Hlynov Commercial Bank
(Open Joint Stock Company)
Non-Consolidated Financial Statements
as at 31 December 2007
and Independent Auditors' Report

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of OJSC CB Hlynov ('the "Bank') has prepared and is responsible for the contents of the accompanying financial statements of the Bank and its related notes The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates made by the Bank's management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

N.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

4 May 2008

AUDITORS' REPORT

To the Shareholders and Board of Directors of OJSC CB Hlynov

Report on the financial statements

We have audited the accompanying financial statements of OJSC CB Hlynov ("the Bank"), which comprise the balance sheet as at 31 December 2007, and the relevant income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 46.

Management's responsibility for preparation of financial statements

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

Auditors' responsibility

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

An audit involves performing necessary procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' professional 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 the internal control system 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 Bank's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditors' opinion

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

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 113093

4 May 2008

OJSC CB Hlynov
Non-Consolidated Balance Sheet as at 31December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Assets			
Cash and Cash Equivalents	4	698,459	606,693
Mandatory Balances with the CBRF	5	47,079	36,394
Due from Banks	6	162,273	30,000
Securities at Fair Value through Profit or Loss	7	274,565	112,276
Loans and Advances to Customers	8	3,651,471	1,842,797
Investments in Subsidiary	9	3,965	(253)
Accrued Interest and Other Assets	10	28,496	12,671
Fixed Assets	11	190,407	141,364
Total Assets		**5,056,715**	**2,781,942**
Liabilities			
Due to Banks	12	74,573	48,353
Customer Accounts	13	4,027,826	2,243,203
Debt Securities Issued	14	46,772	54,144
Deferred Tax Liability	15	48,340	18,542
Other Liabilities	16	14,453	12,251
Total Liabilities		**4,211,964**	**2,376,493**
Equity			
Share Capital	17	507,198	247,198
Retained Earnings		307,271	120,965
Revaluation Reserve		30,282	37,286
Total Equity		**844,751**	**405,449**
Total Liabilities and Equity		**5,056,715**	**2,781,942**
Credit Related Commitments	18	**122,242**	**125,307**

Signed and authorized for release on behalf of the Executive Board of the Bank on 4 May 2008

I.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

OJSC CB Hlynov
Non-Consolidated Income Statement
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Interest income			
Loans and advances to legal entities		301,872	210,632
Loans and advances to individuals		90,219	46,180
Securities		8,286	11,537
Due from banks		7,572	4,419
		407,949	**272,768**
Interest expense			
Term deposits of individuals		(118,847)	(83,370)
Term deposits of legal entities		(10,244)	(1,153)
Debt securities issued		(4,324)	(8,131)
Current/settlement account balance		(16,294)	(12,125)
Due to banks		(6,385)	(4,653)
		(156,094)	**(109,432)**
Net interest income		**251,855**	**163,336**
Allowance for possible losses and impairment	19	(24,761)	(32,785)
Net interest income less allowance for losses		**227,094**	**130,551**
Gains less losses from trading with securities	20	9,472	17,380
Gains less losses from transactions with foreign currencies		5,860	3,986
Gains less losses from revaluation of items denominated in foreign currencies		(1,876)	(1,101)
Gains less losses from disposal of fixed assets		80	(7)
Commission income and expenses	21	190,253	102,570
Income from investment in subsidiary		4,218	6,156
Other operating income		3,274	2,622
Operating income		**438,375**	**262,157**
Staff costs	22	(90,675)	(65,066)
Administrative and other operating costs	22	(64,486)	(35,547)
Depreciation and amortization	11	(10,793)	(9,549)
Operating expenses		**(165,954)**	**(110,162)**
Transfer value on loans issued at less than commercial rates		(661)	(741)
Profit before tax		**271,760**	**151,254**
Income tax charges	15	(62,954)	(34,656)
Profit for the period		**208,806**	**116,598**

OJSC CB Hlynov
Non-Consolidated Statement of Cash Flows
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Cash flows from operating activities			
Interest received on credits		394,026	231,895
Interest paid		(152,033)	(107,863)
Income from securities trading		3,962	11,723
Income from trading in foreign currencies		5,860	3,986
Commissions received		199,751	136,115
Commissions paid		(9,498)	(6,702)
Gain from sale of fixed assets		80	-
Other operating incomes received		3,274	2,522
Other operating expenses paid		(155,161)	(99,899)
Income tax paid		(40,327)	(22,394)
Cash flows from operating activities received before changes in operating assets and liabilities		**249,934**	**149,383**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		(10,685)	(10,685)
Securities at fair value through profit or loss		(152,817)	56,910
Due from banks		(132,273)	143,486
Loans and advances to customers		(1,832,886)	(853,888)
Other assets		(10,188)	(2,022)
Net increase /(decrease) in operating liabilities			
Due to banks		26,220	8,353
Customer accounts		1,784,623	811,236
Debt securities issued		(7,372)	11,436
Other liabilities		2,462	12,321
Net cash (paid)/received from operating activities		**(82,982)**	**326,530**
Cash flows from investing activities			
Acquisition of fixed assets	11	(60,885)	(29,540)
Sale of fixed assets		6	20
Net cash paid in investing activities		**(60,879)**	**(29,520)**
Cash flows from financing activities			
Proceeds from shares issued	17	260,000	45,000
Dividends paid	17	(22,497)	(7,393)
Net cash received from financing activities		**237,503**	**37,607**
Effect of exchange rate on cash and cash equivalents		(1,876)	(1,101)
Net increase of cash and cash equivalents		**91,766**	**333,516**
Cash and cash equivalents at the beginning of the year	**4**	**606,693**	**273,177**
Cash and cash equivalents at the end of the year	**4**	**698,459**	**606,693**

OJSC CB Hlynov
Non-Consolidated Statement of Changes in Equity
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Share Capital	Revaluation Reserve	Retained Earnings	Total Equity
Balance as at 31 December 2005	**172,198**	**10,350**	**41,867**	**224,415**
Net profit	-	-	116,598	**116,598**
Declared dividends (Note 17)	-	-	(7,500)	**(7,500)**
Issue of shares at nominal value	45,000	-	-	**45,000**
Capitalization of issued shares	30,000	-	(30,000)	**-**
Revaluation of fixed assets (Note 11)	**-**	26,936	**-**	**26,936**
Balance as at 31 December 2006	**247,198**	**37,286**	**120,965**	**405,449**
Net profit	-	-	208,806	**208,806**
Declared dividends (Note 17)	-	-	(22,500)	**(22,500)**
Issue of shares at nominal value	260,000	-	-	**260,000**
Depreciation of revalued fixed assets	-	(539)	-	**(539)**
Deferred tax on revalued part of fixed assets	-	(6,465)	-	**(6,465)**
Balance as at 31 December 2007	**507,198**	**30,282**	**307,271**	**844,751**

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Bank’s reserves.

As at 31 December 2007, retained earnings of the Bank calculated in accordance with Russian accounting standards were RUR 122,023 thousand (2006: RUR 59,030 thousand)

1. Principal Activities

On 6 March 1990, the Bank "KirovCoopBank" was registered with the Central Bank of the Russian Federation ("CBRF"). In the year 1991 it was renamed as "Commercial Bank Hlynov" (Open Joint Stock Company).

The Bank conducts its business under the general license № 254 issued by the CBRF on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank has also been granted with licenses as professional participant of the Securities Market allowing it to carry out depository functions, and to act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the population and legal entities on the territory of the Kirov district.

The structure of the Bank comprises a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 16 supplementary offices and 6 cash in offices. The Bank does not have any branch.

During 2007 the Bank has had an average of 283 members of staff (2006: 241).

In opinion of Bank's management, and considering the structure and nature of the shareholders, described in Note 17, the Bank does not have a single ultimate controlling party.

2. Basis of Presentation

a) General provisions

The non-consolidated financial statements of the Bank have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Legislation ("RAL").

These financial statements are based on the Bank's RAL analytical books and records adjusted and reclassified in order to comply with IFRS.

These financial statements are presented and rounded to thousands of Roubles (RUR) unless otherwise indicated. The Rouble is utilised as reporting currency as the majority of the Bank's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies other then RUR are treated as transactions in foreign currencies.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

b) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements' preparation, and although are based on Management's best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

(*continued)*

2. Basis of Presentation (continued)

(i) Impairment of Loans

The Bank reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. The credits exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairments is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

Impairment amount is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (less future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

(ii) Impairment of assets

The Bank reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

(iii) Fair values

For assets and liabilities estimated at fair value the Bank applies the latest market bid prices where possible. In case this is not it uses evaluation techniques or conventions.

(iv) Related party transactions

In the normal course of business the Bank enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

(v) Depreciation

The Bank applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Managements knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in the future.

(*continued)*

2. Basis of Presentation (continued)

c) Adoption of new and revised International Financial Reporting Standards

During 2007 the Bank adopted new disclosure policies as a result of new or revised Standards that are relevant to its operations and effective for periods beginning on or after 1 January 2007.

IFRS 7 *"Financial Instruments: Disclosures"* introduces new disclosures to improve the information about financial instruments and enables users to evaluate the significance of Financial Instruments and the nature and extent of risks arising from Financial Instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specific minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Amendments to IAS 1 *"Presentation of Financial Statements"* require additional disclosures on the entities' objectives, policies and processes for managing capital, as quantitative data about what the entity regards as capital and compliance with capital requirements.

There was no impact on opening retained earnings as at 1 January 2007 from the adoption of any of these Standards.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *"Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"*; IFRIC 8 *"Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives"*; and IFRIC 10 *"Interim Financial Reporting and Impairment"*. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

d) Standards, interpretations and amendments that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

Amendments to IAS 1 *"Presentation of Financial Statements"* (Revised in September 2007) – Effective from 1 January 2009. The amendments include revised requirements for presentation of some financial statements, and revised terminology throughout. The Banks considers that the revised standard will impact the presentation of the financial statements but will not affect the recognition or estimation of particular transactions or balances.

IFRS 8 *"Operating Segments"* – Effective for annual periods beginning on or after 1 January 2009. Management does not anticipate a direct effect of the standard on the accounting policies or reporting procedures of the Bank.

Amendments to IAS 23 *"Borrowing Costs"* (Revised in March 2007) – Effective from 1 January 2009. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. It is required to capitalise borrowing costs as part of the cost of such assets. Now the Bank is estimating the effect of the revised standard on the financial statements of future periods.

Management also anticipates no effect on the application of IFRIC 11 - IFRS 2 *"Group and Treasury Share Transactions"*, (effective for annual periods beginning on 1 March 2007) , IFRC 12 *"Service Concession Arrangements"*, (effective for annual periods beginning on or after 1 January 2008), IFRIC 13 *"Customer Loyalty Programs"* (effective for annual periods beginning on or after 1 January 2008), IFRIC 14 – IAS 19 *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* (effective for annual periods beginning on or after 1 January 2008).

(continued)

(in thousands of Russian Roubles)

2. Basis of Presentation (continued)

e) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, and therefore, the Bank ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations for 2006 and 2007 are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

f) Reconciliation of Russian Accounting Standards ("RAS") and IFRS equity and net income

The reconciliation of Bank's equity and net income as per Russian Accounting Standards ("RAS") and IFRS is set below:

	31 December 2007		31 December 2006	
	Equity	Net profit	Equity	Net profit
Russian Accounting Standards	**665,188**	**148,611**	**302,450**	**81,469**
Transfer value of loans	(754)	(260)	(494)	(426)
Additional allowance for loans	203,234	125,096	78,138	60,542
Accrued discount/interest on securities at fair value through profit or loss	1,706	497	436	(1,040)
Accrued interest/discount on issued promissory notes	-	1,486	12	(1,741)
Interest expense/income	11,858	6,080	7,215	721
Allowance for other assets	461	(8,324)	8,785	13,983
Write off low value assets	(2,037)	(1,890)	(147)	105
Expenses on purchased promissory notes	(2,933)	-	(2,933)	(2,933)
Charge of expenses recorded through capital reserves	-	(3,534)	-	(2,530)
Additional depreciation	(3,203)	(142)	(3,876)	(3,031)
Revaluation of securities	507	584	696	5,463
Expenses on investment in subsidiary	3,965	4,218	(253)	(353)
Adjustments of fixed assets	8,158	1,389	7,996	3,227
Income tax	(47,593)	(62,954)	(22,541)	(34,656)
Other	6,194	(2,051)	29,965	(2,202)
International Financial Reporting Standards	**844,751**	**208,806**	**405,449**	**116,598**

(continued)

2. Basis of Presentation (continued)

g) *Fair value of financial instruments*

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their measured fair values in accordance with IAS 39 *“Financial Instruments: Recognition and Measurement”*. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm’s length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

3. Significant Accounting Policies

a) Consolidation

These financial statements present the Bank’s activities and balances on a non-consolidated basis. The Bank has produced separate financial statements presenting the consolidated financial results and balances of the Bank and its subsidiary.

b) Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the 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 assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period’s income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with the Central Bank of the Russian Federation (“CBRF”)

Mandatory balances represent mandatory reserve assets which are not available to finance the Bank’s day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement

e) Due from Banks

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

(continued)

3. Significant Accounting Policies (continued)

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

f) Securities at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the income statement for the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income on securities. All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Investments in subsidiaries

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in Note 3 (f) above.

h) Securities Available for Sale ("AFS")

AFS securities are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Investment securities available for sale are initially recognised at cost (which includes transaction costs).

AFS securities are subsequently valued at market value with gains and losses taken through the statement of changes in shareholders equity except for losses arising from impairment. When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

In exceptional cases when market value is not available they are carried at fair value as assessed by management. All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

(continued)

3. Significant Accounting Policies (continued)

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

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

k) Loans and Advances to Customers

Loans are stated at underlying amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the statement of income. Any subsequent upward revaluation passes through the statement of income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

l) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

(continued)

3. Significant Accounting Policies (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers’ competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank’s grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

(continued)

3. Significant Accounting Policies (continued)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

(ii) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

m) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Its fair value is measured by reference to the consideration received in respect of the contract unless it has been issued at non market rates.

Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in Note 3 (i). When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

(continued)

3. Significant Accounting Policies (continued)

n) Fixed Assets

Premises are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicle	3 – 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

o) Operating Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

p) Due to Banks and Customers Accounts

Amounts due to banks and customer accounts are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

(continued)

3. Significant Accounting Policies (continued)

q) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

r) Provisions

Provisions for legal claims or other purposes are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

s) Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

t) Share Capital

Share capital, additional paid-in capital and treasury stock are recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

u) Dividends

Dividends are recognised as a reduction in shareholders' equity in the period in which they are declared. Dividends declared after the balance sheet dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

v) Taxation

The income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(continued)

(in thousands of Russian Roubles)

3. Significant Accounting Policies (continued)

w) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

x) Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

y) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The Bank used the official CBRF exchange rates at 30 December 2007 (RUR 24.5462 to 1 USD and RUR 35.9332 to 1 EUR) to translate balances denominated in foreign currencies at the year end. Rates as at 31 December 2006 were RUR 26.3311 per 1 USD and RUR 34.6965 per to 1 EUR.

4. Cash and Cash Equivalents

	2007	2006
Cash on hand	342,868	196,230
Other market placements	16,488	7,562
Cash balances with the CBRF (other than mandatory reserve deposits)	193,855	249,333
Correspondent accounts with other banks		
- Russian Federation	134,188	150,799
- Other countries	11,060	2,769
Total cash and cash equivalents	**698,459**	**606,693**

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 23.

(in thousands of Russian Roubles)

5. Mandatory Balances with the Central Bank of Russian Federation (CBRF)

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

6. Due from Banks

As at 31 December 2007 due from banks balances included interbank loans in amount of RUR 162,273 thousand (2006: RUR 30,000 thousand).

Geographical, currency and maturity analyses of the balances due from banks are detailed in Note 23.

7. Securities at Fair Value through Profit or Loss

	2007	2006
Corporate equity securities	3,885	3,868
Shares of credit organisations	1,244	-
Government and municipal bonds	30,208	-
Corporate Bonds	54,981	20,422
Bank bonds	35,295	10,000
Promissory notes	148,952	77,986
Total securities at fair value through profit or loss	**274,565**	**112,276**

Geographical, currency, maturity and interest rate analyses of the securities at fair value through profit or loss are disclosed in Note 23.

8. Loans and Advances to Customers

Loans and advances to customers include:

	2007	2006
Loans and advances to customers	3,605,970	1,812,475
Mortgage loans for sale	154,503	124,598
Factoring	9,486	-
Total loans and advances to customers, gross	**3,769,959**	**1,937,073**
Less: Loan loss allowance	(118,488)	(94,276)
Total loans and advances to customers, net	**3,651,471**	**1,842,797**

The aggregated value of collateral received by the Bank in respect of its lending operations amounts to RUR 4,289,868 thousand (2006: RUR 2,356,616 thousand).

In the normal course of business the Bank sells mortgage loans to JSC “Kirov Regional Real Estate Mortgage Corporation” (77% from total sales in 2007) and other financial organisations. These loans are therefore held on the balance sheet for a relatively short period of time and have been described as mortgage loans for sale in these notes. *(continued)*

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

In the income statement for the year ended 31 December 2007 the Bank reflected the value transfer on loans granted at less than commercial rates in the amount of RUR 661 thousand (2006: RUR 741 thousand).

Movements in the allowance for possible losses on loans to customer are disclosed in Note 19.

The loan portfolio has been assigned to finance the following economic sectors:

	2007		2006	
	Amount	**Allowance**	**Amount**	**Allowance**
Trade	2,093,165	65,634	1,253,230	73,628
Individuals	518,387	15,691	247,072	7,999
Operations with immovable property, lease	236,725	6,855	-	-
Manufacturing industry	177,414	7,674	19,548	511
Agriculture	126,599	7,583	57,576	3,049
Construction	118,316	1,654	104,692	6,134
Light industry	71,175	181	1,199	24
Timber industry	55,118	2,909	4,890	434
Chemical	50,901	509	1,100	30
Public administration, defense, social security	46,075	686	-	-
Transport and communication	40,427	461	20,171	363
Production and distribution of energy, gas and water	29,803	4,470	-	-
Municipal operation organs	18,271	-	-	-
Other	7,865	443	45,050	261
Sport	7,854	1,571	3,000	600
Hotels	5,984	54	25	1
Social and personal services, culture	4,560	101	-	-
Medicine and tourism	2,575	129	472	10
Finance	2,242	318	49,000	1,140
Engineering	2,000	20	3,800	76
Energy	-	-	1,650	16
	3,615,456	**116,943**	**1,812,475**	**94,276**
Mortgage loans for sale	154,503	1,545	124,598	-
Total loans and advances to customers	**3,769,959**	**118,488**	**1,937,073**	**94,276**

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23.

Loans granted to related parties are disclosed in Note 24.

9. Investment in Subsidiary

Investment in subsidiary comprises:

	2007	**2006**
Share capital investment cost	100	100
Adjustment to reflect fair value	3,865	(353)
Total investment in subsidiary	**3,965**	**(253)**

(continued)

(in thousands of Russian Roubles)

9. Investment in Subsidiary (continued)

In 2004 the Bank acquired "Leasing-Hlynov" OOO a company specialized in leasing services. As at 31 December 2006 the Bank owned 100% of its share capital.

The Bank has produced separate consolidated financial statements with the financial statements of "Leasing-Hlynov" OOO.

10. Accrued Interest and Other Assets

Accrued interest and other assets include:

	2007	2006
Accrued interest income	13,586	7,949
Debtors and prepayments	13,516	3,101
Settlements with the budget	964	-
Other	430	1,621
Total accrued interest and other assets	**28,496**	**12,671**

Debtors and prepayments include accounts receivable on transactions of credit cards.

Movements in the allowance for possible losses of other assets are disclosed in Note 19.

Geographical, currency and maturity analyses of other assets are disclosed in Note 23.

(in thousands of Russian Roubles)

11. Fixed Assets

Movement in tangible fixed assets is presented the table below:

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost of Valuation							
At 31 December 2005	**3,542**	**62,890**	**427**	**9,424**	**15,526**	**11,597**	**103,406**
Additions	-	19,548	1,522	3,515	5,002	25,193	54,780
Disposals	-	-	-	(64)	(43)	(20,536)	(20,643)
Revaluation	-	26,936	-	-	-	-	26,936
At 31 December 2006	**3,542**	**109,374**	**1,949**	**12,875**	**20,485**	**16,254**	**164,479**
Additions	110	1,171	225	8,390	8,540	42,449	60,885
Transfer from group to group	-	7,373	-	-	84	(7,457)	-
Disposals	-	-	(207)	(339)	(1,366)	-	(1,912)
At 31 December 2007	**3,652**	**117,918**	**1,967**	**20,926**	**27,743**	**51,246**	**223,452**
Depreciation							
At 31 December 2005	**-**	**4,544**	**358**	**3,921**	**4,836**	-	**13,659**
Charge for the year	-	832	1,046	2,632	5,039	-	9,549
Disposals	-	-	-	(50)	(43)	-	(93)
At 31 December 2006	**-**	**5,376**	**1,404**	**6,503**	**9,832**	-	**23,115**
Charge for the year	-	1,149	117	3,965	5,562	-	10, 793
Depreciation of revalued part	-	539	-	-	-	-	539
Disposals	-	-	(195)	(340)	(867)	-	(1,402)
At 31 December 2007	**-**	**7,064**	**1,326**	**10,128**	**14,527**	**-**	**33,045**
Net Book Values							
At 31 December 2007	**3,652**	**110,854**	**641**	**10,798**	**13,216**	**51,246**	**190,407**
At 31 December 2006	**3,542**	**103,998**	**545**	**6,372**	**10,653**	**16,254**	**141,364**
At 31 December 2005	**3,542**	**58,346**	**69**	**5,503**	**10,690**	**11,597**	**89,747**

Fixed assets are insured to the value of RUR 2,100 thousand (2006: RUR 2,100 thousand).

12. Due to Banks

Amounts due to banks include:

	2007	2006
Vostro accounts with other banks	-	853
Short-term loans and deposits from other banks	74,573	47,500
Total due to banks	**74,573**	**48,353**

As at 31 December 2007, 63.4% of interbank loans are represented by loans received from the JSC "Rossisskiy Bank Razvitiya" at the interest rate of 10.9%.

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 23.

(in thousands of Russian Roubles)

13. Customer Accounts

Customer accounts comprise the following items:

	2007	2006
Individuals		
Current accounts	404,241	362,650
Term deposits	1,905,632	1,026,949
	2,309,873	**1,389,599**
Other legal entities		
Current accounts	1,160,602	751,477
Term deposits	441,430	49,805
	1,602,032	**801,282**
State and budgetary organisations		
Current accounts	115,921	52,322
Total customer accounts	**4,027,826**	**2,243,203**

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 23.

The breakdown of customer accounts per sector is presented in the following table:

	2007		2006	
	Amount	%	Amount	%
Individuals	2,304,665	57.2	1,386,586	61.9
Trade	797,589	19.8	614,878	27.4
Construction	216,425	5.4	103,799	4.6
Industry	211,120	5.2	35,994	1.6
Financial	204,855	5.1	-	-
Insurance	121,121	3.0	16,016	0.7
Services	57,690	1.4	10,219	0.5
Transport and telecommunication	47,182	1.2	24,053	1.1
Other	26,377	0.7	32,319	1.4
Education	15,506	0.4	8,633	0.4
Health facilities	12,773	0.3	2,944	0.1
Agriculture	7,614	0.2	3,135	0.1
Fuel and energy	4,909	0.1	4,627	0.2
Total customer accounts	**4,027,826**	**100.0**	**2,243,203**	**100.0**

Balances of term deposits and current accounts of related parties is disclosed in Note 24.

14. Debt Securities Issued

As at 31 December 2007 debt securities issued are represented entirely by promissory notes denominated in RUR in amount of RUR 46,772 thousand (2006: RUR 54,144 thousand). As at 31 December 2007, promissory notes issued by the Bank were held by 21 investors, the maximum share of one investor in total amount of issued promissory notes is 30% (as at 31 December 2006 52% of issued promissory notes were purchased by 2 investors)

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 23.

(in thousands of Russian Roubles)

15. Deferred Tax Liability

The corporate income tax expense comprises:

	2007	2006
Current tax charge	39,621	22,394
Deferred tax charge relating to the origination and reversal of temporary differences	23,333	12,262
Income tax expense	**62,954**	**34,656**

The income tax rate applicable to the majority of the Bank's income was 24% for 2006 and 2007.

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

	2007	2006
Profit before tax	**271,760**	**151,254**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	62,222	36,301
Tax on state securities income taxable at different rates	(41)	(250)
Tax on dividends paid	(2,295)	(168)
Non taxable items	68	(1,227)
Income tax expense	**62,954**	**34,656**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. Deferred income tax is calculated on all temporary differences under the balance sheet liability method using a statutory tax rate of 24%.

Deferred tax assets and liabilities comprise:

	2007	2006
Tax effect of deductible temporary differences		
Accrued discount on securities	(9,584)	(1,646)
Provisions for losses on loans and promissory notes	(35,918)	(12,206)
Debtors and prepayments	9,432	3,066
Accrued interest income	(4,998)	(769)
Premises and equipment	(7,914)	(3,798)
Debt securities issued	7	364
Other	635	(3,553)
Net deferred tax liability	**(48,340)**	**(18,542)**

The movement in deferred tax liability comprises:

	2007	2006
Opening balance	18,542	6,280
Deferred tax charge in the income statement	23,333	12,262
Deferred tax charge in the statement of shareholders’ equity	6,465	-
Closing balance	**48,340**	**18,542**

(in thousands of Russian Roubles)

16. Other Liabilities

Other liabilities include:

	2007	2006
Accounts payable	11,755	5,558
Accrued interest	1,042	4,513
Operating taxes payable	1,416	1,859
Dividends payable	224	221
Other	16	100
Total other liabilities	**14,453**	**12,251**

Geographical, currency and maturity analyses of other liabilities are detailed in Note 23.

17. Share Capital

Statutory share capital authorized, issued and fully paid comprises:

	2007			2006		
	Number of shares	**Par value**	**Value**	**Number of shares**	**Par value**	**Value**
Common shares	9,700	0.05	485,000	4,500	0.05	225,000
IAS 29 adjustments			22,198			22,198
Total share capital			**507,198**			**247,198**

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. Dividends were declared in 2007 at RUR 5 (not thousands) per share (2006: RUR 2.5 (not thousands) per share).

In 2007 the Bank increased share capital by issuing 5,200,000 ordinary shares of nominal value RUR 50 (not thousands). All shares were allocated to investors in the existing proportions.

	2007	2006
Dividends payable as at 1 January	221	114
Dividends declared during the year	22,500	7,500
Dividends paid during the year	(22,497)	(7,393)
Dividends payable as at 31 December	**224**	**221**

All dividends are paid and issued in Russian Roubles.

(continued)

(in thousands of Russian Roubles)

17. Share Capital (continued)

As at 31 December 2007 shareholders of the Bank were as follows:

Shareholder	%
REKHA HOLDINGS LIMITED	20.0
OOO «Strike»	8.4
OOO «Norma»	7.7
OOO «Avangard»	7.3
OOO «Monolit»	6.7
OOO «Konkurent»	6.7
OOO «Standart»	5.0
Individuals with less than 5% each (164)	32.5
Legal entities with less than 5% each (19)	5.7
	100.0

As at 31 December 2006 the shareholders of the Bank were as follows:

Shareholder	%
OOO"Flagman"	13.4
OOO"Vjatka-Nefteproduct"	7.7
OOO"Class"	6.7
OOO"Strike"	5.8
Individuals with less than 5% each (183)	56.4
Legal entities with less than 5% each (24)	10.0
	100.0

18. Commitments and Contingencies

Operating Environment

The Russian economy, although essentially transformed to market status, continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls and relatively high inflation rates. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Legal actions

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

(continued)

(in thousands of Russian Roubles)

18. Commitments and Contingencies (continued)

Operating lease commitments

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Bank acts as a tenant:

	2007	2006
Not later than 1 year	11,244	3,800
Later than 1 year and not later than 5 years	40,506	7,614
Later than 5 years	12,061	1,894
Total liabilities on operating lease	**63,811**	**13,308**

Capital commitments

As at 31 December 2007 and 31 December 2006 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Bank 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 funding of most commitments are contingent upon certain conditions set out in the loan agreements. Guarantees, which were previously disclosed as credit related commitments are now described in Note 3 (l).

Credit related commitments comprise:

	2007	2006
Undrawn loan commitments	71,287	81,048
Unused limits of overdrafts	50,955	44,259
Total of credit related commitments	**122,242**	**125,307**

Derivatives

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the 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 Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2007 and 31 December 2006 the Bank had no derivative financial instruments.

(in thousands of Russian Roubles)

19. Allowance for Possible Losses and Impairment

The movements in allowances for impairment of financial assets were as follows:

	Loans and advances to customers	Other assets (non interest bearing)	Total
Balance as at 31 December 2005	**61,491**	**100**	**61,591**
Charge/(reversal)	32,785	(100)	32,685
Balance as at 31 December 2006	**94,276**	**-**	**94,276**
Charge	24,761	-	24,761
Loans written off	(549)	-	(549)
Balance as at 31 December 2007	**118,488**	**-**	**118,488**

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

20. Gains less Losses from Trading with Securities

Gains and losses from securities include the following elements:

	2007	2006
Fair value adjustments	(1,887)	(681)
Gains less losses from sales and redemptions	11,420	18,101
Other losses from trading with securities	(61)	(40)
Total gains less losses from trading with securities	**9,472**	**17,380**

21. Commission Income and Expenses

Commission income and expenses include the following items:

	2007	2006
Commission income		
Cash operations	143,698	78,639
Settlements and foreign currency exchange transactions	43,136	21,549
Commission from loans to customers	7,158	4,029
Commission from transaction with plastic cards	2,337	2,540
Commission on other operations	3,422	2,515
Total commission income	**199,751**	**109,272**
Commission expense		
Cash operations	(6)	(7)
Commission on banking service	(2,941)	(1,762)
Settlements and foreign currency exchange transactions	(498)	(433)
Other commissions	(6,053)	(4,500)
Total commission expenses	**(9,498)**	**(6,702)**
Net commission income	**190,253**	**102,570**

(in thousands of Russian Roubles)

22. Staff, Administrative and Other Operating Costs

Staff costs include the following items:

	2007	2006
Salaries	44,163	23,816
Bonuses	30,594	30,944
Social security costs	15,918	10,306
Staff Costs	**90,675**	**65,066**

Administrative and other operating costs include the following:

	2007	2006
Deposit insurance system payment	8,874	5,958
Taxes other than income tax	8,343	4,500
Stationary	5,755	2,375
Rent	5,240	2,871
Advertising and marketing	4,549	1,381
Security	4,026	2,662
Repair of fixed assets	3,406	1,030
Postage	3,341	1,997
Printing expenses, document processing	3,291	2,375
Handling of payment documents	3,007	2,105
Related to computers, vehicles and information service	2,698	1,717
Maintenance of building	2,369	1,248
Software expenses	1,901	123
Audit	1,484	581
Personnel training, travel and representative expenses	898	678
Other	5,304	3,946
Total administrative and other operating costs	**64,486**	**35,547**

23. Financial Risk Management

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Bank’s business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank 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, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

(continued)

23. Financial Risk Management (continued)

a) Credit Risk Measurement

(i) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default")

These credit risk measurements, which reflect expected losses (the "expected loss model"), are applied following the normative and instructions issued by the Central Bank of the Russian Federation and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the "incurred loss model") rather than expected losses.

(ii) Debt securities

For debt securities and other equity instruments, external ratings or equivalents are used by the Bank for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

b) Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

(ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the balance sheet under IFRS at year-end is derived from each of the five statutory risk categories. Although the categories with higher impairment rate are the bottom two grading, in absolute terms, the majority of the impairment allowance comes from the second and third grading in direct correlation to the volume of impaired loans and the loans assessed on a pool basis.

The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories:

Bank of Russia Rating (CBRF)

	2007			**2006**		
Risk category	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**
I	13.38	-	-	9.59	-	-
II	71.04	42.26	1.95	68.09	15.44	2.39
III	14.63	48.78	9.77	20.25	61.99	7.88
IV	0.56	3.77	24.34	0.47	2.96	16.17
V	0.39	5.19	49.35	1.60	19.61	85.74
	100.00	**100.00**	**3.14**	**100.00**	**100.00**	**4.87**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the balance sheet. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

Loans and advances to customers include the following portfolios:

	2007	2006
Individuals (retail customers)		
Overdrafts	984	765
Term loan	517,403	246,307
Mortgage loan	154,503	124,598
Legal entities		
Large corporate customers	385,946	123,781
SMEs	2,637,291	1,392,622
Federal and governmental organisations; local authorities	64,346	49,000
Factoring	9,486	-
Gross amount of loans and advances	**3,769,959**	**1,937,073**
Less allowance for impairment	(118,488)	(94,276)
Loans and advances, net	**3,651,471**	**1,842,797**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

The loan portfolio of the Bank is summarised as follows:

	2007		2006	
	Loans and advances to customers	**Due from banks**	**Loans and advances to customers**	**Due from banks**
Neither past due nor impaired	3,736,960	162,273	1,904,762	30,000
Past due but not impaired	32,951	-	6,610	-
Impaired	48	-	25,701	-
Loan portfolio, gross	**3,769,959**	**162,273**	**1,937,073**	**30,000**
Less allowance for impairment	(118,488)	-	(94,276)	-
Loan portfolio, net	**3,651,471**	**162,273**	**1,842,797**	**30,000**

a) *Loans and advances neither past due nor impaired*

As at December 2007 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	**Overdrafts**	**Term loans**	**Mortgage loans**	**Total**
I	-	-	10,953	**10,953**
II	984	487,985	136,080	**625,049**
III	-	19,837	7,470	**27,307**
IV	-	449	-	**449**
Total	**984**	**508,271**	**154,503**	**663,758**

As at December 2007 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	**Major corporate clients**	**SMEs**	**Municipal, federal and governmental organisations**	**Factoring**	**Total**
I	162,946	312,129	18,271	-	**493,346**
II	223,001	1,774,577	43,575	1,898	**2,043,051**
III	-	520,813	2,500	-	**523,313**
IV	-	13,172	-	-	**13,172**
V	-	320	-	-	**320**
Total	**385,947**	**2, 621,011**	**64,346**	**1,898**	**3,073,202**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

In summary:

Risk category	Individuals	Legal entities	Total
I	10,953	493,346	**504,299**
II	625,049	2,043,051	**2,668,100**
III	27,307	523,313	**550,620**
IV	449	13,172	**13,621**
V	-	320	**320**
Total	**663,758**	**3,073,202**	**3,736,960**

As at December 2006 loans and advances neither past due not impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	685	2,415	17,083	**20,183**
II	80	223,004	106,318	**329,402**
III	-	17,089	1,197	**18,286**
IV	-	165	-	**165**
V	-	500	-	**500**
Total	**765**	**243,173**	**124,598**	**368,536**

As at December 2006 loans and advances neither past due not impaired to legal entities were composed by:

Risk category	Major corporate clients	SMEs	Municipal, federal and governmental organisations	Total
I	35,800	129,592	-	**165,392**
II	87,981	853,370	47,000	**988,351**
III	-	370,777	2,000	**372,777**
IV	-	8,325	-	**8,325**
V	-	1,381	-	**1,381**
Total	**123,781**	**1,363,445**	**49,000**	**1,536,226**

In summary:

Risk category	Individuals	Legal entities	Total
I	20,183	165,392	**185,575**
II	329,402	988,351	**1,317,753**
III	18,286	372,777	**391,063**
IV	165	8,325	**8,490**
V	500	1,381	**1,881**
Total	**368,536**	**1,536,236**	**1,904,762**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

b) Loans and Advances Past due but Not Impaired:

As at 31 December 2007 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	7,579	-	-	1,505	**9,084**	3,107
Legal entities						
Small and large enterprises	3,359	43	38	12,840	**16,280**	34,439
Factoring	4,445	1,971	877	294	**7,587**	
Total	**15,383**	**2,014**	**915**	**14,639**	**32,951**	**37,546**

As at 31 December 2006 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	1,178	-	1,239	-	**2,417**	-
Legal entities						
Small and large enterprises	-	-	-	4,193	**4,193**	6,433
Total	**1,178**	**-**	**1,239**	**4,193**	**6,610**	**6,433**

c) Loans and Advances Individually Impaired

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2007		2006	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Term loans	48	-	717	580
Legal entities				
SMEs	-	-	24,984	30,808
Total	**48**	**-**	**25,701**	**31,388**

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

In 2007 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at January 2007	2	7,997	-	**7,999**
Charge for the period	28	-	15,661	**15,689**
Loans written off	-	(549)	-	**(549)**
Amounts recovered	-	(5,903)	-	**(5,903)**
As at December 2007	**30**	**1,545**	**15, 661**	**17,236**

In 2007 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Total
As at January 2007	2,070	83,067	1,140	-	**86,277**
Charge for the period	1,017	10,698	-	3,714	**15,429**
Amounts recovered	-	-	(454)	-	**(454)**
As at December 2007	**3,087**	**93,765**	**686**	**3,714**	**101,252**

In summary:

	Individuals	Legal entities	Total
As at January 2007	7,999	86,277	**94,276**
Charge for the period	15,689	15,429	**31,118**
Loans written off	(549)	-	**(549)**
Amounts recovered	(5,903)	(454)	**(6,357)**
As at December 2007	**17,236**	**101,252**	**118,488**

In 2006 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Total
As at 1 January 2007	2	915	**917**
Charge for the period	-	7,082	**7,082**
As at 31 December 2007	**2**	**7,997**	**7,999**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

In 2006 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Total
As at 1 January 2007	2,962	57,180	432	**60,574**
Charge for the period	-	25,887	708	**26,595**
Amounts recovered	(892)	-	-	**(892)**
As at 31 December 2007	**2,070**	**83,067**	**1,140**	**86,277**

In summary:

	Individuals	Legal entities	Total
As at January 2007	917	60,574	**61,491**
Charge for the period	7,082	26,595	**33,677**
Amounts recovered	-	(892)	**(892)**
As at December 2007	**7,999**	**86,277**	**94,276**

Geographical risk

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

	Russia	OECD	Total
Assets			
Cash and cash equivalents	687,399	11,060	**698,459**
Mandatory balances with the CBRF	47,079	-	**47,079**
Due from banks	162,273	-	**162,273**
Securities at fair value through profit or loss	274,565	-	**274,565**
Loans and advances to customers	3,651,471	-	**3,651,471**
Accrued interest and other assets	28,496	-	**28,496**
Investments in subsidiary	3,965	-	**3,965**
Fixed assets	190,407	-	**190,407**
Total assets	**5,045,655**	**11,060**	**5,056,715**
Liabilities			
Due to banks	74,573	-	**74,573**
Customer accounts	3,827,826	200,000	**4,027,826**
Debt securities issued	46,772	-	**46,772**
Deferred tax liability	48,340	-	**48,340**
Other liabilities	14,453	-	**14,453**
Total liabilities	**4,011,964**	**200,000**	**4,211,964**
Net balance sheet position	**1,033,691**	**(188,940)**	**844,751**
Credit related commitments	**122,242**	**-**	**122,242**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

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

	Russia	OECD	Total
Net balance sheet position	**402,680**	**2,769**	**405,449**
Credit related commitments	**125,307**	**-**	**125,307**

Market Risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank’s Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia.

As at 31 December 2007, the Bank had the following positions in currencies:

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	658,139	19,108	21,212	**698,459**
Mandatory balances with the CBRF	47,079	-	-	**47,079**
Due from banks	150,000	12,273	-	**162,273**
Securities at fair value through profit or loss	274,565	-	-	**274,565**
Loans and advances to customers	3,614,951	26,832	9,688	**3,651,471**
Investment in subsidiary	3,965	-	-	**3,965**
Accrued interest and other assets	28,113	351	32	**28,496**
Fixed assets	190,407	-	-	**190,407**
Total assets	**4,967,219**	**58,564**	**30,932**	**5,056,715**
Liabilities				
Due to banks	74,573	-	-	**74,573**
Customer accounts	3,997,504	10,169	20,153	**4,027,826**
Debt securities issued	46,772	-	-	**46,772**
Deferred tax liability	48,340	-	-	**48,340**
Other liabilities	12,676	1,777	-	**14,453**
Total liabilities	**4,179,865**	**11,946**	**20,153**	**4,211,964**
Net on-balance sheet position	**787,354**	**46,618**	**10,779**	**844,751**
Credit related commitments	**122,242**	**-**	**-**	**122,242**

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

As at 31 December 2006, the Bank had the following positions in currencies:

	RUR	USD	EUR	Total
Net on-balance sheet position	**391,876**	**17,556**	**(3,983)**	**405,449**
Credit related commitments	**125,307**	**-**	**-**	**125,307**

The table below analyses the risk of foreign currency rate as to Russian Federation Rouble:

	As at 31 December 2007		As at 31 December 2006	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Strengthening of USD for 5%	1,727	1,727	890	890
Weakening of USD for 5%	(1,727)	(1,727)	(890)	(890)
Strengthening of Euro for 5%	548	548	(198)	(198)
Weakening of Euro for 5%	(548)	(548)	198	198
Total	-	-	-	-

Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw downs. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank has internal rules to manage cash resources with different maturity and deal with high liquidity financial instruments with appropriate maturity. Monitoring of liquidity risk is conducted by risk-manage, Liquidity Committee and Credit Committee on permanent basis.

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

The tables below provide an analysis of the Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	698,459	-	-	-	-	**698,459**
Mandatory balances with CBRF	-	-	-	-	47,079	**47,079**
Due from banks	162,273	-	-	-	-	**162,273**
Securities at fair value through profit or loss	158,444	116,121	-	-	-	**274,565**
Loans and advances to customers	120,704	1,129,776	931,508	1,452,841	16,642	**3,651,471**
Investments in subsidiary	-	-	-	-	3,965	**3,965**
Accrued interest and other assets	20,154	2,854	911	4,477	100	**28,496**
Fixed assets	-	-	-	-	190,407	**190,407**
Total assets	**1,160,034**	**1,248,751**	**932,419**	**1,457,318**	**258,193**	**5,056,715**
Liabilities						
Due to banks	27,273	9,400	-	37,900	-	**74,573**
Customer accounts	1,894,490	930,902	543,232	659,202	-	**4,027,826**
Debt securities issued	26,741	20,031	-	-	-	**46,772**
Deferred tax liability	-	-	-	-	48,340	**48,340**
Other liabilities	13,970	339	144	-	-	**14,453**
Total liabilities	**1,962,474**	**960,672**	**543,376**	**697,102**	**48,340**	**4,211,964**
Net liquidity gap	**(802,440)**	**288,079**	**389,043**	**760,216**	**209,853**	**844,751**
Accumulated gap as at 31 December 2007	**(802,440)**	**(514,361)**	**(125,318)**	**634,898**	**844,751**	
Accumulated gap as at 31 December 2006	**(485,641)**	**(335,131)**	**(313,337)**	**246,385**	**405,449**	

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

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

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank’s Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Bank’s assets and liabilities are priced on a fixed rate basis.

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2007 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	8.55	-	-	-	-
Securities at a fair value through profit or loss	10.52	10.85	-	-	-
Loans and advances to customers	12.24	11.92	13.39	13.82	20.53
Liabilities					
Due to banks	8.82	10.90	-	10.90	-
Customer accounts	2.56	10.60	10.10	10.80	-
Debt securities issued	-	6.51	-	-	-

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2006 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	7.88	-	-	-	-
Securities at a fair value through profit or loss	12.61	12.28	-	-	-
Loans and advances to customers	13.43	14.18	14.46	14.81	32.69
Liabilities					
Due to banks	9.27	10.95	10.95	-	-
Customer accounts	2.62	8.47	9.19	10.38	-
Debt securities issued	8.01	9.48	12.00	-	-

Assuming the financial assets and liabilities as at 31 December 2007 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 1% in market interest rates across all maturities and currencies would increase profit for the current year by approximately RUR 8,243 thousand (2006: RUR 4,392 thousand) as a result of higher interest income from interest bearing assets. Assuming the financial assets and liabilities as at 31 December 2007 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible negative change of 1% in market interest rates across all maturities and currencies would increase profit for the current year by approximately RUR 8,243 thousand (2006: RUR 4,392 thousand) as a result of lower interest income from interest bearing assets.

(continued)

(in thousands of Russian Roubles)

23. Financial Risk Management (continued)

In the table below given is the analysis of the interest rate fluctuation risk to which the Bank is exposed as at 31 December 2007. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	162,273	-	-	-	-	**162,273**
Securities at a fair value through profit or loss	153,315	116,121	-	-	-	**269,436**
Loans and advances to customers	120,704	1,129,776	931,508	1,452,841	16,642	**3,651,471**
Total assets	**436,292**	**1,245,897**	**931,508**	**1,452,841**	**16,642**	**4,083,180**
Liabilities						
Due to banks	27,273	9,400	-	37,900	-	**74,573**
Customer accounts	1,355,330	930,902	543,232	659,202	-	**3,488,666**
Debt securities issued	-	5,031	-	-	-	**5,031**
Total liabilities	**1,382,603**	**945,333**	**543,232**	**697,102**	**-**	**3,568,270**
Net liquidity	**(946,311)**	**300,564**	**388,276**	**755,739**	**16,642**	**514,910**
Accumulated gap as at 31 December 2007	**(946,311)**	**(645,747)**	**(257,471)**	**498,268**	**514,910**	
Accumulated gap as at 31 December 2006	**(583,835)**	**(429,882)**	**(406,751)**	**152,971**	**152,971**	

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2007			**2006**		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Interest bearing assets						
Due from banks	8.51	9.00	-	7.88	-	-
Securities at a fair value through profit or loss	10.66	-	-	12.53	-	-
Loans and advances to customers	13.48	11.35	9.80	14.58	10.60	11.25
Interest bearing liabilities						
Due to banks	10.56	8.00	-	10.23	-	-
Customer accounts	7.26	5.47	6.09	6.28	5.82	6.69
Debt securities issued	6.51	-	-	10.96	-	-

24. Related Party Transactions

For the purposes of these 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.

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

At 31 December 2007 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
REKHA HOLDINGS LIMITED	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Firm «Globus»	Trade and intermediary
OAO «KCHUS+K»	Building industry
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
Other, including Management of the Bank	
Berezin Oleg Yuryevich	
Popov Nikolay Vasilyevich	
Nazarov Sergey Petrovich	
Zhuravlev Mikhail Vldimirovich	
Filipchenko Alexey Viktorovich	
Repnyakov Vladimir Anatolyevich	
Vtyurin Alexander Yuryevich	
Skobeleva Irina Anatolyevna	
Anisimova Galina Nikolayevna	
Prosvirina Lyubov Nikolayevna	
Pestov Oleg Vladimirovich	

(continued)

24. Related Parties (continued)

At 31 December 2006 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
OOO"Flagman"	Trade and intermediary
OOO"Vjatka-Nefteproduct"	Trade and intermediary
OOO"Class"	Trade and intermediary
OOO"Strike"	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Firma "Globus"	Trade and intermediary
OAO "Kchus+K"	Building Industry
OOO "NTI"	Trade and intermediary
OOO "Diros"	Trade and intermediary
OOO "Dimet+ M"	Trade and intermediary
OOO "Leasing "Hlynov"	Financial leasing
Other, including Management of the Bank	
Berezin Oleg Yuryevich	
Popov Nikolay Vasilyevich	
Zhuravlev Mikhail Vldimirovich	
Filipchenko Alexey Viktorovich	
Repnyakov Vladimir Anatolyevich	
Vtyurin Alexander Yuryevich	
Skobeleva Irina Anatolyevna	
Anisimova Galina Nikolayevna	
Prosvirina Lyubov Nikolayevna	
Pestov Oleg Vladimirovich	

(continued)

(in thousands of Russian Roubles)

24. Related Parties (continued)

The total outstanding balances as at 31 December 2007 and the related income and expense transactions during 2007 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Balance/ financial result
Balance Sheet				
Loans and advances to customers				
At the beginning of the year	52,625	153,712	834	**207,171**
Granted during the year	-	890,009	6,362	**896,371**
Repaid during the year	(52,625)	(715,427)	(6,744)	**(774,796)**
At the end of the year	**-**	**328,294**	**452**	**328,746**
Allowance for losses	-	(4,185)	-	**(4,185)**
Securities at fair value through profit or loss				
At the beginning of the year	-	-	**-**	**-**
Purchased during the year	-	2,001	**-**	**2,001**
Sold during the year	-	(2,001)	**-**	**(2,001)**
At the end of the year	**-**	**-**	**-**	**-**
Other assets (accrued interest income)	**-**	**1,184**	**-**	**1,184**
Current accounts				
At the beginning of the year	2,280	23,176	1,128	**26,584**
Opened during the year	423,926	5,810,770	24,137	**6,258,833**
Repaid during the year	(426,175)	(5,819,850)	(24,243)	**(6,270,268)**
At the end of the year	**31**	**14,096**	**1,022**	**15,149**
Term deposits				
At the beginning of the year	-	-	3,518	**3,518**
Received during the year	200,000	-	17,754	**217,754**
Repaid during the year	-	-	(14,533)	**(14,533)**
At the end of the year	**200,000**	**-**	**6,739**	**206,739**
Debt securities issued				
At the beginning of the year	-	1,269	-	**1,269**
Issued during the year	-	14,000	-	**14,000**
Redeemed during the year	-	(15,269)	-	**(15,269)**
At the end of the year	**-**	**-**	**-**	**-**

(continued)

(in thousands of Russian Roubles)

24. Related Parties (continued)

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Balance/ financial result
Profit and loss				
Interest Income on loans	**-**	**33,618**	**177**	**33,795**
Interest expenses:				
On term deposits	2,904	-	670	**3,574**
On current accounts	-	38	-	**38**
Commission income	**-**	**17**	**-**	**17**
Salary and bonuses	-	-	14,297	**14,297**
Dividends declared	12,601	120	21	**12,742**

The total outstanding balances as at 31 December 2006 and the related income and expense transactions during 2006 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Balance/ financial result
Balance Sheet				
Loans and advances to customers				
At the beginning of the year	20,000	103,108	264	**123,372**
Granted during the year	52,625	355,973	3,954	**412,552**
Repaid during the year	(20,000)	(305,369)	(3,384)	**(328,753)**
At the end of the year	**52,625**	**153,712**	**834**	**207,171**
Other assets (accrued interest income)	**199**	**634**	**-**	**833**
Current accounts				
At the beginning of the year	30	13,008	822	**13,860**
Opened during the year	21,816	2,583,304	11,926	**2,617,046**
Repaid during the year	(19,566)	(2,573,136)	(11,620)	**(2,604,322)**
At the end of the year	**2,280**	**23,176**	**1,128**	**26,584**
Term deposits				
At the beginning of the year	-	-	1,719	**1,719**
Received during the year	-	-	4,954	**4,954**
Repaid during the year	-	-	(3,155)	**(3,155)**
At the end of the year	**-**	**-**	**3,518**	**3,518**

(continued)

(in thousands of Russian Roubles)

24. Related Parties (continued)

	Shareholders	**Under common control by virtue of having the same shareholders**	**Other including management**	**Total Balance/ financial result**
Debt securities issued				
At the beginning of the year	-	-	-	-
Issued during the year	84,394	2,450	-	**86,844**
Redeemed during the year	(59,820)	(950)	-	**(60,770)**
At the end of the year	**24,574**	**1,500**	**-**	**26,074**
Other liabilities (discount on debt securities issued)	-	1,269	-	**1,269**
Profit and loss				
Interest Income on loans	**5,210**	**21,892**	**57**	**27,159**
Interest expenses;				
On term deposits	-	-	262	**262**
On current accounts	1	65	-	**66**
Commission income on issued guarantees	**-**	**14**	**-**	**14**
Salary and bonuses	-	-	13,895	**13,895**
Dividends declared	1,909	93	229	**2,231**
Off-Balance Sheet				
Guaranties received	2,540	6,000	7,916	**16,456**

In 2007 salaries and other short term payment to the members of Council and members of the Executive Board amounted to RUR 13,888 thousand (2006: RUR 13,494 thousand), including RUR 5,103 thousand (2006: RUR 4,977 thousand) salaries, other short term payments RUR 8,785 thousand (2006: RUR 8,517 thousand). Other short term payments to the members of the Executive Board, who are not employed with the Bank, amounted to RUR 409 thousand (2006: RUR 401 thousand).

25. Capital Management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheets, are:

- To comply with the capital requirements set by the CBRF
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the CBRF for supervisory purposes.

(continued)

(in thousands of Russian Roubles)

25. Capital Management (continued)

The compliance with the capital adequacy ratio required by the Central Bank of the Russian Federation is monitored through monthly reports, containing the related calculations, checked and approved by the General Director and the Chief Accountant of the Bank. The evaluation of other targets of capital management is monitored daily.

For the year 2008 the Bank development program planned the increase of Bank's capital by the emission of shares for the amount up to RUR 120 million.

The Central Bank of the Russian Federation requires banks with a capital exceeding the equivalent to 5 million Euro to maintain a capital adequacy ratio of at least 10% of its risk-weighted assets. As at 31 December 2007 the Bank's capital adequacy ratio exceeded the necessary minimum calculated according to the Central Bank's regulation.

As at 31 December 2007, the Bank's capital adequacy ratio, based on the figures emerging from the IFRS financial statements is equal to 20.0% (2006: 18.9%). This exceeds the minimum ratio of 8% recommended by the Basle Agreement.

	2007	2006
Capital adequacy ratio of the basic capital	18.9%	16.4%
Capital adequacy ratio of the total equity	20.0%	18.9%

The structure of the Bank's capital calculated in accordance with Basle Agreement is presented below:

	2007	2006
Tier One capital		
Share capital	507,198	247,198
Inflated portion of share capital	(14,773)	(14,773)
Retained earnings	98,465	4,367
Current year profit	208,806	116,598
Total Tier One capital	**799,696**	**353,390**
Tier Two Capital		
Fixed assets revaluation reserve	30,282	37,286
Inflated portion of share capital	14,773	14,773
Total Tier Two capital	**45,055**	**52,059**
Risk weighted assets	**4,220,294**	**2,148,394**