

**Absolut Bank Group**

**Consolidated Financial Statements and  
Auditor's Report**

**31 December 2007**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Absolut Bank Group:

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

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

*Opinion*

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

*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation  
8 April 2008

**Absolut Bank Group**  
**Consolidated Balance Sheet**

	Note	31 December 2007	31 December 2006 (restated)
<i>In thousands of Russian Roubles</i>			
<b>ASSETS</b>			
Cash and cash equivalents	7	10 424 633	10 996 406
Mandatory cash balances with the Central Bank of the Russian Federation		1 185 151	766 710
Trading securities	8	8 721 524	6 673 655
Due from other banks	9	12 895 613	2 323 849
Loans and advances to customers	10	91 547 433	42 755 190
Repurchase receivable	11	333	182 338
Investment properties	12	41 690	15 198
Software	12	162 447	40 203
Premises and equipment	12	3 699 896	1 769 690
Deferred tax asset	26	10 290	2 648
Other financial assets	13	618 653	20 011
Other assets	14	780 191	295 197
<b>TOTAL ASSETS</b>		<b>130 087 854</b>	<b>65 841 095</b>
<b>LIABILITIES</b>			
Due to other banks	15	52 479 001	18 890 514
Customer accounts	16	29 403 434	19 925 990
Debt securities in issue	17	22 788 808	18 079 951
Other borrowed funds	18	1 883 841	1 836 405
Current income tax liability		31 233	72 154
Other financial liabilities	19	10 007 321	21 362
Other liabilities	20	472 432	192 960
Subordinated debt	21	5 641 517	1 856 291
<b>TOTAL LIABILITIES</b>		<b>122 707 587</b>	<b>60 875 627</b>
<b>EQUITY</b>			
Share capital	22	1 954 609	1 714 609
Share premium	22	3 393 682	2 060 896
Retained earnings		2 031 976	1 189 963
<b>TOTAL EQUITY</b>		<b>7 380 267</b>	<b>4 965 468</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>130 087 854</b>	<b>65 841 095</b>

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

  
 Sidorov N. V.  
 Chairman of the Board

  
 Prigornitskaya O. N.  
 Chief Accountant

**Absolut Bank Group**  
**Consolidated Income Statement**

	Note	31 December 2007	31 December 2006 (restated)
<i>In thousands of Russian Roubles</i>			
Interest income	23	8 578 180	4 491 266
Interest expense	23	(5 162 076)	(2 617 295)
<b>Net interest income</b>		<b>3 416 104</b>	<b>1 873 971</b>
Provision for loan impairment	10	(462 978)	(541 676)
<b>Net interest income after provision for loan impairment</b>		<b>2 953 126</b>	<b>1 332 295</b>
Fee and commission income	1	602 334	520 316
Fee and commission expense	1	(217 929)	(222 118)
(Losses less gains)/gains less losses from operations with trading securities		(184 022)	532 392
Gains less losses/(losses less gains) from operations with equity and interest rate derivatives	31	228 324	(195 810)
Gains less losses from trading in foreign currencies		110 466	209 186
Losses less gains from operations with foreign currency derivatives	31	(314 382)	(57 218)
Foreign exchange translation gains less losses		507 923	22 612
Release of provision for losses on credit related commitments		-	20 691
Rental income		53 799	27 202
Other operating income		37 932	22 695
Dividend income		14 835	12 070
Administrative and other operating expenses	25	(2 669 905)	(1 302 136)
<b>Profit before tax</b>		<b>1 122 501</b>	<b>922 177</b>
Income tax expense	26	(280 488)	(229 721)
<b>Profit for the year</b>		<b>842 013</b>	<b>692 456</b>

**Absolut Bank Group**  
**Consolidated Statement of Changes in Equity**

	Note	Share capital	Share premium	Revaluation reserve for premises	Retained earnings	Total shareholders' equity
<b>Balance at 31 December 2005 as previously reported</b>		<b>1 339 609</b>	<b>772 096</b>	<b>361 475</b>	<b>493 270</b>	<b>2 966 450</b>
Effect of the change in accounting policy	3	-	-	(361 475)	4 237	<b>(357 238)</b>
<b>Balance at 31 December 2005 (restated)</b>		<b>1 339 609</b>	<b>772 096</b>	<b>-</b>	<b>497 507</b>	<b>2 609 212</b>
Profit for the year		-	-	-	692 456	<b>692 456</b>
Total recognised income for 2006		-	-	-	692 456	<b>692 456</b>
Share issue	22	375 000	1 288 800	-	-	<b>1 663 800</b>
<b>Balance at 31 December 2006</b>		<b>1 714 609</b>	<b>2 060 896</b>	<b>-</b>	<b>1 189 963</b>	<b>4 965 468</b>
Profit for the year		-	-	-	842 013	<b>842 013</b>
Total recognised income for 2007		-	-	-	842 013	<b>842 013</b>
Share issue	22	240 000	1 332 786	-	-	<b>1 572 786</b>
<b>Balance at 31 December 2007</b>		<b>1 954 609</b>	<b>3 393 682</b>	<b>-</b>	<b>2 031 976</b>	<b>7 380 267</b>

**Absolut Bank Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of Russian Roubles</i>	Note	31 December 2007	31 December 2006
<b>Cash flows from operating activities</b>			
Interest received		8 407 971	4 151 585
Interest paid		(4 344 464)	(1 869 848)
Fees and commissions received		606 096	616 111
Fees and commissions paid		(236 906)	(198 895)
(Losses incurred)/income received on operations with trading securities		(234 675)	510 842
Income received/(losses incurred) from operations with equity and interest rate derivatives		264 344	(195 810)
Income received from trading in foreign currencies		108 416	212 961
Losses incurred on operations with foreign currency derivatives		(245 496)	(50 544)
Other operating income received		98 405	49 897
Staff costs paid		(1 411 816)	(678 611)
Administrative and other operating expenses paid		(937 723)	(465 608)
Income tax paid		(325 319)	(344 881)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>1 748 833</b>	<b>1 737 199</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(418 441)	(441 072)
Net increase in trading securities		(1 734 042)	(5 177 982)
Net increase in due from other banks		(10 520 444)	(411 176)
Net increase in loans and advances to customers		(51 329 762)	(25 805 552)
Net decrease/(increase) in repurchase receivable		162 358	(182 338)
Net (increase)/decrease in other financial assets		(388 970)	14 430
Net increase in other assets		(489 449)	(196 004)
Net increase in due to other banks		34 708 252	9 199 884
Net increase in customer accounts		9 531 852	12 908 431
Net increase in promissory notes issued		1 461 830	3 889 839
Net increase in other financial liabilities		9 667 461	371
Net increase in other liabilities		104 041	12 696
<b>Net cash used in operating activities</b>		<b>(7 496 481)</b>	<b>(4 451 274)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment	12	(2 082 695)	(1 110 265)
Proceeds from disposal of premises and equipment		30 600	13 625
Acquisition of investment properties	12	(42 142)	-
Proceeds from disposal of investment properties		16 564	33 022
Acquisition of software	12	(136 621)	(30 588)
Dividend income received		14 835	12 070
Proceeds from disposal of other investments		-	22 000
<b>Net cash used in investing activities</b>		<b>(2 199 459)</b>	<b>(1 060 136)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds	18	283 056	1 379 966
Repayment of other borrowed funds	18	(112 003)	-
Proceeds from subordinated debt	21	5 182 495	1 867 091
Proceeds from issue of Rouble denominated bonds	17	-	997 616
Repayment of Rouble denominated bonds	17	-	(488 143)
Proceeds from issued short-term notes	17	256 878	2 524 297
Repayment of short-term notes	17	(1 154 400)	(1 002 310)
Proceeds from issue of loan participation notes	17	4 511 192	5 403 324
Issue of ordinary shares	22	257 486	1 248 297
<b>Net cash from financing activities</b>		<b>9 224 704</b>	<b>11 930 138</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(100 537)</b>	<b>(425 652)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(571 773)</b>	<b>5 993 076</b>
Cash and cash equivalents at the beginning of the year		10 996 406	5 003 330
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>10 424 633</b>	<b>10 996 406</b>

Financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement and are disclosed in Notes 21 and 22.

## **1 Introduction**

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

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

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 12 (31 December 2006: three) branches within the Russian Federation.

Included in the consolidated financial statements of the Group as at 31 December 2007 are two subsidiaries engaged in leasing operations within the territory of the Russian Federation and three subsidiaries located in Cyprus and Luxemburg and established for the purpose of raising finance in international capital markets.

The number of the Group's employees as at 31 December 2007 was 2 981 (31 December 2006: 1 416).

**Registered address and place of business.** The Bank's registered address is:

Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

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

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

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

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

**Recent volatility in global financial markets.** A sharp rise in foreclosures in the US subprime mortgage market occurred in 2007. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in the base interest rate is generally not evidence of impairment. Management is unable to estimate the effects on the Group's financial position of any further possible deterioration in the financial markets' liquidity and increased volatility.



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

**Basis of Preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of premises and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.

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

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

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

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

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

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

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

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

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

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

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Cash and cash equivalents are carried at amortised cost.

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

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

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

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

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

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

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

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower) ;
- the borrower considers bankruptcy or a financial reorganisation or the bank has information on existence of the facts which may result in the borrower's bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower's market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/ completely lost the collateral uncovered by insurance or insurance company refuses to pay.

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

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

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

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

Securities purchased under agreements to resell (“reverse repo agreements”) which effectively provide a lender’s return to the Group are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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

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

**Investment properties.** Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists, that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset’s recoverable amount. Earned rental income is recorded in profit or loss within other operating income.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

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

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

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

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

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

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

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

Premises: from 2% to 3%;

Investment property: 2%;

Equipment, vehicles and software: 20% per annum;

Leasehold improvements: over the term of the underlying lease.

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

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

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

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

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

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

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

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

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

**Other borrowed funds.** Other borrowed funds are represented by the term borrowings from financial institutions for the purposes to expand Group’s mortgage, consumer and small and medium size enterprises lending programmes. Other borrowed funds are carried at amortised cost.

**Subordinated debt.** Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange forwards, interest rate equity and foreign exchange futures, currency and interest rate swaps, interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. Although the Group trades in derivative financial instruments for hedging purposes, the Group does not apply hedge accounting.

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

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

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

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Prepayments and trade payables.** Prepayments and trade payables are carried at amortised cost.

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for considering loan applications, opening and servicing loan account, valuation and processing transaction documents. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

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

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

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

**Fiduciary assets.** Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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

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

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

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

**Changes in accounting policy.** During the year ended 31 December 2007 KBC Bank N.V., Belgium acquired 95 per cent of the share capital of the Bank. After the acquisition the Group decided to voluntarily change its accounting policy in relation to subsequent measurement of premises from revaluation to cost model. The management believes that the cost model would provide more relevant and consistent information: for the buildings acquired after the acquisition the same accounting policy would be used at consolidated and subsidiary level. Furthermore, reporting revalued amounts by the Group would have required wider analysis at consolidated level as additional elimination entries would have to be performed.

Therefore, starting from the financial year ended 31 December 2007 the Group has decided to align its accounting policies with the policies of KBC Group and switched from revaluation to cost model of accounting for premises.

As a result of this change in accounting policy, previously reported amounts were adjusted as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2005</b>
<b>Consolidated balance sheet</b>	
Revaluation reserve for premises eliminated	361 475
Retained earnings at 31 December 2005 increase	(4 237)
Deferred tax liability decrease	1 128 812
Premises and equipment decrease	(470 050)

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The impact of the change in accounting policy on the profit after tax of the Group for the year ended 31 December 2007 was its increase by RR 6 699 thousand (31 December 2006: RR 6 949 thousand).



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

**Changes in accounting estimates.** Starting from July 2007 when the Bank was acquired by KBC Group the Group has revised its estimates of the useful life of premises as follows: all the premises acquired after July 2007 have an estimated useful life of 33.3 years instead of previously assessed 50 years. As agreed upon with the parent, the Group decided not to revise useful lives of the premises acquired before July 2007. If the Group had not revised useful life of the premises acquired after July 2007, net profit would have been RR 989 thousand higher. If the Group had revised useful life of all the premises, net profit would have been RR 10 256 thousand lower. Should the Group keep the gross book value of its premises constant, the effect of the change in accounting estimates on each of the following reporting periods will be approximately RR 7.5 million.

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

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

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 3% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 26 880 thousand (31 December 2006: RR 12 832 thousand) higher or RR 29 125 thousand (31 December 2006: RR 13 082 thousand) lower.

**Finance leases and derecognition of financial assets.** Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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

**Segment reporting.** The Group does not allocate its premises, equipment and software balances as well as capital expenditure, depreciation and amortisation expenses between the business segments. The Group provides services for the retail and corporate customers within the same premises and the Group believes that currently there is no reasonable basis for allocation of premises, equipment, software as well as capital expenditure, depreciation and amortisation expenses. The Group is in the process of development of a basis of allocation of such items and adjusting its internal management accounting system in order to potentially being able to make such allocations in the future.

**Recognition of purchased loans.** Management applies judgement to determine if substantially all the significant risks and rewards of ownership have been transferred to the Group under the agreements to acquire mortgage loans concluded with its counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards. At 31 December 2007 the Group recognised within Loans and advances to customers purchased loans in the amount of RR 2 147 445 thousand (31 December 2006: RR 61 373 thousand).

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

**Consolidation of Special Purpose Entities.** Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. At 31 December 2007 the Group consolidated two special purpose entities established in Luxembourg for the purpose of raising finance in international capital markets: Absolut Capital (Luxembourg) S.A. and Absolut Finance S.A. (31 December 2006: Absolut Capital (Luxembourg) S.A.).

#### **5 Adoption of New or Revised Standards and Interpretations**

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

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

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

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

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

**Effect of Adoption of New or Revised Standards.** As a result of adoption of IFRS 7, the Group made certain changes in presentation. The effect of reclassifications was not significant.

#### **6 New Accounting Pronouncements**

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

**IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).** The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

## **6 New Accounting Pronouncements (Continued)**

**IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).** The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended Standard on its financial statements.

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

**IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. Any investment retained in the former subsidiary will have to be measured at its fair value at the date when control is lost. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

**Amendment to IFRS 2 Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).** The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

**IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings in its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

## 6 New Accounting Pronouncements (Continued)

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

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

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

## 7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Cash on hand	1 804 411	1 290 296
Cash balances with the CBRF (other than mandatory reserve deposits)	3 060 901	5 408 670
Correspondent accounts and overnight placements with banks		
- Russian Federation	2 997 140	931 499
- USA	892 290	1 428 370
- Other countries	891 361	1 375 683
Settlement accounts with MICEX and RTS	778 530	561 888
<b>Total cash and cash equivalents</b>	<b>10 424 633</b>	<b>10 996 406</b>

As at 31 December 2007 the Group had an overnight placement with the CBRF (31 December 2006: one foreign financial institution) with an aggregated total balance of RR 2 500 445 thousand (31 December 2006: RR 1 289 653 thousand) or 52% (31 December 2006: 35%) of the gross correspondent accounts and overnight placements with banks.

As at 31 December 2007 no overnight placements with banks were collateralised (31 December 2006: overnight placements with banks in the amount of RR 17 352 thousand were collateralised by the Bank's bonds, bonds of Russian companies and banks with the fair value of RR 81 412 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 28.

## 8 Trading Securities

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Trading securities		
- Corporate bonds	6 182 341	3 411 475
- Corporate shares	1 146 592	2 074 336
- Promissory notes	477 772	462 355
- Federal loan bonds (OFZ bonds)	914 819	421 036
- Russian Federation Eurobonds	-	207 712
- Corporate Eurobonds	-	96 741
<b>Total trading securities</b>	<b>8 721 524</b>	<b>6 673 655</b>

**8 Trading Securities (Continued)**

Corporate bonds are Russian Rouble denominated securities issued by Russian companies and banks. Corporate bonds in the Group's portfolio have maturity dates from 2008 to 2018 (31 December 2006: from 2007 to 2013), coupon rates from 7% to 13% (31 December 2006: from 7% to 14%) and yield to maturity from 7% to 32% per annum as at 31 December 2006 (31 December 2006: from 7% to 13%), depending on the type of the issue.

Corporate shares are represented by the publicly traded shares of leading Russian companies reflected at period-end market value based on last bid prices obtained from MICEX (Moscow Interbank Currency Exchange).

Included in corporate shares are corporate shares, for which the Group has sold futures for the matching quantity of shares. The investment in such corporate shares accompanied by short position in futures effectively represents arbitrage transactions between term and current markets. The matching positions as at the balance sheet dates were as follows:

Issuer	31 December 2007		31 December 2006	
	Number of shares	Fair value at balance sheet date	Number of shares	Fair value at balance sheet date
		<i>In thousands of Russian Roubles</i>		<i>In thousands of Russian Roubles</i>
OAO Surgutneftegaz	2 231 000	65 817	-	-
OAO RAO UES	5 691 000	179 027	8 022 000	227 913
OAO Gazprom	1 814 600	622 190	5 872 800	1 778 284
OAO GMK Norilsk Nikel	480	3 106	-	-
OAO Vneshtorgbank	94 900 000	11 881	-	-
OAO Sberbank	1 872 800	191 026	-	-
<b>Total</b>	<b>106 509 880</b>	<b>1 073 047</b>	<b>13 894 800</b>	<b>2 006 197</b>

All futures mature in March 2008.

As at 31 December 2007 94% of the balance sheet long position in corporate shares was covered by the off balance sheet short position in futures on the respective shares (31 December 2006: 97%). The fair value of the futures is disclosed in Note 31.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds in the Group's portfolio as at 31 December 2007 have maturity dates from 2012 to 2021 (31 December 2006: from 2009 to 2021), coupon rates from 6% to 9% (31 December 2006: from 6% to 10%) and yield to maturity 6% per annum (31 December 2006: from 6% to 7%), depending on the type of issue.

Promissory notes as at 31 December 2007 represent Russian Rouble denominated securities issued by Russian banks with a discount to face value. These securities are traded over-the-counter. The promissory notes mature in 2008 (31 December 2006: 2007) and have yield to maturity from 8% to 10% per annum as at 31 December 2007 (31 December 2006: from 7% to 10%). The promissory notes are fair valued based on the market yield to maturity as calculated by OOO IK Veles Capital acting as a major participant of the promissory notes market.

All corporate Eurobonds and Russian Federation Eurobonds were sold in January 2007.

Trading securities are carried at fair value, which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyze or monitor impairment indicators.

## **8 Trading Securities (Continued)**

The Group analyses the credit quality of debt trading securities on the basis of international ratings of the issuers. As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA - the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA - differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A - more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB - exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB - less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC and C - both currently highly vulnerable to nonpayment. The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued.

## 8 Trading Securities (Continued)

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

<i>In thousands of Russian Roubles</i>	<b>Russian government bonds</b>	<b>Russian Federation Eurobonds</b>	<b>Corporate bonds</b>	<b>Corporate eurobonds</b>	<b>Promissory notes</b>	<b>Total</b>
<i>Current (at fair value)</i>						
- BBB+ to BBB- rated	914 819		1 140 223	-	-	<b>2 055 042</b>
- BB+ to BB- rated	-	-	748 572	-	95 015	<b>843 587</b>
- B+ to B- rated	-	-	242 020	-	188 921	<b>430 941</b>
- Unrated	-	-	4 051 526	-	193 836	<b>4 245 362</b>
<b>Total debt trading securities</b>	<b>914 819</b>	<b>-</b>	<b>6 182 341</b>	<b>-</b>	<b>477 772</b>	<b>7 574 932</b>

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

<i>In thousands of Russian Roubles</i>	<b>Russian government bonds</b>	<b>Russian Federation Eurobonds</b>	<b>Corporate bonds</b>	<b>Corporate eurobonds</b>	<b>Promissory notes</b>	<b>Total</b>
<i>Current (at fair value)</i>						
- BBB+ to BBB- rated	421 036	207 712	325 639	-	-	<b>954 387</b>
- BB+ to BB- rated	-	-	292 772	13 530	-	<b>306 302</b>
- B+ to B- rated	-	-	695 562	28 260	424 719	<b>1 148 541</b>
- Unrated	-	-	2 097 502	54 951	37 636	<b>2 190 089</b>
<b>Total debt trading securities</b>	<b>421 036</b>	<b>207 712</b>	<b>3 411 475</b>	<b>96 741</b>	<b>462 355</b>	<b>4 599 319</b>

Interest rate analysis of trading securities and market risk management are disclosed in Note 28.

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

## 9 Due from Other Banks

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Current term placements with other banks	11 951 765	2 323 849
Reverse sale and repurchase agreements with other banks	943 848	-
<b>Total due from other banks</b>	<b>12 895 613</b>	<b>2 323 849</b>

Due from other banks balances in the amount of RR 1 135 512 thousand (31 December 2006: RR 199 953 thousand) are collateralised by bonds of Russian companies and banks, OFZ and municipal bonds, the Group's promissory notes and bonds with the aggregate fair value of RR 1 332 314 thousand as at 31 December 2007 (31 December 2006: RR 217 357 thousand).

The Group analyses due from other banks balances by credit quality in a consistent way with the analysis performed for trading debt securities. Refer to Note 8.

**9 Due from Other Banks (Continued)**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Short-term place- ments with other banks</b>	<b>Reverse repurchase agreements</b>	<b>Total</b>
<i>Current and not impaired</i>			
- AA+ to AA- rated	8 307 285	-	8 307 285
- A+ to A- rated	32 516	-	32 516
- BBB+ to BBB- rated	1 920 724	-	1 920 724
- BB+ to BB- rated	120 059	217 573	337 632
- B+ to B- rated	183 514	155 261	338 775
- to CCC+ rated	12 006	-	12 006
- Unrated	1 375 661	571 014	1 946 675
<b>Total due from other banks – current and not impaired</b>	<b>11 951 765</b>	<b>943 848</b>	<b>12 895 613</b>

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2006 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Short-term place- ments with other banks</b>	<b>Reverse repurchase agreements</b>	<b>Total</b>
<i>Current and not impaired</i>			
- AA+ to AA- rated	-	-	-
- A+ to A- rated	263 427	-	263 427
- BBB+ to BBB- rated	330 149	-	330 149
- BB+ to BB- rated	-	-	-
- B+ to B- rated	269 560	-	269 560
- to CCC+ rated	13 020	-	13 020
- Unrated	1 447 693	-	1 447 693
<b>Total due from other banks – current and not impaired</b>	<b>2 323 849</b>	<b>-</b>	<b>2 323 849</b>

The primary factor that the Group considers when deciding whether a deposit is impaired is its overdue status. As at 31 December 2007 there were no overdue balances due from other banks. Therefore, the management concluded that no provision for impairment was required as at 31 December 2007 (31 December 2006: nil).

The majority of due from other banks balances outstanding at 31 December 2007 was entered into in December 2007 and are of a short-term nature (31 December 2006: majority of due from other banks balances was of the same short term nature).

Included in due from other banks balances as at 31 December 2007 is a margin call deposit in the amount of RR 32 401 thousand placed with Merrill Lynch as a collateral under interest rate swap transactions which mature from 2009 to 2014. The amount of the deposit is subject to change depending on the fluctuations in the fair value of the interest rate swaps. At 31 December 2007 the deposit bears an interest rate at 3% p.a. Refer to Notes 30 and 31.

At 31 December 2007 amounts due from other banks of RR 943 848 thousand (31 December 2006: nil) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 1 039 431 thousand (31 December 2006: nil) which the Group has a right to sell or repledge.

Carrying value of each class of amounts due from other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due from other banks was RR 12 895 613 thousand (31 December 2006: RR 2 323 849 thousand). Refer to Note 32.



**9 Due from Other Banks (Continued)**

At 31 December 2007 the Group had balances with one counterparty bank (31 December 2006: none) with aggregated amounts above RR 1 340 million (31 December 2006: RR 720 million). The total aggregate amount of these deposits was RR 8 307 285 thousand (31 December 2006: nil) or 64% of the total amount due from other banks (31 December 2006: nil).

Interest rate analysis of due from other banks is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**10 Loans and Advances to Customers**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Loans and advances to legal entities</i>		
- Corporate loans	55 391 187	28 265 520
- Reverse sale and repurchase agreements	4 035 190	441 173
- Trade finance	3 827 331	5 628 752
- SME loans	1 739 653	275 017
- Finance lease receivables	1 058 017	729 995
<i>Loans and advances to individuals</i>		
- Mortgage loans	18 353 940	5 997 935
- Car loans	6 038 743	1 549 809
- SME loans	1 504 211	423 694
- Consumer loans	685 508	451 504
- Plastic cards	575 644	182 738
- Reverse sale and repurchase agreements	66 291	98 996
Less: Provision for loan impairment	(1 728 282)	(1 289 943)
<b>Total loans and advances to customers</b>	<b>91 547 433</b>	<b>42 755 190</b>

For the purpose of assessment of impairment the Group splits loans and advances into several classes aggregated under two separate categories, i.e. loans and advances to legal entities and loans and advances to individuals. The classes correspond to different risk categories and their credit risk is managed by the Group's separate departments.

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

<i>In thousands of Russian Roubles</i>	<b>Provision for loan impairment at 1 January 2007</b>	<b>(Recovery of)/provision for impairment during the year</b>	<b>Amounts written off during the year as uncollectible</b>	<b>Provision for loan impairment at 31 December 2007</b>
<i>Loans and advances to legal entities</i>				
- Corporate loans	979 456	344 409	(24 639)	1 299 226
- Trade finance	165 757	(74 970)	-	90 787
- Finance lease receivables	19 831	4 289	-	24 120
- SME loans	8 003	27 456	-	35 459
<i>Loans and advances to individuals</i>				
- Mortgage loans	67 847	46 287	-	114 134
- Car loans	34 465	85 562	-	120 027
- SME loans	861	7 816	-	8 677
- Consumer loans	12 901	4 335	-	17 236
- Plastic cards	822	17 794	-	18 616
<b>Total provision for loan impairment</b>	<b>1 289 943</b>	<b>462 978</b>	<b>(24 639)</b>	<b>1 728 282</b>

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

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

<i>In thousands of Russian Roubles</i>	<b>Provision for loan impairment at 1 January 2006</b>	<b>(Recovery of)/provision for impairment during the year</b>	<b>Amounts written off during the year as uncollectible</b>	<b>Provision for loan impairment at 31 December 2006</b>
<i>Loans and advances to legal entities</i>				
- Corporate loans	619 318	360 137	-	979 455
- Trade finance	57 862	107 897	-	165 759
- Finance lease receivables	8 933	10 898	-	19 831
- SME loans	2 348	5 655	-	8 003
<i>Loans and advances to individuals</i>				
- Mortgage loans	35 635	32 211	-	67 846
- Car loans	4 300	30 165	-	34 465
- SME loans	4 846	(3 985)	-	861
- Consumer loans	14 503	(1 602)	-	12 901
- Plastic cards	522	300	-	822
<b>Total provision for loan impairment</b>	<b>748 267</b>	<b>541 676</b>	<b>-</b>	<b>1 289 943</b>

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

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade	27 493 463	30	13 488 157	31
Individuals	27 224 337	29	8 704 676	20
Real estate	10 525 060	15	8 779 758	20
Construction	5 795 963	9	4 952 629	11
Finance	5 922 990	6	540 168	1
Manufacturing	8 980 830	5	4 404 820	10
Services	4 321 645	2	2 556 873	6
Agriculture	72 971	0	102 970	0
Other	2 938 456	4	515 082	1
<b>Total loans and advances to customers (before impairment)</b>	<b>93 275 715</b>	<b>100</b>	<b>44 045 133</b>	<b>100</b>

Leasing operations within the Group are performed by the two leasing subsidiaries of the Bank and majority of finance lease receivables is represented by the lease of cars and production equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

<i>In thousands of Russian Roubles</i>	<b>Due in 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivable at 31 December 2007</b>	<b>698 274</b>	<b>603 270</b>	<b>-</b>	<b>1 301 544</b>
Unearned finance income	(72 705)	(170 822)	-	(243 527)
Impairment loss provision	(6 367)	(17 753)	-	(24 120)
<b>Present value of lease payments receivable at 31 December 2007</b>	<b>619 202</b>	<b>414 695</b>	<b>-</b>	<b>1 033 897</b>

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

<i>In thousands of Russian Roubles</i>	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
<b>Finance lease payments receivable at 31 December 2006</b>	<b>389 028</b>	<b>598 395</b>	-	<b>987 423</b>
Unearned finance income	(53 153)	(204 275)	-	(257 428)
Impairment loss provision	(7 813)	(12 018)	-	(19 831)
<b>Present value of lease payments receivable at 31 December 2006</b>	<b>328 062</b>	<b>382 102</b>	-	<b>710 164</b>

All past due loans and advances to customers are individually assessed for impairment by the Group. As a result of individual impairment review these past due loans are split into past due but not impaired loans and loans individually determined to be impaired. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments or where the absence of timely payment of principal/ interest was attributed to settlement reasons not connected with the deterioration of the financial position of the borrower. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The remaining current portfolio is assessed for impairment on portfolio basis.

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

<i>In thousands of Russian Roubles</i>	31 December 2007	31 December 2006
Loans assessed for impairment on portfolio basis	92 393 470	43 915 259
Past due but not impaired	425 204	89 014
Individually determined to be impaired	457 041	40 860
Less impairment provisions	(1 728 282)	(1 289 943)
<b>Total loans and advances to customers</b>	<b>91 547 433</b>	<b>42 755 190</b>

As at 31 December 2007 the Group has not yet fully implemented an internal rating system for credit risk assessment. The borrower's financial position/ performance, quality of debt servicing and collateral are monitored on a regular basis by a credit inspector assigned to each particular borrower. Considering the dynamics of the loan portfolio growth, the Group believes that the credit loss history cannot serve as a reasonable indicator for differentiation of the credit quality of loans to customers. The Group considers that, taking into account specifics of the loan portfolio, the credit risks are best viewed when the portfolio is split into three groups based on the amount of loan exposure:

- loans to large borrowers (lending exposure exceeds 10% of Capital as per Basel I Accord, refer to Note 29);
- loans to medium size borrowers (lending exposure from 1 million EUR to 10% of Capital as per Basel I Accord);
- loans to small borrowers (lending exposure less than 1 million EUR).

1 million EUR has been taken as a threshold between the medium and small size borrower as in accordance with the Bank's policy of lending to small and medium size borrowers currently in force the amount represents one of the indicators that may trigger recognition of a loan to SME as a retail loan and the Group believes the threshold is a reasonable estimate of the implied shift in the credit quality.

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

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

	Large borrowers	Loans to medium size borrowers	Loans to small borrowers	Total
<i>In thousands of Russian Roubles</i>				
<i>Loans assessed for impairment on portfolio basis</i>				
- Corporate loans	2 696 795	48 073 348	4 211 767	<b>54 981 910</b>
- Trade finance	-	1 980 858	1 846 473	<b>3 827 331</b>
- Finance lease receivables	-	188 784	869 233	<b>1 058 017</b>
- Reverse sale and repurchase agreement	-	-	4 101 481	<b>4 101 481</b>
- SME loans	-	339 033	2 883 512	<b>3 222 545</b>
- Mortgage loans	-	628 732	17 549 730	<b>18 178 462</b>
- Car loans	-	-	5 882 306	<b>5 882 306</b>
- Consumer loans	-	352 287	327 271	<b>679 558</b>
- Plastic cards	-	-	461 860	<b>461 860</b>
<b>Total current and not impaired</b>	<b>2 696 795</b>	<b>51 563 042</b>	<b>38 133 633</b>	<b>92 393 470</b>

In the absence of objective information on impairment trigger events due to annual nature of review frequency based on personal income tax returns, loans and advances to individuals (and for SMEs), which are less than 90 days overdue are treated by the Group as past due but not impaired. More than 90 days overdue loans to individuals are recognised as impaired based on the available statistical data of subsequent repayment of such loans.

Past due loans and advances to legal entities are individually assessed for impairment based on cash flow models, which reconstruct the expected repayment schedules.

The ageing analysis of loans that are past due but not impaired and loans individually determined to be impaired as at 31 December 2007 is presented in the table below:

<i>In thousands of Russian Roubles</i>	Less than 30 days overdue	30 to 90 days overdue	90 to 180 days overdue	180 to 360 days overdue	Over 360 days overdue	Total
<i>Past due but not impaired</i>						
- Corporate loans	46 632	20 000	-	-	-	<b>66 632</b>
- SME loans	2 224	3 013	-	-	-	<b>5 237</b>
- Mortgage loans	116 196	36 791	-	-	-	<b>152 987</b>
- Car loans	77 386	21 179	-	-	-	<b>98 565</b>
- Consumer loans	-	5 020	-	-	-	<b>5 020</b>
- Plastic cards	93 407	3 356	-	-	-	<b>96 763</b>
<b>Total past due but not impaired</b>	<b>335 845</b>	<b>89 359</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>425 204</b>
<i>Loans individually determined to be impaired (gross)</i>						
- Corporate loans	342 645	-	-	-	-	<b>342 645</b>
- SME loans	-	-	10 207	5 875	-	<b>16 082</b>
- Mortgage loans	-	-	15 752	4 709	2 030	<b>22 491</b>
- Car loans	-	-	27 005	22 694	8 173	<b>57 872</b>
- Consumer loans	-	-	-	-	930	<b>930</b>
- Plastic cards	-	-	5 452	6 530	5 039	<b>17 021</b>
<b>Total individually impaired loans (gross)</b>	<b>342 645</b>	<b>-</b>	<b>58 416</b>	<b>39 808</b>	<b>16 172</b>	<b>457 041</b>

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

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

	Large borrowers	Loans to medium size borrowers	Loans to small borrowers	Total
<i>In thousands of Russian Roubles</i>				
<i>Loans assessed for impairment on portfolio basis</i>				
- Corporate loans	2 776 006	23 659 299	1 777 802	28 213 107
- Trade finance	-	3 728 716	1 896 214	5 624 930
- Finance lease receivables	-	129 430	600 565	729 995
- Reverse sale and repurchase agreement	-	-	540 169	540 169
- SME loans	-	240 596	457 158	697 754
- Mortgage loans	-	544 474	5 424 170	5 968 644
- Car loans	-	-	1 517 274	1 517 274
- Consumer loans	-	175 711	274 776	450 487
- Plastic cards	-	-	172 899	172 899
<b>Total current and not impaired</b>	<b>2 776 006</b>	<b>28 478 226</b>	<b>12 661 027</b>	<b>43 915 259</b>

The analysis of the age of the loans and advances to customers that are past due but not impaired and loans individually determined to be impaired as at 31 December 2006 is presented in the table below:

<i>In thousands of Russian Roubles</i>	Less than 30 days overdue	30 to 90 days overdue	90 to 180 days overdue	180 to 360 days overdue	Over 360 days overdue	Total
<i>Past due but not impaired</i>						
- Corporate loans	25 636	-	-	-	-	25 636
- Trade finance	3 822	-	-	-	-	3 822
- SME loans	957	-	-	-	-	957
- Mortgage loans	19 561	6 307	-	-	-	25 868
- Car loans	22 516	4 909	-	-	-	27 425
- Consumer loans	-	-	-	-	-	-
- Plastic cards	1 624	3 682	-	-	-	5 306
<b>Total past due but not impaired</b>	<b>74 116</b>	<b>14 898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89 014</b>
<i>Loans individually determined to be impaired (gross)</i>						
- Corporate loans	-	-	-	-	26 330	26 330
- SME loans	-	-	-	-	-	-
- Mortgage loans	-	-	-	-	3 423	3 423
- Car loans	-	-	5 076	34	-	5 110
- Consumer loans	-	-	-	-	1 017	1 017
- Plastic cards	-	-	1 143	1 556	2 281	4 980
<b>Total individually impaired loans (gross)</b>	<b>-</b>	<b>-</b>	<b>6 219</b>	<b>1 590</b>	<b>33 051</b>	<b>40 860</b>

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

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount on them is 20 -30%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of balance sheet prices, warehouse accounting prices, etc. with more substantial discounts (50% and more). For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in all cases less than the discounted value of collateral.

Plastic cards loans and the majority of consumer loans are not collateralised.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

<i>In thousands of Russian Roubles</i>	<b>Residential mortgage</b>	<b>Other real estate</b>	<b>Promissory notes</b>	<b>Vehicles</b>	<b>Other assets</b>	<b>Total</b>
<i>Fair value of collateral - loan past due but not impaired</i>						
- Corporate loans	-	29 455	-	-	86 825	<b>116 280</b>
- SME loans	-	-	-	2 268	5 320	<b>7 588</b>
- Mortgage loans	259 857	-	-	-	-	<b>259 857</b>
- Car loans	-	-	-	139 616	-	<b>139 616</b>
<b>Total of collateral – loan past due but not impaired</b>	<b>259 857</b>	<b>29 455</b>	<b>-</b>	<b>141 884</b>	<b>92 145</b>	<b>523 341</b>
<i>Fair value of collateral - individually impaired loans</i>						
- Corporate loans	-	11 750	19 428	-	2 000 070	<b>2 031 248</b>
- SME loans	-	-	-	6 559	17 693	<b>24 252</b>
- Mortgage loans	43 286	-	-	-	-	<b>43 286</b>
- Car loans	-	-	-	71 664	-	<b>71 664</b>
<b>Total of collateral – individually impaired loans</b>	<b>43 286</b>	<b>11 750</b>	<b>19 428</b>	<b>78 223</b>	<b>2 017 763</b>	<b>2 170 450</b>

Other assets pledged as collateral for loans past due but not impaired and individually impaired loans at 31 December 2007 comprise of non-traded equities/ shares in the charter capital of the borrowers and their related parties (RR 1 524 040 thousand), equipment (RR 489 691 thousand) and inventories (RR 96 177 thousand).

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

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

<i>In thousands of Russian Roubles</i>	<b>Residential mortgage</b>	<b>Other real estate</b>	<b>Promissory notes</b>	<b>Vehicles</b>	<b>Other assets</b>	<b>Total</b>
<i>Fair value of collateral - loan past due but not impaired</i>						
- Corporate loans	-	12 771	-	-	-	<b>12 771</b>
- SME loans	-	-	-	102	4 240	<b>4 342</b>
- Mortgage loans	48 715	-	-	-	-	<b>48 715</b>
- Car loans	-	-	-	34 922	-	<b>34 922</b>
<b>Total of collateral – loan past due but not impaired</b>	<b>48 715</b>	<b>12 771</b>	<b>-</b>	<b>35 024</b>	<b>4 240</b>	<b>100 750</b>
<i>Fair value of collateral - individually impaired loans</i>						
- Corporate loans	-	-	-	-	79 007	<b>79 007</b>
- SME loans	-	-	-	-	-	<b>-</b>
- Mortgage loans	1 189	-	-	-	-	<b>1 189</b>
- Car loans	-	-	-	6 554	-	<b>6 554</b>
<b>Total of collateral – individually impaired loans</b>	<b>1 189</b>	<b>-</b>	<b>-</b>	<b>6 554</b>	<b>79 007</b>	<b>86 750</b>

Other assets pledged as collateral for loans past due but not impaired and individually impaired loans at 31 December 2006 comprise of inventories (RR 79 557 thousand) and equipment (RR 3 690 thousand).

The following table provides analysis of secured by guarantees and unsecured amounts of the loan portfolio by classes of loans:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Loans and advances to legal entities</i>		
- Corporate loans	12 119 173	2 245 563
- Trade finance	78 576	759 780
- Finance lease receivables	-	-
- SME loans	165 135	35 897
<i>Loans and advances to individuals</i>		
- Mortgage loans	1 775 700	444 727
- Car loans	18 369	1 618
- Consumer loans	468 129	265 512
- Plastic cards	575 794	183 185
<b>Total loans and advances to customers</b>	<b>15 200 876</b>	<b>3 936 282</b>

The repayment of total amount of unsecured loans and advances to customers of RR 11 708 037 thousand (or 77% of total unsecured loans and advances to customers) is guaranteed by either legal entities or individuals or both (31 December 2006: RR 2 702 844 thousand or 69% of total unsecured loans and advances to customers).

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

At 31 December 2007 loans and advances to customers of RR 4 101 480 thousand (31 December 2006: RR 540 168 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RR 4 204 744 thousand (31 December 2006: RR 590 901 thousand), which the Group has a right to sell or repledge.

At 31 December 2007 the Group had 6 groups of borrowers (31 December 2006: sixteen groups of borrower) with aggregated loan amounts above RR 1 141 million (31 December 2006: RR 720 million). The total aggregate amount of these loans was RR 10 480 million (31 December 2006: RR 14 472 million) or 12% of the gross loan portfolio (31 December 2006: 33%).

At 31 December 2007 the Group had RR 412 632 thousand (31 December 2006: RR 441 610 thousand) of mortgage loans pledged as collateral under a credit line facility agreement with International Finance Corporation (the "IFC"). Refer to Notes 18 and 30.

At 31 December 2007 the Group had RR 393 782 thousand (31 December 2006: RR 1 161 thousand) of mortgage loans pledged as collateral under the residential mortgage lending programme with Black Sea Trade and Development Bank (the "BSTDB"). Refer to Notes 18 and 30.

The comparison of the fair value and carrying value of loans and advances to customers by classes at 31 December 2007 and 31 December 2006 was as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
Corporate loans	59 316 823	58 862 402	33 530 244	33 459 223
Reverse sale and repurchase agreements	4 101 481	4 101 481	540 169	540 169
SME loans	3 192 926	3 199 728	677 032	689 847
Mortgage loans	18 523 922	18 239 806	5 960 671	5 930 088
Car loans	5 937 843	5 918 716	1 522 250	1 515 344
Consumer loans	667 614	668 272	441 563	438 603
Plastic cards	557 028	557 028	181 916	181 916
<b>Total loans and advances to customers</b>	<b>92 297 637</b>	<b>91 547 433</b>	<b>42 853 845</b>	<b>42 755 190</b>

Interest rate analysis of loans and advances to customers is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**11 Repurchase Receivable**

Repurchase receivable represents securities sold under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge. The repurchase agreements are short-term in nature and mature by 9 January 2008.

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Corporate shares – quoted	333	182 338
<b>Total repurchase receivable</b>	<b>333</b>	<b>182 338</b>

Carrying value of each class of instruments presented as repurchase receivable approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of repurchase receivable was RR 333 thousand (2006: RR 182 338 thousand).



**12 Premises, Equipment, Investment Property and Software**

	Note	Land	Premises	Lease- hold improve- ments	Office and computer equip- ment	Construc- tion in progress	Total premises and equip- ment	Invest- ment property	Computer software	Total
<i>In thousands of Russian Roubles</i>										
Cost or valuation at 1 January 2006		-	560 567	-	214 730	33 052	<b>808 349</b>	-	32 671	<b>841 020</b>
Accumulated depreciation/ amortisation		-	(10 096)	-	(68 631)	-	<b>(78 727)</b>	-	(17 975)	<b>(96 702)</b>
<b>Carrying amount at 1 January 2006</b>		-	<b>550 471</b>	-	<b>146 099</b>	<b>33 052</b>	<b>729 622</b>	-	<b>14 696</b>	<b>744 318</b>
Additions		-	625 753	10 136	110 561	363 816	<b>1 110 266</b>	45 496	30 588	<b>1 186 350</b>
Transfers		-	17 473	2 121	-	(19 594)	-	-	-	-
Disposals		-	(11 584)	-	(1 717)	-	<b>(13 301)</b>	(29 643)	-	<b>(42 944)</b>
Depreciation charge	25	-	(12 162)	(1 262)	(43 473)	-	<b>(56 897)</b>	(655)	(5 081)	<b>(62 633)</b>
<b>Carrying amount at 31 December 2006</b>		-	<b>1 169 951</b>	<b>10 995</b>	<b>211 470</b>	<b>377 274</b>	<b>1 769 690</b>	<b>15 198</b>	<b>40 203</b>	<b>1 825 091</b>
Cost or valuation at 31 December 2006		-	1 191 933	12 257	308 511	377 274	<b>1 889 975</b>	15 523	63 259	<b>1 968 757</b>
Accumulated depreciation		-	(21 982)	(1 262)	(97 041)	--	<b>(120 285)</b>	(325)	(23 056)	<b>(143 666)</b>
<b>Carrying amount at 31 December 2006</b>		-	<b>1 169 951</b>	<b>10 995</b>	<b>211 470</b>	<b>377 274</b>	<b>1 769 690</b>	<b>15 198</b>	<b>40 203</b>	<b>1 825 091</b>
Additions		6 000	695 019	23 012	175 690	1 182 974	<b>2 082 695</b>	42 142	136 621	<b>2 261 458</b>
Transfers		-	352 037	2 491	3 493	(358 021)	-	-	-	-
Disposals		-	(11 222)	-	(20 303)	-	<b>(31 525)</b>	(15 018)	-	<b>(46 543)</b>
Depreciation charge	25	-	(29 466)	(7 843)	(83 655)	-	<b>(120 964)</b>	(632)	(14 377)	<b>(135 973)</b>
Reclassification		-	(991)	-	991	-	-	-	-	-
<b>Carrying amount at 31 December 2007</b>		<b>6 000</b>	<b>2 175 328</b>	<b>28 655</b>	<b>287 686</b>	<b>1 202 227</b>	<b>3 699 896</b>	<b>41 690</b>	<b>162 447</b>	<b>3 904 033</b>
Cost or valuation at 31 December 2007		6 000	2 226 354	37 760	427 104	1 202 227	<b>3 899 445</b>	42 142	176 896	<b>4 118 483</b>
Accumulated depreciation		-	(51 026)	(9 105)	(139 418)	-	<b>(199 549)</b>	(452)	(14 449)	<b>(214 450)</b>
<b>Carrying amount at 31 December 2007</b>		<b>6 000</b>	<b>2 175 328</b>	<b>28 655</b>	<b>287 686</b>	<b>1 202 227</b>	<b>3 699 896</b>	<b>41 690</b>	<b>162 447</b>	<b>3 904 033</b>

**12 Premises, Equipment, Investment Property and Software (Continued)**

Construction in progress consists of investments in acquisition of premises, construction works, leasehold improvements and refurbishment of premises in Moscow and regions of the Russian Federation, where the branch network is being developed. Upon completion, assets are transferred to premises and equipment.

Management believes that had the investment property been carried at fair value it would not materially impact the assets of the Group, therefore no fair valuation of the investment property was performed.

Capitalised internal software development costs consist of costs of services received, which are incremental to this software development and staff costs directly related to the development activities. The software (automated banking system AB\$Host and programme complex AB\$Host) has been patented with the Federal Service on Intellectual property, patents and trademarks on 17 October 2007.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Not later than 1 year	25 588	3 035
Later than 1 year and not later than 5 years	9 225	420
Later than 5 years	-	-
<b>Total operating lease payments receivable</b>	<b>34 813</b>	<b>3 455</b>

**13 Other Financial Assets**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Restricted cash		383 017	4 001
Foreign exchange forward contracts	31	223 279	4 012
Credit and debit cards receivables		8 577	9 974
Foreign exchange spot contracts	31	2 606	1 065
Settlements on conversion operations		1 013	959
Other financial derivatives		161	-
<b>Total other financial assets</b>		<b>618 653</b>	<b>20 011</b>

As at 31 December 2007 restricted cash primarily consists of the receivable from an unauthorised sale of securities out of the Bank's custody in the amount of RR 356 493 thousand. The seller did not receive the proceeds as the transaction was timely identified and blocked as suspicious. The funds were transferred back to the Group but cannot be used until the court ruling. The remaining restricted cash balance represents non-interest bearing security/ liquidity deposits in the amount of RR 26 524 thousand (31 December 2006: RR 4 001 thousand) placed with the settlement systems (MICEX and RTS). The Group does not have the right to use both of these funds for the purposes of funding its own activities.

The amounts disclosed as foreign exchange spot and forward contracts represent the positive fair value of spot and forward transactions entered into with individuals and banks. Forwards and spots with the aggregate fair value of RR 223 568 thousand or 99% (31 December 2006: RR 5 077 thousand or 100%) mature within 3 months from the reporting date. Refer to Note 31.

The foreign exchange forward transactions with individuals have been settled in February 2008. Refer to Note 35.

**13 Other Financial Assets (Continued)**

Analysis by credit quality of foreign exchange spot and forwards outstanding at 31 December 2007 and 31 December 2006 is as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Current and not impaired</i>		
Banks		
- AA+ to AA- rated	11 358	-
- BB+ to BB- rated	6 021	440
- unrated	5 392	4 637
Individuals	203 114	-
<b>Total current and not impaired</b>	<b>225 885</b>	<b>5 077</b>
<b>Total foreign exchange spot and forwards</b>	<b>225 885</b>	<b>5 077</b>

Other financial assets are not collateralised.

Carrying value of each class of other financial assets approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial assets was RR 618 653 thousand (31 December 2006: RR 20 011 thousand).

**14 Other Assets**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Prepayments for premises and inventory		231 822	37 262
Prepayments to suppliers for equipment to be leased		198 430	55 022
Prepayments for services		172 842	36 937
VAT on leasing operations		139 473	136 485
Deferred commission expense on import letter of credit		6 044	16 730
Other		31 580	12 761
<b>Total other assets</b>		<b>780 191</b>	<b>295 197</b>

Prepayments to suppliers for equipment to be leased represent the funds transferred to suppliers under the sale-purchase agreements for the financial lease agreements concluded where the lease term has not yet commenced (the lessee has not yet received the leased asset, therefore, it is not entitled to exercise its right to use the leased asset).

During 2007, the Group obtained neither cash nor other financial assets (31 December 2006: nil) by calling financial guarantees or taking possession of collateral.

**15 Due to Other Banks**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Current term placements of other banks	36 799 041	2 394 059
Trade finance	12 152 747	7 923 688
Syndicated loans	2 950 504	7 163 349
Correspondent accounts and overnight placements of other banks	555 726	1 236 676
Brokerage accounts	20 983	30 853
Sale and repurchase agreements with other banks	-	141 889
<b>Total due to other banks</b>	<b>52 479 001</b>	<b>18 890 514</b>

At 31 December 2007 current term placements of other banks were to a considerable extent funded by KBC Group resources. Refer to Note 34.

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment.

At 31 December 2007 syndicated loans are represented by the facilities arranged by European Bank for Reconstruction and Development (the "EBRD") (31 December 2006: by Raiffeisen Zentralbank Austria, ZAO International Moscow Bank and EBRD).

On 31 March 2006 the Group entered into a RR 1 097 300 thousand syndicated loan facility agreement with ZAO International Moscow Bank with a fixed interest rate of 9.20% per annum. The loan was repaid on 2 April 2007 in full.

On 13 June 2006 the Group entered into a USD 35 000 thousand syndicated loan facility agreement with Raiffeisen Zentralbank Austria having a floating interest rate of 3 month LIBOR+2.65% per annum payable quarterly. The loan was repaid on 6 June 2007 in full.

On 24 November 2006 the Group entered into a syndicated loan facility agreement with EBRD with an aggregate facility amount of USD 120 000 thousand. The loan facility with EBRD comprises two subloans received on 24 November 2006. The first subloan in the amount of USD 40 000 thousand has a floating interest rate of 3 month LIBOR + 2.35% per annum payable quarterly starting from 23 January 2007 and maturity date of 23 November 2009. The second subloan in the amount of USD 80 000 thousand has a floating interest rate of 3 month LIBOR + 1.95% per annum payable quarterly starting from 23 January 2007 and maturity date of 23 May 2008. The effective interest rate as at 31 December 2007 amounted to 8.3% per annum.

On 28 November 2007 the Group repaid its USD 75 000 thousand syndicated loan facility arranged by Raiffeisen Zentralbank Austria, which had a floating interest rate of 3 months LIBOR+2.4% per annum payable quarterly.

At 31 December 2007 there are no liabilities from sale and repurchase agreements included in amounts due to other banks (31 December 2006: RR 141 889 thousand with a fair value of RR 161 314 thousand). Refer to Note 11.

At 31 December 2007 the Group had liabilities to three groups of lenders on current term placements of other banks (31 December 2006: nil) with aggregated loan amounts above RR 1 141 million (31 December 2006: RR 720 million). The total aggregate amount of these loans was RR 36 468 650 thousand (31 December 2006: nil) or 99% of the total amount of current term placements of other banks (31 December 2006: nil). Refer to Note 34.

At 31 December 2007 the Group had liabilities to one group of lenders on trade finance operations (31 December 2006: two) with aggregated loan amounts above RR 1 141 million (31 December 2006: RR 720 million). The total aggregate amount of these loans was RR 2 044 958 thousand (31 December 2006: RR 1 960 900 thousand) or 17% of the total amount due to other banks under trade finance operations (31 December 2006: 24%).

**15 Due to other banks (Continued)**

Carrying value of each class of due to other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due to other banks was RR 52 479 001 thousand (31 December 2006: RR 18 890 514 thousand). The Group believes that amortised cost is a close approximation of the fair value due as the majority of due to other banks balances is represented by floating interest rate instruments (31 December 2006: majority of the balances are tied to floating interest rate) Refer to Note 32.

Interest rate analysis of due to other banks is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**16 Customer Accounts**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>State and public organisations</b>		
- Current/settlement accounts	335 337	145 465
- Term deposits	-	160 000
<b>Other legal entities</b>		
- Current/settlement accounts	8 195 052	5 957 174
- Term deposits	5 857 830	6 677 398
<b>Individuals</b>		
- Current/demand accounts	2 600 928	1 487 792
- Term deposits	12 414 287	5 498 161
<b>Total customer accounts</b>	<b>29 403 434</b>	<b>19 925 990</b>

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	15 015 216	51	6 985 953	35
Trade	4 634 222	16	3 442 928	17
Construction/Real estate	3 308 438	11	3 288 576	16
Insurance	1 474 431	5	1 098 244	6
Financial services	1 256 475	4	922 479	5
Manufacturing	623 293	2	648 508	3
Transport	253 315	1	1 328 176	7
Agriculture	173 948	1	231 364	1
Oil and gas	53 856	0	560 017	3
Telecommunication	42 175	0	38 805	0
Other	2 568 065	9	1 380 940	7
<b>Total customer accounts</b>	<b>29 403 434</b>	<b>100</b>	<b>19 925 990</b>	<b>100</b>

At 31 December 2007 the Group had one customer (31 December 2006: two customers) with balances above RR 1 141 million (31 December 2006: RR 720 million). The total aggregate amount of this balance was RR 1 331 million or 5% of customer accounts (31 December 2006: RR 2 613 million or 13% of customer accounts).

**16 Customer accounts (Continued)**

At 31 December 2007 included in customer accounts are deposits of RR 137 751 thousand (31 December 2006: RR 173 470 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 30.

Carrying value of each class of customer accounts approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of customer accounts was RR 29 403 434 thousand (31 December 2006: RR 19 925 990 thousand). Refer to Note 32.

At 31 December 2007 included in term deposits are liabilities in the amount of RR 333 thousand (31 December 2006: RR 21 028 thousand) related to trading securities sold under sale and repurchase agreements with a fair value of RR 333 thousand (31 December 2006: RR 21 024 thousand). Refer to Note 11.

At 31 December 2007 customer accounts in the amount of RR 349 425 thousand (31 December 2006: RR 100 007 thousand) represent the balances on brokerage accounts of legal entities and individuals.

The Bank is licensed for brokerage activities by the Federal Commission on Securities Markets.

Interest rate analysis of customer accounts is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**17 Debt Securities in Issue**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Promissory notes	10 947 633	9 448 348
Loan participation notes	9 332 438	5 257 659
Short term notes	1 489 424	2 351 867
Bonds issued on domestic market	1 019 313	1 022 077
<b>Total debt securities in issue</b>	<b>22 788 808</b>	<b>18 079 951</b>

Promissory notes are represented by debt securities issued by the Group with a discount to face value in Russian Roubles, US Dollars and Euros.

At 31 December 2007 promissory notes with the aggregate amount of RR 1 380 million (31 December 2006: RR 1 742 million) were issued for the purpose of funding trade finance operations of the Group's customers.

In April 2006 the Group placed 8.75% loan participation notes due April 2009 for a total nominal amount of USD 150 000 thousand at 0.648% discount to the nominal value. In May 2006 the Group issued additional tranche of 8.75% loan participation notes due April 2009 with a total nominal amount of USD 50 000 thousand, which were placed at 1% discount to the nominal value. The issue proceeds net of transaction costs amounted to RR 5 403 324 thousand, the effective interest rate at 31 December 2007 was 9.8% per annum (2006: 9.8% per annum).

In March 2007 the Group placed 9.13% loan participation notes due March 2010 for a total nominal amount of USD 175 000 thousand. The issue proceeds net of transaction costs amounted to RR 4 511 192 thousand, the effective interest rate at 31 December 2007 was 9.9% per annum.

During 2005, 2006 and 2007 the Group issued eight tranches under its short-term notes issuance programme. Under initial terms of the programme the aggregate principal amount of notes outstanding at any time should not have exceeded USD 100 000 thousand, but may have been reduced from time to time. On 12 October 2006 the programme was amended to increase the aggregate amount of notes outstanding at any time up to USD 200 000 thousand. The notes were issued with a discount to face value.

**17 Debt securities in issue (Continued)**

Eight tranches were issued in the amount of USD 12 500 thousand, USD 25 500 thousand, USD 20 000 thousand, USD 12 000 thousand, USD 6 300 thousand, EUR 5 000 thousand, USD 50 000 thousand and USD 10 000 thousand and with a coupon rate of 7.8%, 7.8%, 7.5%, 8.5%, 8.0%, 7.0%, 7.8% and 7.8% per annum, respectively, payable semi-annually.

The first two tranches issued under the programme in 2005 in the amount of USD 12 500 thousand and USD 25 500 thousand were redeemed by the Group at par value in June 2006 and October 2006, respectively. The total amount repaid in 2006 equalled RR 1 002 310 thousand.

During 2007 four tranches were redeemed by the Group at par value: the third tranche in the amount of USD 20 000 thousand in February, the fourth, fifth and sixth tranches in the amount of USD 12 000 thousand, USD 6 300 thousand and EUR 5 000 thousand in December. The aggregate amount repaid in 2007 equalled RR 1 154 400 thousand.

The eighth tranche in the amount of USD 10 million was issued under the programme in February 2007, the issue proceeds net of transaction costs amounted to RR 256 878 thousand, the effective interest rate at 31 December 2007 was 9.3% per annum.

On 3 July 2006 the Group placed RR denominated bonds with an aggregate nominal amount of RR 1 000 000 thousand. The bonds carry a fixed coupon rate of 9.7% per annum payable quarterly and mature on 30 June 2008. In June 2007 the Group used its specified in the prospectus option to revise the underlying coupon rate and decreased the coupon rate from 9.7 to 8% per annum. As a result, the effective interest rate at 31 December 2007 was 8.4% per annum in comparison to 10.2% per annum at 31 December 2006.

At 31 December 2007 and 31 December 2006 the fair values of debt securities in issue were as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
Promissory notes	10 947 633	10 947 633	9 448 348	9 448 348
Loan participation notes	9 619 939	9 332 438	5 362 499	5 257 659
Short term notes	1 489 424	1 489 424	2 351 867	2 351 867
Bonds issued on domestic market	1 025 950	1 019 313	1 031 418	1 022 077
<b>Total debt securities in issue</b>	<b>23 082 946</b>	<b>22 788 808</b>	<b>18 194 132</b>	<b>18 079 951</b>

The Group assessed the fair value of the loan participation notes and bonds issued on domestic market based on available market data. The majority of the promissory notes issued and short term notes mature within 6 months from the reporting date and the Group believes that their amortised cost is a close approximation of the fair value at the reporting date.

Interest rate analysis of debt securities in issue is disclosed in Note 28. The information on debt securities in issue held by related parties is disclosed in Note 34.

**18 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
National City Bank	497 206	531 346
IFC	370 209	402 008
BSTDB	341 927	367 996
EBRD	430 185	274 223
KfW Banking Group	244 314	260 832
<b>Total other borrowed funds</b>	<b>1 883 841</b>	<b>1 836 405</b>

**18 Other borrowed funds (Continued)**

On 28 September 2006 the Group received USD 20 000 thousand for the purpose of expansion of the consumer financing portfolio under a term loan agreement with National City Bank. The loan is repayable in eight equal instalments and has a floating interest rate of 6 month LIBOR + 3.575% per annum payable semi-annually starting from 28 March 2007. The proceeds from the loan net of transaction costs amounted to RR 527 767 thousand. The effective interest rate as at 31 December 2007 equalled 9.6% per annum (31 December 2006: 9.9% per annum).

On 22 July 2005 the Group entered into a credit line facility agreement with IFC with an aggregate facility amount of USD 15 000 thousand under the mortgage lending program. The Group received first tranche under the program in the amount of USD 3 000 thousand in 2005 with a fixed interest rate of 8.5% per annum payable semi-annually starting from 15 February 2006. The second tranche in the amount of USD 5 000 thousand was disbursed on 31 May 2006 with a fixed interest rate of 9.1% per annum payable semi-annually starting from 15 August 2006. The third tranche in the amount of USD 7 000 thousand was received on 16 August 2006 with a fixed interest rate of 9.1% per annum payable semi-annually starting from 15 February 2007. The issue proceeds from the two tranches net of transaction costs amounted to RR 321 821 thousand. The Group started to repay the first tranche in 2007: the amount repaid equalled RR 5 891 thousand. The average effective interest rate for the program as at 31 December 2007 equalled 9.9% per annum (31 December 2006: 9.9% per annum).

On 13 November 2006 the Group entered into a loan agreement with BSTDB with an aggregate facility amount of USD 15 000 thousand under the program of residential mortgage lending. The Group utilized the facility by two drawdowns: USD 14 000 thousand disbursed on 1 December 2006 and USD 1 000 thousand disbursed on 30 June 2007 (the disbursement proceeds amounted to RR 25 496 thousand). Under the terms of the loan agreement the first tranche is repayable in twelve equal instalments and has a floating interest rate of 6 month LIBOR + 2.75% per annum payable semi-annually starting from 1 June 2007, the second tranche has a floating interest rate of 6 month LIBOR + 2.75% per annum payable semi-annually starting from 30 January 2008. On 30 November 2007 an agreement on premature termination of the loan agreement has been concluded. On 3 December 2007, the first tranche was partly repaid in the amount of RR 28 507 thousand; the remaining balance is to be repaid on 30 January 2008. refer to Note 35.

On 3 December 2004 the Group entered into a credit line facility agreement with EBRD with an aggregate facility amount of USD 10 000 thousand under the program of lending to small and medium-size enterprises. Two tranches in the amount of USD 5 000 thousand each were received in December 2004 and in May 2005. The first tranche is repayable in five equal instalments starting from 12 January 2007 and has a floating interest rate of 6 month LIBOR + 3.75% per annum payable semi-annually. The second tranche is repayable in five equal instalments and has a floating interest rate of 6 month LIBOR + 3.75% per annum payable semi-annually starting from 26 May 2008. As at 31 December 2007 the effective interest rate equalled 9.8% per annum (31 December 2006: 10% per annum). USD 3 000 thousand (or RR 77 605 thousand) was repaid during 2007.

In December 2006 the Bank entered into a credit line facility agreement with EBRD with an aggregate facility amount of USD 10 000 under another program of development of small business in the private sector in the Russian Federation. Two tranches in the amount of USD 5 000 each were withdrawn on 25 January 2007 and 6 August 2007 with a floating interest rate of 6 month LIBOR + 2.35% per annum payable semi-annually starting from 13 August 2007. The tranches are repayable on 25 January and 13 August 2010, respectively. The proceeds from the tranches net of transaction costs amounted to RR 257 560 thousand.

On 6 October 2005 the Group entered into a loan facility agreement with KfW Banking Group for the purpose of financing small and medium-size enterprises with an aggregate facility amount of USD 10 000 thousand. The loan was received in three tranches and is repayable in nine equal semi-annual instalments starting from 29 November 2008; it has a fixed interest rate of 9.4% per annum. The average effective interest rate under the tranches as at 31 December 2007 equalled 10% per annum (31 December 2006: 10%)



**18 Other borrowed funds (Continued)**

The proceeds net of transaction costs from other borrowed funds amounted to RR 283 056 thousand in 2007 (RR 1 379 966 thousand in 2006). Repayments of other borrowed funds during the year ended 31 December 2007 amounted to RR 112 003 thousand (year ended 31 December 2006: nil).

At 31 December 2007 the Group had RR 412 632 thousand of mortgage loans pledged as collateral under the credit line facility agreement with IFC (31 December 2006: RR 441 610 thousand). Refer to Notes 10 and 30.

At 31 December 2007 the Group had RR 393 782 thousand of mortgage loans pledged as collateral under the residential mortgage lending program with BSTDB (31 December 2006: RR 1 161 thousand). Refer to Notes 10 and 30.

At 31 December 2007 the estimated fair value of other borrowed funds was RR 1 910 749 thousand (31 December 2006: RR 1 871 496 thousand). At 31 December 2007 the Group discounted future cash flows under the fixed rate borrowing agreements (KfW and IFC) at the average market rate (8.2% p.a.) (31 December 2006: 8.3% p.a.). The Group believes that the fair value of floating interest rate borrowings closely approximates their amortised cost. Refer to Note 32.

Interest rate analysis of other borrowed funds is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**19 Other Financial Liabilities**

Other financial liabilities comprise the following:

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Accounts payable		9 661 296	3 809
Foreign exchange forward contracts	31	305 513	10 686
Other derivative financial instruments	31	36 181	-
Foreign exchange spot contracts	31	4 331	4 840
Settlements on conversion operations		-	2 027
<b>Total other financial liabilities</b>		<b>10 007 321</b>	<b>21 362</b>

Accounts payable as at 31 December 2007 in the amount of RR 9 594 164 thousand represent the contributions received in December from the Bank's shareholders for the additional share issue, registered by the Bank of Russia subsequent to the year end. Refer to Note 22 and 35.

The amounts disclosed as foreign exchange spot and forward contracts represent the negative fair value of spot and forward transactions entered into with other banks. Forwards and spots with the aggregate fair value of RR 307 157 thousand or 99% (31 December 2006: RR 15 526 thousand or 100%) mature within 3 months from the reporting date. Refer to Note 31.

Carrying value of each class of other financial liabilities approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial liabilities was RR 10 007 321 thousand (31 December 2006: RR 19 335 thousand).

## 20 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Russian Roubles</i>	Note	31 December 2007	31 December 2006
Accrued bonuses		194 659	72 000
Lease payments received in advance		83 672	29 667
Taxes payable other than income		70 447	19 351
Other accrued staff costs		69 698	23 941
Deferred income on financial guarantees	30	26 132	23 784
Accrued expense		22 853	23 223
Other liabilities		4 971	994
<b>Total other liabilities</b>		<b>472 432</b>	<b>192 960</b>

## 21 Subordinated Debt

In March 2006 the subordinated debts in the amount of RR 415 503 thousand were converted into the Group's share capital and share premium. Refer to Note 22.

In August 2006 the Group entered into a subordinated loan agreement with Deutsche Investitions und Entwicklungsgesellschaft Mbh (DEG) for the amount of USD 20 mln. The loan is repayable in 6 semi-annual instalments starting from 15 February 2012 and has a floating interest rate of six-months LIBOR + 4.75% per annum. The effective interest rate at 31 December 2006 was 10.8% per annum.

In July, October and December 2006 the Group attracted three subordinated deposits in the amount of USD 20 000, USD 15 000 and USD 15 000 thousand respectively for the period of 8 years at a floating interest rate of six-months LIBOR + 4.75% per annum from the companies controlled by the Group's principal shareholders.

In February 2007 these three deposits in the amount of RR 1 315 300 thousand were converted into the Group's share capital and share premium. Refer to Note 22.

In June, September and November 2007 the Group attracted three subordinated loans in the amount of USD 100 000 thousand, USD 55 000 thousand, USD 50 000 thousand for the period of 10 years at a floating interest rate of six-month LIBOR + 3.75%, six-month LIBOR + 2.75%, six-month LIBOR + 2.75% per annum respectively from KBC Bank N.V., Dublin branch.

The proceeds net of transaction costs from the subordinated loans amounted to RR 5 182 495 thousand during the year ended 31 December 2007 (year ended 31 December 2006: RR 1 867 091 thousand).

The effective interest rates at 31 December 2007 were 8.4, 6.6 and 6.0% per annum respectively.

At 31 December 2007 the estimated fair value of subordinated debt was RR 5 641 517 thousand (31 December 2006: RR 1 856 291 thousand). Refer to Note 32.

Interest rate analysis of subordinated debt is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**22 Share Capital**

<i>In thousands of RR except for number of shares</i>	<b>Number of outstanding shares (in thousands)</b>	<b>Ordinary shares (inflation adjusted amount)</b>	<b>Share premium</b>	<b>Total</b>
<b>At 1 January 2006</b>	<b>72 984</b>	<b>1 339 609</b>	<b>772 096</b>	<b>2 111 705</b>
New shares issued	37 500	375 000	1 288 800	1 663 800
<b>At 31 December 2006</b>	<b>110 484</b>	<b>1 714 609</b>	<b>2 060 896</b>	<b>3 775 505</b>
New shares issued	24 000	240 000	1 332 786	1 572 786
<b>At 31 December 2007</b>	<b>134 484</b>	<b>1 954 609</b>	<b>3 393 682</b>	<b>5 348 291</b>

All ordinary shares have a nominal value of RR 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

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

In March 2006 the Bank placed 37.5 million ordinary shares among its existing shareholders at the nominal value of 10 RR per share. The shares were issued at 1.6 USD per share (exchange rate 1 USD = 27.73 RUR) with the resulting increase in share premium of RR 1 288 800 thousand. The new share issue was partially financed by means of conversion of the subordinated deposits in the amount of RR 415 503 thousand.

In February 2007 the Bank placed 24 millions shares among IFC and an off-shore registered company acting on behalf of the existing ultimate shareholders at the nominal value of 10 RR per share. The shares were issued at 2.5 USD per share (exchange rate 1 USD = 26.2131 RR) with the resulting increase in share premium of RR 1 332 786 thousand. The new share issue was partially financed by means of conversion of the subordinated deposits in the amount of RR 1 315 300 thousand. Refer to Note 21. The extent of IFC participation in the new share issue retained its share in the Bank's capital at 7.5 percent.

In April 2007 share sale agreement between the shareholders of the Bank and KBC Bank NV, Belgium, was concluded. On 25 July 2007 the CBRF approved the acquisition of 95 per cent of the share capital of the Bank by KBC Bank N.V., Belgium. The remaining 5 per cent of share capital was retained by IFC.

A decision to increase the share capital was taken at the extraordinary general shareholders meeting held on 3 October 2007. 50 millions ordinary shares with the nominal value of RR 10 each are to be placed at 5.34 EUR per share among the existing shareholders so that ownership structure remains the same. IFC and KBC Bank N.V., Belgium contributed the amounts due for the share issue in December 2007. The shares are to be issued and receipts are to be converted into the share capital and share premium upon receipt of the CBRF approval. As at 31 December 2007 the contributions are disclosed within Other financial liabilities. Refer to Note 19. On 21 March 2008 the CBRF registered the share issue. Refer to Note 35.

**23 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Interest income</b>		
Loans and advances to customers	7 692 122	4 148 679
Debt trading securities	595 688	218 596
Due from other banks	237 639	103 646
Correspondent accounts and overnight placements with other banks	52 731	20 345
<b>Total interest income</b>	<b>8 578 180</b>	<b>4 491 266</b>
<b>Interest expense</b>		
Debt securities in issue	1 882 177	1 128 551
Term placements of other banks	1 832 829	846 357
Term deposits of individuals	746 748	287 568
Term deposits of legal entities	228 516	168 607
Subordinated debt	218 319	52 042
Other borrowed funds	174 610	84 295
Correspondent accounts of other banks	71 513	42 624
Other	7 364	7 251
<b>Total interest expense</b>	<b>5 162 076</b>	<b>2 617 295</b>
<b>Net interest income</b>	<b>3 416 104</b>	<b>1 873 971</b>

**24 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Fee and commission income</b>		
- Letters of credit	189 654	244 964
- Cash transactions	90 359	72 519
- Commission on plastic cards settlements	83 258	35 890
- Settlement transactions	61 684	69 690
- Guarantees issued	43 410	35 523
- Transactions with securities	36 411	12 912
- Acting as currency control agent	35 618	20 724
- Brokerage	15 234	7 408
- Commission on cash collection	13 184	9 970
- Asset management	3 115	4 735
- Other	30 407	5 981
<b>Total fee and commission income</b>	<b>602 334</b>	<b>520 316</b>

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Fee and commission expense</b>		
- Letters of credit	102 453	166 642
- Guarantees	46 134	3 416
- Plastic card	24 041	13 396
- Cash transaction	20 324	30 619
- Settlement transactions	7 698	1 165
- Other	17 279	6 880
<b>Total fee and commission expense</b>	<b>217 929</b>	<b>222 118</b>
<b>Net fee and commission income</b>	<b>381 290</b>	<b>293 463</b>

**25 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	Note	31 December 2007	31 December 2006
Staff costs		1 578 193	774 552
Advertising and marketing services		172 666	93 948
Taxes other than on income		148 259	81 945
Other expenses related to premises and equipment		138 881	86 163
Depreciation of premises, equipment and investment properties	12	121 596	57 552
Rent		104 821	29 415
Telecommunication services		67 235	30 330
Contribution to state deposit insurance system		63 031	18 127
Professional services		44 881	13 609
Information services		30 634	16 364
Security services		23 890	12 534
Business trip expenses		21 567	6 609
Amortisation of software	12	14 377	5 081
Charity		2 179	8 970
Other		137 695	66 967
<b>Total administrative and other operating expenses</b>		<b>2 669 905</b>	<b>1 302 136</b>

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 226 503 thousand (31 December 2006: RR 92 245 thousand).

**26 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	31 December 2007	31 December 2006
Current tax	288 130	298 785
Deferred tax	(7 642)	(69 064)
<b>Income tax expense for the year</b>	<b>280 488</b>	<b>229 721</b>

The operations of the Group are subject to multiple taxation jurisdictions as follows.

**Russian Federation.** Profits of the companies within the Group, which are residents of the Russian Federation, are subject to an income tax rate of 24%.

**Cyprus.** Currently, the Cyprus incorporated company of the Group is subject to a corporation tax on its taxable profit at a rate of 10%. Profits from the sale of securities are exempt from corporate tax.

<i>In thousands of Russian Roubles</i>	31 December 2007	31 December 2006
<b>IFRS profit before tax</b>	<b>1 122 501</b>	<b>922 177</b>
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	269 400	221 322
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(3 560)	(3 022)
- Non deductible expenses	32 764	14 098
- Income on government securities taxed at different rates	(5 376)	(4 752)
- Other non-temporary differences	(12 740)	2 075
<b>Income tax expense for the year</b>	<b>280 488</b>	<b>229 721</b>

**26 Income taxes (Continued)**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (31 December 2006: 24%), except for income on state securities that is taxed at 15% (31 December 2006: 15%).

	31 December 2006	(Credited)/ charged to profit or loss	31 December 2007
<i>In thousands of Russian Roubles</i>			
<b>Tax effect of deductible/ (taxable) temporary differences</b>			
Deferred income/ accrued expenses	44 126	38 984	83 110
Fair valuation of trading securities	(45 106)	74 611	29 505
Fair valuation of derivatives	2 508	25 912	28 420
Premises and equipment: VAT capitalisation and depreciation rates	(27 667)	(33 543)	(61 210)
Loan impairment provision	92 588	(128 834)	(36 246)
Effective interest rate application	(46 563)	22 166	(24 397)
Other	(17 238)	8 346	(8 892)
<b>Net deferred tax asset</b>	<b>2 648</b>	<b>7 642</b>	<b>10 290</b>
<b>Recognised deferred tax asset</b>	<b>2 648</b>	<b>7 642</b>	<b>10 290</b>

	31 December 2005	(Credited)/ charged to profit or loss	31 December 2006
<i>In thousands of Russian Roubles</i>			
<b>Tax effect of deductible/ (taxable) temporary differences</b>			
Loan impairment provision	(7 756)	100 344	92 588
Deferred income/ accrued expenses	10 648	33 478	44 126
Fair valuation of derivatives	-	2 508	2 508
Effective interest rate application	(16 150)	(30 413)	(46 563)
Premises and equipment: VAT capitalisation and depreciation rates	(17 516)	(10 151)	(27 667)
Fair valuation of trading securities	(25 878)	(19 228)	(45 106)
Other	(9 764)	(7 474)	(17 238)
<b>Net deferred tax (liability)/ asset</b>	<b>(66 416)</b>	<b>69 064</b>	<b>2 648</b>
<b>Recognised deferred tax (liability)/ asset</b>	<b>(66 416)</b>	<b>69 064</b>	<b>2 648</b>

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

## **27 Segment Analysis**

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

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

- Corporate – comprises corporate lending including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, brokerage and leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.
- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals, individual entrepreneurs and small and medium size entities.

The Group does not allocate in its internal management accounting system certain types of the Group's assets and liabilities as well as income and expenses between the segments. Such items have been presented as "unallocated" in the table below. Currently the Group is in the process of development of the basis of allocation of such items and adjusting its internal management accounting system to make such allocations in the future.

Starting from the financial year ending 31 December 2007:

- segment results are based on the direct revenues and expenses attributable to the assets and liabilities of the segment;
- the Group does not allocate certain liabilities and interest expenses of financial markets segment to other segments;
- the Group allocates administrative and other operating expenses between segments using different principles of allocation than before. The major part of administrative and other operating expenses represents direct expenses attributable to cost centers whose activities correspond to segment activities. The remaining part is allocated between the segments in the same proportion as the direct operating expenses are allocated;
- the Group includes interest income from sale and repurchase agreements into revenues of segments depending on the contractual counterparty.

Comparative information for the financial year ending 31 December 2006 has been presented following principles of allocation similar to the new ones.

**27 Segment analysis (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Financial markets</b>	<b>Total</b>
<b>2007</b>				
<b>Total revenues comprise:</b>				
- Interest income	1 887 951	5 804 171	886 058	<b>8 578 180</b>
- Fee and commission income	205 154	372 978	24 202	<b>602 334</b>
- Dividends received	-	-	14 835	<b>14 835</b>
- Rental and other operating income	9 326	82 405	-	<b>91 731</b>
<b>Total revenues</b>	<b>2 102 430</b>	<b>6 259 554</b>	<b>925 095</b>	<b>9 287 079</b>
<b>Segment result</b>	<b>(249 623)</b>	<b>4 498 217</b>	<b>(3 485 757)</b>	<b>762 837</b>
Unallocated costs				(148 259)
Unallocated gains				507 923
<b>Profit before tax</b>				<b>1 122 501</b>
Income tax expense				(280 488)
<b>Profit</b>				<b>842 013</b>
<b>Total segment assets</b>	<b>28 649 753</b>	<b>62 897 682</b>	<b>27 402 837</b>	<b>118 950 272</b>
Deferred tax asset				10 290
Other unallocated assets				11 127 292
<b>Total assets</b>				<b>130 087 854</b>
<b>Total segment liabilities</b>	<b>(15 089 953)</b>	<b>(21 138 327)</b>	<b>(76 314 345)</b>	<b>(112 542 625)</b>
Current tax liabilities				(31 233)
Other unallocated liabilities				(10 133 729)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(122 707 587)</b>



**27 Segment analysis (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Financial markets</b>	<b>Total</b>
<b>2006</b>				
<b>Total revenues comprise:</b>				
- Interest income	672 662	3 476 017	342 587	4 491 266
- Fee and commission income	83 298	424 106	12 912	520 316
- Dividend income	-	-	12 070	12 070
- Rental and other operating income	1 167	48 730	-	49 897
<b>Total revenues</b>	<b>757 127</b>	<b>3 948 853</b>	<b>367 569</b>	<b>5 073 549</b>
<b>Segment result</b>	<b>(219 244)</b>	<b>2 432 853</b>	<b>(1 232 201)</b>	<b>981 510</b>
Unallocated costs				(81 945)
Unallocated gains				22 612
<b>Profit before tax</b>				<b>922 177</b>
Income tax expense				(229 721)
<b>Profit</b>				<b>692 456</b>
<b>Total segment assets</b>	<b>8 488 785</b>	<b>34 266 407</b>	<b>13 482 358</b>	<b>56 237 550</b>
Deferred tax asset				2 648
Other unallocated assets				9 600 897
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65 841 095</b>
<b>Total segment liabilities</b>	<b>(7 367 699)</b>	<b>(19 606 843)</b>	<b>(33 632 163)</b>	<b>(60 606 704)</b>
Current tax liabilities	-	-	-	(72 154)
Unallocated liabilities	-	-	-	(196 769)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(60 875 627)</b>

Unallocated assets in the tables above totalling RR 11 579 830 thousand as at 31 December 2007 (31 December 2006: RR 10 061 801 thousand) represent mainly cash on hand, cash balances with the CBRF, premises, equipment, software and investment property and other assets of the Group.

Unallocated liabilities in the table above totalling RR 10 133 728 thousand as at 31 December 2007 (31 December 2006: RR 196 769 thousand) are represented by accounts payable and other liabilities.

Unallocated costs represent taxes other than on income as a part of unallocated administrative and other operating expenses in the amount of RR 148 259 thousand (31 December 2006: RR 81 945 thousand). Refer to Note 25.

## **27 Segment analysis (Continued)**

Unallocated gains in the amount of RR 507 923 thousand (31 December 2006: RR 22 612 thousand) represent foreign exchange translation gains less losses.

**Geographical segments.** The Group operates only in the Russian Federation. Balances with Russian counterparties actually outstanding from off-shore companies of the counterparties are allocated to the Russian Federation segment. The capital expenditure of the Group relates to the operations of the Group in the Russian Federation.

The Russian Federation segment has certain balances with counterparties in other countries. A breakdown of assets and liabilities of the Group with non-Russian counterparties is presented in Note 28.

External revenues and assets have generally been allocated based on domicile of the counterparty. Cash on hand, premises, equipment investment property and software have been allocated based on the country in which they are physically held.

At 31 December 2007 loans and advances to customers in the amount of RR 7 737 556 thousand (31 December 2006: RR 9 198 867 thousand) included in the table (Note 28) as being with Russian counterparties have actually been granted to off-shore companies of these Russian counterparties. Management believes that such classification better reflects economic exposure of the assets in the segment analysis.

## **28 Financial Risk Management**

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

**Credit risk.** The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

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

**28 Financial risk management (Continued)**

The exposure to credit risk at 31 December 2007 and 31 December 2006 was as follows:

<i>In thousands of Russian Roubles</i>	Note	31 December 2007	31 December 2006
<b>Banking activities</b>			
<i>Balance sheet items</i>			
Correspondent accounts and overnight placements with other banks	7	4 780 791	3 735 552
Settlement accounts with stock exchanges	7	778 530	561 888
Due from other banks	9	12 895 613	2 323 849
Loans and advances to customers	10	91 547 433	42 755 190
Repurchase receivable	11	333	182 338
Other financial assets	13	392 607	14 934
<i>Off balance sheet items</i>			
Undrawn credit lines	30	15 026 995	7 443 149
Import letters of credit	30	1 908 074	3 051 341
Guarantees issued	30	998 482	1 289 100
<b>Total banking activities</b>		<b>128 328 858</b>	<b>61 357 341</b>
<b>Trading activities</b>			
Bonds	8	7 097 160	4 136 964
Promissory notes	8	477 772	462 355
Derivatives and spots with positive market value	13	226 046	5 077
<b>Total trading activities</b>		<b>7 800 978</b>	<b>4 604 396</b>
<b>Total credit exposure</b>		<b>136 129 836</b>	<b>65 961 737</b>

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by Management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Credit limits are set at the Bank by collegial bodies in accordance with the approved powers or by the managers within the set limits of independent decision-making.

In 2007, the Bank had the following committees whose competence included setting credit risk limits:

- Main Credit Committee (regular meetings are held at least once a week, major areas of competence cover credit analysis methodology, setting exposure limits within the loan portfolio on the basis of guidelines provided by the Committee on Asset and Liability management, doubtful debts recovery);
- Operating Credit Committee (regular meetings are held at least once a week, major areas of competence cover setting and review of credit limits within the established thresholds) ;
- Small Credit Committee (regular meetings are held at least once a week, major competence area – review and approval of credit limits up to USD/EUR 2 million or RR 60 million);
- Small Credit Committee for Corporate Business;
- Committee for Debentures of Corporate Issuers.

Making decisions on setting credit risk limits for transactions with banking counterparties is within the competence of the Limits Committee.

## **28 Financial risk management (Continued)**

All the committees operate at the head office of the Bank except for sub-sections of the Small Credit Committee which are organized at branches and take decisions on granting retail loans and loans to SMEs.

A decision on credit risk limit is taken on the basis of analyzing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both in static and in dynamic. When analyzing financial position of individuals, the Group pays special attention to confirmation of the borrower's claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. Employees of the Lending departments regularly draft reports on the basis of the structured business analysis. All information on material risks relating to the customers whose credit status is deteriorating is timely communicated to the management and is analysed by the latter.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Legal entities - borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

The Russian statutory CBRF regulations prescribe daily compliance with the ratio of the amount of lending exposure to a single borrower/ group of related borrowers (N6), which the banks cannot exceed. At 31 December 2007 and 31 December 2006 the Group was compliant with this regulatory requirement.

Pursuant to the Bank's Lending Policy effective from 2007, the collateral for a lending product is treated as a secondary source of repayment of the loan or a way to minimise the credit risk.

The Bank accepts the following assets for pledge as a collateral: residential and non-residential mortgage, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the group's revenue generating or asset holding companies are accepted as an additional collateral for loans. The Group usually uses a combination of different types of collateral: securities, mortgage, cars, inventories, guarantees, etc and applies certain discounts to the valued of collateral pledged. Refer to Note 10.

Pursuant to the bank's Lending policy effective for 2007, mortgage in respect of which there is a real risk of its loss or damage is insured with one of the insurance companies accredited with Group.

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements.

The Bank's Assets and Liabilities committee («ALCO») exercises centralised risk management policy when management of the risk arising in branches (regions) is transferred to the central office. ALCO reports to the Board of Directors and the Management Board of the Bank. Not rarely than on a quarterly basis ALCO informs the Board of Directors on the financial position of the Bank and decisions taken by ALCO.

## **28 Financial risk management (Continued)**

The Bank manages its interest rate, currency and equity price risks as components of market risk through risk-based (value at risk (“VaR”)) limits for the Bank’s overall position and sub-limits for types of exposures to various types of securities (including both equity and fixed income securities) and markets and position limits for issuers and individual instruments. Limits on securities are approved by ALCO based on analyses performed by the Risk Management Department. Additional issuer limits on fixed income securities are approved separately by relevant Credit Committees. The Bank’s trading portfolio consists predominantly of liquid, traded securities, for content of the trading portfolio refer to Note 8. The Bank’s derivative operations are driven by two major factors: (a) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (b) customer demand, principally for foreign currency derivatives.

Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As noted above, for the purpose of certain elements of the Bank’s market risks, the Bank uses a VaR model. The VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under certain circumstances if the current positions of the Bank were to be held unchanged for one business day.

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

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

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level. Starting from July 2007 when KBC Bank acquired 95% stake of the Bank, back testing of the VaR models applied by Bank is performed at KBC head office in Brussels.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Bank’s position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on the Bank’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

**Currency risk.** In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

**28 Financial risk management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Derivatives</b>	<b>Spots</b>	<b>Net balance sheet position</b>
Russian roubles	66 587 268	(56 358 041)	(5 796 157)	(1 963 375)	<b>2 469 695</b>
US Dollars	43 558 828	(51 094 862)	6 595 808	520 010	<b>(420 216)</b>
Euros	13 582 031	(14 237 338)	(816 402)	1 441 640	<b>(30 069)</b>
Other	292 735	(203 835)	(86 330)	-	<b>2 570</b>
<b>Total</b>	<b>124 020 862</b>	<b>(121 894 076)</b>	<b>(103 081)</b>	<b>(1 725)</b>	<b>2 021 980</b>

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2006:

<i>In thousands of Russian Roubles</i>	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Derivatives</b>	<b>Spots</b>	<b>Net balance sheet position</b>
Russian roubles	30 485 938	(25 027 788)	(1 794 038)	(2 701 516)	<b>962 596</b>
US Dollars	25 677 230	(30 631 135)	2 550 687	2 435 816	<b>32 598</b>
Euros	5 278 241	(4 707 312)	(763 323)	261 924	<b>69 530</b>
Other	14 999	(228 752)	-	-	<b>(213 753)</b>
<b>Total</b>	<b>61 456 408</b>	<b>(60 594 987)</b>	<b>(6 674)</b>	<b>(3 776)</b>	<b>850 971</b>

Derivatives and spots in each column represent the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 31. The net total represents fair value of the currency derivatives and spots.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Group takes on exposure to the effects of changes in foreign exchange rates on its financial position and cash flows. The Group evaluates its exposure to currency risk using Value at Risk («VaR») methodology. The methodology enables the Group to assess the maximum potential loss, which may impact the financial results of the Group. Under this methodology, VaR figure indicates the maximum possible amount of losses for the existing open currency position within a set period of time and level of confidence.

Based on one year horizon of history of the foreign exchange rates set by the CBRF, the Group evaluates annual volatility of RUR/ USD and RUR/ EUR exchange rates at a confidence level of 99%. The Group assumes logarithmically normal distribution of foreign exchange rates. At the reporting date all open currency positions in currencies other than USD and EUR are added to the open currency position in USD. Overall exposure to currency risk is calculated as the aggregate amount of currency VaR for USD and EUR taking into account USD/ EUR exchange rate correlation.

The Group does not assess currency risk on a consolidated level and uses standalone currency VaR figures in decision taking process. For the purpose of disclosure of comparative figures the Group has recalculated VaR based on the open currency positions as disclosed in this Note to the consolidated financial statements.

**28 Financial risk management (Continued)**

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Consolidated positions</b>	<b>Standalone positions</b>	<b>Consolidated positions</b>	<b>Standalone positions</b>
Open position in USD and other currencies	(417 646)	(217 933)	(181 155)	(135 935)
VaR for open position in USD and other currencies	68 355	35 669	14 443	10 837
Open position in EUR	(30 069)	95 033	69 530	66 813
VaR for open position in EUR	2 108	6 662	6 798	6 532
Overall open currency position VaR	66 714	41 104	19 415	15 754

Total VaR differs from arithmetic sum because of currency exchange rate correlation effects.

Thus, the maximum day one losses of the Group in case the currency risk crystallises on a consolidated level at 31 December 2007 amount to RR 66 714 thousand (31 December 2006: RR 19 415 thousand).

The Group hedges its substantial net short position in USD by foreign exchange forward and spot transactions and its net exposure to currency risk can vary over time.

**Interest rate risk.** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 year</b>	<b>More than 5 years</b>	<b>Non-monetary</b>	<b>Total</b>
<b>31 December 2007</b>							
Total financial assets	40 845 719	9 817 026	26 587 324	32 236 777	14 759 902	1 146 592	<b>125 393 340</b>
Total financial liabilities	(45 333 453)	(11 312 237)	(34 400 027)	(30 861 842)	(296 364)		<b>-(122 203 923)</b>
<b>Net interest sensitivity gap at 31 December 2007</b>							
	<b>(4 487 734)</b>	<b>(1 495 211)</b>	<b>(7 812 703)</b>	<b>1 374 935</b>	<b>14 463 538</b>	<b>1 146 592</b>	<b>3 189 417</b>
<b>31 December 2006</b>							
Total financial assets	21 898 505	5 022 396	20 346 595	10 090 375	4 285 952	2 074 336	63 718 159
Total financial liabilities	(22 083 273)	(13 542 688)	(17 941 701)	(6 889 715)	(153 136)		-(60 610 513)
<b>Net interest sensitivity gap at 31 December 2006</b>							
	<b>(184 768)</b>	<b>(8 520 292)</b>	<b>2 404 894</b>	<b>3 200 660</b>	<b>4 132 816</b>	<b>2 074 336</b>	<b>3 107 646</b>

**28 Financial risk management (Continued)**

Tariffs and principal terms and conditions of the transactions with counterparties as far as interest rates are concerned are subject to discussion with ALCO prior to their approval by the Lending committee or Committee on products and tariffs. Interest rates are subject to review by the Financial management department and Risk department prior to their consideration at meetings of ALCO, Lending committee or Committee on products and tariffs.

Internal control department periodically monitors the compliance of the performed transactions with the Bank's tariffs. In case of non-compliance, the matter is communicated to the Management Board.

**Yield curve risk.** On a standalone basis the Bank assesses yield curve risk as a component of interest rate risk using VaR model. The Bank does not calculate yield curve VaR on a consolidated level as it believes there is no significant impact of consolidation on the yield curve risk exposure and uses standalone yield curve VaR for management decisions considered at ALCO.

All interest-bearing assets and liabilities disclosed both on and off balance sheet under Russian accounting standards are included in VaR calculation. Maximum possible decrease of the discounted cash flows arising out of these assets and liabilities within one year horizon is assessed with a confidence level of 99% for VaR shift. Yield curve data (current, VaR (99%) parallel shift up and VaR (99%) parallel shift down) is provided to the Bank by its parent, KBC Bank N.V., Belgium. Separate yield curves and their shifts are set for major currencies: USD, EUR and RUR.

	31 December 2007 Standalone position		31 December 2006 Standalone position	
	VaR (99%) parallel shift down	VaR (99%) parallel shift up	VaR (99%) parallel shift down	VaR (99%) parallel shift up
<i>In thousands of Russian Roubles</i>				
Assets	(467 044)	457 425	(388 948)	371 149
Liabilities	657 732	(637 092)	280 186	(269 451)
<b>Total</b>	<b>190 688</b>	<b>(179 667)</b>	<b>(108 762)</b>	<b>101 697</b>

Thus, at 31 December 2007 under the current yield curve assumptions, at a confidence level of 99% and within one year horizon, the maximum losses (31 December 2006: gains) of the Group on a standalone level in case of interest rate VaR parallel shift up will amount to RR 179 667 thousand (31 December 2006: RR 101 697 thousand) or RR 190 688 thousand gains in case of VaR parallel shift down (31 December 2006: RR 108 762 thousand loss)

**Basis and repricing risk.** At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been RR 84 765 thousand (31 December 2006: RR 55 035 thousand) higher, mainly as a result of lower interest expense on interest bearing liabilities.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been RR 84 765 thousand (31 December 2006: RR 55 035 thousand) lower, mainly as a result of higher interest expense on interest-bearing liabilities.

In its day-to-day monitoring and management of net interest income over short-term horizon the Bank calculates interest rate GAP («GAP%»). The calculation of GAP% includes only interest bearing assets and liabilities, which are allocated to different time-bands based on their contractual maturities. Decisions on assets and liabilities portfolios are taken by ALCO based on the results of such GAP% analysis.

The GAP% in management accounts is performed on the basis of the Russian statutory accounting figures and does not include non-interest bearing assets and liabilities: cash and cash equivalents, current accounts, investments in equities, funds on correspondent accounts of/with banks, mandatory reserves with the CBRF, provisions for loan impairment, premises, equipment, investment property and software, other financial and non-financial assets and liabilities.

Only repayments of principals are taken into account when GAP% analysis is performed, no interest payments or fees are included.



**28 Financial risk management (Continued)**

The Bank regularly performs interest rate GAP analysis and from time to time measures a change in net interest income from one-off change in interest rates (interest rate shocks).

The Bank uses a simplified approach in its assessment of impact on net interest income of one-off interest rate change within a one year horizon: it does not take into account the split of assets and liabilities between different time-bands and calculates the effect on the total accumulated net interest rate gap as if it were exposed for the whole year. Based on recommendations of Basel II standardised interest rate shock approach the Bank applies 200 basis point parallel rate shock.

<i>In thousands of Russian Roubles</i>	<b>31 December 2007 Standalone position</b>	<b>31 December 2006 Standalone position</b>
Cumulative net interest rate GAP within one year horizon	2 776 866	3 229 834
Impact on income statement of 2% interest rate shock	55 537	64 597

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	<b>31 December 2007</b>				<b>31 December 2006</b>			
	RR	USD	Euro	Other	RR	USD	Euro	Other
<b>Assets</b>								
Cash and cash equivalents								
- correspondent accounts and overnight placements with other banks	2.9	2.2	1.9	0.0	1.1	4.0	0.7	0.1
Mandatory cash balances with the CBRF	0.0	-	-	-	0.0	-	-	-
Debt trading securities	10.5	-	-	-	9.5	8.1	-	-
Due from other banks	4.5	4.9	4.6	-	6.2	5.7	4.0	-
Loans and advances to customers								
- legal entities	12.8	12.7	10.6	8.0	14.2	13.0	10.7	-
- individuals	14.1	12.7	12.6	-	15.7	12.7	12.8	-
<b>Liabilities</b>								
Due to other banks	6.9	5.9	5.8	3.9	7.7	8.2	5.7	-
Customer accounts								
- current and settlement accounts	-	-	-	-	-	-	-	-
- term deposits	8.0	8.2	6.5	-	6.1	6.6	8.0	-
Debt securities in issue								
- loan participation notes	-	9.8	-	-	-	9.8	-	-
- promissory notes issued	8.2	6.9	6.6	-	9.3	8.1	6.7	-
- short-term notes	-	9.2	-	-	-	9.5	8.2	-
- bonds issued	8.4	-	-	-	10.2	-	-	-
Other borrowed funds	-	9.4	-	-	-	10.5	-	-
Subordinated debt	-	7.6	-	-	-	9.6	-	-

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

**Equity price risk.** The Group takes on exposure to the effects of stock market volatility on its financial position and cash flows (equity price risk). Financial results from operations with equities may increase as a result of such volatility but may reduce or create losses in the event that unexpected movements arise.

The Group evaluates this component of other price risk through application of Value at Risk («VaR») methodology. The methodology enables the Group to assess the maximum potential loss which may impact the financial results of the Group. Under this methodology, VaR figure indicates the maximum possible amount of losses for the existing open equity position within a set period of time and level of confidence.

**28 Financial risk management (Continued)**

Maximum possible losses for one day and 10 days holding period for equities are assessed by means of a historic modelling method at a confidence level of 99% and over one year historic data on closing average market quotes (observation period equals one year) primarily obtained from MICEX. As at the reporting date total VaR is calculated as the aggregate of all VaRs for each open position including short position in futures. The approach assumes that correlation coefficient between changes in equity prices equals one.

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Equity position	69 390	347 317
VaR, 1 day	3 102	31 119
VaR, 10 days	9 808	98 406

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The difference between the amount of corporate shares as disclosed in Note 8 and adjusted for short position in futures and long position in options at 31 December 2006 and 2007 (refer to Note 31) is primarily attributed to different valuation principles applied in management accounts and financial reporting: average market vs last bid prices.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates, because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

**28 Financial risk management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	8 640 983	1 777 048	6 602	<b>10 424 633</b>
Mandatory cash balance	1 185 151	-	-	<b>1 185 151</b>
Trading securities	8 721 857	-	-	<b>8 721 857</b>
Due from other banks	4 542 465	8 339 801	13 347	<b>12 895 613</b>
Loans and advances to customers	91 547 433	-	-	<b>91 547 433</b>
Other financial assets	603 574	15 079	-	<b>618 653</b>
<b>Total financial assets</b>	<b>115 241 463</b>	<b>10 131 928</b>	<b>19 949</b>	<b>125 393 340</b>
<b>Non-financial assets</b>	<b>4 668 890</b>	<b>19 687</b>	<b>5 937</b>	<b>4 694 514</b>
<b>Total assets</b>	<b>119 910 353</b>	<b>10 151 615</b>	<b>25 886</b>	<b>130 087 854</b>
<b>Liabilities</b>				
Due to other banks	3 122 728	48 841 041	515 232	<b>52 479 001</b>
Customer accounts	29 089 325	92 537	221 572	<b>29 403 434</b>
Debt securities in issue	7 211 088	12 133 674	3 444 046	<b>22 788 808</b>
Other borrowed funds	-	1 883 841	-	<b>1 883 841</b>
Subordinated debt	-	5 641 517	-	<b>5 641 517</b>
Other financial liabilities	357 829	9 649 431	61	<b>10 007 321</b>
<b>Total financial liabilities</b>	<b>39 780 970</b>	<b>78 242 041</b>	<b>4 180 911</b>	<b>122 203 922</b>
<b>Non-financial liabilities</b>	<b>491 286</b>	<b>5 454</b>	<b>6 925</b>	<b>503 665</b>
<b>Total liabilities</b>	<b>40 272 256</b>	<b>78 247 495</b>	<b>4 187 836</b>	<b>122 707 587</b>
<b>Net balance sheet position</b>	<b>79 638 097</b>	<b>(68 095 880)</b>	<b>(4 161 950)</b>	<b>7 380 267</b>
<b>Credit related commitments</b>	<b>15 978 175</b>	<b>840 821</b>	<b>1 114 556</b>	<b>17 933 552</b>

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country, in which they are physically held.

**28 Financial risk management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	8 192 352	2 407 869	396 185	<b>10 996 406</b>
Mandatory cash balances with the CBRF	766 710	-	-	<b>766 710</b>
Trading securities and repurchase receivables	6 855 993	-	-	<b>6 855 993</b>
Due from other banks	1 981 393	263 426	79 030	<b>2 323 849</b>
Loans and advances to customers	42 755 190	-	-	<b>42 755 190</b>
Other financial assets	19 138	734	139	<b>20 011</b>
<b>Total financial assets</b>	<b>60 570 776</b>	<b>2 672 029</b>	<b>475 354</b>	<b>63 718 159</b>
<b>Non-financial assets</b>	<b>2 095 814</b>	<b>17 210</b>	<b>9 912</b>	<b>2 122 936</b>
<b>Total assets</b>	<b>62 666 590</b>	<b>2 689 239</b>	<b>485 266</b>	<b>65 841 095</b>
<b>Liabilities</b>				
Due to other banks	4 806 768	12 771 707	1 312 039	<b>18 890 514</b>
Customer accounts	19 188 509	83 249	654 232	<b>19 925 990</b>
Debt securities in issue	8 684 722	7 043 362	2 351 867	<b>18 079 951</b>
Other borrowed funds	-	1 836 405	-	<b>1 836 405</b>
Other financial liabilities	17 335	3 961	66	<b>21 362</b>
Subordinated debt	1 316 448	539 843	-	<b>1 856 291</b>
<b>Total financial liabilities</b>	<b>34 013 782</b>	<b>22 278 527</b>	<b>4 318 204</b>	<b>60 610 513</b>
<b>Non-financial liabilities</b>	<b>227 307</b>	<b>33 008</b>	<b>4 799</b>	<b>265 114</b>
<b>Total liabilities</b>	<b>34 241 089</b>	<b>22 311 535</b>	<b>4 323 003</b>	<b>60 875 627</b>
<b>Net balance sheet position</b>	<b>28 425 501</b>	<b>(19 622 296)</b>	<b>(3 837 737)</b>	<b>4 965 468</b>
<b>Credit related commitments</b>	<b>9 089 277</b>	<b>1 540 723</b>	<b>1 153 590</b>	<b>11 783 590</b>

**Other risk concentrations.** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 9 and 10.

**Liquidity risk.** Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

**28 Financial risk management (Continued)**

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

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

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

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

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Balance sheet liabilities</b>						
Due to other banks	8 265 837	2 938 063	19 653 587	26 416 329	171 180	<b>57 444 996</b>
Customer accounts – individuals	3 758 857	2 624 073	8 327 611	940 063	24 711	<b>15 675 315</b>
Customer accounts – other	12 232 702	986 649	763 420	514 663	-	<b>14 497 434</b>
Debt securities in issue	3 149 508	1 820 128	9 634 750	10 057 978	-	<b>24 662 364</b>
Other borrowed funds	403 475	125 407	239 625	1 365 441	80 871	<b>2 214 819</b>
Subordinated debt	106 266	23 586	282 492	1 783 704	7 171 025	<b>9 367 073</b>
Other financial liabilities	9 661 296	-	-	19 626	16 554	<b>9 697 476</b>
Gross settled spot						
- inflow	(220 989)	-	-	-	-	<b>(220 989)</b>
- outflow	222 197	-	-	-	-	<b>222 197</b>
Net settled spot	3 123	-	-	-	-	<b>3 123</b>
Gross settled forwards						
- inflow	(140 139)	(5 861 955)	(245 300)	-	-	<b>(6 247 394)</b>
- outflow	141 010	6 051 016	247 062	-	-	<b>6 439 088</b>
Net settled forwards	107 201	5 693	926	-	-	<b>113 820</b>
<b>Off balance sheet liabilities</b>						
Financial guarantees	998 482	-	-	-	-	<b>998 482</b>
Operating lease commitments	19 873	37 669	108 520	348 235	107 996	<b>622 293</b>
Capital commitments	66 649	33 314	62 626	-	-	<b>162 589</b>
Other credit related commitments	16 935 070	-	-	-	-	<b>16 935 070</b>
<b>Total potential future payments for financial obligations</b>	<b>55 710 418</b>	<b>8 783 643</b>	<b>39 075 319</b>	<b>41 446 039</b>	<b>7 572 337</b>	<b>152 587 756</b>

**28 Financial risk management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Balance sheet liabilities</b>						
Due to other banks	4 155 791	1 696 714	9 237 651	4 832 433	160 046	<b>20 082 635</b>
Customer accounts - individuals	2 278 323	767 539	3 781 310	442 869	28 464	<b>7 298 505</b>
Customer accounts - other	11 704 058	706 964	573 974	-	-	<b>12 984 996</b>
Debt securities issued	1 495 634	2 198 818	7 928 927	8 299 376	-	<b>19 922 755</b>
Other borrowed funds	-	80 682	170 114	1 830 748	290 828	<b>2 372 372</b>
Subordinated debt	-	58 510	94 391	789 470	2 307 650	<b>3 250 021</b>
Other financial liabilities	5 836	-	-	-	-	<b>5 836</b>
Gross settled spot						
- inflow	(3 075 203)	-	-	-	-	<b>(3 075 203)</b>
- outflow	3 077 763	-	-	-	-	<b>3 077 763</b>
Net settled spot	2 280	-	-	-	-	<b>2 280</b>
Gross settled forwards						
- inflow	(602 978)	-	-	-	-	<b>(602 978)</b>
- outflow	610 254	-	-	-	-	<b>610 254</b>
Net settled forwards	3 410	-	-	-	-	<b>3 410</b>
<b>Off balance sheet liabilities</b>						
Financial guarantees	1 289 100	-	-	-	-	<b>1 289 100</b>
Capital commitments	1 589	5 598	38 996	9 260	-	<b>55 443</b>
Operating lease commitments	4 263	7 361	25 797	106 024	55 273	<b>198 718</b>
Other credit related commitments	10 494 490	-	-	-	-	<b>10 494 490</b>
<b>Total potential future payments for financial obligations</b>						
	<b>31 444 610</b>	<b>5 522 186</b>	<b>21 851 160</b>	<b>16 310 180</b>	<b>2 842 261</b>	<b>77 970 397</b>

Payments in respect of gross settled forwards are accompanied by related cash inflows, which are disclosed at their present values in Note 31. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

**28 Financial risk management (Continued)**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2007:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	10 424 633	-	-	-	-	<b>10 424 633</b>
Mandatory cash balance with Central Bank of the Russian Federation	1 185 151	-	-	-	-	<b>1 185 151</b>
Trading securities	8 721 524	-	-	-	-	<b>8 721 524</b>
Due from other banks	12 851 232	5 287	6 578	-	32 516	<b>12 895 613</b>
Loans and advances to customers	8 514 426	9 828 400	27 610 668	35 112 695	10 481 244	<b>91 547 433</b>
Repurchase receivables	333	-	-	-	-	<b>333</b>
Other financial assets	407 621	208 554	2 317	161	-	<b>618 653</b>
<b>Total financial assets</b>	<b>42 104 920</b>	<b>10 042 241</b>	<b>27 619 563</b>	<b>35 112 856</b>	<b>10 513 760</b>	<b>125 393 340</b>
<b>Liabilities</b>						
Due to other banks	8 247 146	2 906 127	18 830 603	22 364 867	130 258	<b>52 479 001</b>
Customer accounts	11 653 878	3 674 084	8 410 814	1 354 203	4 310 455	<b>29 403 434</b>
Debt securities in issue	3 136 952	1 793 141	9 283 821	8 574 894	-	<b>22 788 808</b>
Other borrowed funds	398 933	123 105	226 506	1 087 059	48 238	<b>1 883 841</b>
Other financial liabilities	9 773 699	194 754	2 688	19 626	16 554	<b>10 007 321</b>
Subordinated debt	106 213	23 303	271 511	1 419 466	3 821 024	<b>5 641 517</b>
<b>Total financial liabilities</b>	<b>33 316 821</b>	<b>8 714 514</b>	<b>37 025 943</b>	<b>34 820 115</b>	<b>8 326 529</b>	<b>122 203 922</b>
<b>Net liquidity gap at 31 December 2007</b>	<b>8 788 099</b>	<b>1 327 727</b>	<b>(9 406 380)</b>	<b>292 741</b>	<b>2 187 231</b>	<b>3 189 418</b>
<b>Cumulative liquidity gap at 31 December 2007</b>	<b>8 788 099</b>	<b>10 115 826</b>	<b>709 446</b>	<b>1 002 187</b>	<b>3 189 418</b>	

The above analysis is based on expected maturities, therefore the entire portfolio of trading securities is classified within demand and less than one month based on Management's assessment of portfolio's realisability.

For the purposes of disclosure of expected maturities the Group makes two adjustment entries to contractual maturities:

- transfer of stable part of current customer accounts into over five years time band,
- all time bands for loans to customers are adjusted to account for statistics on pre-term mortgage loan repayments.

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Bank uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

**28 Financial risk management (Continued)**

The analysis by expected maturities may be summarised as follows at 31 December 2006:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	10 996 406	-	-	-	-	10 996 406
Mandatory cash balances with CBRF	766 710	-	-	-	-	766 710
Trading securities	6 673 655	-	-	-	-	6 673 655
Due from other banks	2 323 849	-	-	-	-	2 323 849
Loans and advances to customers	3 038 865	5 080 381	20 612 362	10 761 473	3 262 109	42 755 190
Repurchase receivables	182 338	-	-	-	-	182 338
Other financial assets	20 011	-	-	-	-	20 011
<b>Total financial assets</b>	<b>24 001 834</b>	<b>5 080 381</b>	<b>20 612 362</b>	<b>10 761 473</b>	<b>3 262 109</b>	<b>63 718 159</b>
<b>Liabilities</b>						
Due to other banks	4 148 620	1 678 432	8 821 688	4 124 763	117 011	18 890 514
Customer accounts	12 430 520	1 346 738	4 165 675	389 112	1 593 945	19 925 990
Debt securities issued	2 034 661	1 632 413	7 510 784	6 902 093	-	18 079 951
Other borrowed funds	-	79 822	161 791	1 424 680	170 112	1 836 405
Other financial liabilities	21 362	-	-	-	-	21 362
Subordinated debt	-	57 370	88 625	588 897	1 121 399	1 856 291
<b>Total financial liabilities</b>	<b>18 635 163</b>	<b>4 794 775</b>	<b>20 748 563</b>	<b>13 429 545</b>	<b>3 002 467</b>	<b>60 610 513</b>
<b>Net liquidity gap at 31 December 2006</b>	<b>5 366 671</b>	<b>285 606</b>	<b>(136 201)</b>	<b>(2 668 072)</b>	<b>259 642</b>	<b>3 107 646</b>
<b>Cumulative liquidity gap at 31 December 2006</b>	<b>5 366 671</b>	<b>5 652 277</b>	<b>5 516 076</b>	<b>2 848 004</b>	<b>3 107 646</b>	<b>-</b>

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

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



**29 Management of Capital**

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Net assets under Russian GAAP	7 563 370	4 930 390
Less intangible assets	(26 945)	(374)
Plus subordinated debt	5 506 531	1 843 177
Other	257 020	355 444
<b>Total regulatory capital</b>	<b>13 299 976</b>	<b>7 128 637</b>

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

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

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Tier 1 capital</b>		
Share capital	1 954 609	1 714 609
Share premium	3 393 682	2 060 896
Retained earnings	2 031 976	1 178 774
<b>Total tier 1 capital</b>	<b>7 380 267</b>	<b>4 954 279</b>
<b>Tier 2 capital</b>		
Subordinated debt	3 690 134	1 856 291
<b>Total tier 2 capital</b>	<b>3 690 134</b>	<b>1 856 291</b>
<b>Total capital</b>	<b>11 070 401</b>	<b>6 810 570</b>

Certain capital requirements are externally imposed on the Group and the Bank by its creditors under different lending programs disclosed in Note 18. Though compliant with statutory capital requirements, at 31 December 2007 the Group was not in compliance with Basel capital adequacy requirements set by its lending agreements with several international finance institutions and banks. Refer to Note 30.

### **30 Contingencies and Commitments**

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

At 31 December 2007 the Group was engaged in litigation proceedings with individuals in relation to fraudulent sale of securities from the Bank's custody. The proceeds from the sale were returned to the Bank but blocked on its current account until the final court ruling becomes effective. No provision has been made for impairment as the Group's Management believes that restrictions on the use of the asset do not have a material impact on the Group's financial position. Refer to Notes 7 and 30.

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

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

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

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

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

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

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

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

**Capital expenditure commitments.** At 31 December 2007 the Group had contractual capital expenditure commitments in respect of premises and equipment totalling RR 162 590 thousand (31 December 2006: RR 55 443 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**30 Contingencies and commitments (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Not later than 1 year	166 062	37 421
Later than 1 year and not later than 5 years	348 235	106 024
Later than 5 years	107 996	55 273
<b>Total operating lease commitments</b>	<b>622 293</b>	<b>198 718</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its other borrowed funds. As at 31 December 2007 the Group breached two covenants, in particular:

- Capital Adequacy Ratio;
- ratio of Operating Expenses to Operating Income.

The breaches occurred due to the following reasons:

- relatively high limits set for covenants;
- technical problems with the registration by the CBRF of the share issue of the Bank in the amount of 267 mln EUR in December 2007;
- more intensive development of the Bank, as well as its regional expansion, implemented by KBC Group after the Bank's acquisition that caused substantial increase in operating expenses.

The Group discussed the reasons for such non-compliance with its creditors, the acceptance of the Bank's explanations by the creditors is confirmed by the absence of subsequent withdrawal of the funding and the fact that the liabilities of the Bank under these lending programmes have not been deemed defaulted. The share issue of the Bank was registered by the CBRF on 21 March 2008. Refer to Note 35.

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

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

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Undrawn credit lines	15 026 996	7 443 149
Import letters of credit	1 908 074	3 051 341
Guarantees issued	998 482	1 289 100
<b>Total credit related commitments</b>	<b>17 933 552</b>	<b>11 783 590</b>

**30 Contingencies and commitments (Continued)**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of issued financial guarantees was RR 26 132 thousand at 31 December 2007 (31 December 2006: RR 23 784 thousand). Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Russian roubles	9 550 314	5 265 730
US Dollars	5 877 738	4 196 649
Euro	2 505 500	2 321 211
<b>Total</b>	<b>17 933 552</b>	<b>11 783 590</b>

**Fiduciary assets.** These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007 Nominal value</b>	<b>31 December 2006 Nominal value</b>
Corporate bonds held in custody of the National Depository Centre	2 825 821	394 363
Client OFZ securities held in custody of the National Depository Centre	2 117 795	65 638
Shares in companies and corporate bonds held in custody of other depositories	213 318	204 847
Municipal bonds held in custody of the National Depository Centre	207 367	107 912
Shares in companies held in custody of the National Depository Centre	145 778	22 632
Corporate shares held in custody of the Depository and Clearing Company	18 496	13 508

**Trust activities of the Group.** The assets under management are not reported on the Group's consolidated balance sheet as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programmes. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

<i>In thousands of Russian Roubles</i>	<b>31 December 2007 Fair Value</b>	<b>31 December 2006 Fair Value</b>
Corporate shares	1 982 656	78 805
Corporate bonds	294 677	28 603
Cash at brokers	31 574	32 904
Futures, long position	45 322	41 942
Options, long position	207	-
Options, short position	(479)	-

The substantial increase in the total amount of assets under management was attributed to one off transaction with a former shareholder of the Bank who placed his assets under the Group's management for a short period of time.

Income from asset management activities is disclosed within other operating income. Refer to Note 25.

The Bank is licensed for asset management activities by the Federal Commission on Securities Markets.

**30 Contingencies and commitments (Continued)**

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

<i>In thousands of Russian Roubles</i>	Notes	31 December 2007		31 December 2006	
		Asset pledged	Related liability	Asset pledged	Related liability
Due from other banks	9, 19	32 401	36 181	-	-
Repurchase receivable	11, 15, 16	333	333	182 338	162 917
Mortgage loans pledged under mortgage lending program with IFC	10, 18	412 580	370 209	441 610	402 008
Mortgage loans pledged as collateral under the residential mortgage lending program with BSTDB	10, 18	393 767	341 927	1 161	367 996
<b>Total</b>		<b>839 081</b>	<b>748 650</b>	<b>625 109</b>	<b>932 921</b>

Mandatory cash balances with the CBRF in the amount of RR 1 185 151 thousand (31 December 2006: RR 766 710 thousand (31 December 2005: RR 325 638 thousand) represent mandatory reserve deposits placed with the Central Bank of the Russian Federation, which are not available to finance the Group's day to day operations.

In addition to the assets and related liabilities listed above the Group has the cash balance of RR 356 493 thousand blocked on its correspondent account until the court ruling and non-interest bearing security/ liquidity deposits of RR 26 524 thousand (31 December 2006: RR 4 001 thousand) placed with the settlement systems. The balances are disclosed within other financial assets. Refer to Note 13.

**31 Derivative Financial Instruments**

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

**31 Derivative financial instruments (Continued)**

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

	Notes	31 December 2007		31 December 2006	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Russian Roubles</i>					
<b>Foreign exchange forwards: fair values, at the balance sheet date, of 13, 19</b>					
- USD receivable on settlement (+)		2 071 183	12 850 372	1 305 983	1 591 614
- USD payable on settlement (-)		(7 756 112)	(1 057 788)	(173 408)	(173 502)
- Euros receivable on settlement (+)		661 171	140 139	173 483	173 483
- Euros payable on settlement (-)		(1 157 768)	(459 945)	(173 483)	(936 806)
- RR receivable on settlement (+)		7 350 710	1 032 831	-	-
- RR payable on settlement (-)		(859 575)	(12 811 122)	(1 128 563)	(665 475)
- GBP payable on settlement		(49 011)	-	-	-
- JPY payable on settlement		(21 847)	-	-	-
- CHF payable on settlement		(15 472)	-	-	-
<b>Foreign exchange futures: fair values, at the balance sheet date, of</b>					
- USD receivable on settlement (+)		-	488 153	-	-
- RR payable on settlement (-)		-	(509 000)	-	-
<b>Net fair value of foreign exchange forwards</b>	<b>13, 19</b>	<b>223 279</b>	<b>(326 360)</b>	<b>4 012</b>	<b>(10 686)</b>

At 31 December 2007 the Group also had outstanding net obligations of RR 1 725 thousand (31 December 2006: RR 3 776 thousand) from unsettled spot transactions with foreign currencies.

At 31 December 2007 the Group had outstanding obligations to settle sold futures on corporate shares of the leading Russian issuers. Refer to Note 8. The difference between the fair value at the date when the futures position was opened and at 31 December 2007 in the amount of RR 42 334 thousand (31 December 2006: RR 31 650 thousand) represents a gain (31 December 2006: loss) which has already been credited to (31 December 2006: deposited on) a margin account with the stock exchange and included in gains less losses from operations with equity derivatives. The gross value of the corporate shares underlying the futures was RR 1 073 047 thousand at 31 December 2007 (31 December 2006: RR 2 006 197 thousand).

At 31 December 2007 the Group had outstanding obligations under 50 sold futures on MosIBOR overnight rate, the positive fair value of the futures already credited to the Group's margin account with the stock exchange amounted to RR 66 thousand (31 December 2006: no such instruments).

At 31 December 2007 the Group had 20 000 of purchased USD futures with the aggregate nominal value of USD 20 000 thousand and settlement date in March 2008. The negative fair value in the amount of RR 20 847 thousand has been deposited on a margin account with the stock exchange (31 December 2006: no such instruments). The amount has been recorded within losses less gains from operations with foreign currency derivatives.

During the year ended 31 December 2007 the Group has recorded a net gain in the amount of RR 228 324 thousand (year ended 31 December 2006: net loss in the amount of RR 195 810 thousand) from operations with equity derivatives.

### 31 Derivative financial instruments (Continued)

During 2007 in order to hedge interest rate gap between fixed interest rate loans and advances to customers and floating interest rate interbank liabilities the Group entered into several interest rate swaps and a collar transaction with Merrill Lynch. The derivatives mature from 2009 to 2014 and at 31 December 2007 have a gross negative fair value of RR 36 181 thousand and a gross positive fair value of RR 161 thousand.

### 32 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

**Financial instruments carried at fair value.** Trading securities and financial derivatives, including those classified as repurchase receivable are carried on the consolidated balance sheet at their fair value.

The fair value of all trading securities and financial derivatives except interest rate swaps and collars is determined based on quotes in active market. The fair value of interest rate swaps and collars is determined based on the valuation provided by the Group's counterparty in such transactions - Merrill Lynch. Unless otherwise specified, these valuations represent estimated mid-market valuations. Such mid-market values attempt to approximate the current economic value of a given position using prices and rates at the average of the estimated bid and offer for the respective underlying assets or reference rates and/or mathematical models, as Merrill Lynch have deemed appropriate.

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

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

<i>In thousands of Russian Roubles</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Loans and advances to customers – Note 10</i>		
Corporate loans	10.4 % to 12.0 % p.a.	9.8 % to 14.0 % p.a.
Trade finance	10.4 % to 12.0 % p.a.	9.8 % to 14.0 % p.a.
Financial leasing	10.4 % to 12.0 % p.a.	9.8 % to 14.0 % p.a.
SME loans	13.2 % to 15.3 % p.a.	14.8 % to 23.1 % p.a.
Mortgage loans	11.8 % to 12.2 % p.a.	13.3 % to 14.8 % p.a.
Car loans	9.6 % to 11.5 % p.a.	9.9 % to 16.1 % p.a.
Consumer loans	12.5 % to 19.0 % p.a.	13.2 % to 17.3 % p.a.

The Group believes that the carrying amount of due from other banks balances closely approximates their fair value as all the loans granted to other banks are of a short term nature and expire shortly after the balance sheet date. Refer to Note 9.

Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

### **32 Fair value of financial instruments (Continued)**

**Liabilities carried at amortised cost.** The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, 17, 18 and 21 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively. Discount rates used were consistent with the Bank’s credit risk and also depend on currency and maturity of the instrument and ranged from 4.6% p.a. to 10.3% p.a. (31 December 2006: from 7.9% p.a. to 10.4% p.a.)

**Derivative financial instruments.** All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to Note 31.

### **33 Reconciliation of Classes of Financial Instruments with Measurement Categories**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

As at 31 December 2007 all of the Group’s financial assets except for trading securities, repurchase receivables and derivatives for the total amount of RR 8 947 903 thousand (31 December 2006: RR 6 861 070 thousand) relate to loans and receivables measurement category, i.e. are carried at amortised cost.

As at 31 December 2007 all of the Group’s financial liabilities except for derivatives for the total amount of RR 346 025 thousand (31 December 2006: RR 15 526 thousand) are carried at amortised cost. Derivatives (Notes 19 and 31) belong to the fair value through profit or loss measurement category.



### 34 Related Party Transactions

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

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

	Parent company	Other significant shareholders	Entities under common control	Key manage- ment personnel and other individuals- related parties
<i>In thousands of Russian Roubles</i>				
Cash and cash equivalents	3 957	-	-	-
Due from other banks (contractual interest rate: 4.1 – 4.9%%)	8 307 285	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 10.0 – 14.0%)	-	-	1 138 545	12 288
Impairment provisions for loans and advances to customers at 31 December	-	-	(10 782)	(161)
Due to other banks (contractual interest rate: 4.8– 8.0%%)				
- trade finance	926 345	-	65 267	-
- current term placements	34 216 159	-	-	-
Customer accounts				
- current accounts	-	-	281 546	22 202
- deposits (contractual interest rate: 6.5 – 10.3%%)	-	-	-	450 105
Debt securities in issue (contractual interest rate: 9.1%)	124 680	-	-	-
Other borrowed funds (contractual interest rate: 8.5 – 9.1%)	-	370 209	-	-
Other financial liabilities	9 114 456	479 708	-	-
Other liabilities	2 132	-	-	42 854
Subordinated debt (contractual interest rate: 5.8 – 8.0%%)	5 138 508	-	-	-

**34 Related Party Transactions (Continued)**

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

	Parent company	Other significant shareholders	Entities under common control	Key management personnel and other individuals-related parties
<i>In thousands of Russian Roubles</i>				
Interest income	18 002	-	107 959	4 999
Interest expense	(600 760)	(66 390)	(14 380)	(7 206)
Provision for loan impairment	-	31	5 557	1 021
Gains less losses from trading in foreign currencies	6 282	845	2 006	-
Fee and commission income	-	-	3 257	155
Fee and commission expense	(2 132)	-	-	-
Other operating income	-	-	24 872	-
Administrative and other operating expenses (other than staff costs)	-	-	(2 100)	-

At 31 December 2007, other rights and obligations with related parties were as follows:

	Parent company	Other significant shareholders	Entities under common control	Key management personnel
<i>In thousands of Russian Roubles</i>				
Undrawn credit lines	-	-	99 070	23 989
Operating lease commitments (Group as a lessor)	-	-	20 712	-

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

	Shareholders	Entities under common control	Key management personnel and their related parties
<i>In thousands of Russian Roubles</i>			
Gross amount of loans and advances to customers (contractual interest rate: 13 % p. a.)	626	549 264	50 365
Impairment provisions for loans and advances to customers at 31 December 2006	(31)	(16 339)	(1 182)
Customer accounts			
- current accounts	(170 920)	(1 413 059)	(362)
- deposits (contractual interest rate: 7.5 – 11.2%%)	(112 425)	-	(24 331)
Debt securities in issue	(5)	-	-
Other borrowed funds (contractual interest rate: 8.5 – 9.1%%)	(402 008)	-	-
Other liabilities	-	-	29 101
Subordinated debt (contractual interest rate: 10.1- 10.3%%)	(1 316 448)	-	-

**34 Related Party Transactions (Continued)**

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

	Shareholders	Companies controlled by shareholders	Key management personnel and individuals- their related parties
<i>In thousands of Russian Roubles</i>			
Interest income	1 194	10 963	3 254
Interest expense	(71 885)	(3 126)	(2 176)
Impairment (provision)/release of provision for loans and advances to customers	(17)	(11 109)	359
Gains less losses from trading in foreign currencies	(1 523)	2 120	-
Fee and commission income	411	6 631	91
Administrative and other operating expenses (other than staff costs)	-	(8 806)	(3 878)

At 31 December 2006, other rights and obligations with related parties were as follows:

	Shareholders	Companies controlled by shareholders	Key management personnel and individuals- their related parties
<i>In thousands of Russian Roubles</i>			
Import letters of credit at the year end	-	147 065	-
Undrawn credit lines	-	26 959	-

Key management compensation (members of the Management board and the Board of Directors) is presented below:

	31 December 2007		31 December 2006	
	Expense	Accrued liability	Expense	Accrued liability
<i>In thousands of Russian Roubles</i>				
<i>Short-term benefits:</i>				
- Salaries	78 515	-	60 190	-
- Annual bonuses and compensation for unused holidays	42 633	42 633	21 445	21 445
<b>Total</b>	<b>121 148</b>	<b>42 633</b>	<b>81 635</b>	<b>21 445</b>

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

### **35 Subsequent Events**

In January and February 2008 the Group repurchased 6.5 thousand of 9.13% loan participation notes issued by Absolut Finance S.A. due March 2010. The total consideration paid amounted to RR 170 881 thousand. The purchase price ranged from 104.0 to 105.1 per bond.

On 30 January 2008 the Group repaid before the maturity date the total amount due to BSTDB. The prepayment amount equalled RR 343 578 thousand. Refer to Note 18.

In February 2008 the CBRF registered the opening of the 13<sup>th</sup> branch of the Bank in Saratov.

In February 2008 the Bank has closed with the gain in the amount of RR 254 238 thousand the foreign exchange forward deals with individuals, which were outstanding at 31 December 2007. The positive fair value of these derivatives as at the reporting date amounted to RR 203 114 thousand. Refer to Note 13.

On 21 March 2008 the CBRF registered the share issue of the Bank in the amount of 50 million shares. As a result, the share capital of the Bank has increased by RR 500 000 thousand and amounted to RR 2 454 609 thousand. The share premium increased by RR 9 289 074 thousand and amounted to RR 12 682 756 thousand. KBC Bank N.V., Belgium has retained its share in the Bank's capital at 95 per cent. Refer to Note 22.

On 28 March 2008 the Group repaid before the maturity date the total amount due to National City Bank. The prepayment amount equalled RR 543 293 thousand. Refer to Note 18.

In January - March 2008 the Bank has attracted substantial amount of both RR and foreign currency-denominated funds from its parent KBC Bank N.V., Belgium. Most of the funds have been raised at a fixed interest rate:

- the aggregate amount of funds raised in RR equalled RR 5 000 000 thousand, had maturity dates from January to September 2009 and fixed contractual interest rates from 6.0 to 7.7% p.a.

- RR equivalent of EUR 50 000 thousand raised in March 2008 with maturity in May 2008 and fixed contractual interest rates of 4.60 - 4.65% p.a. amounted to RR 1 838 969 thousand.

- RR equivalent of USD 150 000 thousand raised in March 2008 with maturity dates from March 2010 to March 2015 and fixed contractual interest rates from 4.57 to 5.15% p.a. amounted to RR 3 560 005 thousand. Floating interest rate borrowings from KBC Bank N.V., Belgium in USD after the reporting date have been represented by a USD 17 500 thousand (RR equivalent of 411 523 thousand) loan at a rate of 6 month LIBOR + 0.5% p.a. repayable in 7 equal semi-annual instalments starting from September 2008.