National Bank TRUST

Consolidated Financial Statements

For the year ended 31 December 2007

Notes to Consolidated Financial Statements

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Independent Auditors' Report

To the Board of Directors of National Bank TRUST

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
23 May 2008

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2007 RR'000	31 December 2006 RR'000
Assets			
Cash and cash equivalents	5	21 196 031	10 371 653
Obligatory deposits with the CBR		666 419	775 344
Financial assets at fair value through profit or loss			
- unpledged	6	1 889 083	6 149 572
- pledged under sale and repurchase agreements	6	1 802 845	112
Amounts due from credit institutions		23 223	14 988
Available-for-sale assets	7	185 675	-
Loans to customers	8	36 089 573	24 847 152
Tax assets	17	160 028	89 252
Property, equipment and intangibles	9	4 113 196	1 965 042
Other assets		818 280	456 385
Total assets		**66 944 353**	**44 669 500**
Liabilities			
Financial liabilities at fair value through profit or loss	6	14 304	2 087
Amounts due to credit institutions	10	4 619 720	1 125 939
Amounts due to customers	11	43 038 867	34 867 976
Debt securities issued	12	10 110 207	3 713 465
Tax liabilities	17	465 047	451 597
Other liabilities		414 355	171 164
Total liabilities		**58 662 500**	**40 332 228**
Shareholders' equity			
Share capital	13	2 896 441	2 896 441
Additional paid-in capital	13	4 274 435	706 013
Revaluation reserve for property, equipment and intangibles		587 483	439 382
Revaluation reserve for available-for-sale assets		(11 387)	-
Retained earnings		534 881	295 436
Total shareholders' equity		**8 281 853**	**4 337 272**
Total liabilities and shareholders' equity		**66 944 353**	**44 669 500**

Signed and authorized for release on behalf of the Board of the Bank on May 23, 2008.

Nikolay V. Fetisov **President of the Bank**

Sergey A. Sirotin **Chief Financial Officer**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles except otherwise stated)

CONSOLIDATED INCOME STATEMENT

	Notes	2007	2006
Interest income	14	8 522 115	4 621 577
Interest expense	14	(2 948 369)	(1 373 039)
Net interest income		**5 573 746**	**3 248 538**
Allowance for impairment	8	(1 824 476)	(664 918)
Net interest income after allowance for impairment		**3 749 270**	**2 583 620**
Fee and commission income	15	999 438	924 789
Fee and commission expense	15	(223 446)	(159 199)
Net fee and commission income		**775 992**	**765 590**
Net gain on financial instruments at fair value through profit or loss		65 076	70 143
Net foreign exchange gain		15 227	210 512
Net translation gain/(loss)		126 199	(89 212)
Gain on acquisition of subsidiaries	28	320 576	-
Other income		45 634	78 684
Other non-interest income		**572 712**	**270 127**
Operating income		**5 097 974**	**3 619 337**
Salaries and employment benefits	16	(2 808 057)	(1 855 422)
Administrative expenses	16	(1 709 294)	(1 148 485)
Depreciation and amortization	9	(262 913)	(164 835)
Other expenses		(89 362)	(147 975)
Operating expense		**(4 869 626)**	**(3 316 717)**
Income before tax		**228 348**	**302 620**
Income tax benefit/(expense)	17	142 925	(110 879)
Net income		**371 273**	**191 741**

The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2007 RR'000	2006 RR'000
Cash flows from operating activities			
Interest and fees and commissions received		8 549 923	5 208 407
Interest and fees and commissions paid		(3 033 055)	(1 334 744)
Net (loss)/gain on financial instruments at fair value through profit or loss		(4 105)	116 816
Net foreign exchange gain		26 587	213 397
Other income		45 634	107 214
Salaries and employment benefits		(2 672 504)	(1 917 133)
Administrative and other expenses		(1 863 471)	(1 275 629)
Cash flow provided from operating activities before changes in operating assets and liabilities		**1 049 009**	**1 118 328**
Net (increase)/decrease in operating assets:			
Obligatory deposits with the CBR		108 925	(136 317)
Financial assets at fair value through profit or loss		2 447 717	1 109 289
Amounts due from credit institutions		(8 235)	-
Available-for-sale assets		(196 369)	-
Loans to customers		(12 294 707)	(8 900 329)
Held-to-maturity securities		-	8 954
Other assets		(274 073)	(37 650)
Net increase/(decrease) in operating liabilities:			
Amounts due to credit institutions		3 536 105	(1 723 711)
Amounts due to customers		8 626 230	4 573 171
Other liabilities		108 189	(69 967)
Net cash flows provided from/(used in) operating activities before income taxes		**3 102 791**	**(4 058 232)**
Income taxes paid		(105 387)	(187 090)
Net cash flows provided from/(used in) operating activities		**2 997 404**	**(4 245 322)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	28	148 267	-
Purchase of tangible fixed assets	9	(1 668 906)	(694 114)
Proceeds from sale of tangible fixed assets	9	21 869	19 169
Purchase of intangible assets		(142 562)	(141 555)
Net cash flows used in investing activities		**(1 641 332)**	**(816 500)**
Cash flows from financing activities			
Shareholders' contributions		3 515 000	-
Distribution to shareholders		(162 800)	-
Debt securities issued		6 583 902	2 715 374
Dividends paid		-	(135 488)
Net cash flows provided from financing activities		**9 936 102**	**2 579 886**
Effect of change in exchange rates on cash and cash equivalents		**(467 796)**	**(477 612)**
Net change in cash and cash equivalents		**10 824 378**	**(2 959 548)**
Cash and cash equivalents at the beginning of the year	5	**10 371 653**	**13 331 201**
Cash and cash equivalents at the end of the year	5	**21 196 031**	**10 371 653**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles except otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Additional paid-in capital	Revaluation reserve for property, equipment and intangibles	Revaluation reserve for available-for-sale assets	Retained earnings	Total shareholders' equity
Balance as at 31 December 2005	**2 896 441**	**706 013**	**359 387**	**-**	**231 021**	**4 192 862**
Net income for the period	-	-	-	-	191 741	191 741
Revaluation of buildings, net of deferred tax of RR 27 839 thousand	-	-	88 157	-	-	88 157
Depreciation of revaluation reserve for property, equipment and intangibles, net of deferred tax of RR 2 578 thousand	-	-	(8 162)	-	8 162	-
Total recognized income for the period	**-**	**-**	**-**	**-**	**-**	**279 898**
Dividends paid	-	-	-	-	(135 488)	(135 488)
Balance as at 31 December 2006	**2 896 441**	**706 013**	**439 382**	**-**	**295 436**	**4 337 272**
Net income for the period	-	-	-	-	371 273	371 273
Net unrealized losses on available-for-sale assets, net of deferred tax of RR 3 596 thousand	-	-	-	(11 387)	-	(11 387)
Revaluation of buildings, net of deferred tax of RR 30 006 thousand	-	-	95 020	-	-	95 020
Disposal of buildings, net of deferred tax of RR 2 560 thousand	-	-	(8 108)	-	8 108	-
Depreciation of revaluation reserve for property, equipment and intangibles, net of deferred tax of RR 3 210 thousand	-	-	(10 166)	-	10 166	-
Share in investee's changes in retained earnings attributable to the Group (Note 28)	-	-	-	-	12 698	12 698
Revaluation of investee's intangibles attributable to the Group, net of deferred tax of RR 22 533 thousand (Note 28)	-	-	71 355	-	-	71 355
Total recognized income for the period	**-**	**-**	**-**	**-**	**-**	**538 959**
Shareholders' contributions, net of deferred tax of RR 16 870 thousand (Note 13)	-	3 568 422	-	-	-	3 568 422
Distribution to shareholders					(162 800)	(162 800)
Balance as at 31 December 2007	**2 896 441**	**4 274 435**	**587 483**	**(11 387)**	**534 881**	**8 281 853**

1. Principal Activities

These consolidated financial statements include the financial statements of National Bank TRUST and its subsidiaries. The Bank and its subsidiaries together are referred to as the "Group".

National Bank TRUST (the "Bank") is the leading company in the Group. It was formed on 27 November 1995 as a closed joint stock company under the laws of the Russian Federation and was named Bank MENATEP St. Petersburg. On 18 December 2000 the Bank was re-organized into an open joint stock company. In March 2005 the Bank was re-named to National Bank TRUST. The Bank operates under general banking licence № 3279 from the Central Bank of the Russian Federation (the "CBR"), issued on 20 October 2006, and a licence for operations with precious metals from the CBR, issued on 20 October 2006. The Bank also possesses a licence for operations with securities from the Federal Securities Market Commission (the "FSMC"), granted on 27 November 2000, and a licence for custody services from the FSMC, granted on 7 December 2000. The Bank was accepted into the state deposit insurance scheme in December 2004. The Bank accepts deposits from the public and makes loans, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The Bank has 60 branches in 54 regions of Russia. The Bank's registered legal address is: Ulansky Lane, 24/1, Moscow, Russia, 107045.

As at 31 December 2007 the Group is ultimately controlled by TIB Holdings Limited (the "ultimate parent company"), which in its turn is controlled by three individuals who have the power to direct the transactions of the Bank at their own discretion and for their own benefit. Those individuals are Ilya S. Yurov, Sergey L. Belyaev and Nikolay V. Fetisov. At the end of 2007 the Bank announced a buyout of the shares of the Bank's ex-shareholder Artashes A. Terzyan. Terzyan's entire holding was bought out by remaining three individuals.

In November 2007 Merill Lynch bought effective control of 8.86% of the Group.

Other minority shareholders control 0.65% of the Group.

A list of subsidiaries of the Bank is disclosed in Note 27.

2. Operating Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. These consolidated financial statements reflect management's assessment of the impact of the Russian Federation business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Basis of measurement

These consolidated financial statements are prepared on the historical or amortized cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value, and buildings are revalued periodically.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble ("RR"). Management has determined the Group's functional currency to be the RR as it reflects the economic substance of the underlying events and circumstances of the Group. The RR is also the Group's presentation currency for the purposes of these consolidated financial statements. These consolidated financial statements are presented in thousands of Russian Rubles, except per share amounts and unless otherwise indicated.

Use of estimates and judgments
The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following Notes:

- Loan impairment estimates – refer to Note 8;
- Building revaluation estimates – refer to Note 9;
- Taxation – refer to Note 17;
- Assets and liabilities of acquired subsidiaries revaluation estimates – refer to Note 28.

4. Summary of Accounting Policies

The following significant accounting policies have been applied in the preparation of these consolidated financial statements. The accounting policies have been consistently applied. Changes in accounting policies as a result of revised accounting standards which have been applied retrospectively are described at the end of this Note.

Basis of consolidation

Subsidiaries
Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities
The Group established a number of special purpose entities (SPEs) for the purpose of raising finance. The Group does not have any direct or indirect shareholdings in these entities. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks related to the SPEs.

Transactions eliminated in consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions
Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

The official CBR exchange rates as at 31 December 2007 and 31 December 2006, were 24.5462 Russian Rubles and 26.3311 Russian Rubles to 1 US Dollar respectively.

Inflation accounting
The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's non-monetary assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting. Gains or losses on subsequent disposal are recognized based on the restated cost of non-monetary assets and liabilities.

Cash and cash equivalents
The Group considers cash on hand, Nostro accounts with the CBR, Nostro accounts with other credit institutions and short-term deposits with other credit institutions with an original maturity of less then 90 days to be cash and cash equivalents. The obligatory deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification
Financial instruments at fair value through profit or loss are financial assets or liabilities that are:
- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss upon initial recognition where either:
- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:
- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition
Financial assets and liabilities are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement
A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction of transaction costs that may be incurred on sale or other disposal, except for:
- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction of transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement
A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:
- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortisation process.

Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

Repurchase and reverse repurchase agreements
Securities sold under sale and repurchase agreements (“repo”) are accounted for as secured financing transactions, with the securities retained in the consolidated balance sheet and the corresponding liability included in amounts due to credit institutions or customers. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

Property and equipment

Owned assets
Items of property and equipment are stated at cost or cost adjusted for hyperinflation, where applicable, less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets
Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expend over the life of the lease.

Revaluation
Buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of buildings is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Depreciation
Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings and other premises	50
Fixtures and equipment	5-7

Intangible assets
Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

	Years
Software and licenses	1-10
Customer relationships	5

Intangible assets under development are not amortised. Amortisation of these assets will begin when the related assets are placed in service.

Impairment

Financial assets carried at amortised cost
Financial assets carried at amortised cost consist principally of loans, other receivables and unquoted available-for-sale debt securities (“loans and receivables”). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the

Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. This assessment has been made based upon historical patterns of losses in each component, the credit rating assigned to the borrowers, and reflect the current economic environment in which the borrowers operate. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in other assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and can not be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Business combinations

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the consolidated income statement in the year of acquisition.

Share capital and dividends
Share capital of the Group is accounted at cost adjusted for hyperinflation. The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event and disclosed accordingly.

Treasury shares
Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid including any attributable incremental external costs is deducted from total shareholders' equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in shareholders' equity.

Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided, using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expenses recognition
With the exception of financial assets at fair value through profit or loss, interest income and expenses are recognized in the consolidated income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income on financial assets at fair value through profit or loss comprises coupon interest only. Interest income and expenses on the financial instruments other than financial assets at fair value through profit or loss include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Commission and other income are recognized when the corresponding service is provided.

Dividend income
Dividend income from investments in companies where the Group does not have control or significant influence is recognised in the consolidated income statement on the date that the dividend is declared.

Staff costs and related contributions
The Group's contributions to State pension and social insurance funds in respect of its employees are expensed as incurred and included into salaries and employment benefits.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Segment reporting
The Group has elected to early adopt definitions and requirements included in IFRS 8 *"Operating Segments"*.

An operating segment is a component of a Group:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group),
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Based of analysts of the requirements listed above the Management of the Group came to a consultation that it operates in one main reportable business segment (2006: one main reportable business segment).

Changes in accounting policies
As of January 1, 2007 the Group adopted IFRIC 9 *"Reassessment of Embedded Derivatives"* and IFRIC 10 *"Consolidated Financial Reporting and Impairment"*. Application of these Interpretations had not required increased disclosures in respect of the Group's financial instruments and the nature and extent of risks arising from financial instruments.

As at 1 January 2007, the Group adopted IFRS 7 *"Financial Instruments: Disclosures"* and the amendment to IAS 1 *"Presentation of Financial Statements - Capital Disclosures"*. Application of the Standard and the amendment results in increased disclosures in respect of the Group's financial instruments and the nature and extent of risks arising from financial instruments and increased disclosure in respect of the Group's capital.

New Standards and Interpretations not yet adopted
A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

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(Thousands of Russian Rubles except otherwise stated)

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2007	31 December 2006
Cash on hand	**1 967 632**	**1 319 588**
Nostro accounts with the CBR	**4 780 421**	**3 579 753**
Nostro accounts with other credit institutions:		
Rated AAA	372 583	363 073
Rated from AA- to AA+	52 164	53 889
Rated A- to A+	277 565	3 422
Rated BBB	140 221	99 798
Rated from BB- to BB+	-	429
Rated B+	4 753	7 647
Rated below B+	212	577
Not rated	272 606	96 029
Total current accounts with other credit institutions	**1 120 104**	**624 864**
Short-term deposits with other credit institutions:		
Rated from AA- to AA+	278 661	676 415
Rated A- to A+	330 056	-
Rated BBB	12 714 803	4 171 033
Not rated	4 354	-
Total short-term deposits with other credit institutions	**13 327 874**	**4 847 448**
Cash and cash equivalents	**21 196 031**	**10 371 653**

As at 31 December 2007 the Group had two borrowers (31 December 2006: two borrowers) with aggregated balances of short-term deposits above 10% of shareholder's equity each. The aggregate amount of these short-term deposits was RR 12 714 803 thousand (31 December 2006: RR 4 847 448 thousand).

Interest rate, maturity, currency and geographical analyses of cash and cash equivalents are disclosed in Notes 21-24. The estimated fair value of cash and cash equivalents is disclosed in Note 25. Information on related party balances is disclosed in Note 26.

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(Thousands of Russian Rubles except otherwise stated)

6. Financial Instruments at Fair Value through Profit or Loss

Financial assets and liabilities at fair value through profit or loss comprise:

	31 December 2007	31 December 2006
Assets		
Unpledged		
Debt and other fixed-income instruments		
Government and municipal bonds		
Federal loan bonds (OFZ)	1 307 715	4 635 915
Regional authorities and municipal bonds	8 717	666 953
Ministry of Finance of the Russian Federation bonds	-	490
Total government and municipal bonds	**1 316 432**	**5 303 358**
Corporate bonds		
Rated from A- to A+	-	101 446
Rated from BB- to BB+	-	363 620
Rated B+	-	214 562
Not rated	558 676	163 945
Total corporate bonds	**558 676**	**843 573**
Equity investments		
Corporate shares	13 424	2 616
Derivative financial instruments		
Foreign currency contracts	551	25
Total unpledged financial assets at fair value through profit or loss	**1 889 083**	**6 149 572**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government and municipal bonds		
Federal loan bonds (OFZ)	1 353 214	112
Regional authorities and municipal bonds	449 631	-
Total government and municipal bonds	**1 802 845**	**112**
Total pledged financial assets at fair value through profit or loss	**1 802 845**	**112**
Total financial assets at fair value through profit or loss	**3 691 928**	**6 149 684**
Liabilities		
Derivative financial instruments		
Foreign currency contracts	(14 304)	(2 087)
Total financial liabilities at fair value through profit or loss	**(14 304)**	**(2 087)**

Federal loan bonds (OFZ) are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturities between 2010 and 2036 (2006: between 2007 and 2036). The annual coupon rates on these bonds range from 6% to 10% (2006: 6% to 10%).

Regional authorities and municipal bonds are Rouble denominated securities issued by the region of Yamalo-Nenetsk which mature in 2008 (2006: bonds of the city of St. Petersburg, the regions of Yamalo-Nenetsk and Sakha-Yakutiya, with maturities between 2007 and 2014). The annual coupon rate on these bonds was 10% (2006: range from 9% to 13%).

Ministry of Finance of the Russian Federation bonds were US Dollar denominated bearer securities, which carried the guarantee of the Ministry of Finance of the Russian Federation, with maturity in 2007. The annual coupon rate on those bonds was 3%.

Corporate bonds are represented by US Dollar denominated non-quoted bonds of a foreign company (2006: corporate bonds of large Russian companies), with maturity in 2009 (2006: with maturities between 2008 and 2018). The annual coupon rate on these bonds was 8% (2006: 8% to 10%).

Corporate shares are mainly represented by marketable shares of a foreign company.

Interest rate, maturity, currency and geographical analyses of financial instruments at fair value through profit or loss are disclosed in Notes 21-24. The estimated fair value of financial instruments at fair value through profit or loss is disclosed in Note 25. Information on related party balances is disclosed in Note 26.

Derivative financial instruments

Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group’s exposure to credit or price risks. The derivative instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market foreign exchange rates relative to their terms. The extent to which instruments have favorable or unfavorable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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(Thousands of Russian Rubles except otherwise stated)

The principal agreed amounts and fair values of outstanding derivative financial instruments are set out in the following tables. These tables reflect the gross position before netting of any counterparty position by types of instruments.

The outstanding deals with derivative financial instruments are as follows:

31 December 2007

	Notional principal		Average	Fair values	
	Buy	**Sell**	**rate**	**Asset**	**Liability**
Foreign exchange contracts					
Spot deals - domestic conterparties	152 000 thousand US Dollars	3 739 577 thousand RR	24.60	551	(9 105)
Spot deals - domestic conterparties	7 000 thousand Euro	251 532 thousand RR	35.93	-	-
Spot deals - foreign conterparties	31 500 thousand Euro	46 325 thousand US Dollars	1.47	-	(5 199)
Derivative financial instruments				**551**	**(14 304)**

31 December 2006

	Notional principal		Average	Fair values	
	Buy	**Sell**	**rate**	**Asset**	**Liability**
Foreign exchange contracts					
Forwards - foreign conterparties	121 806 thousand RR	4 625 thousand US Dollars	26.34	-	(97)
Spot deals - domestic conterparties	66 120 thousand US Dollars	1 743 003 thousand RR	26.36	-	(1 990)
	27 000 thousand EUR	35 577 thousand US Dollars	1.32	25	-
Spot deals - foreign conterparties	46 000 thousand US Dollars	1 211 231 thousand RR	26.33	-	-
Derivative financial instruments				**25**	**(2 087)**

All the above contracts mature within 1 month (2006: 1 month) from the balance sheet date.

The fair value of the Group's position on derivatives was calculated as follows:

- **Forward foreign exchange contracts** – based on the estimated RR/USD forward rates.
- **Spot foreign exchange contracts** – based on the estimated RR/USD, RR/EUR and EUR/USD spot rates effective as at 31 December 2007 and 31 December 2006.

Information on Group's exposure to risks associated with financial instruments at fair value through profit or loss is disclosed in Note 18.

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(Thousands of Russian Rubles except otherwise stated)

7. Available-for-sale Assets

Available-for-sale assets comprise:

	31 December 2007	31 December 2006
Corporate bonds		
Rated B+	185 675	-
Total corporate bonds	**185 675**	**-**

Available-for-sale assets comprise US Dollar denominated eurobonds of Trust Investment Bank with maturity in 2009. The annual coupon rate on these bonds is 9.25%.

Interest rate, maturity, currency and geographical analyses of available-for-sale assets are disclosed in Notes 21-24. The estimated fair value of available-for-sale assets is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

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(Thousands of Russian Rubles except otherwise stated)

8. Loans to Customers

Loans to customers comprise:

	31 December 2007	31 December 2006
Commercial loans		
Loans to large corporates	5 263 466	10 193 213
Factoring receivables	4 060 833	-
Loans to small and medium companies	3 009 618	543 820
Total commercial loans	**12 333 917**	**10 737 033**
Loans to individuals		
Consumer loans	13 806 444	6 794 461
Auto loans	6 788 581	5 668 245
Micro loans	3 257 990	1 719 427
Credit cards	1 235 411	472 712
Mortgage loans	614 263	32 190
Other loans to individuals	319 109	510 108
Total loans to individuals	**26 021 798**	**15 197 143**
Loans to customers	**38 355 715**	**25 934 176**
Allowance for impairment	(2 266 142)	(1 087 024)
Loans to customers (net of allowance for impairment)	**36 089 573**	**24 847 152**

Movements in the loan impairment allowance for the year ended 31 December 2007 and 31 December 2006 are as follows:

	2007	2006
Balance at the beginning of the year	**1 087 024**	**883 179**
Net charge for the year	1 824 476	664 918
Write-offs	(784 063)	(461 073)
Amounts recovered on loans previously written off	12 667	-
Acquisition of IFC TRUST	126 038	-
Balance at the end of the year	**2 266 142**	**1 087 024**

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(Thousands of Russian Rubles except otherwise stated)

Gross amounts of impaired loans provided in the tables below represent amortized cost and include not yet contractually overdue portions of loans. Contractually overdue balances of loans (net of allowance for impairment) are disclosed in Note 22.

The following table provides information on the credit quality of commercial loans as at 31 December 2007.

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans individually assessed for impairment				
Loans to large corporates				
Loans for which no individual impairment has been identified:				
- Not past due	4 402 646	(23 201)	4 379 445	0.5%
Total loans for which no individual impairment has been identified	*4 402 646*	*(23 201)*	*4 379 445*	*0.5%*
Individually impaired loans:				
- Not past due	645 632	(125 685)	519 947	19.5%
- Overdue less than 90 days	32 196	(3 491)	28 705	10.8%
- Overdue more then 90 days	182 992	(137 167)	45 825	75.0%
Total individually impaired loans	*860 820*	*(266 343)*	*594 477*	*30.9%*
Total loans to large corporates	**5 263 466**	**(289 544)**	**4 973 922**	**5.5%**
Commercial loans collectively assessed for impairment				
Factoring receivables				
- Not past due	2 924 866	(90 781)	2 834 085	3.1%
- Overdue less than 90 days	722 651	(22 429)	700 222	3.1%
- Overdue more then 90 days	413 316	(12 828)	400 488	3.1%
Total factoring receivables	**4 060 833**	**(126 038)**	**3 934 795**	**3.1%**
Loans to small and medium companies				
- Not past due	2 951 427	(13 374)	2 938 053	0.5%
- Overdue less than 90 days	44 776	(6 882)	37 894	15.4%
- Overdue more then 90 days	13 415	(6 305)	7 110	47.0%
Total loans to small and medium companies	**3 009 618**	**(26 561)**	**2 983 057**	**0.9%**
Total commercial loans	**12 333 917**	**(442 143)**	**11 891 774**	**3.6%**

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(Thousands of Russian Rubles except otherwise stated)

The following table provides information on the credit quality of commercial loans as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans individually assessed for impairment				
Loans to large corporates				
Loans for which no individual impairment has been identified:				
- Not past due	9 839 970	(48 248)	9 791 722	0.5%
Total loans for which no individual impairment has been identified	*9 839 970*	*(48 248)*	*9 791 722*	*0.5%*
Individually impaired loans:				
- Not past due	58 479	(25 816)	32 663	44.1%
- Overdue less than 90 days	42 802	(41 250)	1 552	96.4%
- Overdue more then 90 days	251 962	(186 730)	65 232	74.1%
Total individually impaired loans	*353 243*	*(253 796)*	*99 447*	*71.8%*
Total loans to large corporates	**10 193 213**	**(302 044)**	**9 891 169**	**3.0%**
Commercial loans collectively assessed for impairment				
Loans to small and medium companies				
- Not past due	527 146	(5 262)	521 884	1.0%
- Overdue less than 90 days	16 674	(176)	16 498	1.1%
Total loans to small and medium companies	**543 820**	**(5 438)**	**538 382**	**1.0%**
Total commercial loans	**10 737 033**	**(307 482)**	**10 429 551**	**2.9%**

The Group has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified. In determining the impairment allowance for the loan portfolio for which no specific impairment has been identified, management has assumed a time lag of 1 month to identity impairment after the loss trigger event.

Most of commercial loans are secured by equipment, inventories, motor vehicles, real estate and other collateral.

Changes in estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance for commercial loans as at 31 December 2007 would be RR 118 918 thousand lower/higher (31 December 2006: RR 104 295 thousand).

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 and 31 December 2006 are as follows:

	Loans to large corporates	Factoring	Loans to small and medium companies	Total
31 December 2005	**745 346**	-	-	**745 346**
(Recovery of)/allowance for impairment	(101 125)	-	5 438	(95 687)
Write-offs	(342 177)	-	-	(342 177)
31 December 2006	**302 044**	-	**5 438**	**307 482**
Allowance for impairment	32 055	-	21 123	53 178
Write-offs	(55 987)	-	-	(55 987)
Amounts recovered on loans previously written off	11 432	-	-	11 432
Acquisition of IFC TRUST	-	126 038	-	126 038
31 December 2007	**289 544**	**126 038**	**26 561**	**442 143**

(Thousands of Russian Rubles except otherwise stated)

Gross amounts of impaired loans provided in the tables below represent amortized cost and include not yet contractually overdue portions of loans. Contractually overdue balances of loans (net of allowance for impairment) are disclosed in Note 22.

The following table provides information on the credit quality of loans to individuals as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Loans to individuals collectively assessed for impairment				
Consumer loans				
- Not past due	11 487 613	(28 214)	11 459 399	0.2%
- Overdue less than 90 days	1 002 009	(126 331)	875 678	12.6%
- Overdue more then 90 days	1 316 822	(615 468)	701 354	46.7%
Total consumer loans	**13 806 444**	**(770 013)**	**13 036 431**	**5.6%**
Auto loans				
- Not past due	5 206 732	(32 375)	5 174 357	0.6%
- Overdue less than 90 days	289 980	(38 932)	251 048	13.4%
- Overdue more then 90 days	1 291 869	(737 497)	554 372	57.1%
Total auto loans	**6 788 581**	**(808 804)**	**5 979 777**	**11.9%**
Micro loans				
- Not past due	3 050 878	(13 296)	3 037 582	0.4%
- Overdue less than 90 days	98 771	(22 520)	76 251	22.8%
- Overdue more then 90 days	108 341	(50 920)	57 421	47.0%
Total micro loans	**3 257 990**	**(86 736)**	**3 171 254**	**2.7%**
Credit cards				
- Not past due	982 081	(35 436)	946 645	3.6%
- Overdue less than 90 days	119 501	(23 764)	95 737	19.9%
- Overdue more then 90 days	133 829	(87 499)	46 330	65.4%
Total credit cards	**1 235 411**	**(146 699)**	**1 088 712**	**11.9%**
Mortgage loans				
- Not past due	608 393	(6 079)	602 314	1.0%
- Overdue less than 90 days	5 870	(587)	5 283	10.0%
Total mortgage loans	**614 263**	**(6 666)**	**607 597**	**1.1%**
Loans to individuals individually assessed for impairment				
Other loans to individuals				
- Not past due	313 142	(2 044)	311 098	0.7%
- Overdue less than 90 days	250	(79)	171	31.6%
- Overdue more then 90 days	5 717	(2 958)	2 759	51.7%
Total other loans to individuals	**319 109**	**(5 081)**	**314 028**	**1.6%**
Total loans to individuals	**26 021 798**	**(1 823 999)**	**24 197 799**	**7.0%**

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(Thousands of Russian Rubles except otherwise stated)

The following table provides information on the credit quality of loans to individuals as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Loans to individuals collectively assessed for impairment				
Consumer loans				
- Not past due	5 933 910	(42 773)	5 891 137	0.7%
- Overdue less than 90 days	301 030	(46 343)	254 687	15.4%
- Overdue more then 90 days	559 521	(214 577)	344 944	38.4%
Total consumer loans	**6 794 461**	**(303 693)**	**6 490 768**	**4.5%**
Auto loans				
- Not past due	4 395 471	(35 672)	4 359 799	0.8%
- Overdue less than 90 days	362 695	(46 784)	315 911	12.9%
- Overdue more then 90 days	910 079	(339 550)	570 529	37.3%
Total auto loans	**5 668 245**	**(422 006)**	**5 246 239**	**7.4%**
Micro loans				
- Not past due	1 706 630	(17 066)	1 689 564	1.0%
- Overdue less than 90 days	8 954	(90)	8 864	1.0%
- Overdue more then 90 days	3 843	(38)	3 805	1.0%
Total micro loans	**1 719 427**	**(17 194)**	**1 702 233**	**1.0%**
Credit cards				
- Not past due	448 855	(16 811)	432 044	3.7%
- Overdue less than 90 days	23 857	(12 167)	11 690	51.0%
Total credit cards	**472 712**	**(28 978)**	**443 734**	**6.1%**
Mortgage loans				
- Not past due	32 190	(322)	31 868	1.0%
Total mortgage loans	**32 190**	**(322)**	**31 868**	**1.0%**
Loans to individuals individually assessed for impairment				
Other loans to individuals				
- Not past due	505 629	(4 330)	501 299	0.9%
- Overdue less than 90 days	314	(212)	102	67.5%
- Overdue more then 90 days	4 165	(2 807)	1 358	67.4%
Total other loans to individuals	**510 108**	**(7 349)**	**502 759**	**1.4%**
Total loans to customers	**15 197 143**	**(779 542)**	**14 417 601**	**5.1%**

The Group has estimated loan impairment for loans to individuals collectively assessed for impairment and loans to individuals individually assessed for impairment for which no indications of impairment has been identified based on its past historical loss experience on these types of loans, based on the assumption that overdue loans are considered a loss after 6 months have past since the last installment due date. For impaired loans to individuals the Group has estimated loan impairment based on an analysis of the future cash flows.

Changes in estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance for loans to individuals as at 31 December 2007 would be RR 241 978 thousand lower/higher (31 December 2006: RR 144 176 thousand).

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Most micro loans are secured by equipment, motor vehicles and other collateral. Consumer loans, credit cards and other loans to individuals are not secured.

(Thousands of Russian Rubles except otherwise stated)

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2007 and 31 December 2006 are as follows:

	Consumer loans	**Auto loans**	**Micro loans**	**Credit cards**	**Mortgage loans**	**Other loans to individuals**	**Total**
31 December 2005	**50 927**	**79 617**	**-**	**-**	**-**	**7 289**	**137 833**
Allowance for impairment	252 766	342 389	17 194	28 978	322	118 956	760 605
Write-offs	-	-	-	-	-	(118 896)	(118 896)
31 December 2006	**303 693**	**422 006**	**17 194**	**28 978**	**322**	**7 349**	**779 542**
Allowance for impairment	931 111	648 848	69 542	117 721	6 344	(2 268)	1 771 298
Write-offs	(465 244)	(262 832)	-	-	-	-	(728 076)
Amounts recovered on loans previously written off	453	782	-	-	-	-	1 235
31 December 2007	**770 013**	**808 804**	**86 736**	**146 699**	**6 666**	**5 081**	**1 823 999**

In December 2007, the Bank transferred loans to individuals, including auto loans of RR 1 153 535 thousand (31 December 2006: nil) and consumer loans of RR 4 907 970 thousand (31 December 2006: nil), to its subsidiary RSCC No 1 S.A. (refer to Note 27). These loans are pledged by the Group under secured loan participation notes issued by RSCC No 1 S.A. As at 31 December 2007, the carrying amount of the notes was RR 3 694 202 thousand (31 December 2006: nil). Refer to Note 12.

Loans to customers are issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2007	**31 December 2006**
Individuals	26 021 798	15 197 143
Trading enterprises	6 237 793	3 352 708
Manufacturing	2 252 614	1 319 246
Engineering and metal processing	775 489	1 543 987
Oil and gas	645 921	497 286
Chemical, petrochemical and pharmaceuticals	623 905	452 916
Transport	374 335	96 710
Construction	143 147	721 510
Financial intermediaries	114 202	1 695 836
Other	1 166 511	1 056 834
Loans to customers	**38 355 715**	**25 934 176**
Allowance for impairment	(2 266 142)	(1 087 024)
Loans to customers (net of allowance for impairment)	**36 089 573**	**24 847 152**

As at 31 December 2007 and 2006 the Group did not have borrowers or groups of related borrowers with aggregated loan balances above 10% of shareholder's equity each.

As at 31 December 2007 the Group accrued RR 502 222 thousand of interest on impaired loans, before allowance for impairment, (31 December 2007: RR 270 069 thousand).

During the year ended 31 December 2007 the Group did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2006: nil).

Interest rate, maturity, currency and geographical analyses of loans to customers are disclosed in Notes 21-24. The estimated fair value of loans to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 26.

(Thousands of Russian Rubles except otherwise stated)

9. Property, Equipment and Intangibles

The movements of property, equipment and intangibles during the year ended 31 December 2007 were as follows:

	Buildings	Land and other premises	Fixture and equipment	Software and licenses	Customer relationships	Total
Cost/Revalued amount						
31 December 2006	**1 008 995**	**270 844**	**939 503**	**299 820**	**-**	**2 519 162**
Additions	622 522	534 540	511 844	142 562	-	1 811 468
Acquisition of IFK TRUST	-	-	4 903	44 605	455 705	505 213
Disposals	(11 921)	(809)	(56 460)	(20 527)	-	(89 717)
Revaluation	116 257	-	-	-	-	116 257
Elimination of depreciation on revalued buildings	(21 816)	-	-	-	-	(21 816)
31 December 2007	**1 714 037**	**804 575**	**1 399 790**	**466 460**	**455 705**	**4 840 567**
Accumulated depreciation and amortization						
31 December 2006	**-**	**1 141**	**464 385**	**88 594**	**-**	**554 120**
Depreciation and amortization charge	22 035	521	176 937	63 420	-	262 913
Disposals	(219)	(55)	(47 045)	(20 527)	-	(67 846)
Elimination of depreciation on revalued buildings	(21 816)	-	-	-	-	(21 816)
31 December 2007	**-**	**1 607**	**594 277**	**131 487**	**-**	**727 371**
Net book value						
31 December 2006	**1 008 995**	**269 703**	**475 118**	**211 226**	**-**	**1 965 042**
31 December 2007	**1 714 037**	**802 968**	**805 513**	**334 973**	**455 705**	**4 113 196**

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(Thousands of Russian Rubles except otherwise stated)

The movements of property, equipment and intangibles during the year ended 31 December 2006 were as follows:

	Buildings	Land and other premises	Fixtures and equipment	Software and licences	Total
Cost/Revalued amount					
31 December 2005	**648 392**	**61 765**	**763 323**	**166 973**	**1 640 453**
Additions	261 493	219 064	213 557	141 555	835 669
Disposals	-	(9 985)	(37 377)	(8 708)	(56 070)
Revaluation	115 996				115 996
Elimination of depreciation on revalued buildings	(16 886)	-	-	-	(16 886)
31 December 2006	**1 008 995**	**270 844**	**939 503**	**299 820**	**2 519 162**
Accumulated depreciation and amortization					
31 December 2005	**-**	**1 516**	**364 257**	**71 871**	**437 644**
Depreciation and amortization charge	16 886	299	127 647	20 003	164 835
Disposals	-	(674)	(27 519)	(3 280)	(31 473)
Elimination of depreciation on revalued buildings	(16 886)	-	-	-	(16 886)
31 December 2006	**-**	**1 141**	**464 385**	**88 594**	**554 120**
Net book value					
31 December 2005	**648 392**	**60 249**	**399 066**	**95 102**	**1 202 809**
31 December 2006	**1 008 995**	**269 703**	**475 118**	**211 226**	**1 965 042**

As at 31 December 2007 land and other premises included assets under construction in the amount of RR 772 179 thousand (31 December 2006: RR 259 725 thousand).

As at 31 December 2007 the gross carrying amount of fully depreciated fixtures and equipment that is still in use by the Group was RR 184 882 thousand (31 December 2006: RR 152 364 thousand).

At 31 December 2007 buildings were revalued by the management of the Group based on the results of an independent appraisal performed by LLC "Bureau of independent appraisals "INDEX".

The bases used for the appraisal were the market approach and the income capitalization approach. The market approach was based upon an analysis of comparable sales of similar buildings. The following key assumptions were used for the income capitalization approach:

- cash flows were based on a 1 year detailed projection, extended to the remaining useful life of the asset and using zero growth rate;
- the net cash flows were capitalised using the rates ranging from 12% to 21% depending on the type of property and location of the building.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources of information.

As at 31 December 2007 the carrying value of buildings, if the buildings would not have been revalued, would be RR 1 043 689 thousand (31 December 2006: RR 430 860 thousand).

(Thousands of Russian Rubles except otherwise stated)

10. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	31 December 2007	31 December 2006
Vostro accounts	525 894	631 219
Term deposits	2 382 029	494 610
Repurchase agreements	1 711 797	110
Amounts due to credit institutions	**4 619 720**	**1 125 939**

As at 31 December 2007 the Group had two counterparties with aggregated balances above 10% of shareholder's equity each. The aggregate amount of these deposits was RR 2 848 314 thousand (31 December 2006: no such counterparties).

Interest rate, maturity, currency and geographical analyses of amounts due to credit institutions are disclosed in Notes 21-24. The estimated fair value of amounts due to credit institutions is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

11. Amounts Due to Customers

Amounts due to customers comprise:

	31 December 2007	31 December 2006
Current accounts and demand deposits		
- Individuals	3 728 038	3 440 689
- Corporate	12 055 424	16 565 901
Term deposits		
- Individuals	16 677 430	8 314 219
- Corporate	9 204 995	6 432 081
Subordinated debt	1 372 980	115 086
Amounts due to customers	**43 038 867**	**34 867 976**

Subordinated debt represents deposits of a foreign company with an aggregate nominal amount of USD 55 000 thousand (RR 1 350 041 thousand) (31 December 2006: RR 115 000 thousand) with interest rates ranging from 11% to 11.5% (31 December 2006: 2.5%) and maturities between September 2012 and December 2012 (31 December 2006: April 2013). In case of the Bank's bankruptcy, liabilities under the deposits are repaid after settlement of all other liabilities of the Bank. According to the terms of deposit agreements, the creditors may not demand repayment of deposits before maturity.

As at 31 December 2007 the total amount of current accounts of a restricted nature included in amounts due to customers was RR 5 612 426 thousand (31 December 2006: RR 5 112 173 thousand).

As at 31 December 2006 customer accounts included current accounts of companies affiliated with JSC "Oil Company "YUKOS" of RR 7 314 632 thousand, out of which RR 1 663 425 thousand were current accounts of a restricted nature. During the year ended 31 December 2007, the above mentioned companies were sold to state owned company "Rosneft" as a result of bankruptcy proceedings.

As at 31 December 2007 the Group had five customers (31 December 2006: six customers) which are not affiliated with JSC "Oil Company "YUKOS" with aggregate balances above 10% of shareholders' equity each. The aggregate amount of these accounts was RR 6 848 014 thousand (31 December 2006: 6 701 075 thousand).

(Thousands of Russian Rubles except otherwise stated)

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

	31 December 2007	31 December 2006
Private companies	22 383 973	22 853 543
Individuals	20 405 468	11 754 908
State companies and local authorities	249 426	259 525
Amounts due to customers	**43 038 867**	**34 867 976**

Interest rate, maturity, currency and geographical analyses of amounts due to customers are disclosed in Notes 21-24. The estimated fair value of amounts due to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 26.

12. Debt Securities Issued

Debt securities issued comprise:

	31 December 2007	31 December 2006
Eurobonds	4 385 751	-
Notes secured by the pool of auto and consumer loans	3 694 202	-
Credit linked notes	1 124 173	2 639 783
Promissory notes and certificates of deposit	906 081	1 073 682
Debt securities issued	**10 110 207**	**3 713 465**

In May 2007 the Group issued Eurobonds with a nominal value of USD 200 000 thousand at an interest rate of 9.375% with maturity on 29 May 2010.

During 2007 the Group issued notes (secured by the pool of auto and consumer loans) with a nominal value of RR 3 699 000 thousand and interest rate MOSPRIME+2.75% with maturity on 12 November 2012. Refer to Note 8.

In April 2007 the Group issued credit linked notes with a nominal value of USD 50 000 thousand and interest rate of 9% with maturity on 19 October 2008.

In December 2006 the Group issued credit linked notes with a nominal value of USD 100 000 thousand and interest rate of 9.25% with maturity on 21 December 2008, which were redeemed before maturity date, on 21 June 2007.

Interest rate, maturity, currency and geographical analyses of debt securities issued are disclosed in Notes 21-24. The estimated fair value of debt securities issued is disclosed in Note 25. Information on related party balances is disclosed in Note 26. Information on covenants associated with issued debt is disclosed in Note 19.

13. Share Capital

The share capital of the Bank has been contributed by shareholders in Rubles. Shareholders are entitled to dividends and capital distributions in Rubles.

As at 31 December 2007 and 31 December 2006 the Bank had 294 538 047 ordinary shares issued, outstanding and fully paid by shareholders and no preferred stock issued.

During the year ended 31 December 2007 the Group received contributions from its shareholders which were recognized as additional paid-in capital as follows:

- a grant in the form of money contribution of RR 3 515 000 thousand; and
- in the form of granting a loan to the Group at rates below market, resulting in a gain on origination of RR 70 292 thousand net of deferred tax of RR 16 870 thousand.

(Thousands of Russian Rubles except otherwise stated)

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation in the Russian Federation.

14. Interest Income and Interest Expense

	2007	**2006**
Interest income		
Loans to customers	7 349 750	3 621 854
Amounts due from credit institutions	796 032	320 558
Debt securities	376 333	679 165
Total interest income	**8 522 115**	**4 621 577**
Interest expense		
Amounts due to customers	2 020 377	1 247 203
Debt securities issued	782 028	98 860
Amounts due to credit institutions	145 964	26 976
Total interest expense	**2 948 369**	**1 373 039**
Net interest income	**5 573 746**	**3 248 538**

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(Thousands of Russian Rubles except otherwise stated)

15. Fee and Commission Income and Fee and Commission Expense

	2007	2006
Fee and commission income		
Settlement operations	740 706	755 862
Contractual penalties from customers	88 281	11 576
Rental fees	45 636	43 076
Agency fees	40 640	69 141
Currency control agent functions	36 489	29 008
Guarantees issued	15 158	7 986
Other	32 528	8 140
Fee and commission income	**999 438**	**924 789**
Fee and commission expense		
Settlements operations	182 236	150 079
Agency fees	22 660	1 167
Guarantees received	6 659	11
Other	11 891	7 942
Fee and commission expense	**223 446**	**159 199**
Net fee and commission income	**775 992**	**765 590**

16. Salaries and Employment Benefits and Administrative Expenses

	2007	2006
Salaries and other compensations	2 372 115	1 557 448
Social security costs	416 548	287 641
Other	19 394	10 333
Salaries and employment benefits	**2 808 057**	**1 855 422**
Business development	418 451	328 703
Rent	366 968	274 442
Operating taxes	239 188	157 032
Communication	217 640	116 486
Stationary and inventory	99 060	67 119
Security	94 452	79 551
State deposit insurance scheme	76 798	52 938
Utilities	72 876	45 791
Other	123 861	26 423
Administrative expenses	**1 709 294**	**1 148 485**

(Thousands of Russian Rubles except otherwise stated)

17. Taxation

Income tax (benefit)/expense comprises:

	2007	2006
Current tax (benefit)/expense	(86 834)	125 545
Current tax overprovided last year	-	(15 534)
Deferred tax movement	(56 091)	868
Income tax (benefit)/expense	**(142 925)**	**110 879**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than interest income on state securities was 24% for 2007 and 2006. The tax rate for interest income on state securities is 15%. The tax rates for the Group's consolidated subsidiaries range from 4.25% to 24% based on the jurisdiction in which they are located.

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

	2007	2006
Income before taxation	**228 348**	**302 620**
Statutory tax rate	24%	24%
Theoretical income tax expense at statutory rate	**54 803**	**72 628**
Tax effect of items taxed in different jurisdictions	724	7 116
Tax effect of acquisition of subsidiaries	(76 938)	-
State securities income taxed at 15%	(27 377)	(42 964)
Non-deductible expenditures, net of non-taxable income	31 587	52 894
Release of provision for tax claims	(133 000)	-
Other permanent differences	7 276	21 205
Income tax (benefit)/expense	**(142 925)**	**110 879**

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(Thousands of Russian Rubles except otherwise stated)

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities comprise:

	31 December 2005	Recognized in consolidated income statement	Recognized in equity	31 December 2006	Recognized in consolidated income statement	Recognized in equity	Acquisition of subsidiaries	31 December 2007
Tax effect of deductible temporary differences								
Allowance for impairment	37 293	(24 228)	-	13 065	(13 065)	-	-	-
Interest income accrued	34 341	(30 509)	-	3 832	32 072	-	-	35 904
Expenses accrued	36 000	(6 167)	-	29 833	47 273	-	-	77 106
Adjustments to fair value	-	574	-	574	2 859	-	-	3 433
Tax loss carry-forwards	-	-	-	-	82 380	-	-	82 380
Net unrealized losses on available-for-sale assets	-	-	-	-	-	3 596	-	3 596
Other	29 500	(14 735)	-	14 765	4 294	-	(13 920)	5 139
Deferred tax asset	**137 134**	**(75 065)**	**-**	**62 069**	**155 813**	**3 596**	**(13 920)**	**207 558**
Tax effect of taxable temporary differences								
Allowance for impairment	-	-	-	-	(72 843)	-	-	(72 843)
Revaluation of buildings	(113 491)	2 578	(27 839)	(138 752)	5 770	(30 006)	-	(162 988)
Adjustments to fair value	(89 258)	54 409	-	(34 849)	(23 596)	(16 870)	-	(75 315)
Property, equipment and intangibles	(51 354)	17 210	-	(34 144)	(9 053)	-	(118 595)	(161 792)
Deferred tax liability	**(254 103)**	**74 197**	**(27 839)**	**(207 745)**	**(99 722)**	**(46 876)**	**(118 595)**	**(472 938)**
Net deferred tax liability	**(116 969)**	**(868)**	**(27 839)**	**(145 676)**	**56 091**	**(43 280)**	**(132 515)**	**(265 380)**

Tax assets and liabilities consist of the following:

	31 December 2007	31 December 2006
Current tax assets	160 028	89 252
Tax assets	**160 028**	**89 252**
Current tax liabilities	199 667	305 921
Deferred tax liabilities	265 380	145 676
Tax liabilities	**465 047**	**451 597**

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in full compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

In particular, recently tax authorities challenged methodologies applied by banks in respect of calculation tax losses to be carried forward. Currently this issues are examined by courts and if tax authorities are successful in their proceedings, there is a possibility of similar claims to be made to the Bank, in which case the Bank might not be able to utilize the deferred tax asset arising from tax losses carried forward recognized in this consolidated financial statements

As at 31 December 2004 the Group was engaged in litigation proceedings with the tax authorities related to claims against the Bank to pay additional taxes and corresponding fines for the total amount of RR 726 249 thousand as the result of tax audits of the income tax periods of 2000, 2001 and 2002. The Bank has appealed these claims in court. As at 31 December 2004 a provision for potential tax liabilities of RR 435 749 thousand in relation to these claims was recorded. During 2005, additional claims were made by the tax authorities related to the 2002 tax period of RR 216 000 thousand, RR 84 000 thousand of claims expired due to the claims limitation period, and RR 518 518 thousand was paid out by the Group in respect of these claims.

During the year ended 31 December 2006, RR 24 716 thousand of the above claims were paid out by the Group. No additional provisions for potential tax liabilities were recorded in the consolidated financial statements. As a result the total provision for potential tax liabilities as at 31 December 2006 comprised RR 315 015 thousand.

During the year ended 31 December 2007, RR 133 000 thousand of the above claims expired and RR 10 435 thousand were paid out by the Group. No additional provisions for potential tax liabilities were recorded in the consolidated financial statements. As a result the total provision for potential tax liabilities as at 31 December 2007 comprised RR 171 580 thousand, which represents the full amount of outstanding tax claims as at 31 December 2007. Management believes that this provision is the best estimate of potential tax losses.

18. Risk Management

Management of risk is fundamental to Group's business and is an essential element of Group's operations. The major risks faced by the Group are those related to market risk, which include price, interest rate and currency risks, credit risk, liquidity risk, and operational risk.

Risk management policies and procedures

The Group manages risk through a set of policies and procedures tailored to the Group's risk profile and risk taking activity. These policies and procedures are aimed to identify, analyze and manage Group's risk exposures, to set appropriate risk controls and limits, and to continuously monitor risk levels and adherence to the limits. Risk management policies and procedures are reviewed regularly to reflect changes in the Group's strategy, products and services offered, and emerging best practice.

The Management Committee has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing policies and procedures as well as approving significantly large exposures.

The Management Committee is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Chief Risk Officer is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President of the Bank and to the Management Committee.

Credit, market and liquidity risks both at portfolio and transaction levels are managed and controlled through a system of Credit Committees and Asset and Liability Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

(Thousands of Russian Rubles except otherwise stated)

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risk arises from open positions in interest rate, currency, equity, and derivative financial instruments, which are exposed to market movements and changes in the level of volatility of market prices. The objective of market risk management is to manage and control market risk exposures within an acceptable range, while ensuring proper return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of the Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department. The Group manages its market risk by setting limits on risk measures in relation to financial instruments and portfolio size.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments. Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

An analysis of the sensitivity of the Group's net income for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 31 December 2006 is as follows:

	31 December 2007		31 December 2006	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel rise	35 348	35 348	32 189	32 189
100 bp parallel fall	(35 348)	(35 348)	(32 189)	(32 189)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of the sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	31 December 2007		31 December 2006	
	Net income	**Equity**	**Net income**	**Equity**
5% appreciation of USD against RUR	(2 789)	(2 789)	15 782	15 782
5% depreciation of USD against RUR	2 789	2 789	(15 782)	(15 782)
5% appreciation of EUR against RUR	(5 204)	(5 204)	(358)	(358)
5% depreciation of EUR against RUR	5 204	5 204	358	358

For further information on the Group's exposure to currency risk at year end refer to Notes 6 and 23.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

(Thousands of Russian Rubles except otherwise stated)

Value-at-Risk (VAR) estimates

In the assessment of market risk, the Group focuses on historic, as well as potential future volatility. The Group employs Value-at-Risk modelling for quantitative measurement of market risk and compliments that with stress and scenario testing. A VaR model estimates maximum potential loss that could occur within a certain timeframe with a specified confidence level. Like any model, VaR uses numerous and significant assumptions that differ from company to company. The Group regularly assess the relevance of these assumptions by backtesting the Group's results. The Group's VaR model allows it to continuously monitor the Group's overall, as well as specific levels of market risk exposure and its concentrations. Limit adherence is continuously monitored, and all excesses are communicated to senior management for review.

A summary of the VaR estimates with a 99% confidence level over a 10-day holding period in respect of the Group's portfolio of financial instruments at fair value through profit or loss as at 31 December 2007 and 31 December 2006 is as follows:

	31 December 2007	**31 December 2006**
Fixed income securities interest rate risk	24 368	33 293
Diversification	(1 889)	(12 141)
Total VaR	**24 710**	**33 941**

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

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature.
- A 1 or 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR.
- VaR is only calculated on the end-of-day bases and does not necessarily reflect exposures that may arise on positions during the trading day.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

Because the very nature of VaR model suggests losses that can exceed estimates, the Group stress testes its market exposure with respect to exceptional market scenarios. The stress tests provide an assessment of losses that could arise in extreme conditions, allowing it identify portfolio weaknesses and protect against them. The results of stress testing are regularly communicated to the Management Committee.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group manages credit risk based on the risk profile of the borrower or counterparty, their repayment sources, nature of collateral and guarantees, and other relevant information. The Group's maximum exposure to on balance sheet credit risk is reflected in the carrying amounts of financial assets on the balance sheet.

The Group manages credit risk through a set of policies that define its standards for borrower evaluation, limits to allowed exposure, and collection procedures. Apart from individual customer analysis, the credit portfolios are assessed by Independent Risk with regard to their performance, economic capital, and risk concentrations.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;

- Methodology for the credit assessment of borrowers (large corporates, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Retail Portfolio Credit Risk

Credit Risk Management for the Group Retail loans portfolio begins with initial underwriting and continues throughout borrower's credit cycle. Retail credit applications are processed using scoring models based on statistical data accumulated by the Group. These models are essential to the Group's business and are used in decision making, portfolio management, risk control, and allowances for loan impairment. The models are regularly reviewed against underlying assumptions, and tuned to more recent accumulated data.

Commercial and Corporate Portfolio Credit Risk

Large commercial as well as Small and Medium Enterprise loans origination is based on analysis of an applicant's financial standing. As part of the overall credit risk evaluation each commercial exposure is assigned a risk rating following the Group's approved risk standards. These standards vary by product type, and include credit rules, and business modelling based on an entity's financial statements.

The Group employs Value-at-Risk (VaR) modelling for quantitative measurement of credit risk and compliments that with stress and scenario testing. Our VaR models estimate the maximum potential loss that could occur within a one year time horizon with a 99% confidence level. The VaR model allows to monitor the Group's overall, as well as specific levels of credit risk exposure and concentrations.

Like any model, VaR uses numerous and significant assumptions that differ from company to company:

- Use of historical data as a basis for determining probability of future events may not encompass all possible scenarios, particularly those which are of an extreme nature.
- A one year time horizon assumes that the Group is able to raise sufficient funds allowing it to stay afloat and continue its operations. This assumption is considered to be realistic in almost all cases, but may be violated by a prolonged and severe market illiquidity scenario.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR. The Group accounts for this possibility by complimenting VaR calculations with the conditional VaR (CVaR).
- The VaR is calculated on monthly basis and does not necessarily reflect particular exposures that may arise inside the reporting period.
- The credit VaR measure is dependent upon the Bank's position and the prevailing level of volatility in financial markets, particularly, the volatility of interest rates. The VaR of an unchanged position reduces as overall volatility level declines and vice versa.

Because the very nature of VaR model suggests losses that can exceed estimates, the Group stress testes it credit exposure with respect to exceptional economic scenarios. The stress tests provide an assessment of losses that could arise in extreme conditions, allowing it identify portfolio weaknesses and protect against them. The results of stress testing are regularly communicated to the Management Committee.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its financial commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. 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 financial institutions 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.

(Thousands of Russian Rubles except otherwise stated)

The Group's Treasury Department maintains liquidity management with the objective of ensuring that funds will be available at all times at acceptable rates to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Committee and ALCO.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and maintaining the level of necessary liquid assets;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The daily liquidity position is monitored and managed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the Asset and Liability Committee and implemented by the Treasury Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. The Group was in compliance with these ratios during the one-year period ended 31 December 2007.

The following tables show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities vary significantly from this analysis.

The position of the Group as at 31 December 2007 was as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total gross nominal outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Amounts due to credit institutions	2 867 765	194 502	1 584 860	73 594	-	-	4 720 721	4 619 720
Amounts due to customers	22 808 796	6 244 288	5 060 246	8 061 245	2 665 557	6 177	44 846 309	43 038 867
Debt securities issued	99 835	8 202	274 561	1 772 773	10 735 004	1 130	12 891 505	10 110 207
Current tax liabilities	-	-	199 667	-	-	-	199 667	199 667
Other liabilities	125 831	52 593	34 718	201 210	3	-	414 355	414 355
Derivative financial instruments								
-inflow	(4 862 919)	-	-	-	-	-	(4 862 919)	(551)
-outflow	4 876 672	-	-	-	-	-	4 876 672	14 304
Total	**25 915 980**	**6 499 585**	**7 154 052**	**10 108 822**	**13 400 564**	**7 307**	**63 086 310**	**58 396 569**
Credit related commitments	**5 568 890**	**-**	**-**	**-**	**-**	**-**	**5 568 890**	**5 568 890**

(Thousands of Russian Rubles except otherwise stated)

The position of the Group as at 31 December 2006 was as follows:

	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total gross nominal outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities								
Amounts due to credit institutions	746 826	7 069	-	398 552	-	-	1 152 447	1 125 939
Amounts due to customers	22 894 825	3 151 976	4 243 124	4 546 781	428 225	989 967	36 254 898	34 867 976
Debt securities issued	204 073	215 626	41 011	193 791	3 621 817	1 700	4 278 018	3 713 465
Current tax liabilities	-	-	305 921	-	-	-	305 921	305 921
Other liabilities	42 575	118 490	-	1 117	8 982	-	171 164	171 164
Derivative financial instruments								
-inflow	(4 010 855)	-	-	-	-	-	(4 010 855)	(25)
-outflow	4 012 917	-	-	-	-	-	4 012 917	2 087
Total	**23 890 361**	**3 493 161**	**4 590 056**	**5 140 241**	**4 059 024**	**991 667**	**42 164 510**	**40 186 527**
Credit related commitments	**6 153 336**	**-**	**-**	**-**	**-**	**-**	**6 153 336**	**6 153 336**

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. Consequently commitments listed above should not be treated as expected cash outflows.

For further information on the Group's exposure to liquidity risk at year end refer to Note 22.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, including system conversions and integration, and external events. The Group's goal in operational risk management is to keep that risk at acceptable levels, corresponding to the Group's financial strength, characteristics of its businesses, markets in which it operates, and the competitive and regulatory environment.

To monitor and control operational risk, the Group maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. This is achieved mainly by sound operations support base, transparency of information, and efficient internal control. Addressing the scale of the Group network, operations control extends to branches and includes operations by their type, expenses control, and legal risks.

19. Capital Management

The CBR sets and monitors capital requirements for the Bank, the lead operating entity of the Group.

The Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2007 and 31 December 2006, this minimum level is 10%. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 31 December 2006.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle 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 2007), commonly known as Basel I.

(Thousands of Russian Rubles except otherwise stated)

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2007:

	31 December 2007	31 December 2006
Tier 1 capital:		
Share capital	2 896 441	2 896 441
Additional paid-in capital	4 274 435	706 013
Retained earnings	534 881	295 436
Total tier 1 capital	**7 705 757**	**3 897 890**
Tier 2 capital:		
Asset revaluation reserves	576 096	439 382
Subordinated debt (unamortised portion)	1 350 041	115 000
Total tier 2 capital	**1 926 137**	**554 382**
Total capital	**9 631 894**	**4 452 272**
Risk-weighted assets:		
Banking book	45 380 197	29 690 026
Trading book	2 505 214	4 714 834
Total risk-weighted assets	**47 885 411**	**34 404 860**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**16.1**	**11.3**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**20.1**	**12.9**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Group. The Group have complied with all externally imposed capital requirements during the years ended 31 December 2007 and 31 December 2006. According to Eurobond issue covenants, the ratio of Tier 1 Capital to Risk Weighted assets should be not less than 8%.

20. Commitments and Contingencies

Legal
In the ordinary course of business, the Group is subject to legal actions and complaints. In addition, as at 31 December 2007 the Group was engaged in litigation proceedings with tax authorities as described in Note 17. Management believes that it has made adequate provision in respect of these matters.

Insurance
The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations.

(Thousands of Russian Rubles except otherwise stated)

Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Credit related commitments

Undrawn loan commitments ensure that funds are available to a customer as required. In the normal course of business, the Group makes commitments to grant loans at a specified rate of interest during a fixed period of time. Substantially all such contracts contain clauses that set out certain conditions including changes in market rates, under which the interest rate could be reconsidered or the possibility to draw the loan could be cancelled. Therefore such undrawn loan commitments were not treated as options issued by the Group to borrowers to obtain loans at specified interest rates.

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 authorizing 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 and therefore carry less risk than direct loan.

The credit related commitments comprise:

	31 December 2007	**31 December 2006**
Undrawn loan commitments	4 457 976	4 827 123
Guarantees	999 486	1 220 886
Letters of credit	111 428	105 327
Total credit related commitments, net of cash security held	**5 568 890**	**6 153 336**

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. Consequently commitments listed above should not be treated as expected cash outflows.

Operating lease commitments

In the normal course of business, the Group enters into operating lease agreements for office equipment and premises. After 31 December 2007 and 31 December 2006 future minimum payments under non-cancellable operating leases are as follows:

	31 December 2007	**31 December 2006**
Non later than 1 year	198 287	205 417
Later than 1 year but not later than 5 years	330 416	339 919
Later than 5 years	139 993	130 421
Total	**668 696**	**675 757**

During the current year RR 366 968 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2006: RR 274 442 thousand).

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(Thousands of Russian Rubles except otherwise stated)

21. Average Effective Interest Rates

The table below displays the Group's average effective interest rates on its interest bearing assets and liabilities as at 31 December 2007 and 31 December 2006. These interest rates are an approximation of the yields to maturity of financial assets and liabilities.

	31 December 2007		31 December 2006	
	Rubles	**Freely convertible**	**Rubles**	**Freely convertible**
Cash and cash equivalents/Short-term deposits with credit institutions	9.3%	9.0%	7.0%	5.5%
Financial assets at fair value through profit or loss	6.2%	9.0%	6.7%	5.6%
Amounts due from credit institutions	-	3.9%	-	-
Available-for-sale assets	-	9.3%	-	-
Loans to customers	24.2%	16.2%	23.5%	12.5%
Amounts due to credit institutions/Term deposits	9.1%	5.8%	6.0%	4.6%
Amounts due to customers/Term deposits	10.4%	8.8%	10.3%	8.4%
Amounts due to customers/Subordinated debt	-	11.2%	2.5%	-
Debt securities issued	10.3%	9.7%	8.3%	9.2%

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(Thousands of Russian Rubles except otherwise stated)

22. Maturity Analysis

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2007, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Less than 1 month" based on the fact that the Group's management believes that all of these financial instruments at fair value through profit or loss could be liquidated within one month in normal course of business.

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue/ No stated maturity	Total
Assets								
Cash and cash equivalents	7 868 156	11 522 189	1 805 686	-	-	-	-	21 196 031
Obligatory deposits with the CBR	-	-	447 041	187 718	31 577	83	-	666 419
Financial assets at fair value through profit or loss	-	3 678 504	-	-	-	-	13 424	3 691 928
Amounts due from credit institutions	-	-	-	13 547	9 676			23 223
Available-for-sale assets	-	-	-	-	185 675	-	-	185 675
Loans to customers		3 871 166	5 211 902	10 460 820	14 010 966	741 264	1 793 455	36 089 573
Tax assets	-	-	-	160 028	-	-	-	160 028
Property, equipment and intangibles	-	-	-	-	-	-	4 113 196	4 113 196
Other assets	1 218	566 447	112 556	112 600	14 607	9 608	1 244	818 280
Total assets	**7 869 374**	**19 638 306**	**7 577 185**	**10 934 713**	**14 252 501**	**750 955**	**5 921 319**	**66 944 353**
Liabilities								
Financial liabilities at fair value through profit or loss	14 304	-	-	-	-	-	-	14 304
Amounts due to credit institutions	525 893	2 316 877	158 800	1 618 150	-	-	-	4 619 720
Amounts due to customers	15 783 462	6 948 203	6 139 270	12 123 234	2 039 331	5 367		43 038 867
Debt securities issued	55 869	42 773	8 111	1 907 686	8 095 362	406	-	10 110 207
Tax liabilities	-	-	-	199 667	-	-	265 380	465 047
Other liabilities	29 217	96 614	52 593	235 928	3	-	-	414 355
Total liabilities	**16 408 745**	**9 404 467**	**6 358 774**	**16 084 665**	**10 134 696**	**5 773**	**265 380**	**58 662 500**
Net position	**(8 539 371)**	**10 233 839**	**1 218 411**	**(5 149 952)**	**4 117 805**	**745 182**	**5 655 939**	**8 281 853**
Accumulated liquidity gap	**(8 539 371)**	**1 694 468**	**2 912 879**	**(2 237 073)**	**1 880 732**	**2 625 914**	**8 281 853**	**-**

(Thousands of Russian Rubles except otherwise stated)

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2006:

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue/ No stated maturity	Total
Assets								
Cash and cash equivalents	5 524 205	4 847 448	-	-	-	-	-	10 371 653
Obligatory deposits with the CBR	-	-	577 454	185 015	5 782	7 093	-	775 344
Financial assets at fair value through profit or loss	-	6 147 068	-	-	-	-	2 616	6 149 684
Amounts due from credit institutions	-	-	-	5 312	9 676	-	-	14 988
Loans to customers	-	1 422 080	3 794 851	11 181 448	7 554 862	299 868	594 043	24 847 152
Tax assets	-	-	-	89 252	-	-	-	89 252
Property, equipment and intangible	-	-	-	-	-	-	1 965 042	1 965 042
Other assets	-	252 842	83 649	94 986	12 147	3 776	8 985	456 385
Total assets	**5 524 205**	**12 669 438**	**4 455 954**	**11 556 013**	**7 582 467**	**310 737**	**2 570 686**	**44 669 500**
Liabilities								
Financial liabilities at fair value through profit or loss	-	2 087	-	-	-	-	-	2 087
Amounts due to credit institutions	631 219	115 395	7 000	372 325	-	-	-	1 125 939
Amounts due to customers	19 979 300	2 909 629	3 079 754	8 320 290	260 031	318 972	-	34 867 976
Debt securities issued	59 551	144 048	212 632	224 463	3 072 011	760	-	3 713 465
Tax liabilities	-	-	-	305 921	-	-	145 676	451 597
Other liabilities	1 724	40 851	118 490	1 117	8 982	-	-	171 164
Total liabilities	**20 671 794**	**3 212 010**	**3 417 876**	**9 224 116**	**3 341 024**	**319 732**	**145 676**	**40 332 228**
Net position	**(15 147 589)**	**9 457 428**	**1 038 078**	**2 331 897**	**4 241 443**	**(8 995)**	**2 425 010**	**4 337 272**
Accumulated liquidity gap	**(15 147 589)**	**(5 690 161)**	**(4 652 083)**	**(2 320 186)**	**1 921 257**	**1 912 262**	**4 337 272**	**-**

Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates (refer to Note 18).

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

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(Thousands of Russian Rubles except otherwise stated)

The following table shows remaining contractual maturity of financial assets at fair value through profit or loss of the Group as at 31 December 2007 and 31 December 2006:

	31 December 2007	**31 December 2006**
On demand	-	-
Less than 1 month	551	25
1 to 3 months	-	-
3 months to 1 year	458 348	5 488
1 to 5 years	1 934 328	1 805 062
Over 5 years	1 285 277	4 336 493
No maturity	13 424	2 616
Financial assets at fair value through profit or loss	**3 691 928**	**6 149 684**

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(Thousands of Russian Rubles except otherwise stated)

23. Currency Analysis

The following table shows the currency structure of assets and liabilities as at 31 December 2007:

	Rubles	Foreign currencies	Total
Assets			
Cash and cash equivalents	13 895 900	7 300 131	21 196 031
Obligatory deposits with the CBR	666 419	-	666 419
Financial assets at fair value through profit or loss	3 119 278	572 650	3 691 928
Amounts due from credit institutions	9 676	13 547	23 223
Available-for-sale assets	-	185 675	185 675
Loans to customers	35 127 631	961 942	36 089 573
All other assets	4 870 442	221 062	5 091 504
Total assets	**57 689 346**	**9 255 007**	**66 944 353**
Liabilities			
Financial liabilities at fair value through profit or loss	9 105	5 199	14 304
Amounts due to credit institutions	3 550 952	1 068 768	4 619 720
Amounts due to customers	36 167 099	6 871 768	43 038 867
Debt securities issued	4 600 283	5 509 924	10 110 207
All other liabilities	837 142	42 260	879 402
Total liabilities	**45 164 581**	**13 497 919**	**58 662 500**
Net balance sheet position	**12 524 765**	**(4 242 912)**	**8 281 853**
Less: derivatives financial assets	-	(551)	(551)
Add: derivatives financial liabilities	9 105	5 199	14 304
Net balance sheet position (net of derivatives)	**12 533 870**	**(4 238 264)**	**8 295 606**
Net off-balance sheet position	**(3 991 109)**	**3 977 356**	**(13 753)**
Total position	**8 542 761**	**(260 908)**	**8 281 853**

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(Thousands of Russian Rubles except otherwise stated)

The following table shows the currency structure of assets and liabilities as at 31 December 2006:

	Rubles	Foreign currencies	Total
Assets			
Cash and cash equivalents	6 404 072	3 967 581	10 371 653
Obligatory deposits with the CBR	775 344	-	775 344
Financial assets at fair value through profit or loss	6 147 110	2 574	6 149 684
Amounts due from credit institutions	14 988	-	14 988
Loans to customers	23 180 408	1 666 744	24 847 152
All other assets	2 424 585	86 094	2 510 679
Total assets	**38 946 507**	**5 722 993**	**44 669 500**
Liabilities			
Financial liabilities at fair value through profit or loss	1 990	97	2 087
Amounts due to credit institutions	421 520	704 419	1 125 939
Amounts due to customers	30 267 457	4 600 519	34 867 976
Debt securities issued	1 026 871	2 686 594	3 713 465
All other liabilities	610 144	12 617	622 761
Total liabilities	**32 327 982**	**8 004 246**	**40 332 228**
Net balance sheet position	**6 618 525**	**(2 281 253)**	**4 337 272**
Less: derivatives financial assets	-	(25)	**(25)**
Add: derivatives financial liabilities	1 990	97	**2 087**
Net balance sheet position (net of derivatives)	**6 620 515**	**(2 281 181)**	**4 339 334**
Net off-balance sheet position	**(2 832 428)**	**2 830 366**	**(2 062)**
Total position	**3 788 088**	**549 184**	**4 337 272**

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(Thousands of Russian Rubles except otherwise stated)

24. Geographical Concentration

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

	Russia	OECD*	CIS** and other countries	Total
Assets				
Cash and cash equivalents	7 036 912	13 892 197	266 922	21 196 031
Obligatory deposits with the CBR	666 419	-	-	666 419
Financial assets at fair value through profit or loss	3 678 504	13 424	-	3 691 928
Amounts due from credit institutions	9 676	13 547	-	23 223
Available-for-sale assets	185 675	-	-	185 675
Loans to customers	35 588 983	-	500 590	36 089 573
All other assets	4 919 890	-	171 614	5 091 504
Total assets	**52 086 059**	**13 919 168**	**939 126**	**66 944 353**
Liabilities				
Financial liabilities at fair value through profit or loss	14 304	-	-	14 304
Amounts due to credit institutions	2 296 900	2 322 721	99	4 619 720
Amounts due to customers	39 001 180	1 650 259	2 387 428	43 038 867
Debt securities issued	179 038	9 205 509	725 660	10 110 207
All other liabilities	879 402	-	-	879 402
Total liabilities	**42 370 824**	**13 178 489**	**3 113 187**	**58 662 500**
Net position	**9 715 235**	**740 679**	**(2 174 061)**	**8 281 853**

* OECD - Organisation for economic co-operation and development.
** CIS - Commonwealth of independent states.

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(Thousands of Russian Rubles except otherwise stated)

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

	Russia	OECD*	CIS** and other countries	Total
Assets				
Cash and cash equivalents	5 066 565	5 304 516	572	10 371 653
Obligatory deposits with the CBR	775 344	-	-	775 344
Financial assets at fair value through profit or loss	6 147 601	2 083	-	6 149 684
Amounts due from credit institutions	14 988	-	-	14 988
Loans to customers	24 834 537	-	12 615	24 847 152
All other assets	2 328 862	-	181 817	2 510 679
Total assets	**39 167 897**	**5 306 599**	**195 004**	**44 669 500**
Liabilities				
Financial liabilities at fair value through profit or loss	2 087	-	-	2 087
Amounts due to credit institutions	749 673	374 249	2 017	1 125 939
Amounts due to customers	33 916 813	30 176	920 987	34 867 976
Debt securities issued	583 091	2 639 783	490 591	3 713 465
All other liabilities	622 761	-	-	622 761
Total liabilities	**35 874 425**	**3 044 208**	**1 413 595**	**40 332 228**
Net position	**3 293 472**	**2 262 391**	**(1 218 591)**	**4 337 272**

25. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of the Group's financial assets and liabilities:

	31 December 2007		31 December 2006	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	21 196 031	21 196 031	10 371 653	10 371 653
Obligatory deposits with CBR	666 419	666 419	775 344	775 344
Financial assets at fair value through profit or loss	3 691 928	3 691 928	6 149 684	6 149 684
Amounts due from credit institutions	23 223	23 223	14 988	14 988
Available-for-sale assets	185 675	185 675	-	-
Loans to customers	36 089 573	36 089 573	24 847 152	24 847 152
Financial liabilities at fair value through profit or loss	14 304	14 304	2 087	2 087
Amounts due to credit institutions	4 619 720	4 619 720	1 125 939	1 125 939
Amounts due to customers	43 038 867	43 038 867	34 867 976	34 867 976
Debt securities issued	10 110 207	9 805 612	3 713 465	3 713 465

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents and obligatory deposits with the CBR
For liquid instruments, the carrying amount is a reasonable estimate of fair value. Obligatory deposits with the CBR are non-interest bearing and are estimated to mature as the underlying deposits and other balances in respect of which those deposits are maintained mature.

Financial assets and liabilities at fair value through profit or loss and available-for-sale assets
Financial assets and liabilities at fair value through profit or loss and available-for-sale assets are stated at fair value. The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets is determined with reference to an active market. For securities not traded in an active market the fair value is estimated by using valuation techniques which include the use of recent arm's length transactions, discount cash flow analysis and other valuation techniques commonly used by market participants.

Amounts due from and due to credit institutions
For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Loans to customers
The fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received, and is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained.

Amounts due to customers and credit institutions
For balances maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued
The estimated fair values of debt securities issued is based on discounted cash flows and discount rates for a similar instruments at the balance sheet date, except for Eurobonds and notes secured by the pool of consumer loans and auto loans, where fair value was based on quoted market prices.

26. Related Party Transactions

Related parties, as defined by IAS 24 *"Related Party Disclosures"*, are:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

(Thousands of Russian Rubles except otherwise stated)

As at 31 December 2007 and 31 December 2006 the Group had the following transactions outstanding with related parties:

31 December 2007	Transactions with shareholders	Transactions with key management	Transactions with non-consolidated subsidiaries	Transactions with group IBT*	Total category
Cash and cash equivalents					
Nostro accounts with other credit institutions (RR - 0%, FC - 0%)	-	-	-	4 753	1 120 104
Financial assets at fair value through profit or loss (FC - 0%)	-	-	-	162	3 691 928
Amounts due from credit institutions (RR - 0%)	-	-	-	9 676	23 223
Available-for-sale assets (FC - 9.25%)	-	-	-	185 675	185 675
Loans to customers (gross amount) (FC - 10%-15%)	12 709	11 599	-	-	38 355 715
Allowance for impairment	(78)	(69)	-	-	(2 266 142)
Other assets (RR - 0%)	-	-	52	2 827	818 280
Total assets	**12 631**	**11 530**	**52**	**200 266**	
Financial liabilities at fair value through profit or loss (FC - 0%)	-	-	-	5 199	14 304
Amounts due to credit institutions					
Vostro accounts (RR - 0%, FC - 0%)	-	-	-	34 272	525 894
Repurchase agreements (FC - 5.05%)	-	-	-	11 325	1 711 797
Amounts due to customers					
Current accounts (RR - 0%-0.1%, FC - 0%)	211 784	-	-	-	15 783 462
Term deposits (RR - 7.25%-12.1%, FC - 9%)	2 302 012	16 185	-	-	25 882 425
Debt securities issued (RR - 8.9%)	722 770	-	-	182 449	10 110 207
Total liabilities	**3 236 566**	**16 185**	**-**	**344 810**	

(Thousands of Russian Rubles except otherwise stated)

31 December 2006	Transactions with shareholders	Transactions with key management	Transactions with non-consolidated subsidiaries	Transactions with group IBT*	Total category
Cash and cash equivalents					
Current accounts with other credit institutions (RR - 0%, FC - 0%)	-	-	-	7 647	624 864
Financial assets at fair value through profit or loss (FC - 0%)	-	-	-	25	6 149 684
Amounts due from credit institutions (RR - 0%)	-	-	-	14 988	14 988
Loans to customers (gross amount) (RR - 14%, FC - 10%-15%)	-	21 113	-	-	25 934 176
Allowance for impairment	-	(150)	-	-	(1 087 024)
Other assets (0%)	-	-	622	2 827	456 385
Total assets	**-**	**20 963**	**622**	**22 660**	
Financial liabilities at fair value through profit or loss (FC - 0%)	-	-	-	77	2 087
Amounts due to credit institutions					
Vostro accounts (RR - 0%, FC - 0%)	-	-	-	1 729	631 219
Amounts due to customers					
Current accounts (RR - 0%-0.1%, FC - 0%)	362 981	-	-	4 402	20 006 590
Term deposits (RR - 11.0% - 11.3%, FC - 4.75%-11.5%)	332 664	-	-	80 029	14 746 300
Subordinated debt (RR - 2.5%)	-	-	-	115 086	115 086
Debt securities issued (RR - 9.6%)	440 816	-	-	182 449	3 713 465
Total liabilities	**1 136 461**	**-**	**-**	**212 475**	

* group IBT represents companies which are under common control with the Bank: Investment Bank TRUST and its subsidiaries.

The total remuneration of the key management, including pension contributions, and discretionary compensation included in salaries and employment benefits for 2007 amounted to RR 252 800 thousand (2006: RR 168 309 thousand).

The existing accounting system of the Group does not accumulate the amounts of income and expenses from related party transactions. Management of the Group believes that the majority of these amounts are proportionate to the average balances of the corresponding balance sheet captions.

(Thousands of Russian Rubles except otherwise stated)

27. Subsidiaries

As at 31 December 2007 and 31 December 2006 the Bank had investments in the following subsidiaries:

Name	Investment as at 31 Dec. 2007	Investment as at 31 Dec. 2006	Country	% Equity interest as at 31 Dec. 2007	% Equity interest as at 31 Dec. 2006
TIB Holding S.A.	2 775	2 775	Switzerland	100%	100%
Fiennes Investments Limited	41	41	Cyprus	100%	100%
TIB Financial Services Limited	556	556	Cyprus	100%	100%
RSCC No 1 S.A.	-	-	Luxemburg	-	-
NBT Finance Limited	-	-	Ireland	-	-
Metcalf Investment Limited	70	-	Cyprus	100%	-
ZAO “Interregional factoring company “Trust” (IFC TRUST)	204 934	570	Russian Federation	100%	19%

TIB Holding S.A. is a closed joint stock company under the laws of Switzerland. The company’s principal activity is providing financial and administrative services, consulting and trust activities.

Fiennes Investments Limited is a closed joint stock company under the laws of Cyprus. The company’s principal activity is international trading and investments.

TIB Financial Services Limited is a closed joint stock company under the laws of Cyprus. The company’s principal activity is financial services and investments.

NBT Finance Limited and RSCC No 1 S.A. are special purposes entities established to facilitate the Group's issue of debt securities (refer to Note 12) and, in substance, controlled by the Bank. Accordingly, the financial statements of these entities are included in the consolidated financial statements of the Group.

Metcalfe Investment Limited is a closed joint stock company under the laws of Cyprus. The company’s principal activity is financial services and investments.

IFC TRUST is a closed joint stock company organised under the laws of the Russian Federation. The company’s principal activity is factoring.

The consolidated financial statements of the Group as at 31 December 2007 included the accounts of TIB Holdings S.A., Fiennes Investments Limited, TIB Financial Services Limited, RSCC No 1 S.A., NBT Finance Limited, Metcalf Investment Limited and IFC TRUST. The consolidated financial statements of the Group as at 31 December 2006 included the accounts of TIB Holdings S.A., Fiennes Investments Limited and TIB Financial Services Limited.

(Thousands of Russian Rubles except otherwise stated)

28. Acquisition of Subsidiaries

In December 2007 the Group increased its stake in IFC TRUST from 19% to 100% by acquisition of shares in IFC TRUST for RR 40 184 thousand, which was settled in cash. The excess of the acquired share in net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of RR 320 576 thousand was recorded as a gain on acquisition of subsidiaries.

On increasing its stake in IFC TRUST from 19% to 100%, the Group recognized its share in the change in retained earnings of IFC TRUST, from the date of initial investment to the date of increasing its stake, of RR 12 698 thousand through the Group's retained earnings in the consolidated statement of changes in shareholder's equity.

Further, on increasing its stake, the Group recognized the revaluation of IFC TRUST intangible assets in respect of the 19% share it already held. This resulted in a gain of RR 71 355 thousand, net of deferred tax of RR 22 533 thousand, which was recognized directly in equity through the consolidated statement of changes in shareholder's equity .

If the acquisition had occurred on 1 January 2007 the net income of the Group for the year would have been RR 443 802 thousand. In determining these figures it has been assumed that the fair value adjustments at 1 January 2007 would have been the same as the fair value adjustments that arose on the date of acquisition.

The net assets of IFC TRUST were as follows at the date of acquisition:

	Carrying value on acquisition date	Fair value adjustment	Fair value recognised on acquisition
Assets			
Cash and cash equivalents	206 036	-	206 036
Loans to customers	3 934 795	-	3 934 795
Property and equipment	4 903	-	4 903
Intangible assets	6 165	494 145	500 310
Other assets	8 894	-	8 894
Liabilities			
Amounts due to customers	4 060 080	-	4 060 080
Tax liabilities	28 899	118 595	147 494
Other liabilities	1 981	-	1 981
Net identifiable assets, liabilities and contingent liabilities	**69 833**	**375 550**	**445 383**
Share in net assets acquired			360 760
Cost of acquisition			(40 184)
Excess of net fair value over the cost of acquisition			**320 576**

Cash inflow on acquisition during the year ended 31 December 2007 was as follows:

	2007
Consideration paid	(40 184)
Cash acquired, excluding accounts in the Bank	188 451
Net cash inflow	148 267

At the acquisition date the Group recognized the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values, based on the results of an independent appraisal performed by American Appraisal (AAR), Inc.

The basis used for the appraisal of customer relationships was the income approach. The following key assumptions were used for income approach:

- cash flows were based on a 5 year remaining useful life of the asset;
- the net cash flows were capitalised using the discount rate of 19%.

The basis used for the appraisal of software was cost approach. The cost approach was based upon a management estimate of hours required for a typical project team to recreate an asset and the estimated hourly rates for the project team members.

The basis used for the appraisal of property and equipment was the market approach. The market approach was based upon an analysis of comparable sales of similar assets.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources of information.

(End)

TRUST Investment Bank

Consolidated Financial Statements

For the year ended December 31, 2007

TRUST Investment Bank
Consolidated Financial Statements for the year ended December 31, 2007

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Independent Auditors' Report

To the Board of Directors of TRUST Investment Bank

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
23 May 2008

(Thousands of Russian Roubles except otherwise stated)

CONSOLIDATED BALANCE SHEET

	Note	December 31, 2007	December 31, 2006
Assets			
Cash and cash equivalents	5	4 046 608	5 405 277
Obligatory reserves with the CBR		209 977	291 036
Financial assets at fair value through profit or loss			
- unpledged	6	9 089 070	9 881 442
- pledged under repurchase agreements	6	12 896 774	24 646 862
Amounts due from credit institutions	7	136 615	1 320 397
Receivables under reverse repurchase agreements	8	1 016 463	1 539 493
Financial assets available-for-sale	9	10	6 365
Loans to customers	10	1 850 726	3 166 324
Tax assets	26	355 395	288 555
Property and equipment	11	298 092	332 479
Investment property	12	446 438	245 303
Intangible assets	13	37 738	26 172
Other assets	14	178 174	246 425
Total assets		**30 562 080**	**47 396 130**
Liabilities			
Financial liabilities at fair value through profit or loss	15	1 048 728	1 884 579
Amounts due to credit institutions	16	1 922 754	3 983 497
Payables under repurchase agreements	17	11 073 047	21 842 458
Amounts due to customers	18	5 823 436	7 898 868
Debt securities issued	19	3 989 278	4 913 440
Tax liabilities	26	26 710	24 106
Other liabilities	20	218 813	180 102
Total liabilities		**24 102 766**	**40 727 050**
Shareholders' equity			
Share capital	21	3 044 581	3 044 581
Additional paid-in capital		2 300 616	2 176 889
Retained earnings		1 114 117	1 447 610
Total shareholders' equity		**6 459 314**	**6 669 080**
Total liabilities and shareholders' equity		**30 562 080**	**47 396 130**

Approved for issue by the Management Board and signed on its behalf on May 23, 2008.

Michael Eggleton	**Chairman of the Board**
Sergey A. Sirotin	**Chief Financial Officer**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles except otherwise stated)

CONSOLIDATED INCOME STATEMENT

	Note	December 31, 2007	December 31, 2006
Interest income	23	2 956 794	2 383 201
Interest expense	23	(1 981 094)	(1 438 838)
Net interest income		**975 700**	**944 363**
Recovery of allowance/(allowance) for impairment	10	13 094	(294 989)
Net interest income after allowance for impairment		**988 794**	**649 374**
Fee and commission income	24	416 171	318 392
Fee and commission expense	24	(43 078)	(44 797)
Net fee and commission income		**373 093**	**273 595**
Net (losses)/gains on operations with securities		(483 408)	816 626
Net foreign exchange gains		10 956	18 253
Income on investment property		216 062	-
Dividend income		10 718	11 140
Other income		13 747	14 799
Other non interest (loss)/income		**(231 925)**	**860 818**
Salaries and employment benefits	25	(877 315)	(946 363)
Administrative expenses	25	(488 632)	(425 936)
Depreciation and amortization	11, 13	(80 628)	(95 207)
Other operating expenses		(39 679)	(50 919)
Operating expenses		**(1 486 254)**	**(1 518 425)**
(Loss)/income before tax		**(356 292)**	**265 362**
Income tax benefit/(expense)	26	22 799	(87 155)
Net (loss)/income		**(333 493)**	**178 207**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles except otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance as at December 31, 2005		**3 044 581**	**(258 270)**	**2 176 889**	**1 269 403**	**6 232 603**
Net income		-	-	-	178 207	178 207
Total recognized income for the period		**-**	**-**	**-**	**-**	**178 207**
Disposal of treasury shares		-	258 270	-	-	258 270
Balance as at December 31, 2006		**3 044 581**	**-**	**2 176 889**	**1 447 610**	**6 669 080**
Net loss		-	-	-	(333 493)	(333 493)
Total Trecognized loss for the period		**-**	**-**	**-**	**-**	**(333 493)**
Contributions from shareholders, net of current income tax of RR 39 072 thousand	21	-	-	123 727	-	123 727
Balance as at December 31, 2007		**3 044 581**	**-**	**2 300 616**	**1 114 117**	**6 459 314**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles except otherwise stated)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	December 31, 2007	December 31, 2006
Cash flows from operating activities			
Interest and commissions received		3 372 316	2 771 484
Interest and commissions paid		(2 042 110)	(1 379 860)
Net (losses)/gains on operations with securities		(392 070)	419 406
Net foreign exchange gains		112 417	213 878
Income on investment property		14 927	-
Other income		13 746	14 629
Dividend income		10 718	10 749
Salaries and employment benefits		(832 827)	(1 038 324)
Administrative and other operating expenses		(518 905)	(399 585)
Cash flows (used in)/provided from operating activities before changes in operating assets and liabilities		**(261 788)**	**612 377**
Net decrease/(increase) in operating assets			
Obligatory reserves with the CBR		81 059	217 957
Financial assets at fair value through profit or loss			
- unpledged		970 717	(2 832 240)
- pledged under repurchase agreements		12 382 044	(16 117 089)
Amounts due from credit institutions		1 191 630	719 103
Receivables under reverse repurchase agreements		587 971	518 654
Financial assets available-for-sale		197	-
Loans to customers		1 562 286	959 430
Other assets		(114 196)	(105 607)
Net increase/(decrease) in operating liabilities			
Financial liabilities at fair value through profit or loss		(743 819)	516 634
Amounts due to credit institutions		(2 302 207)	(196 074)
Payables under repurchase agreements		(11 188 416)	13 906 105
Amounts due to customers		(2 131 778)	857 200
Other liabilities		(15 354)	(17 781)
Net cash flows provided from/(used in) operating activities before income tax		**18 346**	**(961 331)**
Income tax paid		(80 509)	(193 152)
Net cash flows used in operating activities		**(62 163)**	**(1 154 483)**
Cash flows from investing activities			
Acquisition of investment property		-	(245 303)
Net acquisition of property and equipment		(25 291)	(5 704)
Contribution to capital of non-consolidated subsidiary		(10)	-
Acquisition of intangible assets		(32 516)	(9 997)
Disposal of non-consolidated subsidiary		1 605	-
Net cash used in investing activities		**(56 212)**	**(261 004)**
Cash flows from financing activities			
Contributions from shareholders		162 799	-
Disposal of treasury shares		-	258 270
Debt securities (redeemed)/issued		(1 205 594)	2 008 868
Net cash flows (used in)/provided from financing activities		**(1 042 795)**	**2 267 138**
Effect of change in exchange rates on cash and cash equivalents		(197 499)	(350 532)
Net change in cash and cash equivalents		**(1 358 669)**	**501 119**
Cash and cash equivalents at the beginning of the year		5 405 277	4 904 158
Cash and cash equivalents at the end of the year	5	**4 046 608**	**5 405 277**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles except otherwise stated)

1. Principal Activities

These consolidated financial statements include the financial statements of **TRUST Investment Bank** (the “Bank”) and its subsidiaries (together referred to as “the Group”).

TRUST Investment Bank (the “Bank”) was formed on April 1994 as a limited liability company under the laws of the Russian Federation under the name of Trust and Investment Bank. In April 1999, the Bank was re-registered as an open joint-stock company, and on July 28, 2003, was re-named to TRUST Investment Bank. The Bank possesses a license for carrying out banking operations in Roubles and foreign currencies (without the right to attract deposits from individuals) from the Central Bank of the Russian Federation (the “CBR”), last updated on September 26, 2005.

The Bank’s registered legal address is 26/1, Ulansky Lane, Moscow, Russia. Its sole office is located in Moscow.

TRUST Investment Bank is one of the leading Russian investment and corporate banks providing financial services to institutional and corporate clients as well as federal and municipal governmental organizations.

Services provided by the Bank include:
- Investment banking;
- Securities brokerage and trading;
- Corporate finance;
- Lending and asset management;
- Settlements and other commercial banking services.

In May 2004 management of the Bank completed a buyout of a controlling stake in the Bank from its previous owners and as a result received full control over the Bank.

As at 31 December 2007 the Group is ultimately controlled by TIB Holdings Limited (the “ultimate parent company”), which in its turn is controlled by three individuals who have the power to direct the transactions of the Bank at their own discretion and for their own benefit. Those individuals are Ilya S. Yurov, Sergey L. Belyaev and Nikolay V. Fetisov. At the end of 2007 the Bank announced a buyout of the shares of the Bank’s ex-shareholder Artashes A. Terzyan. Terzyan’s entire holding was bought out by remaining three individuals.

In November 2007 Merrill Lynch bought effective control of 6.1% of the Group.

Other minority shareholders control 8.47% of the Group.

The principal subsidiaries of the Bank are as follows:

Name	**Country of incorporation**	**Principal Activities**	**Ownership %**	
			2007	**2006**
T&IB Equities Limited	Cyprus	Trading in equity and debt securities	100.0%	100.0%
TIB Finance p.l.c.*	Ireland	Raising finance	-	-
“Doverie Capital” Management Company	Russia	Trading in equity and debt securities	100.0%	100.0%

*The Bank does not have any direct or indirect shareholdings in this company. However, this company was established under the terms that impose strict limits on the decision-making powers of its management. In addition, the benefits related to its operations and net assets are presently attributable to the Bank via a number of agreements.

2. Operating Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3. Basis of Preparation

General
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Basis of measurement
The consolidated financial statements have been prepared on the historical or amortized cost basis as detailed in Note 4 except for the following:
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- investment property is measured at fair value.

Functional currency and presentation currency
The national currency of the Russian Federation is the Russian Rouble ("RR"). Management have determined the functional currency of the Bank and its subsidiaries to be the RR as it reflects the economic substance of the underlying events and circumstances of the Bank and its subsidiaries. The RR is also the Group's presentation currency for the purposes of these consolidated financial statements. These consolidated financial statements are presented in thousands of Russian Roubles, unless otherwise indicated.

The official CBR exchange rates as at 31 December 2007 and 31 December 2006, were 24.5462 Russian Rubles and 26.3311 Russian Rubles to 1 US Dollar respectively.

Use of estimates and judgments
The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following Notes:
- Loan impairment estimates – refer to Note 10;
- Investment property estimates – refer to Note 12;
- Commitments and contingencies estimates – refer to Note 22.

4. Summary of Accounting Policies

The following significant accounting policies have been applied in the preparation of these financial statements. The accounting policies have been consistently applied. Changes in accounting policies as a result of revised accounting standards which have been applied retrospectively are described at the end of this Note.

Inflation accounting
As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Group no longer applies the provisions of IAS 29 *"Financial Reporting in Hyperinflationary Economies"* to current periods and only recognizes the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the consolidated financial statements.

Non-monetary assets and liabilities acquired prior to December 31, 2002, and share capital contributions occurring before December 31, 2002, have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through December 31, 2002. Gains or losses on subsequent disposal are recognized based on the restated cost of non-monetary assets and liabilities.

Basis of consolidation

Subsidiaries
Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities
The Group established a special purpose entity (SPE) for the purpose of raising finance. The Group does not have any direct or indirect shareholdings in this entity. This SPE is controlled by the Group through the predetermination of the activities of the SPE, having rights to obtain the majority of benefits of the SPE, and retaining the majority of the residual risks related to the SPE.

Transactions eliminated in consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

The official CBR exchange rates as at 31 December 2007 and 31 December 2006, were 24.5462 Russian Rubles and 26.3311 Russian Rubles to 1 US Dollar respectively.

Cash and cash equivalents
The Group considers cash on hand, nostro accounts with the CBR, nostro accounts with other credit institutions and short-term deposits with credit institutions with original maturity of less then ninety days to be cash and cash equivalents. The obligatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification
Financial instruments at fair value through profit or loss are financial assets or liabilities that are:
- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss upon initial recognition where either:
- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition
Financial assets and liabilities are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement
A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement
A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial

asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

Repurchase and reverse repurchase agreements
Securities sold under sale and repurchase agreements ("repo") are accounted for as secured financing transactions, with the securities retained in the balance sheet and the corresponding liability included in amounts payable under repurchase agreement. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repurchase agreement. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If securities purchased under agreement to resell are sold to third parties, the obligation to return them is recorded at fair value as a financial liability at fair value through profit or loss relating to transactions with securities.

Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

Property and equipment
Property and equipment are carried at cost or restated cost less accumulated depreciation and impairment losses. Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. The estimated useful lives are as follows:

	Years
Furniture and fixtures	7
Motor vehicles	5
Computers and equipment	4-6
Other fixed assets	5

Expenses related to repairs and renewals are charged to the consolidated income statement when incurred and included in the consolidated income statement as other administrative and operating expenses unless they qualify for capitalization.

Investment property
Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognized in the consolidated income statement.

Intangible assets
Intangible assets include licenses and computer software.

Licenses are stated at cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is 10 years.

Computer software development costs are recognized as assets at cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of 10 years. Acquired computer software is accounted for under the same policies.
Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service.

Impairment

Financial assets carried at amortized cost
Financial assets carried at amortized cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in other assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and cannot be reversed.

Non financial assets
Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital and dividends
Share capital is recognized at restated cost. The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event and disclosed accordingly.

Treasury shares
Where the Bank or its subsidiaries purchase the Bank’s shares, the consideration paid including any attributable incremental external costs is deducted from total shareholders’ equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in shareholders’ equity.

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

Taxation
Income tax on the income or loss for the period comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided, using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition
With the exception of financial assets at fair value through profit or loss, interest income and expense are recognized on an accrual basis calculated using the effective interest method. Interest income on financial assets at fair value through profit or loss comprises coupon interest only. Interest income and expenses on the financial instruments other than financial assets at fair value through profit or loss and available-for-sale financial assets include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.
Commissions and other income are recognized when the correspondence services are provided. Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, when significant, are deferred and recognized as an adjustment to the loan's effective yield.

Dividend income from investments in companies where the Group does not have control or significant influence is recognised in the consolidated income statement on the date that the dividend is declared.

Other income and expense are recognized at the time the transaction occurs.

Staff costs and related contributions
The Group's contributions to State pension and social insurance funds in respect of its employees are expensed as incurred and included into salaries and employment benefits.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Trust activities
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Segment reporting
The Group operates in one business and geographical segment. Therefore separate segment reporting is not presented.

Changes in accounting policies
As of January 1, 2007 the Group adopted IFRIC 9 *"Reassessment of Embedded Derivatives"* and IFRIC 10 *"Consolidated Financial Reporting and Impairment"*. Application of these Interpretations had not required increased disclosures in respect of the Group's financial instruments and the nature and extent of risks arising from financial instruments.

As of January 1, 2007 the Group adopted IFRS 7 *"Financial Instruments: Disclosures"* and the amendment to IAS 1 *"Presentation of Financial Statements - Capital Disclosures"*. Application of the Standard and the amendment results in increased disclosures in respect of the Group's financial instruments and the nature and extent of risks arising from financial instruments and increased disclosure in respect of the Group's capital.

Comparative information
Comparative information has been reclassified to conform to changes in presentation in the current year. These changes were made for the purposes of better and more clear presentation of financial information in the consolidated financial statements.

The following reclassification was made to the comparative information:
- current income tax payable of RR 16 426 thousand was reclassified from "Other liabilities" to "Tax liabilities".

New standards and interpretations not yet adopted
A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

IFRS 8 *"Operating Segments"*, which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 *"Operating Segments"* will replace International Financial Reporting Standard IAS 14 *"Segment Reporting"*.

International Financial Reporting Standard IAS 1 *"Presentation of Financial Statements"* (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

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(Thousands of Russian Roubles except otherwise stated)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	December 31, 2007	December 31, 2006
Cash on hand	**26 274**	**25 579**
Nostro accounts with the CBR	**145 327**	**322 358**
Nostro accounts with other credit institutions	**505 065**	**371 146**
With credit rating from AA- to AA+	131 880	59 835
With credit rating from A- to A+	266 053	298 028
With credit rating from BBB+ to BBB-	9 909	799
With credit rating from BB- to BB+	28 160	308
With credit rating lower than B+	54 415	1 834
Without credit rating	14 648	10 342
Short-term deposits with other credit institutions	**3 369 942**	**4 686 194**
With credit rating from AA- to AA+	173 014	87 804
With credit rating from A- to A+	3 196 717	4 299 133
With credit rating from BBB+ to BBB-	-	49 007
With credit rating from BB- to BB+	-	200 030
With credit rating lower than B+	211	50 220
Cash and cash equivalents	**4 046 608**	**5 405 277**

Nostro accounts with other credit institutions as of December 31, 2007 included RR 143 927 thousand variation margin on US Treasury notes futures contracts (December 31, 2006 - RR 61 389 thousand). The fair value of the Group's position in futures contracts was calculated based on quoted market rates as of the period end.

As of December 31, 2007 the Group had deposits with one counterparty with aggregated balances above 10% of shareholders' equity. The aggregated amount of these deposits was RR 2 779 272 thousand or 82.5% of short-term deposits with other credit institutions.

As of December 31, 2006 the Group had deposits with one counterparty with aggregated balances above 10% of shareholders' equity. The aggregated amount of these deposits was RR 4 299 490 thousand or 91.7% of short-term deposits with other credit institutions.

Interest rates, geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 28. The estimated fair value of cash and cash equivalents is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

Unpledged financial assets at fair value through profit or loss	**December 31, 2007**	**December 31, 2006**
Trading securities		
Corporate bonds	**4 774 617**	**4 504 805**
With credit rating from A- to A+	215 331	91 575
With credit rating from BBB+ to BBB-	26 174	618 626
With credit rating from BB- to BB+	906 938	1 090 630
With credit rating lower than B+	709 761	520 269
Without credit rating	2 916 413	2 183 705
Government and municipal bonds	**1 345 750**	**2 457 600**
With credit rating from A- to A+	83 049	1 747 444
With credit rating from BBB+ to BBB-	25	12 345
With credit rating from BB- to BB+	400 905	74 573
With credit rating lower than B+	593 045	86 929
Without credit rating	268 726	536 309
Marketable equity securities	**842 774**	**1 104 483**
With credit rating from A- to A+	124 643	369 446
With credit rating from BBB+ to BBB-	55 417	430 912
With credit rating from BB- to BB+	107 317	102 385
With credit rating lower than B+	153 221	23 880
Without credit rating	402 176	177 860
	6 963 141	**8 066 888**
Assets designated at fair value through profit or loss		
Shares in mutual and hedge funds	**1 557 484**	**1 525 127**
Without credit rating	1 557 484	1 525 127
Federal loan bonds of the Russian Federation (OFZ)	**538 360**	**274 921**
With credit rating from A- to A+	538 360	274 921
	2 095 844	**1 800 048**
Derivative financial assets	**30 085**	**14 506**
Total unpledged financial assets at fair value through profit or loss	**9 089 070**	**9 881 442**

Trading securities

Corporate bonds represent bonds of large Russian companies and banks denominated in Roubles, US Dollars, and Euros, with maturities between 2008 and 2036 (December 31, 2006 – between 2007 and 2036). The annual coupon rates on these bonds range from 5.7% to 27.6% (December 31, 2006 – from 4.6% to 13.8%).

Government and municipal bonds include Federal loan bonds of the Russian Federation, regional and local authorities bonds and the Ministry of Finance of the Russian Federation bonds.

Federal loan bonds of the Russian Federation (OFZ) are Rouble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturities between 2010 and 2019 (December 31, 2006 – between 2008 and 2036). The annual coupon rates on these bonds range from 0.0% to 9.0% (December 31, 2006 – from 0.0% to 9.0%).

Regional and local authorities bonds are Rouble denominated securities issued by the city of Moscow, region of Moscow and other regional authorities, with maturities between 2008 and 2014 (December 31, 2006 – between 2007 and 2013). The annual coupon rates on these bonds range from 7.0% to 9.9% (December 31, 2006 – 7.0% to 12.0%).

The Ministry of Finance of the Russian Federation bonds are US Dollar denominated securities, which carry the guarantee of the Ministry of Finance of the Russian Federation, with maturity in 2008 (December 31, 2006 – in 2008). The bonds carry an annual coupon of 3.0% (December 31, 2006 – 3.0%).

Marketable equity securities consist of shares of large Russian companies.

Assets designated at fair value through profit or loss

Shares in mutual and hedge funds are investments in Trust Hedge Fund and PIF “Trust Perviy”. The Group designates shares in mutual and hedge funds at fair value through profit or loss upon initial recognition as these investments are managed and evaluated on a fair value basis.

Federal loan bonds of the Russian Federation (OFZ) are Rouble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturity between 2010 and 2018 (December 31, 2006 – in 2018). The annual coupon rates on these bonds are between 7.4% and 9.0% (December 31, 2006 – 9.0%). These bonds are pledged with the CBR for the right to participate in the CBR’s auctions on securities and foreign currency. The CBR does not have the right to sell or repledge these bonds.

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in the consolidated income statement.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the consolidated income statement. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

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(Thousands of Russian Roubles except otherwise stated)

Outstanding deals with derivative financial instruments are as follows:

December 31, 2007

	Notional principal		**Average**	**Fair values**	
	Buy	**Sell**	**rate**	**Asset**	**Liability**
Foreign exchange contracts					
Forwards – foreign counterparties	55 000 thousand EUR	79 922 thousand USD	1.45	22 018	7 479
	22 215 thousand USD	15 784 thousand EUR	1.41	-	21 853
	1 601 thousand USD	800 thousand GBP	2.00	101	-
	48 870 thousand RR	2 000 thousand USD	24.44	-	222
				22 119	**29 554**
Securities contracts					
Options – foreign counterparties	23 000 equity securities	1 162 thousand USD	0.05	240	-
Forwards – foreign counterparties	16 210 194 equity securities	6 917 thousand USD	0.0004	5 729	1 626
	12 625 thousand USD	6 258 117 equity securities	0.002	871	8 555
	800 corporate eurobonds	29 859 thousand USD	37.32	877	5 618
	30 256 thousand USD	539 corporate eurobonds	56.13	-	6 247
Forwards – domestic counterparties	431 721 equity securities	455 thousand USD	0.001	-	602
	1 020 thousand USD	1 356 031 equity securities	0.0008	226	70
	2 685 thousand RR	1 500 000 equity securities	0.0018	23	-
	1 967 thousand USD	2 000 corporate eurobonds	0.98	-	212
				7 966	**22 930**
Derivative financial instruments				**30 085**	**52 484**

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(Thousands of Russian Roubles except otherwise stated)

December 31, 2006

	Notional principal		Average	Fair values	
	Buy	**Sell**	**rate**	**Asset**	**Liability**
Foreign exchange contracts					
Forwards – foreign	36 330 thousand EUR	47 397 thousand USD	1.30	12 500	-
counterparties	10 000 thousand USD	7 884 thousand EUR	1.27	-	10 223
Forwards – domestic	158 064 thousand RR	6 000 thousand USD	26.34	77	-
counterparties	6 000 thousand USD	158 075 thousand RR	26.34	-	88
	35 577 thousand USD	27 000 thousand EUR	1.32	-	25
				12 577	**10 336**
Securities contracts					
Forwards – foreign counterparties	210 720 equity securities	546 thousand USD	0.003	552	-
	3 601 thousand USD	1 280 957 equity securities	0.003	547	5 638
	1 301 corporate eurobonds	31 646 thousand USD	24.32	436	19 187
	3 141 thousand USD	3 000 corporate eurobonds	1.05	325	22
Forwards – domestic counterparties	28 000 equity securities	8 456 thousand RR	0.30	22	-
	8 462 thousand RR	28 000 equity securities	0.30	-	12
	500 corporate eurobonds	512 thousand USD	1.02	47	-
				1 929	**24 859**
Derivative financial instruments				**14 506**	**35 195**

All the above contracts mature within 3 months (December 31, 2006 – 3 months) from the balance sheet date.

The fair value of the Group's position on derivatives was calculated as follows:

- **Forward foreign exchange contracts –** based on the RR/USD and RR/EUR forward rates effective as of December 31, 2007 and December 31, 2006.
- **Forward securities contracts –** based on forward rates for corporate shares and debt securities quoted or other appropriate market data at period-end.

Interest rates, geographical, currency and maturity analyses of unpledged financial assets at fair value through profit or loss are disclosed in Note 28. The estimated fair value of unpledged financial assets at fair value through profit or loss is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

Assets pledged under repurchase agreements (Note 17) are provided as collateral and can be repledged or resold by the counterparty. They comprise:

Financial assets at fair value through profit or loss pledged under repurchase agreements	**December 31, 2007**	**December 31, 2006**
Trading securities		
Government and municipal bonds	**6 668 077**	**8 178 989**
With credit rating from A- to A+	-	3 737 954
With credit rating from BBB+ to BBB-	5 345 979	4 104 047
With credit rating from BB- to BB+	1 248 980	141 388
With credit rating lower than B+	15 145	195 600
Without credit rating	57 973	-
Corporate bonds	**5 885 029**	**15 514 029**
With credit rating from A- to A+	1 208 732	1 285 204
With credit rating from BBB+ to BBB-	428 892	488 630
With credit rating from BB- to BB+	2 271 338	8 855 354
With credit rating lower than B+	1 582 113	1 894 133
Without credit rating	393 954	2 990 708
Marketable equity securities	**343 668**	**953 844**
With credit rating from A- to A+	210 391	953 844
With credit rating from BBB+ to BBB-	102 301	-
Without credit rating	30 976	-
Total pledged financial assets at fair value through profit or loss	**12 896 774**	**24 646 862**

Government and municipal bonds include Eurobonds of the Russian Federation and regional and local authorities bonds.

Eurobonds of the Russian Federation are US Dollar denominated securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally, with maturity in 2030 (December 31, 2006 – 2030). The annual coupon rate on these bonds is 7.5% (December 31, 2006 - 5.0%).

Regional and local authorities bonds are Rouble denominated securities issued by regional and local authorities, with maturities between 2011 and 2014 (December 31, 2006 – between 2008 and 2015). The annual coupon rates on these bonds range from 7.6% to 8.0% (December 31, 2006 - 8.0% to 11.0%).

Corporate bonds represent bonds of large Russian companies and banks denominated in Roubles and US Dollars and credit linked notes issued by large Russian companies and banks, with maturities from 2008 to 2022 (December 31, 2006 – from 2007 to 2016). The annual coupon rates on these bonds range from 5.7% to 12.0% (December 31, 2006 – from 6.8% to 12.0%).

Marketable equity securities consist of shares of large Russian companies**.**

Interest rates, geographical, currency and maturity analyses of financial assets at fair value through profit or loss pledged under repurchase agreements are disclosed in Note 28. The estimated fair value of financial assets at fair value through profit or loss pledged under repurchase agreements is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	December 31, 2007	December 31, 2006
Term deposits	**125 469**	**1 312 454**
With credit rating AAA	-	2 925
With credit rating from A- to A+	121 374	1 187 548
With credit rating lower than B+	-	117 858
Without credit rating	4 095	4 123
Promissory notes	**11 146**	**7 943**
With credit rating lower than B+	11 146	7 943
Amounts due from credit institutions	**136 615**	**1 320 397**

As of December 31, 2007 included in term deposits were deposits of RR 24 884 thousand (December 31, 2006 – RR 1 105 322 thousand) pledged to a counterparty bank as security for open commitments in respect of letters of credit.

As of December 31, 2007 the Group had no counterparties with aggregated balances above 10% of shareholders' equity.

As of December 31, 2006 the Group had one counterparty with aggregated balances above 10% of shareholders' equity. The aggregated amount of these balances was RR 1 105 322 thousand or 83.7% of amounts due from credit institutions.

Interest rates, geographical, currency and maturity analyses of amounts due from credit institutions are disclosed in Note 28. The estimated fair value of amounts due from credit institutions is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

8. Receivables under reverse repurchase agreements

Receivables under reverse repurchase agreements comprise:

	December 31, 2007	December 31, 2006
Credit institutions	**555 107**	**918 298**
With credit rating AAA	-	237 662
With credit rating from AA- to AA+	175 857	-
With credit rating from A- to A+	26 984	499 491
With credit rating from BBB+ to BBB-	137 308	-
With credit rating from BB- to BB+	20 029	-
With credit rating lower than B+	44 721	148 281
Without credit rating	150 208	32 864
Customers	**461 356**	**621 195**
With credit rating lower than B+	264 667	621 195
Without credit rating	196 689	-
Total receivables under reverse repurchase agreements	**1 016 463**	**1 539 493**

The Group minimizes credit risk associated with reverse repurchase agreements by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by the Group when deemed necessary. The fair value of financial assets taken as collateral that the Group is permitted to sell or repledge comprises:

	December 31, 2007	December 31, 2006
Corporate bonds	**705 678**	**957 830**
With credit rating from A- to A+	345 335	738 148
With credit rating from BB- to BB+	85 090	30 659
With credit rating lower than B+	182 095	54 228
Without credit rating	93 158	134 795
Marketable equity securities	**374 241**	**968 983**
With credit rating from A- to A+	218 894	968 983
With credit rating from BBB+ to BBB-	102 345	-
With credit rating lower than B+	22 006	-
Without credit rating	30 996	-
Government and municipal bonds	**98 346**	**-**
With credit rating from BB- to BB+	98 346	-
Total collateral	**1 178 265**	**1 926 813**

Interest rates, geographical, currency and maturity analyses of receivables under reverse repurchase agreements are disclosed in Note 28. The estimated fair value of receivables under reverse repurchase agreements is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

9. Financial assets available-for-sale

Financial assets available-for-sale comprise:

	December 31, 2007	December 31, 2006
Investments in non-consolidated subsidiaries	10	6 168
Equity securities	-	197
Financial assets available-for-sale	**10**	**6 365**

Non-consolidated subsidiaries

The Group had investments in the following non-consolidated subsidiaries:

Name	Investments		Ownership %		Shareholders' equity/(deficit)	
	2007	2006	2007	2006	2007	2006
LLC "Trust-broker"	10	-	100.0%	-	371	-
T&IB HOLDINGS B.V.	-	6 168	-	100.0%	-	(1 026)

T&IB HOLDINGS B.V. is a holding company incorporated in the Netherlands. During the year ended December 31, 2007 the company was liquidated. Loss on liquidation of RR 4 563 thousand is included in "Net (losses)/gains on operations with securities" in the consolidated income statement.

Limited liability company "Trust-broker" is a trading and brokerage company incorporated in Russia. The company's activity is consulting in finance and management.

The financial position and results of operations of LLC "Trust-broker" are considered to be immaterial for the purposes of inclusion in the consolidated financial statements of the Group. Investment in this company is shown at cost.

Equity securities consist of shares of Russian companies.

Interest rates, geographical, currency and maturity analyses of financial assets available-for-sale are disclosed in Note 28. The estimated fair value of financial assets available-for-sale is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

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(Thousands of Russian Roubles except otherwise stated)

10. Loans to customers

	December 31, 2007	December 31, 2006
Commercial loans	1 987 124	3 322 716
Loans to individuals	147 606	148 071
Gross loans to customers	**2 134 730**	**3 470 787**
Allowance for impairment	(284 004)	(304 463)
Net loans to customers	**1 850 726**	**3 166 324**

Loans to customers are made principally within the Russian Federation to the following economic sectors:

	December 31, 2007	December 31, 2006
Real estate construction	721 594	621 185
Investment and finance	663 424	1 121 619
Food processing	276 127	-
Oil and gas	275 372	275 372
Individuals	147 606	148 071
Manufacturing	50 607	150 407
Factoring	-	963 800
Extraction	-	184 899
Other	-	5 434
Loans to customers	**2 134 730**	**3 470 787**
Allowance for impairment	(284 004)	(304 463)
Loans to customers (net of allowance for impairment)	**1 850 726**	**3 166 324**

The Group had a significant concentration of loans to the real estate construction industry – 33.8% of the gross loan portfolio as of December 31, 2007 (December 31, 2006 – 17.9%).

As of December 31, 2007 the Group had no borrowers with aggregated loan balances above 10% of shareholders' equity.

As of December 31, 2006 the Group had one borrower with aggregated loan balances above 10% of shareholders' equity. The aggregated amount of this loan was RR 963 800 thousand or 27.8% of loans to customers.

As of December 31, 2007 the Group held promissory notes of JSC "Oil Company "YUKOS" with a carrying amount of RR 275 372 thousand (December 31, 2006 – RR 275 372 thousand) before allowance for impairment. As of December 31, 2007 an allowance for impairment of RR 275 372 thousand (December 31, 2006 – RR 275 372 thousand) in relation to these promissory notes was recorded by the Group.

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Credit quality of loan portfolio

The following table provides information on the credit quality of loan portfolio as at December 31, 2007:

	Gross loans RR'000	Impairment RR'000	Net loans RR'000	Impairment to gross loans %
Commercial loans				
Loans for which no impairment has been identified:				
- Standard loans	1 659 794	(8 303)	1 651 491	0.5%
Loans for which no impairment has been identified	**1 659 794**	**(8 303)**	**1 651 491**	**0.5%**
Impaired loans:				
- Overdue less than 1 month	51 958	(238)	51 720	0.5%
- Overdue more than 1 year	275 372	(275 372)	-	100.0%
Impaired loans	**327 330**	**(275 610)**	**51 720**	**84.2%**
Total commercial loans	**1 987 124**	**(283 913)**	**1 703 211**	**14.3%**
Loans to individuals				
Loans for which no impairment has been identified:				
- Standard loans	147 602	(87)	147 515	0.1%
Loans for which no impairment has been identified	**147 602**	**(87)**	**147 515**	**0.1%**
Impaired loans:				
- Overdue more than 1 year	4	(4)	-	100.0%
Impaired loans	**4**	**(4)**	**-**	**100.0%**
Total loans to individuals	**147 606**	**(91)**	**147 515**	**0.1%**
Total loans to customers	**2 134 730**	**(284 004)**	**1 850 726**	**13.3%**

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The following table provides information on the credit quality of the commercial loan portfolio as at December 31, 2006:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RR'000	RR'000	RR'000	%
Commercial loans				
Loans for which no impairment has been identified:				
- Standard loans	2 891 504	(13 633)	2 877 871	0.5%
Loans for which no impairment has been identified	**2 891 504**	**(13 633)**	**2 877 871**	**0.5%**
Impaired loans:				
- Watch list loans	150 407	(10 002)	140 405	6.6%
- Overdue more than 90 days and less than 1 year	5 433	(5 433)	-	100.0%
- Overdue more than 1 year	275 372	(275 372)	-	100.0%
Impaired loans	**431 212**	**(290 807)**	**140 405**	**67.4%**
Total commercial loans	**3 322 716**	**(304 440)**	**3 018 276**	**9.2%**
Loans to individuals				
Loans for which no impairment has been identified:				
- Standard loans	148 052	(4)	148 048	0.0%
Loans for which no impairment has been identified	**148 052**	**(4)**	**148 048**	**0.0%**
Impaired loans:				
- Overdue more than 1 year	19	(19)	-	100.0%
Impaired loans	**19**	**(19)**	**-**	**100.0%**
Total loans to individuals	**148 071**	**(23)**	**148 048**	**0.0%**
Total loans to customers	**3 470 787**	**(304 463)**	**3 166 324**	**8.8%**

The Group has estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 4.

The Group has estimated loan impairment for commercial loans to customers based on an analysis of the future cash flows for impaired loans and based on its past experience of portfolios for loans for which no indications of impairment has been identified.

In determining the impairment allowance for the loan portfolio for which no specific impairment has been identified, management has assumed a time lag of 1 month to identify impairment after the loss triggering event.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance as of December 31, 2007 would be RR 18 507 thousand lower/higher (December 31, 2006 – 31 663 thousand).

As of December 31, 2007 the aggregate amount of loans to customers with contractually overdue principal or interest was RR 327 334 thousand, and the allowance for impairment created against such loans was RR 275 614 thousand (December 31, 2006 - RR 280 824 thousand and RR 280 824 thousand respectively)

During the year ended December 31, 2007, the Group accrued RR 228 thousand of interest on impaired loans (December 31, 2006 - RR 501 thousand).

During the year ended December 31, 2007 the Bank did not renegotiate any commercial loans that would otherwise be past due or impaired. During the year ended December 31, 2006 the Bank had renegotiated one commercial loan of RR 150 407 thousand. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

(Thousands of Russian Roubles except otherwise stated)

Analysis of collateral

The following table provides the analysis of commercial loan portfolio, before deduction of impairment, by types of collateral as of December 31, 2007:

	2007	% of loan portfolio	2006	% of loan portfolio
Promissory notes issued by the Bank	226 358	11.4%	305 057	9.2%
No collateral	1 760 766	88.6%	3 017 659	90.8%
Total	**1 987 124**	**100.0%**	**3 322 716**	**100.0%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. Loans that were secured by the collateral other than promissory notes issued by the Bank were treated as having no collateral for the purposes of this analysis.

As of December 31, 2007 and 2006 all impaired loans were unsecured.

During the year ended December 31, 2007 the Group did not obtain any assets by taking control of collateral accepted as security for commercial loans (December 31, 2006 - nil).

(Recovery of allowance)/allowances for impairment

The movements in allowances for impairment were as follows:

	Loans to customers	Other assets	Total
December 31, 2005	**323 821**	**3 000**	**326 821**
Allowances for impairment	294 989	-	294 989
Disposal of provision as a result of disposal of loans	(147 022)	-	(147 022)
Write-offs	(167 325)	-	(167 325)
December 31, 2006	**304 463**	**3 000**	**307 463**
Recovery of allowances for impairment	(13 034)	(60)	(13 094)
Write-offs	(7 425)	(2 940)	(10 365)
December 31, 2007	**284 004**	**-**	**284 004**

During 2006 the Group wrote off overdue loans with the carrying value of RR 167 325 thousand, collectability of which was considered to be unlikely.

In addition, during 2006 the Group sold a non-performing loan to an unrelated party with the carrying value of RR 716 795 thousand. Prior to disposal, allowances for impairment of RR 147 022 thousand were created against this loan.

Interest rates, geographical, currency and maturity analyses of loans to customers are disclosed in Note 28. The estimated fair value of loans to customers is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

(Thousands of Russian Roubles except otherwise stated)

11. Property and equipment

The movements of property and equipment during 2007 were as follows:

	Furniture and fixtures	Computers and equipment	Motor vehicles	Other fixed assets	Assets under construction	Total
Cost						
December 31, 2006	**65 787**	**271 826**	**6 665**	**49 896**	**129 732**	**523 906**
Additions	159	13 934	701	6 708	10 137	31 639
Disposals	(9 879)	(15 938)	(2 581)	(403)	-	(28 801)
December 31, 2007	**56 067**	**269 822**	**4 785**	**56 201**	**139 869**	**526 744**
Accumulated depreciation						
December 31, 2006	**31 078**	**133 420**	**3 982**	**22 947**	**-**	**191 427**
Depreciation charge for the year	8 561	39 649	962	10 506	-	59 678
Disposals	(6 132)	(14 086)	(1 951)	(284)	-	(22 453)
December 31, 2007	**33 507**	**158 983**	**2 993**	**33 169**	**-**	**228 652**
Net book value						
December 31, 2006	**34 709**	**138 406**	**2 683**	**26 949**	**129 732**	**332 479**
December 31, 2007	**22 560**	**110 839**	**1 792**	**23 032**	**139 869**	**298 092**

The movements of property and equipment during 2006 were as follows:

	Furniture and fixtures	Computers and equipment	Motor vehicles	Other fixed assets	Assets under construction	Total
Cost						
December 31, 2005	**69 818**	**298 886**	**6 950**	**51 423**	**132 495**	**559 572**
Additions	5 704	12 660	1 180	490	-	20 034
Disposals	(9 735)	(39 720)	(1 465)	(2 017)	(2 763)	(55 700)
December 31, 2006	**65 787**	**271 826**	**6 665**	**49 896**	**129 732**	**523 906**
Accumulated depreciation						
December 31, 2005	**28 890**	**122 013**	**3 273**	**14 451**	**-**	**168 627**
Depreciation charge for the period	9 588	45 403	1 334	10 181	-	66 506
Disposals	(7 400)	(33 996)	(625)	(1 685)	-	(43 706)
December 31, 2006	**31 078**	**133 420**	**3 982**	**22 947**	**-**	**191 427**
Net book value						
December 31, 2005	**40 928**	**176 873**	**3 677**	**36 972**	**132 495**	**390 945**
December 31, 2006	**34 709**	**138 406**	**2 683**	**26 949**	**129 732**	**332 479**

As of December 31, 2007 the gross carrying amount of fully depreciated property and equipment that is still in use by the Group was RR 76 279 thousand (December 31, 2006 - RR 60 060 thousand).

Geographical, currency and maturity analyses of property and equipment are disclosed in Note 28. The estimated fair value of property and equipment is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

(Thousands of Russian Roubles except otherwise stated)

12. Investment property

Investment property comprises:

				December 31, 2007		December 31, 2006	
Type of investment property	**Description**	**Location**	**Purpose**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Real estate	Building	Ukraine, Kiev	Rent	446 438	446 438	245 303	245 303

The above building was purchased in September 2006. The fair value of investment property as of December 31, 2006 was estimated by management based on publicly available information regarding market values of similar properties. As of December 31, 2007 the building was revalued by the management of the Group based on the results of an independent appraisal performed by LLC “Bureau of independent appraisals “INDEX”.

The bases used for the appraisal were the market approach and the income capitalization approach. The market approach was based upon an analysis of comparable sales of similar buildings. The following key assumptions were used for the income capitalization approach:

a. cash flows were based on a 1 year detailed projection, extended to the remaining useful life of the asset and using zero growth rate;
b. the net cash flows were discounted using the average rent rate of 11%.

Geographical, currency and maturity analyses of investment property are disclosed in Note 28. The estimated fair value of investment property is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

13. Intangible assets

The movements of intangible assets during 2007 were as follows:

	Licenses	**Computer software**	**Total**
Cost			
December 31, 2006	**1 427**	**223 586**	**225 013**
Additions	-	32 516	32 516
Write-offs	-	(180 338)	(180 338)
December 31, 2007	**1 427**	**75 764**	**77 191**
Accumulated amortization			
December 31, 2006	**724**	**198 117**	**198 841**
Amortization charge for the period	440	20 510	20 950
Write-offs	-	(180 338)	(180 338)
December 31, 2007	**1 164**	**38 289**	**39 453**
Net book value			
December 31, 2006	**703**	**25 469**	**26 172**
December 31, 2007	**263**	**37 475**	**37 738**

(Thousands of Russian Roubles except otherwise stated)

The movements of intangible assets during 2006 were as follows:

	Licenses	Computer software	Total
Cost			
December 31, 2005	**1 234**	**213 782**	**215 016**
Additions	193	9 804	9 997
December 31, 2006	**1 427**	**223 586**	**225 013**
Accumulated amortization			
December 31, 2005	**343**	**169 797**	**170 140**
Amortization charge for the period	381	28 320	28 701
December 31, 2006	**724**	**198 117**	**198 841**
Net book value			
December 31, 2005	**891**	**43 985**	**44 876**
December 31, 2006	**703**	**25 469**	**26 172**

During the year ended December 31, 2007 the Group has written off fully amortized computer software with the gross carrying value of RR 180 338 thousand.

Geographical, currency and maturity analyses of intangible assets are disclosed in Note 28. The estimated fair value of intangible assets is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

14. Other assets

Other assets comprise:

	December 31, 2007	December 31, 2006
Settlements on operations with securities	111 806	185 422
Prepayments	28 369	45 792
Commission income accrued	16 214	12 294
Settlements on foreign exchange deals	5 248	-
Other	16 537	5 917
Other assets	**178 174**	**249 425**
Allowance for impairment (Note 10)	-	(3 000)
Net other assets	**178 174**	**246 425**

Settlements on operations with securities mainly represent receivables under unsettled deals with securities.

Geographical, currency and maturity analyses of other assets are disclosed in Note 28. The estimated fair value of other assets is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

(Thousands of Russian Roubles except otherwise stated)

15. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise:

	December 31, 2007	December 31, 2006
Derivative financial liabilities (Note 6)	**52 484**	**35 195**
Obligations to return securities received as collateral		
Credit institutions	424 496	897 540
Customers	571 748	951 844
Financial liabilities at fair value through profit or loss	**1 048 728**	**1 884 579**

Under reverse repurchase agreements the Group obtains securities on terms that permit it to repledge or resell the securities to others. As of December 31, 2007 the Group received RR 1 178 265 thousand of securities at market value on such terms (December 31, 2006 - RR 1 926 813 thousand), of which RR 996 244 thousand were transferred or sold to others in connection with its financing activities or to satisfy its commitments under short sale transactions (December 31, 2006 – 1 849 384 thousand).

Interest rates, geographical, currency and maturity analyses of financial liabilities at fair value through profit or loss are disclosed in Note 28. The estimated fair value of financial liabilities at fair value through profit or loss is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	December 31, 2007	December 31, 2006
Term deposits	1 795 228	3 974 254
Current accounts	127 526	9 243
Amounts due to credit institutions	**1 922 754**	**3 983 497**

As of December 31, 2007 and December 31, 2006, term deposits included RR 40 205 thousand and RR 108 245 thousand, respectively, due to the CBR related to the restructuring of debts of the former Bank MENATEP (Moscow).

As of December 31, 2007 the Group had one counterparty with aggregated balances above 10% of shareholders' equity. The aggregated amount of these term deposits was RR 1 755 023 thousand or 91.3% of amounts due to credit institutions.

As of December 31, 2006 the Group had one counterparty with aggregated balances above 10% of shareholders' equity. The aggregated amount of these term deposits was RR 3 791 149 thousand or 95.2% of amounts due to credit institutions.

Interest rates, geographical, currency and maturity analyses of amounts due to credit institutions are disclosed in Note 28. The estimated fair value of amounts due to credit institutions is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

(Thousands of Russian Roubles except otherwise stated)

17. Payables under repurchase agreements

Payables under repurchase agreements comprise:

	December 31, 2007	December 31, 2006
Credit institutions	11 026 309	21 842 458
Customers	46 738	-
Payables under repurchase agreements	**11 073 047**	**21 842 458**

Repurchase agreements are monitored on a daily basis in order for additional collateral to be deposited by or returned to the Group when deemed necessary.

The financial assets pledged under repurchase agreements are disclosed in Note 6.

As of December 31, 2007 the Group had eight counterparties with aggregated balances above 10% of shareholders' equity. The aggregated amount of these payables under repurchase agreements was RR 9 531 472 thousand or 86.1% of amounts payables under repurchase agreements.

As of December 31, 2006 the Group had twelve counterparties with aggregated balances above 10% of shareholders' equity. The aggregated amount of these payables under repurchase agreements was RR 17 956 121 thousand or 82.2% of amounts payables under repurchase agreements.

Interest rates, geographical, currency and maturity analyses of payables under repurchase agreements are disclosed in Note 28. The estimated fair value of payables under repurchase agreements is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

18. Amounts due to customers

Amounts due to customers comprise:

	December 31, 2007	December 31, 2006
Term deposits	3 791 381	3 254 173
Current accounts	2 032 055	4 644 695
Amounts due to customers	**5 823 436**	**7 898 868**

As of December 31, 2007 customer accounts of RR 431 755 thousand (December 31, 2006 - RR 1 108 317 thousand) were held as collateral for letters of credit issued by the Group. Refer to Note 22.

An analysis of customer accounts by sectors is as follows:

	December 31, 2007	December 31, 2006
Manufacturing	2 556 948	37 787
Investment and finance	1 233 540	112 056
Oil and gas	785 295	6 483 523
Food processing	494 524	-
Trading	250 614	494 225
Individuals	110 844	120 933
Real estate construction	88 109	127 964
Transport	35 126	39 863
Chemical industry	4 506	-
Insurance	4 462	4 683
Telecommunication	4 446	267 200
Research	2 966	15 694
Other	252 056	194 940
Amounts due to customers	**5 823 436**	**7 898 868**

(Thousands of Russian Roubles except otherwise stated)

As of December 31, 2007 the Group had two groups of customer accounts with aggregated balances above 10% of shareholders' equity. The aggregated amount of these amounts due to customers was RR 3 264 921 thousand or 56.1% of amounts due to customers.

As of December 31, 2006 the Group had one group of customer accounts with aggregated balances above 10% of shareholders' equity. The aggregated amount of these amounts due to customers was RR 6 540 261 thousand or 82.8% of amounts due to customers.

As of December 31, 2006 customer accounts included current accounts of companies affiliated with JSC "Oil Company "YUKOS" of RR 6 540 261 thousand, out of which RR 527 118 thousand were current accounts of a restricted nature. During the year ended December 31, 2007, the above mentioned companies were sold to state owned oil company "Rosneft" as a result of bankruptcy proceedings. As of December 31, 2007 customer accounts of these companies amounted to RR 713 756 thousand, out of which RR 355 003 thousand are current accounts of a restricted nature.

Interest rates, geographical, currency and maturity analyses of amounts due to customers are disclosed in Note 28. The estimated fair value of amounts due to customers is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

19. Debt securities issued

Debt securities issued are as follows:

	December 31, 2007	December 31, 2006
Loan participation notes	3 478 772	3 114 016
Promissory notes	510 506	1 799 424
Debt securities issued	**3 989 278**	**4 913 440**

As of December 31, 2007 the Group was in compliance with the 10% statutory Tier I capital ratio covenant imposed by the loan participation notes.

In October 2006 the Group issued loan participation notes with a nominal value of USD 150 000 thousand at an interest rate of 9.25% with maturity on 5 October 2009.

Interest rates, geographical, currency and maturity analyses of debt securities issued are disclosed in Note 28. The estimated fair value of debt securities issued is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

20. Other liabilities

Other liabilities comprise:

	December 31, 2007	December 31, 2006
Accrued bonuses	148 055	112 492
Settlements on operations with securities	30 865	30 873
Payables on taxes other than income tax	11 927	26 589
Settlements with suppliers	11 902	8 625
Other	16 064	1 523
Other liabilities	**218 813**	**180 102**

Settlements on operations with securities mainly represent payables under unsettled deals with securities.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 28. The estimated fair value of other liabilities is disclosed in Note 29. Information on related party balances is disclosed in Note 30.

(Thousands of Russian Roubles except otherwise stated)

21. Share capital

The share capital of the Group has been contributed by the shareholders in Russian Roubles, and they are entitled to dividends or other capital distribution in Russian Roubles.

As of December 31, 2007 and December 31, 2006 share capital of the Group consisted of 1 030 000 000 authorized, issued and fully paid ordinary shares with a fixed nominal value of Rouble 1.

	December 31, 2007	December 31, 2006
Nominal value of ordinary shares	1 030 000	1 030 000
Inflation adjustment to share capital	2 014 581	2 014 581
Share capital	**3 044 581**	**3 044 581**

During 2007 the Group received contributions from its shareholders in the form of consideration for impaired loans sold of RR 162 799 thousand net of current tax of RR 39 072 thousand. In 2007 and 2006, the Group did not pay any dividends or other distributions to shareholders.

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation in the Russian Federation.

22. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. The Group makes provisions for such matters when, in the opinion of management, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated. In respect of such claims, management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

During 2005 JSC "Oil Company "YUKOS" ("YUKOS") made a claim against the Bank for RR 2 612 809 thousand asserting that certain promissory notes ("PN's of Issuers") owned by YUKOS, and held by the Bank as custodian, were written-off the custodian account by the Bank based on instructions which the Bank believed to have been from YUKOS but which, following a lengthy court examination process, were found to have been invalid.

In response, the Bank made a counter-claim to YUKOS for the full payment of the nominal value and accrued interest of the promissory notes issued by YUKOS of RR 3 050 264 thousand, which are held by the Bank. On October 6, 2006 the counter-claim to YUKOS was declined because bankruptcy proceedings against YUKOS were initiated. According to the decision issued by the court, the claims of YUKOS and the claims of the Bank are to be considered separately and can not be offset.

In 2007, the issuers of the PN's returned the PN's to the custody of the Bank and the Bank credited the custodian account of YUKOS with the PN's previously written off. The Guarantee (avals under these PN's) in the amount of RR 2 262 732 thousand has also been restored in the accounting records of the Bank. On August 15, 2007 YUKOS has sold the abovementioned claim towards the Bank to the company OAO "Rosneft" for RR 1 793 302 thousand. Currently the claims made by YUKOS (now changed for OAO "Rosneft") against the Bank are considered by the court of the first instance.

Management expect that OAO "Rosneft" will accept these PN's and will demand payment from their issuers, or, should the issuers fail to make payment, from the Bank. Management of the Bank believe that should OAO "Rosneft" demand payment, the issuers of the PN's have the necessary financial resources and support to enable them to make such payments without recourse to the Bank. The possibility also exists of other actions against the Bank in respect of this matter, however the Bank believes that it is unlikely that such actions will result in losses for the Bank. For the reasons described above, the Bank has not made any provision for losses in respect of this matter. At the date of signing these consolidated financial statements the court has not made any decision under these claims.

(Thousands of Russian Roubles except otherwise stated)

As at 31 December 2007 the Bank was engaged in litigation with the tax authorities who challenged the Bank's methodology of calculating the tax losses to be carried forward. The court of first instance and the court of appeal took decisions in favour of the Bank. However, the Federal Arbitration Court declared these decisions invalid and returned the case to the court of first instance. The new decisions of the court of first instance and the court of appeal were taken in favour of the tax authorities. Currently the Bank is going to appeal this case to the Supreme Arbitration Court. If the Bank is not successful in this appeal, it will not be able to utilize the deferred tax asset in the amount of approximately RUR 66 million and RUR 6 million arising from tax losses carried forward recognized as at 31 December 2007 and 2006 respectively and, the Bank will also have to write off current tax assets for the years ended 31 December 2007 and 2006 in the amount of approximately RUR 112 million. However, Management of the Bank believes that they will be successful in their appeal and in their defence of these claims.

During the year ended 31 December 2007 the Bank was subject to tax audit for the tax periods ended 31 December 2004 and 2005. As a result of this audit a claim against the Bank was made to pay additional taxes and corresponding fines for the total amount of RR 94 381 thousand. The Bank appealed against these claims in court. At the date of signing these consolidated financial statements the court has not made any decision under these claims. Management believes that the Bank was in full compliance with the tax laws and regulations and will be successful in their appeal and defence of these claims. Accordingly, no provision for the potential tax liabilities in relation to these claims has been recorded in the consolidated financial statements.

Credit related commitments

The Group's credit related commitments comprise:

	December 31, 2007	December 31, 2006
Guarantees	2 577 459	38 814
Letters of credit	441 648	1 104 710
Undrawn loan commitments	-	16 067
Credit related commitments	**3 019 107**	**1 159 591**
Cash collateral held (Note 18)	(431 755)	(1 108 317)
Credit related commitments (net of cash collateral held)	**2 587 352**	**51 274**

In the normal course of business, the Group makes commitments to grant loans at a specified rate of interest during a fixed period of time. Substantially all loan contracts contain clauses that set out certain conditions including changes in market rates, under which the interest rate could be reconsidered or the possibility to draw the loan could be cancelled. Therefore such unused loan commitments were not treated as options issued by the Group to borrowers to obtain loans at a specified interest rates.

Credit-related commitments 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 authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially secured by funds deposited by customers and therefore bear limited credit risk.

As of December 31, 2007 guarantees include avails under PN's in the amount of RR 2 262 732 thousand which have been restored by the Bank (refer to "Legal" above).

(Thousands of Russian Roubles except otherwise stated)

Commitments under operating leases

In the normal course of business the Group enters into lease agreements for office equipment and premises. Annual contractual lease payments under non-cancelable operating lease agreements are as follows:

	December 31, 2007	December 31, 2006
Not later than 1 year	160 318	34 719
Total	**160 318**	**34 719**

During the year ended December 31, 2007 RR 141 643 thousand (year ended December 31, 2006 - RR 134 874 thousand) was recognized as an expense in the consolidated income statement in respect of operating leases.

Insurance

The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

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(Thousands of Russian Roubles except otherwise stated)

23. Interest income and interest expense

Interest income and interest expense comprise:

	2007	2006
Interest income		
Debt securities	2 108 836	1 580 731
Loans to customers	384 651	395 063
Amounts due from credit institutions	290 735	290 223
Reverse repurchase agreements	172 572	117 184
Interest income	**2 956 794**	**2 383 201**
Interest expense		
Repurchase agreements	1 096 927	739 260
Debt securities issued	372 916	237 905
Amounts due to credit institutions	285 438	236 824
Amounts due to customers	225 813	224 849
Interest expense	**1 981 094**	**1 438 838**
Net interest income	**975 700**	**944 363**

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(Thousands of Russian Roubles except otherwise stated)

24. Fees and commission income and expense

Fee and commission income and expense comprise:

	2007	2006
Fee and commission income		
Underwriting and other related services	355 252	220 047
Trust activities	17 591	14 612
Guarantees issued	16 208	21 174
Settlements and wire transfers	10 757	17 468
Operations with securities	8 017	8 926
Property rentals	2 003	5 549
Financial advisory fees	1 459	5 776
Other	4 884	24 840
Fee and commission income	**416 171**	**318 392**
Fee and commission expense		
Operations with securities	30 162	23 183
Settlements and wire transfers	7 465	7 274
Commissions on forex transactions	420	9 609
Other	5 031	4 731
Fee and commission expense	**43 078**	**44 797**
Net fee and commission income	**373 093**	**273 595**

25. Salaries and employment benefits and administrative expenses

Salaries and employment benefits and administrative expenses comprise:

	2007	2006
Salaries and employment benefits		
Salaries and bonuses	814 428	880 674
Social security costs	57 086	57 078
Other employment benefits	5 801	8 611
Salaries and employment benefits	**877 315**	**946 363**
Administrative expenses		
Business development	189 331	158 325
Rent	141 643	134 874
Operating taxes	80 008	81 565
Charity	28 287	14 301
Communications	22 574	13 646
Other	26 789	23 225
Administrative expenses	**488 632**	**425 936**

(Thousands of Russian Roubles except otherwise stated)

26. Taxation

Corporate income tax (benefit)/expense expense comprises:

	2007	2006
Current tax expense	82 133	97 531
Deferred tax benefit	(104 932)	(10 376)
Income tax (benefit)/expense	**(22 799)**	**87 155**

Russian legal entities must individually report taxable income and remit income taxes thereon to the appropriate authorities. The tax rate for banks for income other than interest income on state securities was 24%. The tax rate for interest income on state securities was 15%. The income tax rate for the consolidated subsidiary registered in Cyprus was 10%.

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

	2007	2006
(Loss)/income before tax	**(356 292)**	**265 362**
Statutory tax rate	24%	24%
Theoretical income tax (benefit)/expense at the statutory rate	**(85 510)**	**63 687**
Net non-deductible expenditure	86 394	87 408
Income from state securities taxed at lower rates	(30 017)	(44 226)
Tax effect of items taxed in different jurisdictions	(38 661)	(18 042)
Taxation on dividend income from subsidiaries	37 500	-
Other differences	7 495	(1 672)
Income tax (benefit)/expense	**(22 799)**	**87 155**

Tax assets and liabilities consist of the following:

	2007	2006
Current tax assets	182 816	220 908
Net deferred tax assets	172 579	67 647
Tax assets	**355 395**	**288 555**
Current tax liabilities	26 710	24 106
Tax liabilities	**26 710**	**24 106**

A temporary difference of RUR 317 983 thousand (2006: RUR 307 208 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. The amount of the related unrecognised deferred tax liability is RUR 47 697 thousand (2006: RUR 46 081 thousand).

(Thousands of Russian Roubles except otherwise stated)

Deferred tax assets and liabilities comprise:

	December 31, 2005	Movement	December 31, 2006	Movement	December 31, 2007
Tax effect of deductible temporary differences					
Recognized tax loss carry forward	18 615	(12 621)	5 994	68 646	74 640
Amortization and depreciation	13 429	(676)	12 753	9 550	22 303
Allowances for impairment	16 618	51 962	68 580	(11 051)	57 529
Fair value re-measurement of derivatives	9 879	(14 961)	(5 082)	13 251	8 169
Fair value re-measurement of securities	6 985	(6 985)	-	-	-
Accrued expenses	44 957	(28 575)	16 382	13 342	29 724
Accrued income	31 858	16 715	48 573	(23 159)	25 414
Assets written-off	799	(799)	-	7 968	7 968
Deferred tax assets	**143 140**	**4 060**	**147 200**	**78 547**	**225 747**
Tax effect of taxable temporary differences					
Hyperinflationary impact on non-monetary assets	(15 345)	7 036	(8 309)	8 249	(60)
Fair value re-measurement of securities	(70 524)	(720)	(71 244)	68 353	(2 891)
Fair value re-measurement of investment property	-	-	-	(50 217)	(50 217)
Deferred tax liabilities	**(85 869)**	**6 316**	**(79 553)**	**26 385**	**(53 168)**
Net deferred tax assets	**57 271**	**10 376**	**67 647**	**104 932**	**172 579**

Deferred tax assets are recognised only to the extent that realisation of related tax benefit is probable.

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities that are enabled by law to impose extremely severe fines, penalties, and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, there is a risk that the tax authorities could take different positions with respect to certain issues and the effect on the financial position of the Group, should the authorities succeed in asserting such positions, could be significant.

27. Trust activities

The Group provides custody, trustee, and corporate administration services to its clients, which involve the Group making allocation and purchase and sales decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. As of December 31, 2007 the Group managed RR 8 543 thousand (December 31, 2006 – RR 21 025 thousand) of such assets.

28. Risk management policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group manages risk through a set of policies and procedures tailored to the Group's risk profile and risk taking activity. These policies and procedures are intended to efficiently identify, analyze and manage Group's risk exposures, to set appropriate risk controls and limits, and to continuously monitor risk levels and adherence to the limits. Risk management policies and procedures are reviewed regularly to reflect changes in Group's strategy, products and services offered, and emerging best practice.

The Management Committee has overall responsibility for the oversight of the risk management framework, reviewing risk policies and procedures as well as approving significantly large exposures. The Management Committee is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Risk is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Committee.

Credit, market and liquidity risks both at portfolio and transaction levels are managed and controlled by the Credit Committee and Asset and Liability Management Committee (ALCO). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The main risks inherent to the Group's operations are those related to credit exposures, liquidity, and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks as follows.

Credit risk

The Group is exposed to credit risk which is the risk that its counterparty will be unable to pay amounts in full when due. The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of the Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

As described in Note 10, the Group's loan portfolio includes a significant concentration to the real estate construction industry. This concentration can result in increased sensitivity of the Group's financial performance to short-term economic changes that may impact customers across the real estate construction industry. The Group actively monitors developments unique to industry or customer concentrations and anticipates that the significance of such concentrations will decline. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and are subject to frequent review. The Credit Committee approves limits on the level of credit risk by borrower regularly.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee which meets once a week. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures to market movements.

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

With respect to undrawn loan commitments, the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

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(Thousands of Russian Roubles except otherwise stated)

Geographical concentration

The geographical concentration of monetary assets and liabilities is set out below:

	December 31, 2007			
	Russia	**OECD***	**CIS** and other countries**	**Total**
Assets				
Cash and cash equivalents	3 147 247	876 365	22 996	4 046 608
Obligatory reserves with the CBR	209 977	-	-	209 977
Financial assets at fair value through profit or loss				
- unpledged	8 917 962	120 026	51 082	9 089 070
- pledged under repurchase agreements	12 551 782	-	344 992	12 896 774
Amounts due from credit institutions	65 242	71 373	-	136 615
Receivables under reverse repurchase agreements	594 414	422 049	-	1 016 463
Financial assets available-for-sale	10	-	-	10
Loans to customers	1 421 917	-	428 809	1 850 726
Tax assets	355 395	-	-	355 395
Property and equipment	297 820	-	272	298 092
Investment property	-	-	446 438	446 438
Intangible assets	37 513	-	225	37 738
Other assets	65 701	63 798	48 675	178 174
Total assets	**27 664 980**	**1 553 611**	**1 343 489**	**30 562 080**
Liabilities				
Financial liabilities at fair value through profit or loss	499 599	518 314	30 815	1 048 728
Amounts due to credit institutions	1 915 481	7 237	36	1 922 754
Payables under repurchase agreements	3 016 451	8 056 596	-	11 073 047
Amounts due to customers	5 371 625	411 415	40 396	5 823 436
Debt securities issued	307 911	3 478 772	202 595	3 989 278
Tax liabilities	485	-	26 225	26 710
Other liabilities	210 568	242	8 003	218 813
Total liabilities	**11 322 120**	**12 472 576**	**308 070**	**24 102 766**
Net balance sheet position	**16 342 860**	**(10 918 965)**	**1 035 419**	**6 459 314**

* OECD - Organisation for economic co-operation and development.

** CIS - Commonwealth of independent states.

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(Thousands of Russian Roubles except otherwise stated)

	December 31, 2006			
	Russia	**OECD***	**CIS** and other countries**	**Total**
Assets				
Cash and cash equivalents	872 164	4 529 376	3 737	5 405 277
Obligatory reserves with the CBR	291 036	-	-	291 036
Financial assets at fair value through profit or loss				
- unpledged	9 786 135	12 500	82 807	9 881 442
- pledged under repurchase agreements	24 460 666	-	186 196	24 646 862
Amounts due from credit institutions	180 423	1 139 974	-	1 320 397
Receivables under reverse repurchase agreements	181 145	737 153	621 195	1 539 493
Financial assets available-for-sale	-	6 168	197	6 365
Loans to customers	2 782 497	-	383 827	3 166 324
Tax assets	288 555	-	-	288 555
Property and equipment	332 142	-	337	332 479
Investment property	-	-	245 303	245 303
Intangible assets	26 002	-	170	26 172
Other assets	54 032	49 833	142 560	246 425
Total assets	**39 254 797**	**6 475 004**	**1 666 329**	**47 396 130**
Liabilities				
Financial liabilities at fair value through profit or loss	176 563	740 288	967 728	1 884 579
Amounts due to credit institutions	117 355	3 866 008	134	3 983 497
Payables under repurchase agreements	11 275 501	10 540 284	26 673	21 842 458
Amounts due to customers	7 613 680	6 095	279 093	7 898 868
Debt securities issued	653 213	3 114 017	1 146 210	4 913 440
Tax liabilities	16 426	-	7 680	24 106
Other liabilities	170 647	4 617	4 838	180 102
Total liabilities	**20 023 385**	**18 271 309**	**2 432 356**	**40 727 050**
Net balance sheet position	**19 231 412**	**(11 796 305)**	**(766 027)**	**6 669 080**

* OECD - Organisation for economic co-operation and development.
** CIS - Commonwealth of independent states.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group’s income or the value of its portfolios. Market risk arises from open positions in interest rate, currency, equity, and derivative financial instruments, which are exposed to market movements and changes in the level of volatility of market prices. The objective of market risk management is to manage and control market risk exposures within an acceptable range, while ensuring proper return on risk.

The Group manages its market risk by setting limits on risk measures in relation to separate portfolios, individual financial instruments, currency positions, interest and price Value-at-Risk (“VaR”), as well as using the stop-loss limits. Overall authority for market risk is vested in the ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department. Management Committee monitors adherence to the limits on regular basis.

In assessment of market risk, the Group focuses on historic, as well as potential future volatility. The Group employs VaR modelling for quantitative measurement of market risk and compliments that with stress- and scenario testing. A VaR model estimates maximum potential loss that could arise within a certain timeframe with a specified confidence level. Like any model, VaR uses numerous and significant assumptions that differ from bank to bank. The Group’s VaR model allows management to continuously monitor the Group’s overall, as well as specific levels of market risk exposure and its concentrations. Limit adherence is continuously monitored, and all excesses are communicated to senior management for review.

(Thousands of Russian Roubles except otherwise stated)

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

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature.
- A 1 or 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR.
- As VaR is only calculated on the end-of-day bases and does not necessarily reflect exposures that may arise on positions during the trading day.
- The VaR measure is dependent upon the Group’s position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

The Group does not solely rely on its VaR calculations in its market risk measurement due to numerous assumptions involved. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio.

A summary of the VaR estimates with 99% confidence level over a 10-day holding period in respect of the Group’s portfolio of financial instruments at fair value through profit or loss as at 31 December 2007 and 31 December 2006 is as follows:

	December 31, 2007	December 31, 2006
Fixed income securities interest rate risk	208 732	307 406
Equity securities price risk	27 334	128 178
Diversification	(29 054)	(136 381)
Total VaR	**207 012**	**299 203**

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group’s income or the value of its portfolios of financial instruments. Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

An analysis of sensitivity of the Group’s net loss for the year and equity changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical increase or decrease in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 31 December 2006.

	31 December 2007		31 December 2006	
	Net loss	**Equity**	**Net loss**	**Equity**
100 bp parallel increase	56 631	56 631	114 778	114 778
100 bp parallel decrease	(56 631)	(56 631)	(114 778)	(114 778)

Interest rate risk depends mainly on volatility of bond yields in the Group’s portfolio, bond portfolio duration, as well as on portfolio diversification. The Group mitigates that risk by using hedging techniques, applying interest VaR limits and monitoring basis point values (“DV01”) of its portfolios.

(Thousands of Russian Roubles except otherwise stated)

The effective average interest rates by currencies for interest earning financial assets and liabilities were as follows:

	December 31, 2007		December 31, 2006	
	Russian Roubles	**Foreign currencies**	**Russian Roubles**	**Foreign currencies**
Cash and cash equivalents	7.9%	6.0%	5.3%	5.7%
Financial assets at fair value through profit or loss				
- unpledged	8.5%	15.1%	8.5%	9.0%
- pledged under repurchase agreements	8.3%	7.9%	8.4%	7.8%
Amounts due from credit institutions	9.3%	4.4%	2.9%	3.8%
Receivables under reverse repurchase agreements	7.3%	5.4%	-*	6.2%
Loans to customers	12.7%	12.3%	11.3%	7.1%
Financial liabilities at fair value through profit or loss	7.8%	7.4%	-*	9.3%
Amounts due to credit institutions	8.6%	8.8%	6.2%	6.1%
Payables under repurchase agreements	6.5%	5.7%	6.4%	6.0%
Amounts due to customers	4.0%	2.6%	3.2%	0.3%
Debt securities issued	8.5%	9.6%	8.8%	8.0%

* - the Group did not have Russian Rouble denominated financial instruments as at the date.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

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(Thousands of Russian Roubles except otherwise stated)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's exposure to foreign currency exchange rate risk is as follows:

	December 31, 2007			
	Russian Roubles	**Freely convertible**	**Non-convertible**	**Total**
Assets				
Cash and cash equivalents	1 921 482	2 103 489	21 637	4 046 608
Obligatory reserves with the CBR	209 977	-	-	209 977
Financial assets at fair value through profit or loss				
- unpledged	5 487 114	3 601 956	-	9 089 070
- pledged under repurchase agreements	3 460 959	9 435 815	-	12 896 774
Amounts due from credit institutions	62 777	73 838	-	136 615
Receivables under reverse repurchase agreements	564 769	451 694	-	1 016 463
Financial assets available-for-sale	10	-	-	10
Loans to customers	1 476 935	373 791	-	1 850 726
Tax assets	355 395	-	-	355 395
Property and equipment	298 092	-	-	298 092
Investment property	446 438	-	-	446 438
Intangible assets	37 738	-	-	37 738
Other assets	60 959	113 864	3 351	178 174
Total assets	**14 382 645**	**16 154 447**	**24 988**	**30 562 080**
Liabilities				
Financial liabilities at fair value through profit or loss	808 340	240 388	-	1 048 728
Amounts due to credit institutions	845 315	1 077 439	-	1 922 754
Payables under repurchase agreements	2 899 290	8 173 757	-	11 073 047
Amounts due to customers	3 246 839	2 576 586	11	5 823 436
Debt securities issued	510 506	3 478 772	-	3 989 278
Tax liabilities	485	26 225	-	26 710
Other liabilities	208 741	10 072	-	218 813
Total liabilities	**8 519 516**	**15 583 239**	**11**	**24 102 766**
Net balance sheet position	**5 863 129**	**571 208**	**24 977**	**6 459 314**
Less: derivative financial assets	(5 653)	(24 432)	-	(30 085)
Add: derivative financial liabilities	8 478	44 006	-	52 484
Net balance sheet position (net of derivatives)	**5 865 954**	**590 782**	**24 977**	**6 481 713**
Net off-balance sheet position	**10 039**	**(32 438)**	**-**	**(22 399)**
Total position	**5 875 993**	**558 344**	**24 977**	**6 459 314**

(Thousands of Russian Roubles except otherwise stated)

	December 31, 2006			
	Russian Roubles	**Freely convertible**	**Non-convertible**	**Total**
Assets				
Cash and cash equivalents	1 860 323	3 542 264	2 690	5 405 277
Obligatory reserves with the CBR	291 036	-	-	291 036
Financial assets at fair value through profit or loss				
- unpledged	7 700 312	2 181 130		9 881 442
- pledged under repurchase agreements	11 728 760	12 918 102	-	24 646 862
Amounts due from credit institutions	177 126	1 143 271	-	1 320 397
Receivables under reverse repurchase agreements	-	1 539 493	-	1 539 493
Financial assets available-for-sale	-	6 365	-	6 365
Loans to customers	2 985 758	180 566	-	3 166 324
Tax assets	288 555	-	-	288 555
Property and equipment	332 479	-	-	332 479
Investment property	245 303			245 303
Intangible assets	26 172	-	-	26 172
Other assets	48 103	198 322	-	246 425
Total assets	**25 683 927**	**21 709 513**	**2 690**	**47 396 130**
Liabilities				
Financial liabilities at fair value through profit or loss	100	1 884 479	-	1 884 579
Amounts due to credit institutions	1 238 859	2 744 638	-	3 983 497
Payables under repurchase agreements	11 073 702	10 768 756	-	21 842 458
Amounts due to customers	6 175 747	1 723 110	11	7 898 868
Debt securities issued	653 216	4 260 224	-	4 913 440
Tax liabilities	16 426	7 680	-	24 106
Other liabilities	140 427	39 675	-	180 102
Total liabilities	**19 298 477**	**21 428 562**	**11**	**40 727 050**
Net balance sheet position	**6 385 450**	**280 951**	**2 679**	**6 669 080**
Less: derivative financial assets	(543)	(13 963)	-	(14 506)
Add: derivative financial liabilities	100	35 095	-	35 195
Net balance sheet position (net of derivatives)	**6 385 007**	**302 083**	**2 679**	**6 689 769**
Net off-balance sheet position	**128 281**	**(148 970)**	**-**	**(20 689)**
Total position	**6 513 288**	**153 113**	**2 679**	**6 669 080**

(Thousands of Russian Roubles except otherwise stated)

Freely convertible currencies represent mainly US Dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Russia.

An analysis of sensitivity of the Group's net loss for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2007		2006	
	Net loss	**Equity**	**Net loss**	**Equity**
5% appreciation of USD against RUR	31 290	31 290	2 472	2 472
5% depreciation of USD against RUR	(31 290)	(31 290)	(2 472)	(2 472)
5% appreciation of EUR against RUR	(9 808)	(9 808)	(1 225)	(1 225)
5% depreciation of EUR against RUR	9 808	9 808	1 225	1 225

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its financial commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. 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 financial institutions 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 Group's Treasury maintains liquidity management with the objective of ensuring that funds will be available at all times at acceptable rates to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Committee and ALCO.

The Group seeks to actively support a diversified and stable funding base comprising debt securities, long-term and short-term loans from other banks, core client deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and maintaining the level of necessary liquid assets;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The daily liquidity position monitoring is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the ALCO and implemented by the Treasury Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. The Group was in compliance with these ratios in 2006 and 2007.

The following table shows assets and liabilities of the Group by their remaining contractual maturity as of December 31, 2007, with the exception of unpledged financial instruments at fair value through profit or loss, which are shown in the category "Less than 1 month" (based on the fact that the Group's management believes that all of these assets could be liquidated within one month in the normal course of business), and financial instruments at fair value through profit or loss pledged under repurchase agreements, which are shown according to repurchase agreement terms. Contractual maturity of financial instruments at fair value through profit or loss (pledged and unpledged) is shown below in this Note.

(Thousands of Russian Roubles except otherwise stated)

	December 31, 2007							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Overdue / No stated maturity**	**Total**
Assets								
Cash and cash equivalents	676 876	1 668 148	1 701 584	-	-	-	-	4 046 608
Obligatory reserves with the CBR	-	-	153 339	54 715	1 595	328	-	209 977
Financial assets at fair value through profit or loss								
- unpledged	-	9 089 070	-	-	-	-	-	9 089 070
- pledged under repurchase agreements	-	3 995 187	961 408	7 940 179	-	-	-	12 896 774
Amounts due from credit institutions	8 780	6 850	9 254	-	2 748	11 146	97 837	136 615
Receivables under reverse repurchase agreements	-	797 254	219 209	-	-	-	-	1 016 463
Financial assets available-for-sale	-	-	-	-	-	-	10	10
Loans to customers	-	46 915	493 156	567 510	409 819	281 606	51 720	1 850 726
Tax assets	-	-	-	-	-	182 816	172 579	355 395
Property and equipment	-	-	-	-	-	-	298 092	298 092
Investment property	-	-	-	-	-	-	446 438	446 438
Intangible assets	-	-	-	-	-	-	37 738	37 738
Other assets	-	149 457	10 109	3 751	1 019	7 089	6 749	178 174
Total assets	**685 656**	**15 752 881**	**3 548 059**	**8 566 155**	**415 181**	**482 985**	**1 111 163**	**30 562 080**
Liabilities								
Financial liabilities at fair value through profit or loss	-	723 416	315 946	9 366	-	-	-	1 048 728
Amounts due to credit institutions	127 526	1 755 023	-	-	40 205	-	-	1 922 754
Payables under repurchase agreements	-	3 633 058	754 435	6 685 554	-	-	-	11 073 047
Amounts due to customers	1 515 229	2 849 020	510 531	945 957	2 699	-	-	5 823 436
Debt securities issued	-	20 153	202 595	278 942	-	3 487 588	-	3 989 278
Tax liabilities	-	485	-	-	26 225	-	-	26 710
Other liabilities	-	62 284	151 375	5 150	-	4	-	218 813
Total liabilities	**1 642 755**	**9 043 439**	**1 934 882**	**7 924 969**	**69 129**	**3 487 592**	**-**	**24 102 766**
Net position	**(957 099)**	**6 709 442**	**1 613 177**	**641 186**	**346 052**	**(3 004 607)**	**1 111 163**	**6 459 314**
Accumulated liquidity gap	**(957 099)**	**5 752 343**	**7 365 520**	**8 006 706**	**8 352 758**	**5 348 151**	**6 459 314**	**-**

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(Thousands of Russian Roubles except otherwise stated)

	December 31, 2006							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Overdue / No stated maturity**	**Total**
Assets								
Cash and cash equivalents	719 294	4 685 983	-	-	-	-	-	5 405 277
Obligatory reserves with the CBR	-	-	209 756	18 599	6 413	56 268	-	291 036
Financial assets at fair value through profit or loss								
- unpledged	-	9 881 442	-	-	-	-	-	9 881 442
- pledged under repurchase agreements	-	7 888 648	2 461 360	14 296 854	-	-	-	24 646 862
Amounts due from credit institutions	-	127 853	470 426	311 105	296 932	24 806	89 275	1 320 397
Receivables under reverse repurchase agreements	-	918 298	621 195	-	-	-	-	1 539 493
Financial assets available-for-sale	-	-	-	-	-	-	6 365	6 365
Loans to customers	-	152 677	823 408	1 179 749	547	1 009 943	-	3 166 324
Tax assets	-	-	-	-	-	220 908	67 647	288 555
Property and equipment	-	-	-	-	-	-	332 479	332 479
Investment property	-	-	-	-	-	-	245 303	245 303
Intangible assets	-	-	-	-	-	-	26 172	26 172
Other assets	-	205 614	11 435	-	5 672	678	23 026	246 425
Total assets	**719 294**	**23 860 515**	**4 597 580**	**15 806 307**	**309 564**	**1 312 603**	**790 267**	**47 396 130**
Liabilities								
Financial liabilities at fair value through profit or loss	168	922 345	962 066	-	-	-	-	1 884 579
Amounts due to credit institutions	9 243	3 791 149	74 860	-	-	108 245	-	3 983 497
Payables under repurchase agreements	-	11 376 489	1 417 012	9 048 957	-	-	-	21 842 458
Amounts due to customers	4 774 785	1 763 991	473 406	572 634	297 186	16 866	-	7 898 868
Debt securities issued	10 048	621 060	586 528	500 748	72 929	3 122 127	-	4 913 440
Tax liabilities	-	16 426	-	-	7 680	-	-	24 106
Other liabilities	-	65 120	114 982	-	-	-	-	180 102
Total liabilities	**4 794 244**	**18 556 580**	**3 628 854**	**10 122 339**	**377 795**	**3 247 238**	**-**	**40 727 050**
Net position	**(4 074 950)**	**5 303 935**	**968 726**	**5 683 968**	**(68 231)**	**(1 934 635)**	**790 267**	**6 669 080**
Accumulated liquidity gap	**(4 074 950)**	**1 228 985**	**2 197 711**	**7 881 679**	**7 813 448**	**5 878 813**	**6 669 080**	**-**

The maturity of the loan portfolio shows the remaining period from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by the classification based on contractual terms.

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Unpledged financial assets at fair value through profit or loss are shown as less then one month, however realizing such assets at short notice is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

The following table shows financial assets at fair value through profit or loss of the Group by their remaining contractual maturity as of December 31, 2007 and December 31, 2006.

(Thousands of Russian Roubles except otherwise stated)

	December 31, 2007	December 31, 2006
On demand	-	372
Less than 1 month	30 085	2 034
1 to 3 months	79 882	397 536
3 to 6 months	162 021	530 986
6 months to 1 year	286 637	204 393
1 to 5 years	8 175 438	16 227 127
Over 5 years	10 507 855	13 582 403
No stated maturity	2 743 926	3 583 453
Financial assets at fair value through profit or loss	**21 985 844**	**34 528 304**

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments don't vary significantly from this analysis.

	December 31, 2007						
	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More then 1 year**	**Total gross nominal outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Financial liabilities at fair value through profit or loss - obligations to return securities received as collateral	694 290	315 946	-	-	-	1 010 236	996 244
Amounts due to credit institutions	1 897 741	11 340	17 010	6 185	-	1 932 276	1 922 754
Payables under repurchase agreements	3 640 162	763 224	6 827 174	-	-	11 230 560	11 073 047
Amounts due to customers	4 374 800	525 001	956 632	2 699	-	5 859 132	5 823 436
Debt securities issued	20 213	203 961	447 292	158 670	3 757 716	4 587 852	3 989 278
Tax liabilities	485	-	-	26 225	-	26 710	26 710
Other liabilities	62 284	151 375	5 150	-	4	218 813	218 813
Derivative financial instruments							
- Inflow	(2 317 514)	(708 092)	(718 709)	-	-	(3 744 315)	(30 085)
- Outflow	2 360 632	711 840	724 327	-	-	3 796 799	52 484
Total	**10 733 093**	**1 974 595**	**8 258 876**	**193 779**	**3 757 720**	**24 918 063**	**24 072 681**
Credit related commitments	**2 587 352**	**-**	**-**	**-**	**-**	**2 587 352**	**2 587 352**

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(Thousands of Russian Roubles except otherwise stated)

	December 31, 2006						
	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More then 1 year**	**Total gross nominal outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Financial liabilities at fair value through profit or loss							
- obligations to return securities received as collateral	900 032	951 846	-	-	-	1 851 878	1 849 384
Amounts due to credit institutions	3 881 136	11 340	17 010	34 020	40 205	3 983 711	3 983 497
Payables under repurchase agreements	11 388 581	1 464 899	9 261 527	-	-	22 115 007	21 842 458
Amounts due to customers	6 539 049	473 766	581 401	298 450	16 968	7 909 634	7 898 868
Debt securities issued	631 624	593 069	646 067	217 888	3 946 163	6 034 811	4 913 440
Tax liabilities	16 426	-	-	7 680	-	24 106	24 106
Other liabilities	65 120	114 982	-	-	-	180 102	180 102
Derivative financial instruments							
- Inflow	(2 009 365)	(263 311)	-	-	-	(2 272 676)	(14 506)
- Outflow	2 034 337	273 534	-	-	-	2 307 871	35 195
Total	**23 446 940**	**3 620 125**	**10 506 005**	**558 038**	**4 003 336**	**42 134 444**	**40 712 544**
Credit related commitments	**51 274**	**-**	**-**	**-**	**-**	**51 274**	**51 274**

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. Consequently commitments listed above should not be treated as expected cash outflows.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, including system conversions and integration, and external events. The Group's goal in operational risk management is to keep that risk at acceptable levels, corresponding to the Group's financial strength, characteristics of its businesses, markets in which it operates, and the competitive and regulatory environment.

To monitor and control operational risk, the Group maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. This is achieved mainly by sound operations support base, transparency of information, and efficient internal control. Addressing the scale of the Group network, operations control extends to branches and includes operations by their type, expenses control, and legal risks.

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(Thousands of Russian Roubles except otherwise stated)

29. Fair values of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarizes the carrying amounts and fair values of the Group's financial assets and liabilities.

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	4 046 608	4 046 608	5 405 277	5 405 277
Obligatory reserves with the CBR	209 977	207 395	291 036	273 011
Financial assets at fair value through profit or loss				
- unpledged	9 089 070	9 089 070	9 881 442	9 881 442
- pledged under repurchase agreements	12 896 774	12 896 774	24 646 862	24 646 862
Amounts due from credit institutions	136 615	136 615	1 320 397	1 320 397
Receivables under reverse repurchase agreements	1 016 463	1 016 463	1 539 493	1 539 493
Financial assets available-for-sale	10	10	6 365	6 365
Loans to customers	1 850 726	1 850 726	3 166 324	3 166 324
Other assets	178 174	178 174	246 425	246 425
Financial liabilities				
Financial liabilities at fair value through profit or loss	1 048 728	1 048 728	1 884 579	1 884 579
Amounts due to credit institutions	1 922 754	1 921 919	3 983 497	3 977 961
Payables under repurchase agreements	11 073 047	11 073 047	21 842 458	21 842 458
Amounts due to customers	5 823 436	5 823 436	7 898 868	7 898 868
Debt securities issued	3 989 278	3 762 950	4 913 440	4 875 944
Other liabilities	218 813	218 813	180 102	180 102

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents and obligatory reserves with the CBR
For liquid instruments, the carrying amount is a reasonable estimate of fair value. Reserve deposits with the CBR are non-interest bearing and are estimated to mature as the underlying deposits and other balances in respect of which those deposits are maintained mature.

Financial instruments at fair value through profit or loss
Financial instruments at fair value through profit or loss are stated at fair value. The fair value of financial instruments at fair value through profit or loss is determined with reference to an active market.

Amounts due from and due to credit institutions
For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Receivables and payables under repurchase agreements and obligations to return securities received as collateral
For these assets and liabilities the carrying amount is a reasonable estimate of fair value due to their relatively short-term nature.

Financial assets available-for-sale
Corporate shares are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other relevant factors.

Loans to customers
The fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received, and is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained.

Amounts due to customers
For balances maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued
The estimated fair values of debt securities issued is based on discounted cash flows and discount rates for a similar instruments at the balance sheet date. The fair value of loan participation notes was estimated based on quoted market prices.

Other financial assets and liabilities
The carrying amounts of other financial assets and other financial liabilities approximate their fair values due to the relatively short-term maturity of these financial instruments.

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(Thousands of Russian Roubles except otherwise stated)

30. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *"Related Party Disclosures"*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As of December 31, 2007 and December 31, 2006 the Group had the following transactions outstanding with related parties:

	December 31, 2007				
	Transactions with shareholders	**Transactions with non-consolidated subsidiaries**	**Transactions with key management personnel**	**Transactions with group NBT***	**Total category**
Cash and cash equivalents (RR – 0.0%, Foreign Currency – 0.0%)	-	-	-	54 310	4 046 608
Financial assets at fair value through profit or loss					
- unpledged (Foreign Currency: – 10.0%)	13 006	-	-	-	9 089 070
- pledged under repurchase agreements (Foreign Currency – 9.4%)	-	-	-	157 187	12 896 774
Amounts due from credit institutions (RR – 9.3%, Foreign Currency – 7.3%)	-	-	-	11 146	136 615
Financial assets available-for-sale (RR – 0.0%)	-	10	-	-	10
Receivables under reverse repurchase agreements (Foreign Currency – 6.7%)			-	8 498	1 016 463
Loans to customers (RR – 0.0%, Foreign Currency – 9.0%)	187 075		7 356	-	1 850 726
Other assets	-	-	-	162	178 174
Financial liabilities at fair value through profit or loss					
- derivative liabilities	19 197	-	-	10 479	52 484
Amounts due to credit institutions (RR – 0.0%)	-	-	-	4 753	1 922 754
Amounts due to customers (RR – 0.0%, Foreign Currency – 0.0%)	3 068	-	6	34 642	5 823 436
Debt securities issued (RR – 11.0%)	-	-	-	8 816	3 989 278
Other liabilities	-	-	-	5 199	218 813
Guarantees received**	1 535 651	-	-	-	1 535 651
Guarantees issued	2 748	-	-	35 151	2 577 459

*group NBT represents companies which are under common control with the Group, i.e. National Bank TRUST and its subsidiaries.
**the Group has received the guarantees from the shareholders in respect of its remote liabilities.

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(Thousands of Russian Roubles except otherwise stated)

	December 31, 2006				
	Transactions with shareholders	**Transactions with non-consolidated subsidiaries**	**Transactions with key management personnel**	**Transactions with group NBT***	**Total category**
Cash and cash equivalents (RR – 0.0%, Foreign Currency – 0.0%)	-	-	-	1 729	5 405 277
Financial assets at fair value through profit or loss					
- unpledged (RR – 0.0%)	-	-	-	77	9 881 442
Amounts due from credit institutions (RR – 2.5%)	-	-	-	125 801	1 320 397
Financial assets available-for-sale (RR – 0.0%)	-	6 168	-	-	6 365
Loans to customers (RR – 11.0%, Foreign Currency – 9.0%)	618 801	-	7 293	-	3 166 324
Other assets	10	-	5	-	246 425
Financial liabilities at fair value through profit or loss					
- derivative liabilities	10 223	-	-	25	35 195
Amounts due to credit institutions (RR – 0.0%, Foreign Currency – 0.0%)	-	-	-	7 647	3 983 497
Amounts due to customers (RR – 0.0%, Foreign Currency – 0.0%)	26 074	-	29	-	7 898 868
Debt securities issued (Foreign Currency – 6.0%)	1 146 210	-	-	-	4 913 440
Other liabilities	10	-	-	-	180 102
Guarantees issued	2 897	-	-	35 917	38 814

*group NBT represents companies which are under common control with the Group, i.e. National Bank TRUST and its subsidiaries.

The existing accounting system of the Group does not accumulate the amounts of income and expense from related party transactions.

During the period ended December 31, 2007 the total remuneration of members of management, including pension contributions, and discretionary compensation amounted to RR 288 538 thousand (the year ended December 31, 2006 - RR 415 307 thousand).

31. Capital management

The Group's lead regulator (the CBR) sets and monitors capital requirements for both the Bank and the Group as a whole.

In implementing current capital requirements the CBR requires the Group to maintain the ratio of total capital to total risk-weighted assets at or above the minimum level of 10%. The ratio is calculated based on financial statements prepared in accordance with Russian Banking Accounting Standards (RBAS) and the risk weighting is determined in accordance with the CBR's credit risk ratios specific for individual classes of assets. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2006 and 31 December 2007.

(End)