307 | 1 000 726 |
| Provision for loan impairment | (1 667) | (4 669) | (9 014) | (6 546) |
| Debt investment securities available for sale (contractual interest rate: 2006: 14.0%) | - | - | - | 47 835 |
| Equity investment securities available for sale | - | 26 609 | - | 24 476 |
| Repurchase receivable | - | - | - | 178 135 |
| Due to other banks | | | | |
| Correspondent accounts and overnight deposits of other banks (contractual interest rate: 2007: 0.1%; 2006: 0.0%-0.1%) | - | 11 972 | - | 4 045 |
| Term placements of other banks (contractual interest rate: 2006: 2.0%) | - | - | - | 40 004 |
| Customer accounts | | | | |
| Current/settlement accounts (contractual interest rate: 2007: 0.0%-0.5%; 2006: 0.0%-0.1%) | 57 027 | 4 027 713 | 1 122 921 | 4 405 825 |
| Term deposits (contractual interest rate: 2007: 0.5%-15.5%; 2006: 0.5%-11.5%) | 5 817 716 | 27 193 833 | 4 524 482 | 3 727 007 |
| Debt securities in issue (contractual interest rate: 2007: 0.0%-9.0%; 2006: 0.0%-11.0%) | - | 2 819 798 | 29 019 | 607 451 |
| Subordinated debt (contractual interest rate: 2007: 9.1%; 2006: 9.4%) | - | 3 745 136 | - | 4 002 016 |
| Guarantees issued by the Group | - | 1 909 328 | 285 | 1 483 208 |
| Guarantees received by the Group | - | 189 198 | 67 321 | 129 500 |
| Import letters of credit | - | 44 697 | - | 48 530 |
| Letters of credit for settlements in the Russian Federation | - | 158 401 | - | 145 879 |
| Assets in trust management | 1 674 514 | 141 842 | 2 706 841 | 30 302 |

## 33 Related Party Transactions (Continued)

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

| *In thousands of Russian Roubles* | 2007 Shareholders | 2007 Other | 2006 Shareholders | 2006 Other |
|---|---|---|---|---|
| Interest income: | | | | |
| - Loans to customers | 4 505 | 7 427 | 13 443 | 35 583 |
| - Debt investment securities available for sale | - | 2 081 | - | 3 250 |
| - Sale and repurchase agreements | - | 11 892 | 936 | 1 098 |
| Interest expense: | | | | |
| - Due to other banks | - | (60) | - | (2) |
| - Customer accounts | (286 131) | (496 310) | (326 562) | (313 870) |
| - Debt securities issued | (8) | (25 354) | (910) | (7 490) |
| - Subordinated debt | - | (338 520) | - | (52 351) |
| Losses net of gains from trading securities | - | (37 321) | - | (31 370) |
| Gains less losses from disposal of investment securities available for sale | - | - | - | 2 029 |
| Gains less losses from trading in foreign currencies | 2 552 | 138 713 | 4 066 | 173 291 |
| Fee and commission income | 111 | 324 612 | 4 298 | 345 462 |
| Fee and commission expense | - | (77) | - | (123) |
| Share based compensation | (418 064) | - | - | - |

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

| *In thousands of Russian Roubles* | 2007 Shareholders | 2007 Other | 2006 Shareholders | 2006 Other |
|---|---|---|---|---|
| Amounts lent to related parties during the year | 298 953 | 3 440 295 | 5 231 645 | 1 780 239 |
| Amounts repaid by related parties during the year | 2 597 039 | 4 138 584 | 3 002 178 | 1 121 335 |

The "Shareholders" column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The "Other" column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

As at 31 December 2007, included in customer accounts are amounts of RR 1 656 325 thousand (2006: RR 2 860 571 thousand) belonging to the ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts comprised RR 91 224 thousand (2006: RR 83 920 thousand).

In 2007, the remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 364 617 thousand (2006: RR 290 816 thousand) excluding share based compensation.

## 34 Principal Subsidiaries

| Name | Nature of business | Percentage of the Bank's direct ownership | Percentage of Group's control | Country of registration |
|---|---|---|---|---|
| Komi Regional Bank "UKHTABANK" | Banking | 96.74 | 96.74 | Russia |
| Petrocommerce-Ukraine Bank | Banking | 74.96 | 95.30 | Ukraine |
| Stavropolpromstroybank | Banking | 77.27 | 77.27 | Russia |
| UNIBANK | Banking | - | 100.00 | Moldova |
| Petrocommerce Invest S.A. | Financial activity | 100.00 | 100.00 | Luxembourg |

The Group does not have direct ownership in Unibank but exercises control as the Supervisory Council consists of Vice-presidents of the Bank. In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities on the Russian market.