SMALL BUSINESS CREDIT BANK
(CLOSED JOINT-STOCK COMPANY)

Consolidated Financial Statements
Together with Independent Auditors' Report

Year ended 31 December 2007

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)

We have audited the accompanying consolidated financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its subsidiary ZAO KMB-Leasing (the "Bank"), 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

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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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

Opinion

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

5 March 2008

In thousands of Russian Roubles	Notes	2007	2006
Assets			
Cash and cash equivalents	6	1 040 873	888 206
Mandatory cash balances with the Central Bank of the Russian Federation		251 449	244 111
Trading securities	7	2 817 354	1 472 868
Due from other banks	8	1 707 952	841 736
Loans and advances to customers	9	31 501 292	19 251 681
Finance lease receivables	10	1 724 085	1 050 472
Deferred tax assets	25	86 641	118 109
Premises and equipment	11	422 281	280 776
Tax assets		286 007	119 274
Other assets	12	771 976	293 988
Intangible assets	13	92 026	66 554
Total assets		**40 701 936**	**24 627 775**
Liabilities			
Due to banks	14	7 154 892	5 720 053
Due to customers	15	4 743 144	5 264 275
Debt securities issued	16	3 442 266	3 462 650
Other borrowings	17	19 805 481	6 590 590
Deferred tax liabilities	25	1 055	697
Tax liabilities		106 305	93 816
Other liabilities		435 931	287 397
Subordinated debts	18	549 499	593 941
Total liabilities		**36 238 573**	**22 013 419**
Shareholders' equity			
Share capital	19	4 289 080	2 989 082
Share premium	20	84 182	84 182
Retained earnings/(accumulated losses)	21	90 101	(458 908)
Total shareholders' equity		**4 463 363**	**2 614 356**
Total liabilities and shareholders' equity		**40 701 936**	**24 627 775**

Approved for issue by the Board of Directors and signed on its behalf on 5 March 2008.

Reiner Mueller-Hanke
Chief Executive Officer

Darya Tyurina
Head of Financial Planning and Control Division

In thousands of Russian Roubles	Notes	2007	2006
Interest income	22	4 907 447	3 252 403
Interest expense	22	(1 562 500)	(984 001)
Net interest income		**3 344 947**	**2 268 402**
Provision for loan and finance lease impairment	9,10	(526 602)	(323 929)
Net interest income after provision for loan and finance lease impairment		**2 818 345**	**1 944 473**
Losses from trading securities		(32 419)	(3 954)
Net losses from trading in foreign currencies		(303 791)	(303 965)
Net losses from sale of financial assets		–	(643)
Net foreign exchange translation gains		387 333	323 802
Fee and commission income	23	257 402	247 872
Fee and commission expense	23	(45 953)	(32 835)
Other operating income		37 004	15 072
Operating income		**3 117 921**	**2 189 822**
Operating expenses	24	(2 329 424)	(1 736 461)
Profit before tax		**788 497**	**453 361**
Income tax expense	25	(239 488)	(140 611)
Net profit		**549 009**	**312 750**

In thousands of Russian Roubles	Notes	Share capital	Share premium	(Accumulated losses)/retained earnings	Total shareholders' equity
Balance as at 1 January 2006		**1 639 079**	**84 182**	**(771 658)**	**951 603**
2006 net profit		–	–	312 750	312 750
Share issue					
- Nominal value	19	1 350 003	–	–	1 350 003
Balance as at 31 December 2006		**2 989 082**	**84 182**	**(458 908)**	**2 614 356**
2007 net profit		–	–	549 009	549 009
Share issue					
- Nominal value	19	1 299 998	–	–	1 299 998
Balance as at 31 December 2007		**4 289 080**	**84 182**	**90 101**	**4 463 363**

In thousands of Russian Roubles	Notes	2007	2006
Cash flows from operating activities			
Interest received		5 453 397	3 590 011
Interest paid		(1 591 345)	(816 234)
Expenses paid on trading in foreign currencies		(138 820)	(175 677)
(Expenses paid)/income received from trading securities		(30 975)	3 874
Loss on sale of financial assets		–	(643)
Fees and commissions received		368 637	340 369
Fees and commissions paid		(45 953)	(33 051)
Other operating income received		36 000	14 996
Operating expenses paid		(2 171 480)	(1 603 703)
Income tax paid		(301 904)	(116 276)
Cash flows from operating activities before changes in operating assets and liabilities		**1 577 557**	**1 203 666**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(7 338)	(117 415)
Net increase in trading securities		(1 307 429)	(945 563)
Net increase in due from other banks		(878 770)	(206 878)
Net increase in loans and advances to customers		(13 142 288)	(8 008 425)
Net increase in finance lease receivables		(1 374 207)	(885 847)
Net increase in other assets		(636 417)	(205 016)
Net increase/(decrease) in due to banks		1 501 747	(2 377 957)
Net (decrease)/increase in due to customers		(493 767)	1 345 221
Net decrease in debt securities issued		(24 053)	(456 200)
Net increase in other liabilities		63 531	70 716
Net cash used in operating activities		**(14 721 434)**	**(10 583 698)**
Cash flows from investing activities			
Purchase of fixed and intangible assets	11, 13	(290 438)	(171 321)
Proceeds from disposal of premises and equipment		1 808	197
Purchase of investment securities available-for-sale		–	(4 410)
Net cash used in investing activities		**(288 630)**	**(175 534)**
Cash flows from financing activities			
Proceeds from other borrowings		260 232 685	5 415 461
Repayments of other borrowings		(246 358 801)	(105 841)
Issuance of ordinary shares	19	1 299 998	1 350 003
Issuance of bonds		–	3 386 453
Net cash from financing activities		**15 173 882**	**10 046 076**
Effect of exchange rate changes on cash and cash equivalents		**(11 151)**	**(56 190)**
Net increase/(decrease) in cash and cash equivalents		**152 667**	**(769 346)**
Cash and cash equivalents at the beginning of the year		888 206	1 657 552
Cash and cash equivalents at the end of the year	6	**1 040 873**	**888 206**

In thousands of Russian Roubles

1 Principal Activities

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) (the "Bank") is a commercial bank organised in the form of a closed joint-stock company and owned by shareholders whose liability is limited. The shareholders of the Bank as at 31 December 2007 and 31 December 2006 are:

Shareholder	Ownership of the Bank, % 2007	2006
Intesa Holding International SA (Luxembourg)	74.9996	74.9995
European Bank for Reconstruction and Development (the "EBRD") (United Kingdom)	25.0004	25.0005

In April 2005, the Bank's former shareholders signed a share purchase agreement with Intesa Holding International SA, Luxembourg (a subsidiary of Intesa Sanpaolo SpA, Italy) for the acquisition by Banca Intesa of a 75% stake minus one share in the Bank. The transaction was finalized in September 2005, following the approval of relevant regulatory authorities. The EBRD kept a 25% stake plus one share in the Bank and agreed to a put-call option with Banca Intesa exercisable beginning from 2010.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 31 December 1992.

The Bank's principal business activity is lending to micro, small and medium sized businesses, as well as individual proprietors within the Russian Federation. The Bank is engaged in a program of the EBRD to support the businesses of small to medium sized companies by providing them with lending facilities.

In 2004, the Bank entered into the consumer lending business and was also admitted as a participant in the deposit insurance program of the Russian Federation.

The Bank has a wholly owned and controlled subsidiary, ZAO "KMB-Leasing". It is primarily engaged in the provision of leasing services to the Bank's clients and other companies. The financial results of the subsidiary are included in these consolidated financial statements of the Bank.

The Bank's head office is located in Moscow and it has 8 branches within the Russian Federation in the cities of Saint Petersburg, Nizhniy Novgorod, Ekaterinburg, Omsk, Samara, Novosibirsk, Barnaul and Rostov-on-Don (2007: 7 branches). As at 31 December 2007 the Bank has 58 offices selling banking products in different cities within the Russian Federation (2007: 52 offices). During 2007 the Bank opened a branch in Rostov-on-Don, 6 other offices in the cities of Moscow, Nizhniy Novgorod, Ekaterinburg, Samara; and closed one office in Saint Petersburg.

The Bank's registered office is located at the following address: 31 Shabolovka St., bldg. B, Moscow, 115162, Russia.

As at 31 December 2007, the Bank employed 1 673 employees (2006: 1 416).

2 Operating Environment of the Bank

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

3 Basis of Preparation

General

These consolidated financial statements comprise the financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its subsidiary, ZAO KMB Leasing, (together referred to as the "Bank").

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements include the financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its wholly owned and controlled subsidiary, ZAO "KMB-Leasing", collectively referred to as the"Bank".

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Roubles ("RUB") unless otherwise indicated.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Bank's operations are highly integrated and primarily constitute a single industry segment, retail banking. Accordingly, for the purposes of IAS 14 "Segment Reporting" the Bank is treated as one business segment.

Changes in accounting policies

During the year, the Bank has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Bank. The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"

This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital. These new disclosures are shown in Note 30.

In thousands of Russian Roubles

3 Basis of Preparation (Continued)

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that have been issued but are not yet effective:

IAS 23 "Borrowing Costs"

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 "Service Concession Arrangements"

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this interpretation will have no impact on the Bank.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Bank expects that this Interpretation will have no impact on the financial position or performance of the Bank.

Subsidiary

The consolidated financial statements include the following subsidiary as of 31 December 2007 and 2006:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership, %	Country of registration
ZAO "KMB-Leasing"	Leasing	100	100	Russian Federation

4 Significant Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4 Significant Accounting Policies (Continued)

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms 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 Bank 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.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

Amortised cost is the amount at which a 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, are not presented separately and are included in the carrying values of the 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 and points 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).

4 Significant Accounting Policies (Continued)

Financial assets

Initial recognition of financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

A gain or loss on initial recognition is only recorded if there is a difference between the 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 regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. 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 and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process. The Bank currently has no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans originated by the Bank by providing money directly to the borrower at drawdown, other than those that are originated with the intent of being sold immediately or in the short-term, are categorised as loans.

Loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at the origination date.

The Bank does not enter into purchases of loans from third, or related, parties.

4 Significant Accounting Policies (Continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

Offsetting

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

Determination of fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. The Bank has not used valuation techniques for determining the fair value of any assets during the current or prior year.

Disclosures of fair value are not required for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably.

The Bank's investments in immaterial unquoted equity instruments, for which the Bank did not estimate fair value, are recorded in the consolidated balance sheet at cost. The fair value information has not been disclosed for these shares because their fair value cannot be measured reliably. The shares are not traded and there are no similar quoted instruments on the market. The carrying amount of these shares is RR 4 410 thousand. The purpose of the investment is gaining access to the information on borrowers for credit risk assessment. The Bank has no intention to dispose of these shares.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including forward foreign exchange contracts. Such financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are estimated from quoted market prices, or using the spot rate at the year end considering the initial difference between the foreign exchange forward deal rate and spot rate at the deal date as the basis, as appropriate. All derivative instruments are carried as part of other assets when fair value is positive and as part of other liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in net gains/(losses) from trading in foreign currencies.

The Bank does not apply hedge accounting.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement. Currently there are no embedded derivatives recognised in the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding obligatory reserves, and items which can be converted into cash within one day and are free from contractual encumbrances. All short term interbank placements, beyond overnight placements, are included in due from other banks.

4 Significant Accounting Policies (Continued)

Mandatory cash balances with the CBRF

Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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 Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. less than 1 month. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are classified as "financial assets at fair value through profit and loss" and carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of income as interest income. 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.

Promissory notes

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

Due from other banks

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method.

Those that do not have fixed maturities are carried at cost. Amounts due from other banks are carried net of any provision for impairment, where required. Provisions for impairment establishment, calculation and recognition are the same as defined in originated loans and advances and provision for loan impairment.

Provisions for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

A credit risk provision for loan and finance lease impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to the original contractual terms. Objective evidence includes actual breach of contract (for example, missed payment), financial difficulties of the borrower, probability of bankruptcy or other financial reorganisation of the borrower, adverse changes in the payment status of the borrower or deterioration in economic conditions which the borrower operates. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

4 Significant Accounting Policies (Continued)

Provisions for impairment of financial assets (continued)

The provision for loan and finance lease impairment also covers losses where there is objective evidence that probable losses are present in components of the loan and finance lease portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflection of the current economic environment in which the borrowers operate.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

When a loan or finance lease receivable is uncollectible, it is written off against the related provision for loan and finance lease impairment. Individually significant loans and finance lease receivables are written off on an individual basis at the decision of the Credit Committee and ultimately the Board of Directors of the Bank. Loans and finance lease receivables not individually significant are written off when they have no realisable security and are overdue for more than 90 days.

If the amount of the provision for loan and finance lease impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan and finance lease impairment in the consolidated statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

4 Significant Accounting Policies (Continued)

Provisions

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

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including letters of credit, guarantees and other commitments (refer to Note 27). Specific provisions are recorded against other credit related commitments when losses are considered probable.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Leases

Operating - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Finance - Bank as lessor

Upon commencement of a finance lease, the Bank records the net investment in lease, which consists of the sum of the minimum lease term payments and unguaranteed residual value (together gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income is recognised based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

Current lease payments due at the balance sheet date are classified as lease payments receivable in the accompanying consolidated balance sheet.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- a lease is classified as a finance lease; and
- the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

4 Significant Accounting Policies (Continued)

Equipment purchased for leasing purposes

The Bank records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and being transferred to the lessee.

Settlements on equipment purchased for leasing purposes are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Finance income from leases is recorded within interest income in the consolidated statement of income.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Premises and equipment are not depreciated until they are available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. 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 recoverable amount.

The assets' residual values, useful lives and depreciation methods are reviewed at each financial year-end.

Gains and losses on disposal of premises and equipment are determined by reference to the carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

4 Significant Accounting Policies (Continued)

Depreciation

Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

	per annum, %
Premises	3
Office and computer equipment	20
Intangible assets	20-33

Intangible assets

Intangible assets include licenses and computer software. Amortisation is applied on a straight-line basis over their estimated useful lives, not exceeding a period of 5 years. Intangible assets are amortised only when they are available for use. Amortisation of intangible assets is included in operating expenses in the income statement.

Costs associated with maintaining computer software programmes and internal costs associated with computer software program development are recognised as an expense as incurred. All external computer software development costs (relating to the design and testing of new or substantially improved software), excluding training, are capitalised and recognised as intangible assets only when the technology is brought into use.

At each reporting date the Bank assesses whether there is any indication of impairment of intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. 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 recoverable amount.

Borrowings

Borrowings, including due to banks, due to customers, other borrowings and subordinated debts are recorded initially at cost, being the proceeds upon issue (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Debt securities issued

Debt securities issued include promissory notes and bonds issued by the Bank. Debt securities in issue are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method.

If the Bank purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issuance of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

4 Significant Accounting Policies (Continued)

Share premium

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

Accrued interest income and accrued interest expense

Accrued interest income and accrued interest expense, including amortised discount, are included in the carrying values of related balance sheet items.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issue and points paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issue. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs, as mentioned above) and recorded as an adjustment to the effective interest on loans.

Service fees are recorded based on the applicable service contracts.

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as net foreign exchange translation gains/(losses).

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBRF exchange rates at 31 December 2007 and 2006, were 24.5462 Roubles and 26.3311 Roubles to 1 USD, respectively. Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Russian legislation currently in force. The income tax charge in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Russia also has various operating taxes, that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within individual entities.

In thousands of Russian Roubles

4 Significant Accounting Policies (Continued)

Staff costs and related contributions

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. The Bank's contributions to the Russian Federation State pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs. The Bank has no post-retirement benefits or other significant compensation benefits requiring accrual.

5 Significant Accounting Judgements and Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances to customers

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulty and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances. 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.

6 Cash and Cash Equivalents

	2007	2006
Cash on hand	235 548	178 988
Cash balances with the CBRF (other than mandatory reserve deposits)	725 517	465 245
Correspondent accounts and overnight placements with other banks		
- Russian Federation	6 660	12 590
- Other countries	73 148	231 383
Total cash and cash equivalents	**1 040 873**	**888 206**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

7 Trading Securities

	2007	2006
Central Bank of Russian Federation bonds	498 560	943 111
Corporate bonds	1 323 229	268 995
Municipal bonds	724 792	156 595
Federal loan bonds (OFZ bonds)	270 773	104 167
Total trading securities	**2 817 354**	**1 472 868**

In thousands of Russian Roubles

7 Trading Securities (continued)

Central Bank of Russia Federation bonds are Russian Rouble denominated bonds issued by the CBRF. Central Bank of Russia Federation bonds have maturity dates from 17 March 2008 to 16 June 2008 and a yield to maturity from 5.0% to 5.5% per annum, depending on the type of bond issue.

Corporate bonds are Russian Rouble denominated securities issued by major Russian banks and companies. Corporate bonds have maturity dates from 3 March 2008 to 15 June 2018, coupon rates from 7.1% to 13.8% per annum and a yield to maturity from 6.8% to 13.3% per annum, depending on the bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the Moscow city, Moscow region Government and Regional Governments of Russian Federation. Municipal bonds have maturity dates from 3 August 2008 to 15 February 2017, coupon rates from 6.98% to 11.0% per annum and a yield to maturity from 5.8% to 10.8% per annum.

OFZ are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from 24 April 2009 to 5 May 2010, coupon rates from 5.8% to 6.3% per annum and a yield to maturity from 5.8% to 6.0% per annum.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26.

8 Due from Other Banks

Amounts due from other banks represent current short-term interbank placements with Russian and foreign banks. As at 31 December 2007, the Bank had twelve placements in total.

As at 31 December 2007, the estimated fair value of due from other banks was RUB 1 707 952 thousand (2006: RUB 841 736 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26. The information on related party transactions is disclosed in Note 29.

9 Loans and Advances to Customers

	2007	**2006**
Term loans	32 040 741	19 461 435
Overdrafts	658 940	468 896
Total loans and advances to customers before impairment	32 699 681	19 930 331
Less: Provision for loan impairment	(1 198 389)	(678 650)
Total loans and advances to customers	**31 501 292**	**19 251 681**

Movements in the provision for loan impairment are as follows:

	2007	**2006**
Provision for loan impairment as at 1 January	**678 650**	**339 256**
Provision for loan impairment during the year	511 650	321 818
Loans and advances to customers written off during the year as uncollectible	–	–
Recovery of loans and advances to customers previously written off as uncollectible	8 089	17 576
Provision for loan impairment as at 31 December	**1 198 389**	**678 650**

As at 31 December 2007, the total amount of overdue outstanding payments on loans was RUB 358 246 thousand (2006: RUB 155 627 thousand).

In thousands of Russian Roubles

9 Loans and Advances to Customers (Continued)

Interest income accrued on loans, for which individual impairment allowances have been recognised, as at 31 December 2007, comprised RUB 19 697 thousand (2006 – RUB 10 538 thousand).

As at 31 December 2007, the customer loan portfolio is segregated into five groups of loans by loan product with similar risk characteristics:

	2007		2006	
	Number of loans	**Outstanding balances**	**Number of loans**	**Outstanding balances**
Linked to value loan products (Value, USD equivalent)				
0 – 20 000	40 068	7 386 990	37 169	5 496 203
20 001 – 50 000	9 878	6 054 619	5 351	3 421 869
50 001 – 150 000	4 221	7 082 247	2 496	4 245 707
150 001 – 500 000	1 583	7 442 341	914	4 125 402
more than 500 001	266	3 057 738	121	1 354 985
Total		**31 023 935**		**18 644 166**
Loans and advances not linked to value loan products		1 675 746		1 286 165
Total loans and advances to customers (aggregate amount)		**32 699 681**		**19 930 331**

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

	2007		2006	
	Amount	**%**	**Amount**	**%**
Trade	19 066 514	58	11 275 416	57
Services	8 176 826	25	4 617 023	23
Manufacturing	3 281 614	10	2 661 968	13
Personal loans	1 016 805	3	817 270	4
Other	1 157 922	4	558 654	3
Total loans and advances to customers (aggregate amount)	**32 699 681**	**100**	**19 930 331**	**100**

The majority of loans to customers have monthly principal and interest repayments. The majority of loans and advances to customers are granted either to individual entrepreneurs or to small businesses owned by them. Funds for these loans are partially provided by the EBRD under the program to support small businesses in Russia (refer to Note 14). The Bank bears credit risk on these loans.

As at 31 December 2007, the 20 largest borrowers of the Bank each had an aggregate loan amount above RUB 30 394 thousand. The total aggregate amount of these loans was RUB 809 290 thousand or 2.5% of the gross loan portfolio (2006: the 20 largest borrowers each had an aggregate loan amount above RUB 25 698 thousand and total aggregate amount of RUB 601 360 thousand or 3.0% of the gross loan portfolio).

Included in other loans and advances to individuals are consumer loans amounting to RUB 775 930 thousand (2006: RUB 701 524 thousand) .

The Bank accepts listed and unlisted securities and other property as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default.

As at 31 December 2007, the estimated fair value of loans and advances to customers was RUB 31 501 292 thousand (2005: RUB 19 251 681 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

In thousands of Russian Roubles

10 Finance Lease Receivables

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum finance lease payments receivable at 31 December 2007	**998 311**	**1 399 516**	**17 283**	**2 415 110**
Unearned finance income	(330 516)	(338 823)	(2 194)	(671 533)
Impairment loss provision	(19 492)	–	–	(19 492)
Present value of lease payments receivable at 31 December 2007	**648 303**	**1 060 693**	**15 089**	**1 724 085**
Minimum finance lease payments receivable at 31 December 2006	**610 945**	**875 559**	**–**	**1 486 504**
Unearned finance income	(209 525)	(221 967)	–	(431 492)
Impairment loss provision	(4 540)	–	–	(4 540)
Present value of lease payments receivable at 31 December 2006	**396 880**	**653 592**	**–**	**1 050 472**

Movements in the impairment loss provision are as follows:

	2007	2006
Impairment loss provision as at 1 January	4 540	2 429
Provision for loss impairment during the year	14 952	2 111
Impairment loss provision as at 31 December	**19 492**	**4 540**

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default.

As at 31 December 2007, there are 1 623 (2006: 1 143) finance lease contracts expiring over the next five years. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term.

Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2007, the 20 largest lessees of the Bank each had a finance lease receivable greater than RUB 6 593 thousand. The total aggregate amount of finance lease receivable related to these lease agreements was RUB 222 626 thousand or 12.8% of the total finance lease receivable amount (2006: the 20 largest lessees each had a finance lease receivable greater than RUB 6 644 thousand and total aggregate amount of RUB 239 300 thousand or 22.7% of the total finance lease receivable amount).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2007 (2006: nil).

As at 31 December 2007, the estimated fair value of finance lease receivable was RUB 1 724 085 thousand (2006: RUB 1 050 472 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of finance lease receivable are disclosed in Note 26.

In thousands of Russian Roubles

11 Premises and Equipment

	Note	Premises	Office and computer equipment	Total
Cost at 1 January 2006		35 100	318 447	353 547
Accumulated depreciation		(439)	(126 998)	(127 437)
Carrying amount at 1 January 2006		**34 661**	**191 449**	**226 110**
Additions		–	129 958	129 958
Disposals (net of accumulated depreciation)		–	(2 028)	(2 028)
Depreciation charge	24	(1 023)	(72 241)	(73 264)
Cost at 31 December 2006		35 100	417 940	453 040
Accumulated depreciation at 31 December 2006		(1 462)	(170 802)	(172 264)
Carrying amount at 31 December 2006		**33 638**	**247 138**	**280 776**
Additions		–	243 744	243 744
Disposals (net of accumulated depreciation)		–	(6 272)	(6 272)
Depreciation charge	24	(1 170)	(94 797)	(95 967)
Cost at 31 December 2007		35 100	627 169	662 269
Accumulated depreciation at 31 December 2007		(2 632)	(237 356)	(239 988)
Carrying amount at 31 December 2007		**32 468**	**389 813**	**422 281**

As at 31 December 2007 and 31 December 2006, premises are represented by a building in Nizhny Novgorod, acquired at the end of 2004, which was put into use in October 2005.

For capital expenditure commitments related to the acquisition of premises and equipment refer to Note 26.

12 Other Assets

	2007	2006
Software Development Costs	393 743	144 574
Prepayments	245 901	92 608
Other	132 332	56 806
Total other assets	**771 976**	**293 988**

Included in other assets above is an amount of RUB 393 743 thousand (2006: RUB 144 574 thousand) which relates to costs incurred in developing software which is not in use as of the balance sheet date. In accordance with the Bank's accounting policy, these costs will be reclassified as an intangible asset when the software is brought into use.

In thousands of Russian Roubles

13 Intangible Assets

	Note	Intangible assets
Cost at 1 January 2006		84 177
Accumulated depreciation		(28 188)
Carrying amount at 1 January 2006		**55 989**
Additions		41 363
Disposals		(18 319)
Depreciation charge	24	(12 479)
Cost at 31 December 2006		107 221
Accumulated depreciation at 31 December 2006		(40 667)
Carrying amount at 31 December 2006		**66 554**
Additions		46 694
Disposals		–
Depreciation charge	24	(21 222)
Cost at 31 December 2007		153 915
Accumulated depreciation at 31 December 2007		(61 889)
Carrying amount at 31 December 2007		**92 026**

Costs incurred in the development of intangible assets are included in other assets. Please see note 12 for further details.

For capital expenditure commitments related to software licenses refer to Note 27.

14 Due to Banks

	2007	2006
Term placements of banks	7 076 032	5 718 528
Correspondent accounts of banks	78 860	1 525
Total due to banks	**7 154 892**	**5 720 053**

Included in term placements of banks is long-term loan from the EBRD totaling RUB 372 231 thousand (2006: RUB 426 276 thousand) representing revolving credit and term loan facilities, used for the financing of loans to small business entities in Russia. These loans mature during 2008 and bear interest of 3.3% - 7.5% per annum.

On 25 November 1998, the Bank signed a revolving credit and term loan facility agreement (the "Combined Small and Micro Loan Agreement") with the EBRD. On 24 August 2000 and 31 October 2001, the Bank signed additional loan agreements with the EBRD (the "Combined Small and Micro Loan Agreement", Tranche II and Tranche III, respectively).

The remaining term placements of banks as at 31 December 2007 are represented by thirteen short-term placements of Russian banks and three long-term placements of international banks.

As at 31 December 2007, the estimated fair value of due to banks was RUB 7 154 892 thousand (2006: RUB 5 720 053 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due to banks are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

In thousands of Russian Roubles

15 Due to Customers

	2007	2006
State and public organisations		
- Current/settlement accounts	42 854	33 708
- Term deposits	99 483	62 033
Other legal entities		
- Current/settlement accounts	2 741 447	2 483 583
- Term deposits	682 431	932 189
Individuals		
- Current/demand accounts	255 118	230 772
- Term deposits	921 811	1 521 990
Total due to customers	**4 743 144**	**5 264 275**

State and public organisations exclude government-owned profit oriented businesses.

As at 31 December 2007, the 16 largest customers of the Bank each had a balance greater than RUB 10 000 thousand. The aggregate balance of these customers was RUB 546 356 thousand or 12.0% of total customer accounts (2006: the 16 largest customers each had a balance greater than RUB 20 000 thousand and aggregate balance of RUB 999 273 thousand or 19.0% of total customer accounts).

As at 31 December 2007, the estimated fair value of customer accounts was RUB 4 743 144 thousand (2006 RUB 5 264 275 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26.

16 Debt Securities Issued

	2007	2006
Bonds	3 407 517	3 404 469
Promissory notes	34 749	58 181
Total debt securities issued	**3 442 266**	**3 462 650**

KMB-Bank bonds are RUB denominated securities with a maturity date of 30 November 2011. KMB-Bank bonds have coupon rate of 7.75% per annum as at 31 December 2007, and a yield to maturity of 7.71% per annum as at 31 December 2007. The Bank's bonds issue terms provide an irrevocable offer for early redemption on the 3rd of December 2008.

Promissory notes have maturities from one month to four years and have a yield to maturity of 5.3% - 13.5% per annum, depending on the currency and maturity.

As at 31 December 2007, the estimated fair value of debt securities in issue was RUB 3 416 733 thousand (2006: RUB 3 504 152 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26.

In thousands of Russian Roubles

17 Other Borrowings

Other borrowings represent long-term loans from non-resident companies, credit institutions and funds with the aim to finance the lending operations of the Bank.

These long-term loans mature in 2008 – 2012, some loans have fixed annual interest rates varying from 5.9% to 7.7% per annum, and others have floating annual interest rates varying from 6-month LIBOR+0.335% to 6-month LIBOR+4.0% (interest on these loans is paid semi-annually) or 3m Mosprime+0.66% to 3m Mosprime+0.72%.

As at 31 December 2007, the estimated fair value of other borrowed funds was RUB 19 805 481 thousand (2006: RUB 6 590 590 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

18 Subordinated Debts

As at 31 December 2007, subordinated debts consist of a loan from an international bank and four loans from non-resident companies, two of which are shareholders of the Bank. These subordinated loans are denominated in US dollars and Euros and mature between May 2009 and December 2015. The interest rates for these subordinated loans vary from LIBOR+3.5% to LIBOR+6.5%.

The claims of the Bank's creditor on subordinated debts shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

As at 31 December 2007, the estimated fair value of subordinated debts was RUB 549 499 thousand (2006: RUB 593 941 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of subordinated debts are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

19 Share Capital

As at 31 December 2007 and as at 31 December 2006, authorised, issued and fully paid-up share capital of the Bank is equal and comprises:

	2007		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	262 120	3 237 182	4 289 080
Total share capital	**262 120**	**3 237 182**	**4 289 080**

	2006		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	156 857	1 937 184	2 989 082
Total share capital	**156 857**	**1 937 184**	**2 989 082**

All ordinary shares have a nominal value of RUB 12 350 per share, rank equally and carry one vote.

In July 2007, the Bank issued 105 263 ordinary shares for a total amount of RUB 1 299 998 thousand. All new ordinary shares were distributed between the existing shareholders of the Bank in accordance with the ownership percentages detailed in Note 1. This share issue was fully paid and registered by the CBRF in August 2007.

In thousands of Russian Roubles

19 Share Capital (Continued)

In August 2006, the Bank issued 109 312 ordinary shares for a total amount of RUR 1 350 003 thousand. All new ordinary shares were distributed between the existing shareholders of the Bank. This share issue was fully paid and registered by the CBRF in August 2006.

20 Share Premium

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

21 Retained Earnings/(Accumulated Losses)

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of accounting reports prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2007 were RUB 956 239 thousand (non-inflated) (2006: RUB 887 461 thousand (non-inflated)).

22 Interest Income and Expense

	2007	2006
Interest income		
Loans and advances to customers	4 407 725	2 983 385
Finance lease receivables	301 661	186 160
Due from other banks	58 951	43 193
Trading securities	139 110	39 665
Total interest income	**4 907 447**	**3 252 403**
Interest expense		
Due to banks	379 182	411 404
Other borrowings	655 755	241 440
Due to customers	197 474	237 036
Subordinated debts	53 205	55 025
Debt securities issued	276 884	39 096
Total interest expense	**1 562 500**	**984 001**
Net interest income	**3 344 947**	**2 268 402**

In thousands of Russian Roubles

23 Fee and Commission Income and Expense

	2007	2006
Fee and commission income		
Commission on cash transactions	83 591	117 241
Commission on settlement transactions	76 883	63 250
Commission on lending transactions not part of effective interest rate	63 079	41 129
Guarantees issued	10 597	5 151
Other	23 252	21 101
Total fee and commission income	**257 402**	**247 872**
Fee and commission expense		
Commission on settlement transactions	17 294	13 414
Participation in deposit insurance program charge	9 151	11 713
Commission on cash collections	3 469	3 859
Commission on other borrowed funds	12 112	1 050
Other	3 927	2 799
Total fee and commission expense	**45 953**	**32 835**
Net fee and commission income	**211 449**	**215 037**

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement; commission for loan repayment prior to maturity and commission for information letters to the borrower.

24 Operating Expenses

	Note	2007	2006
Staff costs		1 114 631	921 974
Occupancy and rent		293 154	200 489
Legal and other professional services		220 747	145 792
Advertising and business development expenses		181 089	112 569
Depreciation and amortisation	11,13	117 189	85 743
Office supplies		71 323	44 158
Business travel		57 695	32 443
Communications		42 156	31 753
Operating taxes		38 635	28 735
Insurance		37 109	28 559
Personnel training		35 112	36 167
Security		17 671	14 812
Data processing		18 676	7 874
Repair and maintenance of premises and equipment		7 143	6 411
Other		77 094	38 982
Total operating expenses		**2 329 424**	**1 736 461**

Included in staff costs are statutory social security and pension contributions of RUB 144 928 thousand (2006: RUB 120 404 thousand). The information on related party transactions is disclosed in Note 29.

In thousands of Russian Roubles

25 Income Taxes

Income tax expense comprises the following:

	2007	**2006**
Current tax charge	207 662	185 433
Deferred taxation movement due to origination and reversal of temporary differences	31 826	(44 822)
Income tax expense for the year	**239 488**	**140 611**

During 2007, the income tax rate applicable to the majority of the Bank's income is 24% (2006: 24%). A reconciliation between the expected and the actual taxation charge is provided below:

	2007	**2006**
IFRS profit before tax	**788 497**	**453 361**
Theoretical tax charge at the applicable statutory rate of 24%	189 239	108 807
Tax effect of items which are not deductible and not taxable:		
- Income on government securities taxed at different rates	(3 717)	(593)
- Non-deductible release of provisions/ (provisions) for impairment	115	111
- Non-deductible expenses	53 851	32 286
Income tax expense for the year	**239 488**	**140 611**
Effective tax rate	**30.4%**	**31.0%**

In thousands of Russian Roubles

25 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2006: 24%).

	2006	Movement	2007
Tax effect of deductible temporary differences			
Provisions for loan and finance lease impairment	80 224	18 255	98 479
Accruals	75 617	17 263	92 880
Deferral of commissions on lending operations	46 828	22 414	69 242
Gross deferred tax assets	**202 669**	**57 932**	**260 601**
Tax effect of taxable temporary differences			
Premises and equipment	(60 759)	(67 153)	(127 912)
Finance lease receivables	(24 498)	(11 937)	(36 435)
Fair valuation of forward foreign exchange contracts	–	(10 668)	(10 668)
Gross deferred tax liabilities	**(85 257)**	**(89 758)**	**(175 015)**
Net deferred tax assets which cannot be offset against tax liabilities	**118 109**	**(31 468)**	**86 641**
Net deferred tax liabilities	**(697)**	**(358)**	**(1 055)**

	2005	Movement	2006
Tax effect of deductible temporary differences			
Provisions for loan and finance lease impairment	61 748	18 476	80 224
Accruals	17 619	57 998	75 617
Deferral of commissions on lending operations	25 576	21 252	46 828
Gross deferred tax assets	**104 943**	**97 726**	**202 669**
Tax effect of taxable temporary differences			
Premises and equipment	(15 424)	(45 335)	(60 759)
Finance lease receivables	(16 928)	(7 570)	(24 498)
Other			
Gross deferred tax liabilities	**(32 352)**	**(52 905)**	**(85 257)**
Net deferred tax assets which cannot be offset against tax liabilities	**74 362**	**43 747**	**118 109**
Net deferred tax liabilities	**(1 771)**	**1 074**	**(697)**

The net deferred tax assets represent income taxes recoverable through future revenues and are recorded on the consolidated balance sheet.

26 Risk Management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management is the identification, measuring and monitoring process of risk, conducted in accordance with particular organizational and functional structure of the bank and established for the correct management of the risk appetite expressed by the shareholders. The ultimate objective of risk management is to enhance and preserve value for shareholders by optimizing the overall risk-adjusted return and to reduce earnings volatility within main business areas.

The Bank developed the risk management function to preserve and enhance value for shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas. A certain increase of risk personnel is planned for 2008 due to the growing areas of responsibilities to efficiently identify, evaluate and monitor key financial risks enables a deeper alignment of strategic business decisions and the risk control function to ensure that the risks taken are within prudent boundaries, and prices charged for products and services reflect these risks

The definition of the risk governance system is based on the following general principles:

- **Independence** of Market Risk Management function from the Business Lines;
- **Enterprise wide approach** in tools, locations and market risk;
- **Coherence** at all aggregation levels through the use of consistent measuring models;
- **Timing** in the production of data to support the decision-making and control process;
- **Transparency** in assessment methodologies and criteria used for a better understanding of applied risk measures;
- **Empowerment** in the power definitions delegated and the consequent limit structure among Board of Directors, CEO, Departments and Divisions.

These are considered fundamental principles by governance rules with reference to the characteristics of internal management and control system.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles, including setting framework for limit structure of the Bank.

Management board
The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk management
The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Asset and Liabilities Committee
The Asset and Liabilities Committee has the responsibility to protect the Bank's equity and its allocation, to harmonise assets and liabilities of the Bank taking into consideration pricing structure and maturity profile, in compliance with the legislation or relevant internal regulations as well as Intesa Sanpaolo Group guidelines. The Asset and Liabilities Committee performs regular monitoring and evaluation of the balance sheet structure, yield expectations versus actual business, evaluation of the general market conditions; assessment of the Bank versus its competitors, approval of the terms and conditions of new financial products, or amendment of the terms and conditions of existing products, definition of the interest rate, liquidity, currency and operational risk management policies and limits, coherently with

26 Risk Management (Continued)

Risk management structure (continued)

Intesa Sanpaolo Group regulations, monitors limits' compliance (internal and external requirements).

Bank treasury
Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk management processes throughout the Bank are audited annually by the Internal Audit Department, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also analyses potential change in the market value of financial instruments due to changes in risk factors.

Monitoring and controlling of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, sensitivity analysis, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

26 Risk Management (Continued)

Credit risk

Credit Risk is the risk of loss due to counterparties in lending activity, clearing houses and stock exchanges failing to fulfill their contractual obligations and arrangements; risk of loss arising from failure of counterparties to settle the positive revaluation of derivative contracts and repurchase agreements or repossession of collateral.

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and geographical sector are established and regularly reviewed by the Management Board, when limits on borrower, aggregate large exposures and industry sector are approved regularly by the Board of Directors.
The exposure to any one borrower, including banks, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits. Actual exposures against limits are monitored daily.

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

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

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 Bank 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.

In thousands of Russian Roubles

26 Risk Management (Continued)

Credit risk (continued)

Financial assets and liabilities by category of financial instrument of the Bank are as follow:

	At 31 December 2007					
	Held-for-trading	Available for sale	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Financial assets and liabilities at amortized cost	Total
Assets						
Cash and cash equivalents	–	–	–	–	1 040 873	**1 040 873**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	251 449	**251 449**
Trading securities	2 817 354	–	–	–	–	**2 817 354**
Due from other banks	–	–	–	–	1 707 952	**1 707 952**
Loans and advances to customers	–	–	21 362 306	10 138 986	–	**31 501 292**
Finance lease receivables	–	–	1 724 085	–	–	**1 724 085**
Other assets:						
Trade debtors and prepayments	–	–	–	–	639 643	**639 643**
Derivative financial assets	2 859	–	–	–	–	**2 859**
Investment securities available for sale	–	4 410	–	–	–	**4 410**
Total financial assets						**39 689 917**
Total non-financial assets	–	–	–	–	1 012 019	**1 012 019**
Total assets as at 31 December 2007	**2 820 213**	**4 410**	**23 086 391**	**10 138 986**	**4 651 936**	**40 701 936**
Total assets as at 31 December 2006	**1 472 901**	**4 410**	**13 769 270**	**6 532 883**	**2 848 311**	**24 627 775**
Liabilities						
Due to banks	–	–	–	–	7 154 892	**7 154 892**
Due to customers	–	–	–	–	4 743 144	**4 743 144**
Debt securities issued	–	–	–	–	3 442 266	**3 442 266**
Other borrowings	–	–	–	–	19 805 481	**19 805 481**
Other liabilities:						
Trade creditors	–	–	–	–	67 387	**67 387**
Derivative financial liabilities	167 830	–	–	–	–	**167 830**
Subordinated debts	–	–	–	–	549 499	**549 499**
Total financial liabilities						**35 930 499**
Total non-financial liabilities	–	–	–	–	308 074	**308 074**
Total liabilities as at 31 December 2007	**167 830**	**–**	**–**	**–**	**36 070 743**	**36 238 573**
Total liabilities as at 31 December 2006	**128 322**	**–**	**–**	**–**	**21 885 097**	**22 013 419**

The table below shows the reconciliation of provision movements for renegotiated financial assets, by class.

	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total
Balance at 1 January 2006	**183 502**	**155 754**	**339 256**
Provision for loan impairment during the year	150 956	170 862	**321 818**
Recovery of loans and advances to customers previously written off as uncollectible	8 892	8 684	**17 576**
Balance at 1 January 2007	**343 350**	**335 300**	**678 650**
Provision for loan impairment during the year	263 910	247 740	**511 650**
Recovery of loans and advances to customers previously written off as uncollectible	4 127	3 962	**8 089**
At 31 December 2007	**611 387**	**587 002**	**1 198 389**

In thousands of Russian Roubles

26 Risk Management (Continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet and off balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Maximum exposure to credit risk of the Bank is as follows:

	Gross maximum exposures 2007	**Gross maximum exposures 2006**
Cash and cash equivalents	79 808	243 973
Due from other banks	1 705 041	841 736
Loans and advances to customers	32 699 681	19 930 332
Trading securities	2 817 354	1 472 868
Guarantees issued	465 888	452 384
Commitments and other credit related commitments	702 127	531 874
Other assets	7 269	4 443
Total credit risk exposure	**38 477 168**	**23 477 610**

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

	At 31 December 2007			**At 31 December 2006**		
	Loans and receivables to legal entities/ individual entrepreneurs	**Loans and receivables to individuals**	**Total**	**Loans and receivables to legal entities/ individual entrepreneurs**	**Loans and receivables to individuals**	**Total**
Loans and advances:						
1. Neither past due nor impaired:						
1.1. Standard	19 572 850	10 172 962	**29 745 812**	12 378 289	5 934 435	**18 312 724**
1.2. Non-standard Group 1	992 405	7 326	**999 731**	350 084	649 410	**999 494**
1.3. Non-standard Group 2	1 042 903	31 195	**1 074 098**	159 188	3 828	**163 016**
1.4. Non-standard Group 3	7 009	95	**7 104**	1 360	1 205	**2 565**
1.5. Non-standard Group 4	23 832	423	**24 255**	223	475	**698**
2. Past due but not impaired	46 148	145 841	**191 989**	23 674	104 365	**128 039**
3. Impaired	288 546	368 146	**656 692**	149 330	174 465	**323 795**
Gross	**21 973 693**	**10 725 988**	**32 699 681**	**13 062 148**	**6 868 183**	**19 930 331**
Less: allowance for impairment	(611 387)	(587 002)	**(1 198 389)**	(343 350)	(335 300)	**(678 650)**
Net	**21 362 306**	**10 138 986**	**31 501 292**	**12 718 798**	**6 532 883**	**19 251 681**

Category 3, impaired loans, is comprised of loans which are considered impaired and are individually assessed for impairment.

Categories 1 and 2 are not considered individually impaired and are collectively assessed for impairment.

In thousands of Russian Roubles

26 Risk Management (Continued)

Credit risk (continued)

An analysis of past due loans, by age, is provided below. These past due loans are not considered to be impaired.

	At 31 December 2007			At 31 December 2006		
	Past due loans to customers			Past due loans to customers		
	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total
Past due up to 30 days	44 577	93 112	**137 689**	23 182	47 101	**70 283**
Past due 30-60 days	246	8 787	**9 033**	354	6 490	**6 844**
Past due 60-90 days	–	3 695	**3 695**	138	5 848	**5 986**
Past due 90-180 days	–	12 404	**12 404**	–	15 192	**15 192**
Past due over 180 days but less than 1 year	–	25 767	**25 767**	–	29 100	**29 100**
Past due over 1 year	1 325	2 076	**3 401**	–	634	**634**
Total	**46 148**	**145 841**	**191 989**	**23 674**	**104 365**	**128 039**
Fair value of collateral	1 416	4 909	**6 325**	–	2 411	**2 411**

The table below shows the carrying amount for renegotiated financial assets, by class.

	2007	2006
Loans and receivables to legal entities/ individual entrepreneurs	70 499	46 936
Loans and receivables to individuals	4 059	4 592
Total	**74 558**	**51 528**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

In thousands of Russian Roubles

26 Risk Management (Continued)

Credit risk (continued)

The table below represents the breakdown of loans and advances by the type of collateral.

	At 31 December 2007			At 31 December 2006		
	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total
Paraphernalia	24 547	4 977	**29 524**	13 178	9 979	**23 157**
Guarantee	19 267 069	7 308 576	**26 575 645**	11 821 873	5 929 931	**17 751 804**
Inventory	283 062	411	**283 473**	55 883	618	**56 501**
Equipment	54 284	1 489	**55 773**	20 992	3 698	**24 690**
Realty	1 193 438	232 904	**1 426 342**	551 339	108 570	**659 909**
Motor transport	162 157	52 585	**214 742**	114 691	50 621	**165 312**
Other	2 875	–	**2 875**	–	–	–
Without collateral	986 261	3 125 046	**4 111 307**	484 192	764 766	**1 248 958**
Total	**21 973 693**	**10 725 988**	**32 699 681**	**13 062 148**	**6 868 183**	**19 930 331**

The fair value of collateral is presented in the table below:

	At 31 December 2007			At 31 December 2006		
	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total
Individually impaired loans	288 546	368 146	**656 692**	149 330	174 465	**323 795**
Fair value of collateral	166 036	2 741	**168 777**	100 913	29 797	**130 710**

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Bank took possession of collateral on loans and advances to customers during the year. The table below shows the carrying amount of collateral repossessed by the Bank during the year and collateral held on the balance sheet as of 31 December.

	2007	2006
Collateral on loans held as of year end	1 245	2 893
Collateral on loans possessed during the year	561	3 468

In thousands of Russian Roubles

26 Financial Risk Management (Continued)

Credit risk (continued)

The collateral possessed as of 31 December 2007 represents machinery, equipment, motor vehicles and other property which the Bank intends to sell. The Bank considers that all collateral is readily convertible to cash. The residential building under construction possessed and held as of 31 December 2006 in the amount of RUB 2 151 thousand was sold in 2007.

Geographical risk

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

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	967 725	73 148	–	1 040 873
Mandatory cash balances with the CBRF	251 449	–	–	251 449
Trading securities	2 817 354	–	–	2 817 354
Due from other banks	1 707 952	–	–	1 707 952
Loans and advances to customers	31 501 292	–	–	31 501 292
Finance lease receivables	1 724 085	–	–	1 724 085
Deferred tax assets	86 641	–	–	86 641
Premises and equipment	422 281	–	–	422 281
Intangible assets	92 026	–	–	92 026
Tax assets	286 007	–	–	286 007
Other assets	676 714	95 262	–	771 976
Total assets	**40 533 526**	**168 410**	**–**	**40 701 936**
Liabilities				
Due to banks	4 605 925	2 547 923	1 044	7 154 892
Due to customers	4 688 604	51 216	3 324	4 743 144
Debt securities issued	3 442 266	–	–	3 442 266
Other borrowings	–	19 805 481	–	19 805 481
Deferred tax liabilities	1 055	–	–	1 055
Tax liabilities	106 305	–	–	106 305
Other liabilities	295 318	140 613	–	435 931
Subordinated debts	–	549 499	–	549 499
Total liabilities	**13 139 473**	**23 094 732**	**4 368**	**36 238 573**
Net balance sheet position	**27 394 053**	**(22 926 322)**	**(4 368)**	**4 463 363**
Credit related commitments	**1 168 015**	**–**	**–**	**1 168 015**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held. OECD countries include primarily Germany, United States, United Kingdom and the Netherlands.

Further information on concentration of credit risk of loans by industry sector is included in Note 9.

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

	Russia	OECD	Non OECD	Total
Net balance sheet position	**14 001 525**	**(11 217 820)**	**(169 349)**	**2 614 356**
Credit related commitments	**984 258**	**–**	**–**	**984 258**

In thousands of Russian Roubles

26 Risk Management (Continued)

Liquidity risk

Liquidity Risk relates to the ability of the Bank to repay short-term borrowings with new borrowings or assets that can be converted into cash in a timely manner at a reasonable price while meeting its obligations and continuing to operate as a going concern. The Bank's Liquidity Risk can be decomposed in two parts:

- **Cash-Flow Risk** - the risk of financial loss or loss of the Bank's financial stability due to deficiency of cash or its equivalents to cover demand for asset funding and settlement of liabilities as well as due to the necessity to raise funds at high interest rates;
- **Market Liquidity Risk** - the risk of financial loss entailing disposition of assets at less than fair value because of lack of volume.

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 Bank and its exposure to changes in interest and exchange rates.

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Thus the Bank's liquidity management framework is intended to maximize liquidity access and preserve stable, reliable and cost-effective sources of funding with the desired maturity profile and interest rate characteristics. Liquidity is managed by the Treasury Department under supervision of the Assets and Liabilities Management Committee within the limits established by the Board of Directors of the Bank. Management of operational liquidity involves a day-to-day monitoring of the Bank's current payment position and the analysis of short-term net funding requirements (forecasting future cash flows based on assumptions of the future behavior of assets, liabilities and off-balance-sheet items, cash flows in derivatives, etc). Management of strategic liquidity represents procedures with the object of securing a sufficient level of the Bank's financial soundness and meeting its obligations when they come due, depending on future market conditions and business trends. It involves construction of a maturity ladder to reveal potential asset-liability mismatches over a series of specified time periods.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

	2007 %	2006 %
N2 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	56,3	68,6
N3 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	72,3	77,5
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	70,2	67,5

In thousands of Russian Roubles

26 Financial Risk Management (Continued)

Liquidity risk (continued)

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

The liquidity position of the Bank as at 31 December 2007 is set out below.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	1 040 873	–	–	–	–	–	–	1 040 873
Mandatory cash balances with the CBRF	161 145	20 535	25 818	36 458	7 493	–	–	251
Trading securities	–	–	208 341	448 911	1 529 931	630 171	–	2 817 354
Due from other banks	–	1 511 313	120 535	76 104	–	–	–	1 707 952
Loans and advances to customers	–	1 063 308	2 776 716	10 904 494	15 828 562	878 328	49 884	31 501 292
Finance lease receivables	–	65 485	111 512	460 413	1 071 419	15 256	–	1 724 085
Deferred tax assets	–	–	–	–	–	–	86 641	86 641
Premises and equipment	–	–	–	–	–	–	422 281	422 281
Intangible assets	–	–	–	–	–	–	92 026	92 026
Tax assets	–	17 227	9 026	209 566	–	–	50 188	286 007
Other assets	3 035	54 425	687 084	23 022	–	–	4 410	771 976
Total assets	**1 205 053**	**2 732 293**	**3 939 032**	**12 158 968**	**18 437 405**	**1 523 755**	**705 430**	**40 701 936**
Liabilities								
Due to banks	78 860	4 276 954	2 241 447	433 397	124 234	–	–	7 154 892
Due to customers	3 039 712	387 365	487 017	687 717	141 333	–	–	4 743 144
Debt securities issued	7 707	196	3 510	15 796	3 415 057	–	–	3 442 266
Other borrowings	–	–	7 207	792 557	16 551 097	2 454 620	–	19 805 481
Deferred tax liabilities	–	–	–	–	–	–	1 055	1 055
Tax liabilities	–	39 261	67 044	–	–	–	–	106 305
Other liabilities	40 440	22 288	243 142	130 061			–	435 931
Subordinated debts	–	–	–	–	242 672	306 827	–	549 499
Total liabilities	**3 166 719**	**4 726 064**	**3 049 367**	**2 059 528**	**20 474 393**	**2 761 447**	**1 055**	**36 238 573**
Net liquidity gap	**(1 961 666)**	**(1 993 771)**	**889 665**	**10 099 440**	**(2 036 988)**	**(1 237 692)**	**704 375**	**4 463 363**
Cumulative liquidity gap as at 31 December 2007	**(1 961 666)**	**(3 955 437)**	**(3 065 772)**	**7 033 668**	**4 996 680**	**3 758 988**	**4 463 363**	**–**
Cumulative liquidity gap as at 31 December 2006	**(1 745 431)**	**(1 578 055)**	**(779 122)**	**3 230 694**	**1 509 253**	**2 088 638**	**2 614 356**	**–**

In thousands of Russian Roubles

26 Risk Management (Continued)

Liquidity risk (continued)

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "on demand and less than one month" column. Overdue assets are classified within the "no stated maturity" column. The mandatory cash balances with the CBRF are allocated between the different maturity categories in accordance with the maturities of the liabilities to which these balances relate.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Liabilities								
Due to banks	78 860	4 284 663	2 258 867	451 069	142 330	–	–	**7 215 789**
Due to customers	3 039 712	388 916	492 107	723 472	151 093	–	–	**4 795 300**
Debt securities issued	270 459	196	3 554	279 423	4 197 636	–	–	**4 751 268**
Other borrowings	–	–	7 347	838 432	19 123 128	3 081 666	–	**23 050 573**
Subordinated debt	–	–	–	–	307 176	510 879	–	**818 055**
Total liabilities as at 31 December 2007	**3 389 031**	**4 673 775**	**2 761 875**	**2 292 396**	**23 921 363**	**3 592 545**	**–**	**40 630 985**
Credit related commitments as at 31 December 2007	**–**	**59 026**	**298 002**	**660 046**	**86 611**	**–**	**64 330**	**1 168 015**

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2006 based on contractual undiscounted repayment obligations.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Liabilities								
Due to banks	1 525	1 537 662	1 015 225	3 113 026	236 080	–	–	**5 903 518**
Due to customers	2 750 358	107 836	417 317	1 803 055	306 039	–	–	**5 384 605**
Debt securities issued	12 546	2 402	26 480	272 125	4 462 797	–	–	**4 776 350**
Other borrowings	–	–	27 566	82 086	7 367 055	–	–	**7 476 707**
Subordinated debt	–	–	–	–	206 259	757 896	–	**964 155**
Total liabilities as at 31 December 2006	**2 764 429**	**1 647 900**	**1 486 588**	**5 270 292**	**12 578 230**	**757 896**	**–**	**24 505 335**
Credit related commitments as at 31 December 2006	–	**42 999**	**282 108**	**502 246**	**73 040**	–	**83 865**	**984 258**

26 Risk Management (Continued)

Liquidity risk (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank's business. 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 Bank and its exposure to changes in interest and exchange rates.

Management believes that despite a substantial portion of due to customers accounts being on demand, the diversification of these deposits through the number and type of depositors, and the past experience of the Bank, would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

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

The liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total unused limits on overdraft loans do not necessarily represent future cash requirements since some of these commitments will expire or terminate without being funded in full.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

The Bank is exposed to market risks. Market risks arise from open positions in interest rate, currency and fixed income financial instruments, all of which are exposed to general and specific market movements.

After full implementation of Kondor+, indicators for market risk exposure will be calculated within Reuters Kondor+: VaR for the total trading portfolio and FX portfolio.

For the presentation of market risks, IFRS 7 requires sensitivity analysis that shows the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders equity. Simple sensitivity analysis is presented for currency risk and interest rate risk. The periodic effects are determined by relating the hypothetical changes in risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole and other variables remain unchanged. The changes in the risk variables represent management's best estimate of a reasonable, possible change as used in the Bank's budget assumptions.

The Bank's exposure to prepayment risks is considered by the management as not significant. The majority of the borrowers repay the loans not earlier than contractual schedules.

The limits monitoring process involves the daily measurement and control of the exposures of trading portfolios and the weekly measurement and control of the exposures in the banking book by market risk management.

26 Risk Management (Continued)

Market risk (continued)

Objectives to pursue by applying a market risk process are:

- To preserve the corporate economic capital and maximizing the economic value for the shareholders, avoiding inappropriate risk exposures;
- To optimize the capital allocation process;
- To verify that the risk measurement models are coherent with the effective income result pursued by Risk Owners;
- To ensure that all taken and potential risks in all operational areas are correctly identified, measured, controlled and managed following the shared and formalized methodologies and procedures;
- To keep systems quality and management processes aligned to the best market practice standards;
- To ensure production of detailed and timely informative reports for Departments responsible for management and control activities;
- To ensure the observance of organizational rules regarding national and international Regulatory controls.

Tools In order to apply reported principles and to reach the objectives Risk Management department has the following tools:

- A database that can provide Risk Management with the following information:
  - Daily market data;
  - Information on securities;
  - Information on issuers and counterparties;
  - Information on Bank deals.
- System using the above-mentioned database for computation and capable of performing the following basic requirements:
  - To measure mark-to-market of single position and portfolio value;
  - To deal with the current limits system;
  - To calculate risk indicators;
- Effective communication process;
- System of behavioral (procedural) rules.

Risk indicators are calculated by using Access databases within Excel templates. As soon as full implementation of Kondor+ takes place, the risk parameters will be measured by using this software, and limits grids will be controlled within Kondor +.

In thousands of Russian Roubles

26 Risk Management (Continued)

Currency risk is the risk of incurring losses due to changes in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2007. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. As at 31 December 2007, the Bank had the following positions in currencies:

	RUB	USD	Euro	Total
Assets				
Cash and cash equivalents	907 702	99 071	34 100	1 040 873
Mandatory cash balances with the CBRF	251 449	–	–	251 449
Trading securities	2 817 354	–	–	2 817 354
Due from other banks	1 329 552	378 400	–	1 707 952
Loans and advances to customers	25 620 614	5 405 054	475 624	31 501 292
Finance lease receivable	1 132 787	268 364	322 934	1 724 085
Deferred tax asset	86 641	–	–	86 641
Premises and equipment	422 281	–	–	422 281
Intangible assets	92 026	–	–	92 026
Tax assets	286 007	–	–	286 007
Other assets	726 445	20 937	24 594	771 976
Total assets	**33 672 858**	**6 171 826**	**857 252**	**40 701 936**
Liabilities				
Due to banks	5 341 640	1 669 468	143 784	7 154 892
Due to customers	4 082 387	317 055	343 702	4 743 144
Debt securities issued	3 423 518	4 189	14 559	3 442 266
Other borrowings	10 381 683	9 423 798	–	19 805 481
Deferred tax liabilities	1 055	–	–	1 055
Tax liabilities	106 305	–	–	106 305
Other liabilities	394 906	25 283	15 742	435 931
Subordinated debts	–	512 030	37 469	549 499
Total liabilities	**23 731 494**	**11 951 823**	**555 256**	**36 238 573**
Net balance sheet position	**9 941 364**	**(5 779 997)**	**301 996**	**4 463 363**
Credit related commitments	**1 014 569**	**35 961**	**117 486**	**1 168 015**
Off-balance sheet net notional position	**(5 492 042)**	**5 456 146**	**35 896**	**–**

In thousands of Russian Roubles

26 Risk Management (Continued)

Currency risk (continued)

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

	RUB	USD	Euro	Total
Net balance sheet position	**8 296 248**	**(5 879 747)**	**197 855**	**2 614 356**
Credit related commitments	**649 858**	**46 328**	**288 072**	**984 258**
Off-balance sheet net notional position	**(5 888 059)**	**5 862 003**	**26 056**	**–**

The off-balance sheet net notional position represents the notional currency position on deliverable forward and spot foreign exchange contracts entered into during 2007. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its open currency position.

The Bank has reduced a share of loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

	2007		2006	
Currency	**Changes in exchange rate, %**	**Influence on the profit before taxation, RUR `000**	**Changes in exchange rate, %**	**Influence on the profit before taxation, RUR `000**
Net balance				
USD	4%	(215 176)	-1%	73 935
EUR	-4%	(13 138)	-2%	(3 972)
Total		**(228 314)**		**69 963**
Off-balance				
USD	4%	203 120	-1%	(73 712)
EUR	-4%	(1 562)	-2%	(523)
Total		**201 558**		**(74 235)**

The Bank has no income/expense recognised directly in equity; therefore the influence on equity is equal to the impact on the income statement.

Interest rate risk

Interest rate risk is a risk of a decline in earnings due to the movements of interest rates. Interest Rate Risk includes the following:

- **Directional Risk** - the risk of loss due to parallel shifts of the yield curve;
- **Yield Curve Risk** - the risk of loss due to a change in the general shape of term structure of interest rates (pivoting, steepening and flattening of the yield curve);
- **Basis Risk** - the risk of loss due to a mismatch between an interest rate sensitive instrument and the cash or derivative instrument used to hedge value changes caused by movements in interest rates, and the risk of loss due to changes in a price or rate differential between two assets or the same asset at different time or locations (especially relevant in futures transactions);
- **Spread Risk** - the risk of loss in value of interest rate sensitive securities due to changes in the credit spread between two yield curves.

In thousands of Russian Roubles

26 Risk Management (Continued)

Interest rate risk (continued)

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings secured at floating interest rates. In practice, interest rates are generally fixed on a short-term basis. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the lending rate in the event of a significant change in the international interest rates. Additionally, interest rates for long term loans in foreign currencies (20 to 120 months) are linked to LIBOR and EURIBOR.

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change.

The Board of Directors sets limits on the potential loss from a mismatch of interest rate repricing that may be undertaken. These limits are monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank’s income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. The table below represents Management’s expectations in relation to base point movements.

	2007		**2006**	
Currency	**Increase/decrease in base points**	**Sensitivity of net interest income, RUR `000**	**Increase/decrease in base points**	**Sensitivity of net interest income, RUR `000**
USD	112	141 801	(13)	6 418
EUR	25	896	(17)	(73)
Total		**142 697**		**6 345**

The Bank has no income/expense recognised directly in equity; therefore the influence on equity is equal to the impact on the income statement.

The increase in interest rate of trading securities on 13 base points will result in interest income decreasing by 83 554 thousand RUR (2006: 9 base points, RUB 16 796 thousand).

The parallel shift in market interest rates on 100 base points followed by the corresponding increase/decrease in securities market quotations will result in fair value of trading securities increase/decrease by RUR 64 272 thousand (2006: RUB 18 662 thousand).

The Board of Directors sets limits on the potential loss from a mismatch of interest rate repricing that may be undertaken. These limits are monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

In thousands of Russian Roubles

26 Risk Management (Continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity/ Overdue/ Non-interest bearing	Total
Assets								
Cash and cash equivalents	1 040 873	–	–	–	–	–	–	1 040 873
Mandatory cash balances with the CBRF	161 145	20 535	25 818	36 458	7 493	–	–	251 449
Trading securities	2 817 354	–	–	–	–	–	–	2 817 354
Due from other banks	–	1 511 313	120 535	76 104	–	–	–	1 707 952
Loans and advances to customers	–	1 063 308	2 776 716	10 904 494	15 828 562	878 328	49 884	31 501 292
Finance lease receivables	–	65 485	111 512	460 413	1 071 419	15 256	–	1 724 085
Deferred tax assets	–	–	–	–	–	–	86 641	86 641
Premises and equipment	–	–	–	–	–	–	422 281	422 281
Intangible assets	–	–	–	–	–	–	92 026	92 026
Tax assets	–	–	–	–	–	–	286 007	286 007
Other assets	–	–	–	–	–	–	771 976	771 976
Total assets	**4 019 372**	**2 660 641**	**3 034 581**	**11 477 469**	**16 907 474**	**893 584**	**1 708 815**	**40 701 936**
Liabilities								
Due to banks	78 860	4 276 954	2 241 447	433 397	124 234	–	–	7 154 892
Due to customers	3 039 712	387 365	487 017	687 717	141 333	–	–	4 743 144
Debt securities issued	7 707	196	3 510	15 796	3 415 057	–	–	3 442 266
Other borrowings	–	2 039 662	3 247 601	14 518 218	–	–	–	19 805 481
Deferred tax liabilities	–	–	–	–	–	–	1 055	1 055
Tax liabilities	–	–	–	–	–	–	106 305	106 305
Other liabilities	–	–	–	–	–	–	435 931	435 931
Subordinated debts	–	–	127 061	422 438	–	–	–	549 499
Total liabilities	**3 126 279**	**6 704 177**	**6 106 636**	**16 077 566**	**3 680 624**	–	**543 291**	**36 238 573**
Net sensitivity gap	**893 093**	**(4 043 536)**	**(3 072 055)**	**(4 600 097)**	**13 226 850**	**893 584**	**1 165 524**	**4 463 363**
Cumulative sensitivity gap as at 31 December 2007	**893 093**	**(3 150 443)**	**(6 222 498)**	**(10 822 595)**	**2 404 255**	**3 297 839**	**4 463 363**	–
Cumulative sensitivity gap as at 31 December 2006	**(275 816)**	**(5 987 062)**	**(5 490 638)**	**(2 456 078)**	**1 235 066**	**2 060 999**	**2 614 356**	–

In thousands of Russian Roubles

26 Risk Management (Continued)

Interest rate risk (continued)

Assets and liabilities are primarily presented in the table above as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the table above as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on the period-end effective rates used for amortisation of the respective assets/liabilities:

	2007			2006		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Assets						
Cash and cash equivalents	–	1.0	–	–	1.0	–
Trading securities	6.7	–	–	5.4	–	–
Due from other banks	5.9	5.2	–	5.2	–	–
Loans and advances to customers	16.7	10.7	10.3	17.9	11.2	11.0
Finance lease receivables	25.9	19.5	17.9	29.3	19.7	18.2
Liabilities						
Due to banks	5.5	6.0	4.3	5.4	6.1	3.9
Due to customers						
- current and settlement accounts	0.8	0.3	0.3	1.3	0.2	0.2
- term deposits	8.1	5.0	3.9	9.3	5.8	5.2
Debt securities issued	7.9	5.6	5.7	7.2	2.3	4.8
Other borrowings	7.7	5.3	–	–	6.1	–
Subordinated debts	–	8.7	11.1	–	9.7	10.1

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

Operational risks

For managing operational risks KMB-Bank follows the Intesa Sanpaolo Group's operational risk guidelines and methodology in compliance with Basel II recommendations as well as locally-developed tools.

Under internal regulations operational risk is defined as the risk of losses resulting from unsuitability or failure of procedures, human resources and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk. The legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Bank, in accordance with the Intesa Sanpaolo Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy and other internal regulations in order to perform an effective Operational Risk Management and support to the Bank's business.

Among operational risk management tools the following activities are performed:

- self risk assessment (held on annual basis),
- loss data collection,
- scenario analysis,
- key risk indicators,
- regulatory capital calculation (the Basic Indicator Approach).

The operational risk management activity within the Bank is aimed at prevention, monitoring and mitigation of operational risks as well as at minimization (where possible) of frequency and/or severity of operational risk events in case of realization.

26 Risk Management (Continued)

Operational risks (continued)

The created system of operational risk management previews that the management of operational risks should be performed on two levels:
1) through heads of organizational and business units who are responsible for management of operational risks within the areas of their responsibility – decentralized operational risk management function.
2) though the operational risk unit which is responsible for elaboration of methodological support, detection/analysis/monitoring of operational risks, verification of business processes/procedures and generation of optional solutions for business owners in order to prevent/mitigate operational risks in the areas of their responsibility – centralized operational risk management function.

As a prudent market agent, the Bank recognizes the importance of mitigation actions in order to guarantee to its clients a reliable service and efficiency. For that reason we give much attention to insurance of liability and assets and ensuring of business continuity of the Bank with the tools such as:

- Banker's Blanket Bond,
- Business Continuity Plan.

In thousands of Russian Roubles

27 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are 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. As at 31 December 2007, there were no material claims pending against the Bank.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. 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.

The Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained.

Capital expenditure commitments

As at 31 December 2007, the Bank has capital commitments in respect of software licenses and future maintenance fees related to a new centralised operational banking system totaling RUB 31 021 thousand (2006: RUB 40 635 thousand). Besides, the Bank has capital commitments relating to the acquisition of other fixed and intangible assets amounting to RUB 44 917 thousand (2006: RUB 7 031 thousand). The Bank's management has already allocated the necessary resources in respect of these commitments. The Bank's management believes that future net revenues and funding will be sufficient to cover these commitments.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non cancelable premises operating leases are, as follows:

	2007	2006
Not longer than 1 year	358 777	170 682
Longer than 1 year and not longer than 5 years	530 006	254 919
Total operating lease commitments	**888 783**	**425 601**

Within total operating lease commitments, RUB 131 455 thousand (2006: RUB 127 173 thousand) relates to an operating lease of the Bank's head office premises at 31 Shabolovka St., bldg B, Moscow, at 1A Semenovskaya sq., Moscow, and an additional office in Moscow at Prospect Mira, 3-1.

As at 31 December 2007, the Bank had 80 lease agreements (2006: 55). Operating lease commitments under extended agreements are accounted for in the table above. The extension of the remaining short-term agreements is currently being negotiated.

In thousands of Russian Roubles

27 Contingencies, Commitments and Derivative Financial Instruments (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Outstanding credit related commitments are as follows:

	2007	2006
Letters of credit and guarantees issued	465 888	452 383
Unused limits on overdraft loans	642 371	448 625
Commitments to extend credit	59 756	83 250
Total credit related commitments	**1 168 015**	**984 258**

Commitments to extend credit and unused limits on overdraft loans represent unused irrevocable portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit and unused limits on overdraft loans, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely loss is less than the total unused commitments since most unused limits on overdraft loans are contingent upon customers maintaining specific credit standards. The Bank 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. As at 31 December 2007 and 31 December 2006, management assesses the probability of losses arising in connection with these credit related commitments as remote and accordingly no provision has been established.

Included in guarantees issued is the amount of RUB 145 000 thousand counter-guaranteed by an Intesa Sanpaolo Group company. In addition to the guarantees issued presented in the table above the Bank counter-guaranteed RUB 22 782 thousand on the guarantee issued by another Intesa Sanpaolo Group company.

The total outstanding contractual amount of unused limits on overdraft loans, import letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivative financial instruments

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

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

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Derivative financial instruments (continued)

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2007. These contracts were entered into between September and December 2007 and are short term in nature.

	2007			2006		
	Domestic counterparties			Domestic counterparties		
	Principal or agreed amount	Positive fair value	Negative fair value	Principal or agreed amount	Positive fair value	Negative fair value
Forward contracts						
Foreign currency						
- purchase of foreign currency	1 620 049	2 539	(52 870)	3 844 341	–	(92 786)
Spot deals						
Foreign currency						
- purchase of foreign currency	232 303	30	(62)	65 519	33	(13)
Total	**1 852 352**	**2 569**	**(52 932)**	**3 909 860**	**33**	**(92 799)**

	2007			2006		
	Foreign counterparties			Foreign counterparties		
	Principal or agreed amount	Positive fair value	Negative fair value	Principal or agreed amount	Positive fair value	Negative fair value
Forward contracts						
Foreign currency						
- purchase of foreign currency	3 804 661	290	(114 897)	2 106 488	–	(35 522)
Total	**3 804 661**	**290**	**(114 897)**	**2 106 488**	**–**	**(35 522)**

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date.

	2007		2006	
In thousands of Russian Roubles	Net asset forwards	Net liability forwards	Net asset forwards	Net liability forwards
Foreign exchange forwards: fair values, at the balance sheet date:				
- USD receivable on settlement (+)	5 492 042	–	5 888 060	–
- RUB payable on settlement (-)	–	(5 657 013)	–	(6 016 348)
Net fair value of foreign exchange forwards	**(164 971)**	–	**(128 288)**	–

In thousands of Russian Roubles

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Derivative financial instruments (continued)

The Bank expects to settle these forward and spot contracts net in cash and therefore recognised them in the balance sheet as an asset at net fair value of RUB 2 859 thousand (2006: RUB 33 thousand) and a liability at net fair value of RUB 167 829 thousand (2006: RUB 128 322 thousand).

In respect of derivatives, the Bank has recorded a net loss of RUB 341 760 thousand (2006: net loss of RUB 328 157 thousand) within gains less losses arising from trading in foreign currencies.

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets are represented by the following:

	2007 Nominal value	2006 Nominal value
Promissory notes held in the Bank's custody	5 188	32 542

Insurance

The Bank's premises and other property are insured for the total amount of RUB 2 158 457 thousand as at 31 December 2007 (2006: RUB 1 597 215 thousand).

Assets pledged and restricted

As at 31 December 2007, the Bank did not have any assets pledged as collateral. Mandatory cash balances with the Central Bank of the Russian Federation (CBRF) in the amount of RUB 251 449 thousand (2006: RUB 244 111 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operation.

Loan portfolio assigned from the EBRD

On 25 November 1998, the Bank signed a General Agreement on Assignment (the "Assignment Agreement") with the EBRD. Under the Assignment Agreement the Bank has been assigned several loan portfolios from a number of Russian banks involved in projects sponsored by the Russia Small Business Fund of the EBRD, but which experienced financial difficulties after the August 1998 crisis. In accordance with the Assignment Agreement, the Bank performs collection, monitoring and enforcement functions with respect to assigned loans and collateral. The Bank also transfers collected principal and interest payments, net of the commission for the portfolio management and certain other expenses incurred in connection with this activity, to the EBRD.

Under the Assignment Agreement, the Bank bears no credit risk in case of borrower's default on the loan, as the Bank operates solely as a loan servicing agent for the EBRD. As the Bank does not receive the benefits and does not bear the risks of these loans, the Bank does not include the assigned loan portfolio in its assets. The Bank has a right to reassign the loan portfolio back to the EBRD. The maximum amount of the assignment portfolios cannot exceed USD 30 million. In 2002, the Bank signed an additional General Agreement on Assignment with the EBRD.

The information in relation to the loan portfolio, assigned from other banks, is set out below.

	2007	2006
Loans assigned from the EBRD as at 1 January	**20 378**	**25 254**
Loans collected (and funds remitted) by the Bank during the year	(2)	(3 016)
Translation difference	(1 355)	(1 860)
Total loans assigned from the EBRD as at 31 December	**19 021**	**20 378**

According to the Assignment Agreement, the Bank receives, as a servicing fee, approximately 2% of the total receipts on assigned loans, and an agreed additional amount to cover expenses incurred in connection with servicing of the assigned loans.

28 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 definition **Fair Value** is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as **quoted** in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The prices in the more advantageous markets are adjusted to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued.

In case an instrument is quoted in active market the appropriate price for determining the fair value is:

- **Last bid price** for an asset held or liability to be issued;
- **Last offer price** for an asset to be acquired or liability held.

If the market for a financial instrument is not active, market pricing information is not available KMB Bank determines the Fair Value by using a valuation technique by reference to market conditions that existed at its acquisition or origination date and current market conditions.
If the financial instrument is a debt instrument (such as bond), cash-flow discounting is used in the following way:

Financial instruments carried at fair value

Trading securities are carried on the consolidated balance sheet at their fair value. Fair values were determined based on quoted market prices.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost which approximates current fair value. The fair value of these assets was determined by management on the basis of results of recent overnight placements made between unrelated third parties.

Loans carried at amortised cost less provision for impairment

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on the estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity terms. Refer to Notes 8 and 9 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Finance leases receivables

Finance lease receivables are stated net of provisions for finance lease impairment. The estimated fair value of finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. The expected cash flows are discounted at current market rates to determine the fair value. Refer to Note 10 for the estimated fair value of finance lease receivables as at 31 December 2007.

Liabilities carried at amortised cost

The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 14, 15, 16, 17 and 18 for the estimated fair values of due to banks, due to customers, debt securities issued, other borrowings and subordinated debts, respectively.

In thousands of Russian Roubles

28 Fair Value of Financial Instruments (continued)

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. The fair value of derivative financial instruments is disclosed in Note 27.

29 Related Party Disclosures

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

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key Management. These transactions include loans, deposit and loan taking and other transactions. These transactions are priced at market rates.

The outstanding balances at the year end and income and expense items for the year with related parties are, as follows:

		2007			
	Note	Parent company	Intesa Sanpaolo Group companies	Significant share-holders	Management
Cash and cash equivalents					
Nostro accounts		–	2 277	–	–
Interest income for the year		–	284	–	–
Due from other banks					
Short term placements in other banks as at the year end (contractual interest rate: 2007: 4,6% per annum)			122 777		
Interest income for the year	22	–	6 936	–	–
Loans and advances to customers					
Term loans	9	–	–	–	5 415
Interest income for the year	21	–	–	–	358
Due to banks					
Term placements from other banks as at the year end (contractual interest rate: 2007: 4.2-7.3% per annum)	14	–	2 062 184	372 231	–
Interest expense for the year	22	–	178 361	30 669	–
Other borrowings					
Term deposits outstanding as at the year end (contractual interest rate: 2007: 5.1 - 8.3% per annum)	17	18 974 958	–	–	–
Interest expense for the year	22	576 397	–	–	–
Subordinated debts					
Loans outstanding as at the year end (contractual interest rate: 2007: 8.3-9.3% per annum;	18	306 828	–	78 142	–
Interest expense for the year	22	28 364	–	6 973	–
Open forward contracts					
Purchase of foreign currency	27	–	3 927 392	–	–
Positive fair value		–	290	–	–
Negative fair value		–	(114 923)	–	–
Net loss from trading in foreign currencies		–	(210 633)	–	–
Fee and commission expense for the year		–	446	–	–
Operating expense for the year		–	3 312	–	–

In thousands of Russian Roubles

29 Related Party Disclosures (Continued)

		2006			
	Note	**Parent company**	**Intesa Sanpaolo Group companies**	**Significant share-holders**	**Management**
Cash and cash equivalents					
Nostro accounts		–	3 219	–	–
Interest income for the year		–	45	–	–
Due from other banks					
Interest income for the year	22	–	679	–	–
Loans and advances to customers					
Term loans	9	–	–	–	5 263
Interest income for the year	21	–	–	–	322
Due to banks					
Term placements from other banks as at the year end (contractual interest rate: 2006: 4.0-7.9% per annum)	14	–	3 544 103	426 276	–
Interest expense for the year	22	–	194 993	60 563	–
Other borrowings					
Term deposits outstanding as at year end (contractual interest rate: 2006: 5.7 - 6.1% per annum)	17	5 396 553	–	–	–
Interest expense for the year	22	148 506	–	–	–
Subordinated debts					
Loans outstanding as at year end (contractual interest rate: 2006: 8.9-9.4% per annum;	18	336 439	–	83 882	–
Interest expense for the year	22	29 387	–	6 855	–
Open forward contracts					
Purchase of foreign currency	27	–	2 106 488	–	–
Positive fair value		–	–	–	–
Negative fair value		–	(35 523)	–	–
Net gains from trading in foreign currencies		–	86 280	–	–
Fee and commission expense for the year		–	388	–	–
Operating expenses for the year		–	607	–	–

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

	2007	2006
	Intesa Sanpaolo Group companies	**Intesa Sanpaolo Group companies**
Amounts lent to related parties during the year	33 531 179	3 969 220
Amounts repaid by related parties during the year	33 408 448	3 969 220

In 2007, the total remuneration of the Management Board members was RUB 58 170 thousand, including social contributions of RUB 1 915 thousand (2006: RUB 82 062 thousand, including social contributions of RUB 1 619 thousand).

Included in guarantees issued is the amount of RUB 145 000 thousand counter-guaranteed by an Intesa Sanpaolo Group company. In addition to the guarantees issued, the Bank counter-guaranteed RUB 22 782 thousand on the guarantee issued by another Intesa Sanpaolo Group company.

In thousands of Russian Roubles

30 Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During 2007, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBR capital adequacy ratio

The CBR requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2007 and 2006, the Bank's capital adequacy ratio on this basis was as follows:

	2007	2006
Main capital	4 215 384	2 530 299
Additional capital	612 887	934 001
Less: deductions from capital	(15)	(15)
Total regulatory capital	**4 828 256**	**3 464 285**
Risk weighted assets	**37 544 689**	**23 064 587**
Capital adequacy ratio	12,8%	15,0%

Regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital is comprised of share capital, share premium and retained earnings. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank. Tier 2 capital is comprised of subordinated long-term debts and revaluation reserves.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2007 and 2006, comprised:

	2007	2006
Tier 1 capital	3 914 355	2 301 607
Tier 2 capital	984 261	817 580
Total capital	4 898 616	3 119 187
Risk weighted assets	36 922 484	22 044 110
Tier 1 capital ratio	10.6%	10.4%
Total capital ratio	13.3%	14.1%