SBERBANK
(SAVINGS BANK OF THE RUSSIAN FEDERATION)

Consolidated Financial Statements and Independent Auditor's Report

31 December 2007

CONTENTS

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Sberbank (Savings Bank of the Russian Federation):

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
28 April 2008

In millions of Russian Roubles	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	242 231	209 603
Mandatory cash balances with the Bank of Russia		56 790	77 915
Trading securities	8	246 221	210 641
Other securities at fair value through profit or loss	9	247 024	237 847
Due from other banks	10	5 071	5 631
Loans and advances to customers	10	3 921 546	2 537 464
Investment securities available for sale	11	10 094	-
Investment securities held to maturity	12	-	26 198
Deferred income tax asset	26	68	-
Premises and equipment	13	146 850	125 216
Other assets	14	52 913	36 158
TOTAL ASSETS		**4 928 808**	**3 466 673**
LIABILITIES			
Due to other banks	15	80 321	44 836
Deposits from individuals	16	2 681 986	2 046 035
Customer accounts	16	1 195 634	782 789
Debt securities in issue	17	163 827	123 729
Other borrowed funds	18	112 025	107 332
Deferred income tax liability	26	-	3 604
Other liabilities	19	32 754	22 944
Subordinated debt	20	25 064	26 880
TOTAL LIABILITIES		**4 291 611**	**3 158 149**
EQUITY			
Share capital	21	87 742	79 981
Share premium	21	232 493	10 016
Revaluation reserve for premises		14 815	15 344
Fair value reserve for investment securities available for sale		733	-
Retained earnings	22	301 414	203 183
TOTAL EQUITY		**637 197**	**308 524**
TOTAL LIABILITIES AND EQUITY		**4 928 808**	**3 466 673**

Approved for issue and signed on behalf of the Board on 28 April 2008.

Herman Gref
Chairman of the Board and CEO

Andrey Kruzhalov
Chief Accountant

In millions of Russian Roubles	Note	2007	2006
Interest income	23	428 666	317 646
Interest expense	23	(175 905)	(122 030)
Net interest income		**252 761**	**195 616**
Provision for loan impairment	10	(17 633)	(13 851)
Net interest income after provision for loan impairment		**235 128**	**181 765**
Fee and commission income	24	68 319	51 691
Fee and commission expense	24	(2 444)	(1 615)
Gains less losses arising from trading securities		4 312	3 224
Losses, net of gains arising from other securities at fair value through profit or loss		(1 003)	7 986
Gains less losses arising from investment securities available for sale	11	688	-
Gains arising from disposal of investment securities held to maturity	12	19 436	-
Net gains from trading in foreign currencies		7 902	5 827
Foreign exchange translation losses net of gains		(3 746)	(4 834)
Net gains from operations with foreign currencies and precious metals derivatives	32	1 227	2 637
Other operating income		5 694	7 479
Operating income		**335 513**	**254 160**
Administrative and other operating expenses	25	(195 764)	(145 140)
Profit before tax		**139 749**	**109 020**
Income tax expense	26	(33 260)	(26 216)
Profit for the year		**106 489**	**82 804**
Earnings per ordinary share, basic and diluted (expressed in RR per share)	27	**5.1**	**4.3**

In millions of Russian Roubles	Note	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Fair value reserve for investment securities available for sale	Retained earnings	Total equity
Balance as at 1 January 2006		**20 981**	**10 016**	**-**	**15 873**	**-**	**184 199**	**231 069**
Premises and equipment:								
- Realised revaluation reserve net of income tax		-	-	-	(529)	-	529	-
Net income/(expense) recognised directly in equity		**-**	**-**	**-**	**(529)**	**-**	**529**	**-**
Profit for the year							82 804	82 804
Total income/(expense) recognised for the year		**-**	**-**	**-**	**(529)**	**-**	**83 333**	**82 804**
Purchase of treasury shares		-	-	(3)	-	-	-	(3)
Disposal of treasury shares		-	-	3	-	-	-	3
Dividends declared	28	-	-	-	-	-	(5 349)	(5 349)
Increase of nominal value of shares		59 000	-	-	-	-	(59 000)	-
Balance as at 31 December 2006		**79 981**	**10 016**	**-**	**15 344**	**-**	**203 183**	**308 524**
Premises and equipment:								
- Realised revaluation reserve net of income tax		-	-	-	(529)	-	529	-
Investment securities available for sale:	11							
- Revaluation of securities		-	-	-	-	1 652	-	1 652
- Disposals of securities		-	-	-	-	(688)	-	(688)
- Income tax recorded in equity		-	-	-	-	(231)	-	(231)
Net income recognised directly in equity		**-**	**-**	**-**	**(529)**	**733**	**529**	**733**
Profit for the year		-	-	-	-	-	106 489	106 489
Total income recognised for the year		**-**	**-**	**-**	**(529)**	**733**	**107 018**	**107 222**
Issue of ordinary shares	21	7 761	222 477	-	-	-	-	230 238
Dividends declared	28	-	-	-	-	-	(8 787)	(8 787)
Balance as at 31 December 2007		**87 742**	**232 493**	**-**	**14 815**	**733**	**301 414**	**637 197**

In millions of Russian Roubles	Note	2007	2006
Cash flows from operating activities			
Interest received		427 832	316 889
Interest paid		(163 800)	(111 285)
Income received from trading securities		4 396	3 786
Income received from other securities at fair value through profit or loss		74	2 552
Income received from trading in foreign currencies		8 444	8 557
Fees and commissions received		67 509	51 983
Fees and commissions paid		(2 412)	(1 615)
Other operating income received		3 693	8 067
Administrative and other operating expenses paid		(171 028)	(125 483)
Income tax paid		(36 369)	(25 018)
Cash flows from operating activities before changes in operating assets and liabilities		**138 339**	**128 433**
Changes in operating assets and liabilities			
Net decrease/ (increase) in mandatory cash balances with the Bank of Russia		21 125	(21 106)
Net increase in trading securities		(37 454)	(81 120)
Net increase in securities at fair value through profit or loss		(10 323)	(6 854)
Net decrease/ (increase) in due from other banks		623	(3 348)
Net increase in loans and advances to customers		(1 430 103)	(803 045)
Net decrease in repurchase receivable		-	1 043
Net increase in other assets		(11 674)	(10 043)
Net increase in due to other banks		36 301	19 693
Net increase in deposits from individuals		643 040	545 482
Net increase in customer accounts		423 667	247 955
Net increase in debt securities in issue		37 998	37 412
Net increase in other liabilities		2 936	3 802
Net cash (used in) / from operating activities		**(185 525)**	**58 304**
Cash flows from investing activities			
Purchase of investment securities available for sale	11	(16 119)	-
Proceeds from disposal and redemption of investment securities available for sale	11	7 692	-
Proceeds from disposal of investment securities held to maturity	12	43 777	-
Acquisition of premises and equipment	13	(42 540)	(34 800)
Proceeds from disposal of premises and equipment		3 375	1 463
Investments in subsidiaries	38	(2 875)	(3 516)
Dividend income received		364	149
Net cash used in investing activities		**(6 326)**	**(36 704)**
Cash flows from financing activities			
Issue of ordinary shares		230 238	-
Other borrowed funds received		19 763	77 553
Redemption of other borrowed funds		(8 316)	(27 998)
Payment of interest on other borrowed funds		(5 980)	(3 800)
Payment of interest on subordinated debt		(1 615)	(1 711)
Dividends paid	28	(8 741)	(5 325)
Net cash from financing activities		**225 349**	**38 719**
Effect of exchange rate changes on cash and cash equivalents		**(870)**	**(1 702)**
Net increase in cash and cash equivalents		**32 628**	**58 617**
Cash and cash equivalents at the beginning of the year		209 603	150 986
Cash and cash equivalents at the end of the year	**7**	**242 231**	**209 603**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for Sberbank (Savings Bank of the Russian Federation) (the “Bank”) and its subsidiaries (together referred to as the “Group” or “Sberbank (Savings Bank of the Russian Federation) Group”). Principal subsidiaries of the Group are disclosed in Note 37.

The Bank is an open joint stock commercial bank established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank’s principal shareholder, the Central Bank of the Russian Federation (the “Bank of Russia”), owns 60.3% of ordinary shares or 57.6% of the issued and outstanding shares at 31 December 2007.

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also includes representatives from the Bank’s other shareholders. Two Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

On 28 November 2007 extraordinary Shareholders’ meeting approved early termination of office of Mr. Kazmin as the Chairman of the Board and CEO. Extraordinary Shareholders’ meeting approved Mr. Gref as the Chairman of the Board and CEO.

Principal activity. The Group’s principal business activity is corporate and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Bank of Russia since 1991.

The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ “Guarantees on Bank Deposits of Individuals in the Russian Federation” dated 23 December 2003 and which guarantees repayment of individual deposits.

The State Deposit Insurance Agency guarantees repayment of 100% amount of individual deposits up to RR 100 thousand and repayment of 90% amount of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments.

The Bank has 17 (2006: 17) regional head offices, 791 (2006: 840) branches and 19 499 (2006: 19 244) sub-branches within the Russian Federation as at 31 December 2007. The average number of the Bank’s employees during 2007 was 251 208 (2006: 243 620).

Registered address and place of business. The Bank’s registered address is: Vavilova str., 19, Moscow, Russian Federation.

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

2 Operating Environment of the Group

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

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

2 Operating Environment of the Group (Continued)

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of premises, revaluation of available for sale financial assets, financial assets held at fair value through profit or loss and all derivative contracts.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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. The cost based measurement for financial instruments is applied only in rare circumstances.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount and premium (including fees deferred at origination, if any), 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).

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank deposits and deals with securities purchased under agreements to resell ("reverse repurchase agreements") with original maturity of less than one month. The parent company of the Group has previously not included such interbank deposits and reverse repurchase agreements in cash and cash equivalents in its financial statements for the year ended 31 December 2006. As the Group prepares consolidated financial statements for the first time following increase of operations of the Bank's subsidiaries and aquisition of a new subsidiary, the effects of this matter on the consolidated balance sheet at 31 December 2006, and the corresponding effects on the consolidated statement of cash flows for the year ended 31 December 2006 are presented later in Note 3. The current accounting policy for cash and cash equivalents is aligned with the Group's liquidity management practices. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Physical precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the balance sheet date.

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. Translation differences are included in Foreign exchange translation losses net of gains. 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 arising from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

- any instalment is overdue; and the late payment cannot be attributed to a delay in settlement systems;

- a borrower experiences significant financial difficulties or any information exists about threatening adverse effect that can cause the borrower's insolvency as evidenced by the borrower's financial information obtained by the Group;

- renegotiation of material original terms of contract (restructuring) as a result of changes in the borrower's financial position;

- asset is issued to a borrower to repay his earlier debts;

- a borrower considers bankruptcy or financial reorganisation; and

- adverse change in the payment status of a borrower exists as a result of changes in internal factors (unprofitable activity, drop in production, significant increase in receivables/payables) and external factors (changes in national or local economic conditions that impact the borrower).

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

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

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

After a loan has been written down as a result of impairment, interest income is then recognised on the basis of the interest rate used to discount future cash flows for the purpose of measuring the impairment loss.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit, guarantees, commitments to extend credit and undrawn credit lines. Financial guarantees represent irrevocable assurance to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

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

Investment securities available for sale are carried at fair value. Interest income on available for sale securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of economic benefits is probable. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

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

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as gains less losses arising from trading securities in the income statement. The obligation to return the securities is recorded at fair value in due to other banks.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition. The Group can not classify any financial asset as held-to-maturity if it has, during the current financial year or during two preceding financial years, sold or transferred held-to-maturity investments before maturity (unless they meet specific exceptions in IAS 39). Investment securities held to maturity are carried at amortised cost.

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

Premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis or subsequent cost in respect of acquisitions. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revalued premises are depreciated in accordance with their remaining useful life from 1 January 2006.

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following annual rates are applied for the main categories of premises and equipment:

Premises	2.5-3.3%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

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

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

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

Deposits from individuals and customer accounts. Deposits from individuals and customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit and savings certificates issued by the Group. Debt securities in issue are stated at amortised cost.

Other borrowed funds. Other borrowed funds represent medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of liquidation. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward and futures foreign exchange contracts and forwards with precious metals, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as Net gains from operations with foreign currency and precious metals derivatives. The Group does not apply «hedge accounting» according to IAS 39.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within administrative and other operating expenses.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the balance sheet only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group 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.

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

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

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Dividend payments in excess of that minimum level are determined at the Bank's annual shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchases the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated balance sheet, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately.

Transition to consolidated financial statements. The Group prepares consolidated financial statements for the first time following increase of operations of the Bank’s subsidiaries and acquisition of a new subsidiary. Assets and liabilities as of 31 December 2006 are measured at the same amounts as in the financial statements of the parent company of the Group for the year ended 31 December 2006, except for cash and cash equivalents. The parent company of the Group did not include interbank deposits and reverse repurchase agreements with original maturities within one month in cash and cash equivalents at 31 December 2006. However, based on the Group’s liquidity management practices, such items are included in cash and cash equivalents in these consolidated financial statements. The effects of this matter on the balance sheet at 31 December 2006, and the corresponding effects on the statement of cash flows for the year ended 31 December 2006 are:

In millions of Russian Roubles	**31 December 2006**
Increase in	
Cash and cash equivalents	39 798
Decrease in	
Due from other banks	(35 645)
Loans and advances to customers	(4 153)

3 Basis of Preparation and Significant Accounting Policies (Continued)

Effects on the statement of cash flows for the year ended 31 December 2006:

In millions of Russian Roubles	**2006**
Increase in	
Cash and cash equivalents at the beginning of the reporting period	27 617
Cash and cash equivalents as at the end of the reporting period	39 798
Interest received	8
Decrease in	
Net increase in due from other banks	11 868
Net increase in loans and advances to customers	305

Amendments of the financial statements after issue. The Group's shareholders and management have the power to amend the financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. For new types of loans, where the Group has not collected statistics of historical losses, market information on historical losses of similar groups of loans is used to assess incurred but not yet reported losses.

Also, the Group's management accounting system in some cases does not allow to collect all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 3% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 1 012 million (31 December 2006: RR 749 million) higher or RR 1 094 million (31 December 2006: RR 715 million) lower.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Fair Value of Financial Instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Capital Adequacy Ratio. Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires Management judgement, for example, treatment of off-balance sheet commitments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 35 and 36.

Revaluation of premises. Premises have been revalued to market value at 31 December 2005. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was fair value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2006. Judgement is required to determine the difference between the carrying value and the fair value as at reporting date and the decision on the frequency of the revaluation.

5 Adoption of New or Revised Standards and Interpretations

The Group prepares consolidated financial statements for the first time following increase of operations of the Bank's subsidiaries and acquisition of a new subsidiary. Assets and liabilities as of 31 December 2006 are measured at the same amounts as in the financial statements of the parent company of the Group for the year ended 31 December 2006, except for cash and cash equivalents (Note 3). Certain new IFRSs became effective from 1 January 2007. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Group's operations and the nature of their impact on the policies applied by the parent company of the Group in its financial statements for the year ended 31 December 2006.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures, effective for annual periods beginning on or after 1 January 2007. The IFRS introduced new disclosures to improve the information about financial instruments. The volume of disclosures increases significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated annual financial statements of the Group.

IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This interpretation is not relevant for the Group.

IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. Management does not believe the interpretation is relevant for the Group.

IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management does not believe the interpretation is relevant for the Group.

IFRIC 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. Management does not believe the interpretation has any material impact on the consolidated financial statements of the Group.

6 New Accounting Pronouncements

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. The Group expects the standard to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised Standard removed the option of immediate recognition as an expense of borrowing costs related to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Management does not expect the revised standard to have any material impact on the Group.

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

6 New Accounting Pronouncements (Continued)

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not believe that the amendment will have any material impact on the consolidated financial statements of the Group.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Management does not believe that the revised standard has any material impact on the consolidated financial statements of the Group.

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

IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). Management does not believe the interpretation is relevant for the Group;

IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). Management does not believe the interpretation is relevant for the Group;

IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). Management does not believe the interpretation is relevant for the Group;

IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008). Management does not believe the interpretation is relevant for the Group.

7 Cash and Cash Equivalents

In millions of Russian Roubles	2007	2006
Cash on hand	123 087	83 699
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	24 782	8 321
Correspondent accounts and overnight placements with other banks with original maturities of less than one month		
- Russian Federation	1 232	27 690
- Other countries	80 587	82 320
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	12 543	7 573
Total cash and cash equivalents	**242 231**	**209 603**

At 31 December 2007 cash equivalents of RR 12 543 million (2006: RR 7 573 million) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 13 319 million (2006: RR 8 035 million), of which the Group has a right to sell or repledge securities with a fair value of RR 13 319 million (2006: RR 8 035 million).

Correspondent accounts and placements with other banks with original maturities of less than one month and deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month represent balances with the largest and well-known foreign banks and top rated Russian banks.

As 31 December 2007 all cash and cash equivalents are neither past due nor impaired.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Notes 35 and 36.

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In million of Russian Roubles	2007	2006
Non-cash financing activities	**-**	**-**
Increase of nominal value of shares	-	59 000
Non-cash financing activities	**-**	**59 000**

8 Trading securities

In millions of Russian Roubles	2007	2006
Federal loan bonds (OFZ bonds)	89 044	65 898
Bonds of the Bank of Russia	83 081	87 500
Corporate bonds	27 455	8 762
Russian Federation Eurobonds	24 507	29 473
Municipal and subfederal bonds	19 316	13 485
VneshEconomBank bonds (VEB bonds)	2 735	5 045
Total debt trading securities	**246 138**	**210 163**
Corporate shares	83	478
Total trading securities	**246 221**	**210 641**

8 Trading Securities (Continued)

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from April 2008 to February 2036 (2006: from June 2007 to February 2036), coupon rates from 0% to 10% p.a. (2006: from 0% to 10% p.a.) and yield to maturity from 6% to 7% p.a. (2006: from 3% to 7% p.a.), depending on the type of bond issue.

Bonds of the Bank of Russia are non interest-bearing RR denominated securities issued by the Bank of Russia at a discount. These bonds have maturity dates from March 2008 to June 2008 (2006: from June 2009 to September 2009). Yield to maturity – from 6% to 7% p.a. (2006: yield to maturity – from 5% to 10% p.a.).

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds have maturity dates from March 2008 to June 2014 (2006: from April 2007 to March 2012), coupon rates from 6% to 14% p.a. (2006: from 7% to 14% p.a.) and yield to maturity from 6% to 17% p.a. (2006: from 5% to 12% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from March 2010 to March 2030 (2006: from June 2007 to March 2030), coupon rates from 8% to 13% p.a. (2006: from 5% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2006: from 5% to 6% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from April 2008 to December 2015 (2006: from April 2007 to June 2015), coupon rates from 7% to 14% p.a. (2006: from 7% to 14% p.a.) and yield to maturity from 5% to 12% p.a. (2006: from 3% to 11% p.a.), depending on the type of bond issue.

VEB bonds are bearer interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds carry an annual coupon of 3% p.a., have maturity dates from May 2008 to May 2011 (2006: from November 2007 to May 2011) and yield to maturity 6% p.a. (2006: from 5% to 6% p.a.).

Corporate shares are quoted shares of large Russian companies.

Estimation of fair value of trading securities is based on their market quotations.

Trading securities are carried at fair value which reflects as well possible impairment related to credit risk. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt trading securities outstanding at 31 December 2007 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Current (not past due)				
Federal loan bonds (OFZ bonds)	89 044	-	-	89 044
Bonds of the Bank of Russia	-	-	83 081	83 081
Corporate bonds	11 828	3 519	12 108	27 455
Russian Federation Eurobonds	24 507	-	-	24 507
Municipal and subfederal bonds	8 501	2 231	8 584	19 316
VneshEconomBank bonds (VEB bonds)	2 735	-	-	2 735
Total debt trading securities at 31 December 2007	**136 615**	**5 750**	**103 773**	**246 138**

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2006 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Current (not past due)				
Bonds of the Bank of Russia	-	-	87 500	87 500
Federal loan bonds (OFZ bonds)	65 898	-	-	65 898
Russian Federation Eurobonds	29 473	-	-	29 473
Municipal and subfederal bonds	7 693	1 135	4 657	13 485
Corporate bonds	886	912	6 964	8 762
VneshEconomBank bonds (VEB bonds)	5 045	-	-	5 045
Total debt trading securities at 31 December 2006	**108 995**	**2 047**	**99 121**	**210 163**

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

At 31 December 2007 there are no renegotiated balances that would otherwise be past due. At 31 December 2006 there are also no renegotiated balances that would otherwise be past due. Trading debt securities are not collateralised.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Notes 35 and 36.

9 Other Securities at Fair Value through Profit or Loss

In millions of Russian Roubles	2007	2006
Federal loan bonds (OFZ bonds)	196 383	186 667
Municipal and subfederal bonds	29 966	26 681
Corporate bonds	16 286	10 340
Foreign federal bodies bonds	1 618	-
Russian Federation Eurobonds	-	15
Total other debt securities at fair value through profit or loss	**244 253**	**223 703**
Corporate shares	2 771	14 144
Total other securities at fair value through profit or loss	**247 024**	**237 847**

OFZ bonds have maturity dates from September 2008 to August 2025 (2006: from June 2007 to August 2025), coupon rates from 0% to 10% p.a. (2006: from 0% to 10% p.a.) and yield to maturity from 5% to 7% p.a. (2006: from 3% to 7% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds have maturity dates from April 2008 to June 2015 (2006: from April 2007 to December 2014), coupon rates of 8% to 14% p.a. (2006: from 8% to 14% p.a.) and yield to maturity from 5% to 12% p.a. (2006: from 3% to 11% p.a.), depending on the type of bond issue.

Corporate bonds have maturity dates from March 2008 to September 2013 (2006: from March 2007 to July 2013), coupon rates from 8% to 14% p.a. (2006: from 8% to 14% p.a.) and yield to maturity from 6% to 17% p.a. (2006: from 5% to 12% p.a.), depending on the type of bond issue.

Foreign federal bodies bonds have maturity dates from February 2008 to October 2011, coupon rates from 4% to 6% p.a. and yield to maturity from 3% to 9% p.a., depending on the type of bond issue.

9 Other Securities at Fair Value through Profit or Loss (Continued)

Corporate shares are quoted shares of large Russian companies.

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management of the Group assesses performance of these investments based on their fair values.

Estimation of fair value of other securities at fair value through profit or loss is based on their market quotations.

Other securities designated at fair value through profit or loss are carried at fair value which reflects as well possible impairment related to credit risk. As the securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2007 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Current (not past due)				
Federal loan bonds (OFZ bonds)	196 383	-	-	196 383
Municipal and subfederal bonds	27 064	815	2 087	29 966
Corporate bonds	-	4 842	11 444	16 286
Foreign federal bodies bonds	1 618	-	-	1 618
Total other debt securities at fair value through profit or loss at 31 December 2007	**225 065**	**5 657**	**13 531**	**244 253**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2006 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Current (not past due)				
Federal loan bonds (OFZ bonds)	186 667	-	-	186 667
Municipal and subfederal bonds	23 296	997	2 388	26 681
Corporate bonds	310	3 527	6 503	10 340
Russian Federation Eurobonds	15	-	-	15
Total other debt securities at fair value through profit or loss at 31 December 2006	**210 288**	**4 524**	**8 891**	**223 703**

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

At 31 December 2007 there are no renegotiated balances that would otherwise be past due. At 31 December 2006 there are also no renegotiated balances that would otherwise be past due. Other debt securities at fair value through profit or loss are not collateralised.

Geographical, currency and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 30. The information on other securities at fair value through profit or loss issued by related parties is disclosed in Note 36.

10 Loans and Advances to Customers and Due from Other Banks

In millions of Russian Roubles	**2007**	**2006**
Commercial loans to legal entities	1 757 870	1 218 241
Specialised loans to legal entities	1 329 236	727 378
Loans to individuals - consumer and other loans	657 805	539 383
Mortgage loans to individuals	288 123	153 339
Due from other banks	5 071	5 631
Less: Provision for loan impairment	(111 488)	(100 877)
Total loans and advances to customers and due from other banks	**3 926 617**	**2 543 095**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Loans are provided for periods up to 3 years depending on the borrowers` risk assessment. Commercial lending also includes overdraft lending and export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing, contract financing and also developers' financing. As a rule the loans periods are linked to payback periods of investment and construction projects, contract execution periods and exceed the periods of corporate commercial loans. The principal and interest may be repaid by cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing construction and reconstruction. These loans include loans for current needs, auto loans and overdrafts.

Mortgage loans to individuals include loans for acquisition, building and reconstruction of real estate. These loans are mostly long-term.

Due from other banks include term loans with original maturity of more than one month.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Quality of the Loan Portfolio. The table below shows the Group's loan portfolio quality by loan classes as at 31 December 2007:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Loans to individuals - consumer and other loans	Mortgage loans to individuals	Due from other banks	Total
Not past due loans, assessed for impairment on a collective basis						
- 1 group	139 873	121 885	5 824	7 973	-	275 555
- 2 group	1 067 359	574 944	622 847	268 543	3 509	2 537 202
- 3 group	517 185	624 156	784	1 602	1 562	1 145 289
Total not past due loans, assessed for impairment on a collective basis	**1 724 417**	**1 320 985**	**629 455**	**278 118**	**5 071**	**3 958 046**
Past due loans, assessed for impairment on a collective basis						
- less than 30 days overdue	3 751	602	4 262	1 384	-	9 999
- 30 to 60 days overdue	1 683	160	2 235	729	-	4 807
- 60 to 90 days overdue	2 138	85	1 497	1 156	-	4 876
- over 90 days overdue	24 460	2 482	-	-	-	26 942
Total past due loans, assessed for impairment on a collective basis	**32 032**	**3 329**	**7 994**	**3 269**	**-**	**46 624**
Individually impaired loans to legal entities and impaired loans to individuals	**1 421**	**4 922**	**20 356**	**6 736**	**-**	**33 435**
Total loans and advances to customers and due from other banks before provision for loan impairment	**1 757 870**	**1 329 236**	**657 805**	**288 123**	**5 071**	**4 038 105**
Less provisions for loan impairment						
- provisions for individually impaired loans to legal entities	(714)	(2 780)	-	-	-	(3 494)
- provisions for not past due and past due loans, assessed for impairment on a collective basis	(44 784)	(29 626)	(25 458)	(8 126)	-	(107 994)
Total loans and advances to customers and due from other banks net of provision for loan impairment	**1 712 372**	**1 296 830**	**632 347**	**279 997**	**5 071**	**3 926 617**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

The table below shows the Group's loan portfolio quality by loan classes as at 31 December 2006:

In millions of Russian Roubles	Commercial loans to legal entities	Speciali-sed loans to legal entities	Loans to individuals - consumer and other loans	Mortgage loans to individuals	Due from other banks	Total
Not past due loans, assessed for impairment on a collective basis						
- 1 group	74 803	97 890	9 366	17 481	3 934	203 474
- 2 group	817 239	347 528	506 961	133 801	455	1 805 984
- 3 group	305 136	271 960	5 611	611	1 242	584 560
Total not past due loans, assessed for impairment on a collective basis	**1 197 178**	**717 378**	**521 938**	**151 893**	**5 631**	**2 594 018**
Past due loans, assessed for impairment on a collective basis						
- less than 30 days overdue	2 037	599	3 355	414	-	6 405
- 30 to 60 days overdue	1 030	43	1 906	295	-	3 274
- 60 to 90 days overdue	919	433	1 325	106	-	2 783
- over 90 days overdue	17 077	4 962	-	-	-	22 039
Total past due loans, assessed for impairment on a collective basis	**21 063**	**6 037**	**6 586**	**815**	**-**	**34 501**
Individually impaired loans to legal entities and impaired loans to individuals	**-**	**3 963**	**10 859**	**631**	**-**	**15 453**
Total loans and advances to customers and due from other banks before provision for loan impairment	**1 218 241**	**727 378**	**539 383**	**153 339**	**5 631**	**2 643 972**
Less provisions for loan impairment						
- provisions for individually impaired loans to legal entities	-	(3 039)	-	-	-	(3 039)
- provisions for not past due and past due loans, assessed for impairment on a collective basis	(47 174)	(23 163)	(23 837)	(3 664)	-	(97 838)
Total loans and advances to customers and due from other banks net of provision for loan impairment	**1 171 067**	**701 176**	**515 546**	**149 675**	**5 631**	**2 543 095**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'Neither past due nor individually impaired' until a specific objective evidence of impairment of the loan is identified. The total impairment provisions may exceed the gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

For analysis and effective management of the credit portfolio the Group internally classifies its loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower may also be taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of these consolidated financial statements, all current loans are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality.

The 1-st group of current loans to legal entities includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group of current loans includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-d group of current loans includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of quality analysis, loans to individuals are grouped into homogeneous sub-portfolios with similar risk characteristics. Sub-portfolios are ranged by type of credit product and borrower quality (loan servicing). The Group analyses each portfolio in terms of its historical loss and recovery rate. Loans to individuals not grouped into homogeneous sub-portfolios are assessed on the basis of the borrower's financial position and loan servicing quality. For the purpose of presenting information in these consolidated financial statements, all current loans to individuals are combined into three groups presented in the tables above. The 1-st group of loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-d group is represented by loans with average debt servicing and moderate financial position of a borrower.

Loans, which have past due payment on principal and/or interest amount, are analyzed by the aging of overdue period. A loan is considered past due when the borrower fails to make any payment due under the loan at the balance sheet date. In this case, as described in the table above, a past due amount is recognised as the aggregate amount of all amounts due from the borrower under the loan agreement including accrued interest and commissions.

As at 31 December 2007 the past due part of loans (which do not include the full outstanding balance of installments and other amounts that are not yet past due) amounted to RR 39 553 million (2006: RR 29 129 million).

The Group also separates and analyses individually impaired loans. These are loans that meet specific indicators of impairment and are significant. Loan is considered significant, when, if fully impaired, its amount would have a material impact on the Group's expected average level of operating profit. Corporate loans are deemed impaired in case of the borrower's poor financial position or unsatisfactory debt servicing. Retail loans are deemed impaired when the principal or interest payment becomes more than 90 days overdue.

As at 31 December 2007 and as at 31 December 2006 all individually impaired loans, presented in the tables above, have past due payments on principal and/or interest amount for more than 90 days.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Information about not past due loans, assessed for impairment on a collective basis, with the terms of lending renegotiated, as at 31 December 2007 and 31 December 2006 is presented in the table below. There were no loans from other banks which were renegotiated in 2007 and 2006. Lending terms review means amendments to main terms of the loan agreement that have been made from the moment of issuing a loan until the reporting date mainly upon the client's initiative. There is a probability that in certain circumstances loans with renegotiated lending terms presented in the table below could have become past due or impaired under the initial terms of lending.

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2007	25 349	8 184	242	16	33 791
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2006	31 316	7 452	181	32	38 981

Provisions for Loan Impairment. The analysis of changes in provisions for credit portfolio impairment in 2007 by loan groups is presented in the table below:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Provision for loan impairment at 1 January 2007	**47 174**	**26 202**	**23 837**	**3 664**	**100 877**
Provision for impairment during the year	2 958	7 169	2 975	4 531	17 633
Amounts written off during the year as uncollectible	(4 634)	(965)	(1 354)	(69)	(7 022)
Provision for loan impairment at 31 December 2007	**45 498**	**32 406**	**25 458**	**8 126**	**111 488**

The analysis of changes in provisions for credit portfolio impairment in 2006 by loan groups is presented in the table below:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Provision for loan impairment at 1 January 2006	**45 122**	**25 063**	**19 843**	**3 050**	**93 078**
Provision for impairment during the year	6 918	1 528	4 762	643	13 851
Amounts written off during the year as uncollectible	(4 866)	(389)	(768)	(29)	(6 052)
Provision for loan impairment at 31 December 2006	**47 174**	**26 202**	**23 837**	**3 664**	**100 877**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

There are no changes in provisions for impairment of due from other banks in tables above as the Group has not recognised this type of provision for these types of loans in 2007 or 2006. Provisions for loan impairment are made to cover losses that objectively exist as at the balance sheet date. Provisions do not cover losses, which are expected to be incurred after the balance sheet date. In determining provisions for loan impairment the Group applies principles described in the Note 3.

Estimating loan portfolio impairment provision involves the following steps:

- Identification of loans that are individually significant, i.e., those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating profit.

- Determination of whether an individually significant loan shows objective evidence of impairment. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Group expects to collect all interest and principal due in full, but it is probable that those cash flows would be received later than the date agreed in the original contract, an impairment assessment is performed. Other impairment indicators include, but are not limited to, significant financial difficulties, an actual breach of the loan contract, a high probability of bankruptcy or other financial reorganisation of the borrower.

- An impairment review of individually significant loans that show objective evidence of impairment. The impairment review requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.

- All remaining loans that have not been identified as individually significant are to be assessed on a portfolio basis. For the purpose of such a review, loan portfolios are grouped in pools, based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Pools are formed on the basis of credit products and internal ratings. Provision for impairment on individually significant loans without evidence of impairment is also assessed on a pool basis. The Group determines the provision for each pool on the basis of statistical data on actual losses and non-recoverable loans over past years. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Loan Security. As a rule the Group requires collateral and/or guarantees for loans to legal entities (commercial and specialised loans). Acceptable collateral includes real estate, securities (within the Group's risk limits for such securities), transport and production equipment, inventory, precious metals, certain contract rights and certain personal property. Guarantees can be provided by controlling shareholders (or other controlling persons) of small businesses, government entities, banks and other solvent legal entities (all within risk limits for such guarantees). A guarantor is evaluated on the same basis as the borrower itself. The Group assesses value of collateral on the basis of an internal expert evaluation performed by the Group's specialists, an independent appraiser's evaluation or on the basis of the discounted book value of the collateral. In accordance with the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of three months. Borrowers must either insure the collateral or make a payment to the Group reflecting the increase in credit risk due to the lack of insurance.

The Group usually requires collateral and/or guarantees for loans to individuals (mortgage, consumer and other loans). Acceptable collateral includes real estate, personal property, government and the Bank's securities, precious metals, motor vehicles and other liquid assets. The Group accepts guarantees from its clients, both individuals and legal entities. According to the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of at least a year. The Group determines the value of collateral on the basis of internal or independent evaluation or its discounted carrying amount. Individual guarantors are evaluated on the same basis as the borrower itself.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

As a rule, amounts due from other banks are not secured.

As at 31 December 2007 total corporate loans, included into commercial loans to legal entities portfolio, with amount of RR 62 833 million (2006: RR 13 754 million) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at fair value of RR 83 325 million (2006: RR 17 645 million). At 31 December 2007 and 31 December 2006 the Group has a right to sell or repledge these securities.

Collateral held by the Group for past due loans, assessed for impairment on a collective basis, is similar to collateral received for other loans (see description above). Per the Group's assessment the fair value of collateral received for past due loans, assessed for impairment on a collective basis, to individuals exceeds the carrying amount of such loans.

Fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2007 and 31 December 2006 is presented in the table below:

	2007		2006	
In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Commercial loans to legal entities**	**Specialised loans to legal entities**
Fair value of collateral for past due loans, assessed for impairment on a collective basis, when collateral is :				
- real estate	7 294	1 321	5 285	625
- transportation and production equipment	11 063	1 021	6 862	1 816
- goods in turnover	3 372	-	1 213	-
- tradable securities	193	69	47	-
- other assets	989	480	516	693
Fair value of collateral for individually impaired loans to legal entities, when collateral is :				
- real estate	474	-	-	-
- transportation and production equipment	117	586	-	-
- goods in turnover	151	56	-	-
- tradable securities	-	-	-	-
- other assets	-	-	-	-
Total	**23 653**	**3 533**	**13 923**	**3 134**

In addition, in some cases the Group has not used independent appraisers for assessment of fair value of collateral. In such cases, the value of collateral is assessed based on its carrying value less discount stated in the internal policies of the Bank (the "pledged value"). The pledged value of collateral for past due and individually impaired loans amounts to RR 23 326 million (2006: RR 23 216 million) for commercial loans and RR 10 055 million (2006: RR 9 549 million) for specialised loans to legal entities. Total collateral on past due and individually impaired corporate loans as at 31 December 2007 equals to RR 46 979 million (2006: RR 37 139 million) for commercial loans and RR 13 588 million (2006: RR 12 683 million) for specialized loans to legal entities.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Economic sector risk concentration. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2007 and 31 December 2006 are as follows:

	2007		2006	
	Amount	**%**	**Amount**	**%**
Individuals	945 928	23.4	692 722	26.2
Trade	730 641	18.1	490 422	18.5
Services	617 947	15.3	246 368	9.3
Food and agriculture	309 802	7.7	218 286	8.3
Machine building	253 797	6.3	173 755	6.6
Oil, gas and chemical	209 064	5.2	210 352	8.0
Construction	183 177	4.5	77 281	2.9
Metallurgy	180 881	4.5	146 821	5.6
Transport, aviation, space industry	176 470	4.4	121 009	4.6
Energy	90 581	2.2	63 864	2.4
Telecommunications	78 740	1.9	46 432	1.8
Timber industry	28 579	0.7	23 323	0.9
Government and municipal bodies	25 917	0.6	16 947	0.6
Other	206 581	5.2	116 390	4.3
Total loans and advances to customers (before provision for loan impairment)	**4 038 105**	**100.0**	**2 643 972**	**100.0**

At 31 December 2007 the Group had 10 borrowers with aggregated loan amounts above RR 30 990 million (2006: 10 borrowers with loan amounts above RR 22 700 million). The total aggregate amount of these loans was RR 636 465 million or 15.8% of the total gross loan portfolio (2006: RR 406 997 million or 15.4%).

Carrying value of loans and advances to customers and due from other banks approximately equals fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of loans and advances to customers was RR 3 926 617 million (2006: RR 2 543 095 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers and due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

11 Investment Securities Available for Sale

In millions of Russian Roubles	2007	2006
Corporate shares	8 278	-
Corporate bonds	1 515	-
Municipal and subfederal bonds	301	-
Total investment securities available for sale	**10 094**	**-**

Corporate shares are quoted shares of large Russian companies.

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds have maturity dates in November 2012, coupon rate 10% p.a. and yield to maturity 10% p.a.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates in November 2012, coupon rate 9% p.a. and yield to maturity 10% p.a.

11 Investment Securities Available for Sale (Continued)

Investment securities available for sale are carried at fair value which reflects as well possible impairment related to credit risk. As at 31 December 2007, investment securities available for sale are neither past due nor impaired. None of the securities were renegotiated. At 31 December 2007 no ratings were assigned by international rating agencies to debt investment securities available for sale represented by corporate bonds and municipal and subfederal bonds.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	2007	2006
Carrying amount at 1 January	**-**	**-**
Additions	16 119	-
Unrealized gains less losses	964	-
Realized gains less losses	688	-
Proceeds from disposals of investment securities available for sale	(7 692)	-
Accrued interest income	15	-
Carrying amount at 31 December	**10 094**	**-**

At 31 December 2007 the estimated fair value of investment securities available for sale was RR 10 094 million (2006: RR 0 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

12 Investment Securities Held to Maturity

Due to current market situation, in October 2007 the Group disposed of the entire portfolio of investment securities held to maturity represented by Russian Federation Eurobonds with maturity date in 2018. The sale price of investment securities held to maturity represented actual market price. As a result of this transaction the Group has received a net gain in the amount of RR 19 436 million.

According to the analysis by credit quality made on the basis of ratings of international rating agencies, at 31 December 2006 debt investment securities held to maturity represented by Russian Federation Eurobonds were assigned investment rating by international rating agencies. At 31 December 2006 the fair value of investment securities held to maturity was RR 47 550 million. Refer to Note 33.

The information on related party balances is disclosed in Note 36.

The movements in investment securities held to maturity are as follows:

In millions of Russian Roubles	2007	2006
Carrying value at 1 January	**26 198**	**28 399**
Accrued interest income	2 994	3 841
Interest income received	(3 453)	(3 657)
Proceeds from disposal of investment securities held to maturity	(43 777)	-
Gains arising from disposal of investment securities held to maturity	19 436	
Exchange differences	(1 398)	(2 385)
Carrying value at 31 December	**-**	**26 198**

13 Premises and Equipment

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Cost or valuation at 1 January 2006		75 400	40 868	8 997	7 388	132 653
Accumulated depreciation		-	(21 370)	(4 433)	–	(25 803)
Carrying amount at 1 January 2006		**75 400**	**19 498**	**4 564**	**7 388**	**106 850**
Additions		8 575	16 489	1 864	7 872	34 800
Transfers		5 426	-	-	(5 426)	-
Disposals – at cost		(518)	(1 524)	(676)	(1 112)	(3 830)
Disposals - accumulated depreciation		9	1 003	399	-	1 411
Depreciation charge	25	(2 655)	(9 958)	(1 402)	-	(14 015)
Carrying amount at 31 December 2006		**86 237**	**25 508**	**4 749**	**8 722**	**125 216**
Cost or valuation at 31 December 2006		88 883	55 833	10 185	8 722	163 623
Accumulated depreciation		(2 646)	(30 325)	(5 436)	-	(38 407)
Carrying amount at 31 December 2006		**86 237**	**25 508**	**4 749**	**8 722**	**125 216**
Additions		11 921	17 413	1 668	11 538	42 540
Transfers		8 806	-	-	(8 806)	-
Disposals – at cost		(2 408)	(1 793)	(1 145)	(1 078)	(6 424)
Disposals - accumulated depreciation		116	1 793	1 145	-	3 054
Depreciation charge	25	(3 032)	(13 049)	(1 455)	-	(17 536)
Carrying amount at 31 December 2007		**101 640**	**29 872**	**4 962**	**10 376**	**146 850**
Cost or valuation at 31 December 2006		107 202	71 453	10 708	10 376	199 739
Accumulated depreciation		(5 562)	(41 581)	(5 746)	-	(52 889)
Carrying amount at 31 December 2007		**101 640**	**29 872**	**4 962**	**10 376**	**146 850**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

At 31 December 2007 the carrying amount of premises would have been RR 82 132 million (2006: RR 65 986 million) had the assets been carried at cost less depreciation.

At 31 December 2007 included in office and computer equipment are fully depreciated items in the amount of RR 17 044 million (2006: RR 7 206 million) and in vehicles and other equipment in the amount of RR 2 881 million (2006: RR 1 677 million).

14 Other Assets

In millions of Russian Roubles	2007	2006
Other financial assets		
Receivables on plastic cards settlements	23 562	18 895
Funds in settlement	895	816
Cession agreements receivables	782	571
Other	1 069	730
Total other financial assets	**26 308**	**21 012**
Other non-financial assets		
Prepayments for premises and other assets	9 950	2 479
Precious metals	6 229	6 746
Goodwill	4 902	2 644
Prepaid expenses	2 204	2 028
Tax settlements (other than on income tax)	2 593	814
Other	727	435
Total other non-financial assets	**26 605**	**15 146**
Total other assets	**52 913**	**36 158**

As at 31 December 2007 receivable on plastic cards settlements of RR 23 562 million (2006: RR 18 895 million) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2007	2006
Carrying amount at 1 January		**2 644**	**-**
Acquisition of subsidiary	38	2 258	2 644
Carrying amount at 31 December		**4 902**	**2 644**

The Group tests goodwill for impairment. No impairment was identified due to recent acquisition of the subsidiaries. The Group plans to invest in further development of subsidiaries.

Carrying value of each class of other financial assets approximately equals fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial assets was RR 26 308 million (2006: RR 21 012 million). Refer to Note 33.

Geographical, currency and maturity analyses of other assets are disclosed in Note 30.

15 Due to Other Banks

In millions of Russian Roubles	2007	2006
Correspondent accounts and overnight placements of other banks	32 273	39 354
Current term placements of other banks	48 048	5 482
Total due to other banks	**80 321**	**44 836**

15 Due to Other Banks (Continued)

Carrying value of each class of due to other banks approximately equals fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due to other banks was RR 80 321 million (2006: RR 44 836 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Notes 35 and 36.

16 Deposits from Individuals and Customer Accounts

In millions of Russian Roubles	2007	2006
Individuals		
- Current/demand accounts	302 339	201 586
- Term deposits	2 379 647	1 844 449
State and public organisations		
- Current/settlement accounts	64 546	65 820
- Term deposits	16 653	18 805
Other legal entities		
- Current/settlement accounts	686 806	518 813
- Term deposits	427 629	179 351
Total deposits from individuals and customer accounts	**3 877 620**	**2 828 824**

Economic sector concentrations within customer accounts are as follows:

	2007		2006	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	2 681 986	69.2	2 046 035	72.3
Oil, gas and chemical	270 985	7.0	131 341	4.6
Services	177 554	4.6	106 304	3.8
Trade	177 105	4.6	136 054	4.8
Construction	94 092	2.4	61 856	2.2
Energy	68 753	1.8	28 704	1.0
Machine building	58 281	1.5	38 444	1.4
Food and agriculture	53 196	1.4	38 975	1.4
Municipal bodies and state organisations	44 642	1.1	57 841	2.0
Metallurgy	41 293	1.0	37 094	1.3
Other	209 733	5.4	146 176	5.2
Total deposits from individuals and customer accounts	**3 877 620**	**100.0**	**2 828 824**	**100.0**

At 31 December 2007 included in deposits from individuals and customer accounts are deposits of RR 65 159 million (2006: RR 50 714 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

Carrying value of each class of deposits from individuals and customer accounts approximately equals fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of deposits from individuals and customer accounts was RR 3 877 620 million (2006: RR 2 828 824 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of deposits from individuals and customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

17 Debt Securities in Issue

In millions of Russian Roubles	2007	2006
Promissory notes	142 090	106 730
Savings certificates	18 984	14 108
Deposit certificates	2 753	2 891
Total debt securities in issue	**163 827**	**123 729**

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in RR, USD and Euro and have maturity dates from "on demand" to April 2012 (2006: from "on demand" to April 2012). Interest or discount rates on promissory notes issued by the Group vary from 3.5% to 8.7% p.a. (2006: from 1.4% to 11.0% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Group. They are denominated in RR and have maturity dates from "on demand" to December 2009 (2006: from "on demand" to March 2009). Interest rates on these securities vary from 5.0% till 8.8% p.a. (2006: from 1.7% till 10.2% p.a.).

At 31 December 2007 the estimated fair value of debt securities in issue was RR 157 532 million (2006: RR 119 148 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 30.

18 Other Borrowed Funds

In millions of Russian Roubles	2007	2006
Long-term loans received	106 057	99 247
Term borrowings	5 968	8 085
Total other borrowed funds	**112 025**	**107 332**

At 31 December 2007 included in long-term loans received is a syndicated loan in the amount of USD 1 000 million, which was received by the Group in December 2005 from a consortium of foreign banks. As at 31 December 2007 the loan was accounted for at amortised cost of RR 19 762 million (2006: RR 26 463 million). This loan has a maturity date on 10 November 2008 and contractual floating interest rate of 3 months LIBOR + 0.55%. As at 31 December 2007 the effective interest rate on the loan was 5.8% p.a. (2006: 6.3% p.a.).

In October 2006 the Group received another syndicated loan in the amount of USD 1 500 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2007 the loan was accounted for at amortised cost of RR 37 107 million (2006: RR 39 649 million). This loan matures in October 2009 and has contractual floating interest rate of 3 months LIBOR + 0.3%. As at 31 December 2007 the effective interest rate on the loan was 5.8% p.a. (2006: 5.9% p.a.).

In May 2006 the Group entered into USD 10 000 million loan participation notes (MTN) issuance programme. In May 2006 the Group received the first loan under this programme in the amount of USD 500 million, which is included in long-term loans received. As at 31 December 2007 this loan was accounted for at amortised cost of RR 12 360 million (2006: RR 13 256 million). This loan matures in May 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2007 the effective interest rate on the loan was 6.6% p.a. (2006: 6.6% p.a.).

18 Other Borrowed Funds (Continued)

In November 2006 the Group attracted the second loan under the MTN issuance programme in the amount of USD 750 million, which is also included in long-term loans received. As at 31 December 2007 this loan was accounted for at amortised cost of RR 18 533 million (2006: RR 19 879 million). This loan matures in November 2011 and has contractual fixed interest rate of 5.9% p.a. As at 31 December 2007 the effective interest rate on the loan was 6.0% p.a. (2006: 6.0% p.a.).

In December 2007 the Group received syndicated loan in the amount of USD 750 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2007 the loan was accounted for at amortised cost of RR 18 295 million. This loan matures in December 2010 and has contractual floating interest rate of 3 months LIBOR + 0.45%. As at 31 December 2007 the effective interest rate on the loan was 5.7% p.a.

Term borrowings represent funding received by the Group from foreign export agencies via foreign banks, which was used by the Group for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2007 these term borrowings were accounted for at amortised cost of RR 5 968 million (2006: RR 8 085 million), had interest rates varying from 4.7% to 6.8% p.a. (2006: from 3.9% to 6.8% p.a.) and maturity dates from May 2008 to January 2016 (2006: from July 2007 to January 2016).

At 31 December 2007 the estimated fair value of other borrowed funds was RR 111 881 million (2006: RR 108 174 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

19 Other Liabilities

In millions of Russian Roubles	**2007**	**2006**
Other financial liabilities		
Plastic card payables	3 269	1 391
Trade payables	2 619	378
Funds in settlement	961	2 520
Other	822	1 269
Total other financial liabilities	**7 671**	**5 558**
Other non-financial liabilities		
Accrued employee benefit costs	14 995	9 822
Taxes payable other than on income	3 860	2 693
Deposit insurance system fees payable	3 251	2 824
Income tax payable	2 556	1 755
Deferred commissions received on guarantees issued	203	292
Other	218	-
Total other non-financial liabilities	**25 083**	**17 386**
Total other liabilities	**32 754**	**22 944**

Carrying value of each class of other financial liabilities approximately equals fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial liabilities was RR 7 671 million (2006: RR 5 558 million). Refer to Note 33.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 30.

20 Subordinated Debt

In millions of Russian Roubles	2007	2006
Subordinated debt	25 064	26 880
Total subordinated debt	**25 064**	**26 880**

In 2005 the Group received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of an aggregate principal amount of USD 1 000 million. Loan Participation Notes at contractual interest rate of 6.2% p.a. and maturity in February 2015 are issued for the sole purpose of financing a ten-year subordinated loan to the Group. As at 31 December 2007 this subordinated debt was accounted for at amortised cost of RR 25 064 million (2006: RR 26 880 thousand).

In the event of the Bank's liquidation the holders of this debt would be subordinated to all other creditors.

As at 31 December 2007 the estimated fair value of subordinated debt was RR 24 891 million (2006: RR 27 256 million). Refer to Note 33.

Geographical, currency and maturity analyses of subordinated debt are disclosed in Note 30.

21 Share Capital and Share Premium

	2007			2006		
In millions of Russian Roubles, except for number of shares	**Number of shares, in thousands**	**Nominal amount**	**Inflation adjusted amount**	**Number of shares, in thousands**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	21 586 948	64 761	83 337	19 000	57 000	75 576
Preference shares	1 000 000	3 000	4 405	50 000	3 000	4 405
Less: Treasury shares						
- Ordinary shares	(1 679)	(5)	-	(2)	(5)	-
Total share capital	**22 585 269**	**67 756**	**87 742**	**68 998**	**59 995**	**79 981**

On 21 December 2006, the Supervisory Board of the Bank approved the issuance of 3 500 000 additional ordinary shares with a nominal value of RR 3 000 by way of a public offering in Russia in the first quarter of 2007. The issue's results were approved by the Bank of Russia on 29 March 2007. The number of shares placed under this issue was 2 586 948. The amount of cash raised through the share issue was RR 230 238 million.

The Annual General Shareholders' meeting held on 29 June 2007 approved the split of the Bank's ordinary and preference shares nominal value. On 19 July 2007 the Bank of Russia approved the results of nominal value split of the Bank's shares. As a result of the split, the Bank's share capital consists of 21 586 948 000 ordinary shares and 1 000 000 000 preference shares. The split of the Bank's shares nominal value and corresponding increase in the number of shares are reflected in the table above.

21 Share Capital and Share Premium (Continued)

As at 31 December 2007 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 15.5% p.a. in 2007, for the year ended 31 December 2006, reflecting the results of the increase in the Bank's shares nominal value in 2006 (2006: 590% p.a. for the year ended 31 December 2005). Preference share dividends rank above ordinary dividends.

Share premium of RR 232 493 million (2006: RR 10 016 million) represents the excess of contributions received over the nominal value of shares issued.

22 Retained Earnings

In accordance with Russian legislation, the Bank stand alone distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's stand alone reserves under Russian Accounting Rules at 31 December 2007 are RR 375 903 million (2006: RR 297 397 million).

23 Interest Income and Expense

In millions of Russian Roubles	**2007**	**2006**
Interest income		
Loans and advances to customers	383 320	283 599
Debt trading securities	17 039	9 277
Other debt securities at fair value through profit or loss	16 186	15 550
Due from other banks	7 747	4 136
Investment securities held to maturity	2 994	3 841
Correspondent accounts with other banks	1 365	1 243
Debt investment securities available for sale	15	-
Total interest income	**428 666**	**317 646**
Interest expense		
Term deposits of individuals	132 925	94 724
Term deposits of legal entities	18 420	9 932
Current/settlement accounts	9 617	7 438
Other borrowed funds	6 145	4 550
Debt securities in issue	4 693	2 557
Term placements of other banks	1 705	679
Subordinated debt	1 600	1 699
Correspondent accounts of other banks	800	451
Total interest expense	**175 905**	**122 030**
Net interest income	**252 761**	**195 616**

24 Fee and Commission Income and Expense

In millions of Russian Roubles	2007	2006
Fee and commission income		
Cash and settlement transactions with legal entities	25 668	19 382
Cash and settlement transactions with individuals	23 059	18 132
Plastic cards operations	10 295	6 916
Operations with foreign currency	3 222	2 854
Cash collection	2 937	2 279
Guarantees issued	837	519
Transactions with securities	759	768
Fiduciary management operations	49	21
Other	1 493	820
Total fee and commission income	**68 319**	**51 691**
Fee and commission expense		
Settlement transactions	1 732	1 025
Operations with foreign currency	430	333
Transactions with securities	153	123
Cash collection	115	110
Other	14	24
Total fee and commission expense	**2 444**	**1 615**
Net fee and commission income	**65 875**	**50 076**

25 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2007	2006
Staff costs		118 370	87 167
Telecommunication and office supplies expenses		19 808	13 192
Depreciation of premises and equipment	13	17 536	14 015
State deposit insurance system membership fee		12 783	10 190
Other costs of premises and equipment		7 768	3 420
Taxes other than on income		5 810	6 381
Operating lease expense for premises and equipment		4 067	3 215
Advertising and marketing services		2 484	2 293
Other		7 138	5 267
Total administrative and other operating expenses		**195 764**	**145 140**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 17 352 million (2006: RR 13 697 million).

26 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2007	2006
Current tax	37 163	24 942
Deferred tax	(3 672)	1 274
Less: Deferred tax recorded directly in equity	(231)	-
Income tax expense for the year	**33 260**	**26 216**

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

In millions of Russian Roubles	2007	2006
IFRS profit before tax	**139 749**	**109 020**
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	33 540	26 165
Income on government securities taxed at different rates	(2 362)	(2 305)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(36)
- Non-deductible staff costs	2 756	1 370
- Other non deductible expenses	552	257
- Other non-temporary differences	(1 226)	765
Income tax expense for the year	**33 260**	**26 216**

At 31 December 2007 a deferred tax liability of RR 231 million has been recorded directly in equity in respect of the fair valuation of investment securities available for sale.

26 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%), except for income on state securities that is taxed at 15%, 9% and 0% (2006: 15%, 9% and 0%).

In millions of Russian Roubles	**31 December 2006**	**Credited/ (charged) to profit or loss**	**Charged directly to equity**	**31 December 2007**
Tax effect of deductible temporary differences				
Deferred fees and commissions income	3 059	1 329	-	4 388
Accrued employee benefit costs	2 676	1 266	-	3 942
Low value items write-off	1 230	(158)	-	1 072
Other	507	(75)	-	432
Gross deferred tax asset	**7 472**	**2 362**	**-**	**9 834**
Tax effect of taxable temporary differences				
Loan impairment provision	(1 605)	2 661	-	1 056
Premises and equipment	8 369	(3 058)	-	5 311
Fair valuation of trading securities and other securities at fair value through profit or loss	3 515	(1 597)	-	1 918
Fair valuation of investment securities available for sale	-	-	231	231
Amortisation of investment securities held to maturity	677	(677)	-	-
Other	120	1 130	-	1 250
Gross deferred tax liability	**11 076**	**(1 541)**	**231**	**9 766**
Total net deferred tax asset /(liability)	**(3 604)**	**3 903**	**(231)**	**68**

26 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2005	(Charged)/ credited to profit or loss	31 December 2006
Tax effect of deductible temporary differences			
Loan impairment provision	4 460	(2 855)	1 605
Deferred fees and commissions income	2 580	479	3 059
Accrued employee benefit costs	1 341	1 335	2 676
Low value items write-off	968	262	1 230
Other	1 112	(605)	507
Gross deferred tax asset	**10 461**	**(1 384)**	**9 077**
Tax effect of taxable temporary differences			
Premises and equipment	7 017	1 352	8 369
Fair valuation of trading securities and other securities at fair value through profit or loss	4 800	(1 285)	3 515
Amortisation of investment securities held to maturity	645	32	677
Other	329	(209)	120
Gross deferred tax liability	**12 791**	**(110)**	**12 681**
Total net deferred tax liability	**(2 330)**	**(1 274)**	**(3 604)**

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2007	2006
Profit for the year	106 489	82 804
Less: preference dividends	(465)	(295)
Profit attributable to the Bank's ordinary shareholders	**106 024**	**82 509**
Weighted average number of ordinary shares in issue (millions)	20 962	18 998
Basic and diluted ordinary earnings per share (expressed in RR per share)	**5.1**	**4.3**

Earnings per share for 2006 reflect the results of the nominal value split of the Bank's shares. Refer to Note 21.

28 Dividends

	2007		2006	
In millions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	59	18	41	12
Dividends declared during the year	8 322	465	5 054	295
Dividends paid during the year	(8 281)	(460)	(5 036)	(289)
Dividends payable at 31 December	**100**	**23**	**59**	**18**
Dividends per share declared during the year (RR per share)	**0.39**	**0.47**	**266.00**	**5.90**

All dividends are declared and paid in Russian Roubles. Amount of dividends per share declared in 2007 reflects the results of the nominal value split of the Bank's shares.

29 Segment Analysis

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

Business Segments. The Bank is organised on a basis of two main business segments:

- Retail banking – representing private customer current accounts, savings, deposits, custody, debit cards, consumer loans and mortgages.

- Corporate banking – representing operations with securities, current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency and derivative products.

Intra-Group items comprise other operations of the Group, which, based on their size, do not comprise a separately reportable segment.

In 2007 the Group measured business segment revenues, expenses and results on the basis of inter-segment prices used for internal management purposes only. Internal transfer pricing rates were established, approved and regularly revised by the Management of the Group.

For the purposes of these consolidated financial statements segment revenue consists of interest income and fee and commission income in the amount of RR 326 961 million for corporate banking and in the amount of RR 294 870 million for retail banking for the year ended 31 December 2007 (2006: RR 232 842 million and RR 211 951 million, respectively).

Segment information for the main reportable business segments of the Group as at 31 December 2007 and 31 December 2006, as well as for the years ended 31 December 2007 and 31 December 2006 is set out below.

29 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities per business segments as at 31 December 2007 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Group items	Total
Assets				
Cash and cash equivalents	-	-	242 231	242 231
Mandatory cash balances with the Bank of Russia	18 741	38 049	-	56 790
Trading securities	246 221	-	-	246 221
Other securities at fair value through profit or loss	247 024	-	-	247 024
Due from other banks	5 071	-	-	5 071
Loans and advances to customers	3 009 202	912 344	-	3 921 546
Investment securities available for sale	10 094	-	-	10 094
Deferred income tax asset	-	-	68	68
Premises and equipment	56 166	90 684	-	146 850
Other assets	6 657	32 076	14 180	52 913
Total assets	**3 599 176**	**1 073 153**	**256 479**	**4 928 808**
Liabilities				
Due to other banks	80 321	-	-	80 321
Deposits from individuals	-	2 681 986	-	2 681 986
Customer accounts	1 195 634	-	-	1 195 634
Debt securities in issue	143 552	20 275	-	163 827
Other borrowed funds	112 025	-	-	112 025
Other liabilities	9 251	16 842	6 661	32 754
Subordinated debt	25 064	-	-	25 064
Total liabilities	**1 565 847**	**2 719 103**	**6 661**	**4 291 611**
Other disclosures				
Capital expenditure incurred (additions of fixed assets)	18 615	23 925	-	42 540

29 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses per business segments for the year ended 31 December 2007 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Group items	Total
Interest income	291 863	136 803	-	428 666
Interest expense	(41 920)	(133 985)	-	(175 905)
Inter-segment (expense) and income	(151 317)	124 846	26 471	-
Fee and commission income	35 098	33 221	-	68 319
Fee and commission expense	(2 444)	-	-	(2 444)
Gains less losses arising from trading securities	4 312	-	-	4 312
Losses, net of gains arising from other securities at fair value through profit or loss	(1 003)	-	-	(1 003)
Gains less losses arising from investment securities available for sale	688	-	-	688
Gains less losses arising from investment securities held to maturity	19 436	-	-	19 436
Net gains from trading and foreign currencies	3 234	4 668	-	7 902
Foreign exchange translation losses, net of gains	(3 746)	-	-	(3 746)
Net gains from operations with foreign currencies and precious metals derivatives	1 227	-	-	1 227
Other operating income	3 914	1 780	-	5 694
Operating income before provision for loan impairment	**159 342**	**167 333**	**26 471**	**353 146**
Provision for loan impairment	(10 127)	(7 506)	-	(17 633)
Operating income	**149 215**	**159 827**	**26 471**	**335 513**
Administrative and other operating expenses	(57 039)	(112 254)	(26 471)	(195 764)
Profit before tax (Segment result)	**92 176**	**47 573**	**-**	**139 749**

29 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities per business segments as at 31 December 2006 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Group items	Total
Assets				
Cash and cash equivalents	39 798	-	169 805	209 603
Mandatory cash balances with the Bank of Russia	24 564	53 351	-	77 915
Trading securities	210 641	-	-	210 641
Other securities at fair value through profit or loss	237 847	-	-	237 847
Due from other banks	5 631	-	-	5 631
Loans and advances to customers	1 872 243	665 221	-	2 537 464
Investment securities held to maturity	26 198	-	-	26 198
Premises and equipment	37 503	87 713	-	125 216
Other assets	3 164	27 175	5 819	36 158
Total assets	**2 457 589**	**833 460**	**175 624**	**3 466 673**
Liabilities				
Due to other banks	44 836	-	-	44 836
Deposits from individuals	-	2 046 035	-	2 046 035
Customer accounts	782 789	-	-	782 789
Debt securities in issue	107 619	16 110	-	123 729
Other borrowed funds	107 332	-	-	107 332
Deferred income tax liability	-	-	3 604	3 604
Other liabilities	3 523	11 094	8 327	22 944
Subordinated debt	26 880	-	-	26 880
Total liabilities	**1 072 979**	**2 073 239**	**11 931**	**3 158 149**
Other disclosures				
Capital expenditure incurred (additions of fixed assets)	10 424	24 376	-	34 800

29 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses per business segments for the year ended 31 December 2006 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Group items	Total
Interest income	203 214	114 432	-	317 646
Interest expense	(26 568)	(95 462)	-	(122 030)
Inter-segment (expense) and income	(99 512)	75 456	24 056	-
Fee and commission income	29 628	22 063	-	51 691
Fee and commission expense	(1 615)	-	-	(1 615)
Gains less losses arising from trading securities	3 224	-	-	3 224
Gains less losses arising from other securities at fair value through profit or loss	7 986	-	-	7 986
Net gains from trading and foreign currencies	1 551	4 276	-	5 827
Foreign exchange translation losses, net of gains	(4 834)	-	-	(4 834)
Net gains from operations with foreign currencies and precious metals derivatives	2 637	-	-	2 637
Other operating income	7 479	-	-	7 479
Operating income before provision for loan impairment	**123 190**	**120 765**	**24 056**	**268 011**
Provision for loan impairment	(8 446)	(5 405)	-	(13 851)
Operating income	**114 744**	**115 360**	**24 056**	**254 160**
Administrative and other operating expenses	(33 212)	(87 872)	(24 056)	(145 140)
Profit before tax (Segment result)	**81 532**	**27 488**	-	**109 020**

29 Segment Analysis (Continued)

Geographical segments. Geographical segment information is based on the Group's activity among its central head office and 17 regional head offices. The Group has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny Severo-Zapadny Tsentralno-Chernozemny Volgo-Vyatsky Povolzhsky Srednerussky Severo-Kavkazsky Yugo-Zapadny	Yaroslavl Saint-Petersburg Voronezh Nizhniy Novgorod Samara Moscow Stavropol Rostov-on-Don
Ural	Zapadno-Uralsky Uralsky	Perm Ekaterinburg
Western Siberia	Sibirsky Altaisky Zapadno-Sibirsky	Novosibirsk Barnaul Tumen
Eastern Siberia and Far East	Severo-Vostochny Dalnevostochny Vostochno-Sibirsky Baikalsky	Magadan Khabarovsk Krasnoyarsk Irkutsk

Operations of foreign subsidiaries are included in other and intra-Group items.

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

The Group's reporting by geographical segments as of 31 December 2007 is as follows:

In millions of Russian Roubles	**Moscow**	**European Russia**	**Ural**	**Western Siberia**	**Eastern Siberia and Far East**	**Other and Intra-Group items**	**Total**
Total assets	2 161 431	1 603 661	434 150	307 003	295 055	127 508	4 928 808
Interest income	156 080	159 896	42 293	33 323	33 777	3 297	428 666
Fee and commission income	9 088	36 848	7 337	6 862	7 811	373	68 319
Segment revenue	**165 168**	**196 744**	**49 630**	**40 185**	**41 588**	**3 670**	**496 985**
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	7 190	18 408	4 022	3 938	3 826	5 156	42 540
Provision for loan impairment during the year	(6 680)	(6 437)	(1 800)	(1 248)	(1 201)	(267)	(17 633)

29 Segment Analysis (Continued)

The Group's reporting by geographical segments as of 31 December 2006 is as follows:

In millions of Russian Roubles	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Other and Intra-Group items	Total
Total assets	1 560 799	1 089 258	276 218	216 624	209 701	114 073	3 466 673
Interest income	115 302	120 600	29 938	26 193	25 613	-	317 646
Fee and commission income	7 617	27 937	5 155	5 211	5 771	-	51 691
Segment revenue	**122 919**	**148 537**	**35 093**	**31 404**	**31 384**	**-**	**369 337**
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	7 285	16 930	3 515	3 421	3 649	-	34 800
Provision for loan impairment during the year	(5 053)	(5 310)	(1 390)	(1 061)	(1 037)	-	(13 851)

30 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, market, liquidity risk and operational risk. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

The Group's Board under authority delegated by the Shareholders Meeting sets the Group's general risk policy as well as specific policies for managing each type of major risk. The Bank's Interest Rates and Limits Committee (IRLC) and Credit and Investment Committee (CIC) in the Central Head Office set limits for operations that create risk exposure according to principles determined by risk policies of the Group and drafted by the departments responsible for monitoring and controlling risk. The risk-controlling departments operate separately from the business departments involved in operations creating exposure.

The Group performs stress-testing for all major types of risk at least once a year. Test results are reviewed and discussed by the Group's Board.

The Supervisory Board is informed about all main types of risk on a quarterly basis.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

30 Financial Risk Management (Continued)

The Group's lending policies focus on the improvement of the credit quality and profitability of its loan portfolio and minimisation and diversification of credit risks. To minimise credit risk at the branch level, the CIC at the Bank's Central Head Office sets lending limits for the Regional Head Offices and branches that report to the Bank's Central Head Office directly. The Regional Head Offices then allocate these lending limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the CIC of the Bank's Central Head Office. The Group usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Group accepts guarantees from controlling shareholders (or other controlling persons) of small businesses, government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to reduce credit risk, several types of collateral may be used simultaneously.

Exposure Limits. To manage its credit risk, the Group places its counterparties into risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Group has procedures for calculation and review of risk limits for the following categories: corporate clients, Russian Federation subjects, municipal bodies, domestic and foreign banks. Exposure limits are also set for foreign countries, single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of Russian Federation subjects and municipal bodies is evaluated on the basis of their financial position and the level of development. The financial position is evaluated on the basis of credit history, debt level and compliance with its budget and budgetary norms. The level of development is evaluated on the basis of the current socio-economic development level, future socio-economic development potential and tax proceeds sources. The Group sets three types of exposure limits for federation subjects and municipal bodies: short-term (for transactions with a term of no more than a year), temporary (for transactions that take place before their budgets are approved and have a term of no more than three months) and long-term (for transactions with a term of over a year). These limits are calculated on the basis of the Russian Federation subjects' budgets for the current year and reports relating to compliance with their budgets for a previous year. Exposure limits are not set and credit operations are not performed if a federation subject has no legal basis for loan operations or where its financial position or level of development indicate that credit transactions are not advisable.

Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Group. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client.

Risk Concentration. In order to reduce and diversify its credit risk, the Group monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees made to related parties. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Bank's Central Head Office level.

Monitoring. The Group constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and interim financial information, for federation subjects and municipal bodies twice a year on the basis of their approved budgets, for resident banks on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis, if required.

30 Financial Risk Management (Continued)

For the purpose of monitoring credit risk credit departments of the Group compile regular reports based on a structured analysis of the client's business and financial results. All information about the existing exposures against customers with deteriorating creditworthiness is reported to the management for further consideration. The Group uses formalized internal credit ratings for monitoring credit risk. Management monitors and follow-up control of past due balances. Refer to Note 10.

Lending divisions of the Group perform a credit analysis by maturity and follow-up overdue balances. That is why the Group disclosed analysis per maturity and other information on credit risk in Notes 7, 8, 9, 10, 11 and 12.

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

Market Risk. Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices. The Group manages its market risk in accordance with the Policy of the Bank on Market Risk Management. The main goal of Market Risk Management is to optimize risk/return ratio, minimize loss given unfavorable developments and to reduce the deviation of actual financial result from the expected result.

The Group categorises market risk into:

- interest rate risk,
- equity risk and
- currency risks.

The Group manages its market risks through controlling open positions in bonds, stock, currencies and derivatives. For this purpose the IRLC sets open position, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The IRLC develops market risk management methodologies and sets limits on particular operations for the Bank's Central Head Office and Regional Head Offices. The Regional Head Offices have their own interest rates and limits committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by IRLC of the Bank's Central Head Office. If necessary, the Regional Head Offices develop their own methodologies and set their own market risk limits.

Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing as well as regulatory requirements of the Bank of Russia.

The Group makes market risk assessment both by components and in aggregate, determining market risk concentration ("the input" of each component), and the diversification effect.

Interest Rate Risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on the value of debt securities and cash flows.

The Group defines two types of interest rate risk:

1. Interest rate risk on debt securities at fair value through profit or loss or the capital account.

The Group is exposed to interest rate risk of its debt securities portfolio, when changing interest rates impact the fair value of government, subfederal, municipal and corporate bonds.

30 Financial Risk Management (Continued)

For managing and limiting interest rate risk across the debt securities portfolio, the IRLC guided by the market risk policy sets the following limits and controls: aggregate limits for bond categories (government, corporate, subfederal and municipal); limits on investing in the same issue of one issuer, loss limits on trading in corporate, subfederal and municipal bonds, limits on the maturities structure of investments in government bonds, minimum return of investments, limits on repo and reverse repo agreements. The Group's major exposure is its government securities portfolio.

This type of interest rate risk is assessed using Value-at-Risk (hereinafter - VaR) methodology described below.

The Group assesses interest rate risk by portfolio type: separately for the securities at fair value through profit or loss, and separately for the securities available for sale. For each portfolio risk is measured by government, subfederal, municipal and corporate bonds issuers, the level of interest rate risk is defined for each class of the portfolio, concentration and the effect of diversification of investments are measured as well.

2. Interest rate risk resulting from maturities mismatch (interest rates repricing) across assets and liabilities that are interest rate sensitive (interest rate risk of non-trading positions).

The Group accepts risk of market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basic risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is to reduce the impact of interest rates on net interest income. To manage interest rate risk the IRLC sets maximum interest rates on corporate funds and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on long-term assets bearing inherently the maximum interest rate risk. The Group's Board approves fixed interest rates on deposits from individuals and individual loans for the Bank's Central Head Office and Regional Head Offices, which require preliminary approval from the IRLC. As a rule interest rates on retail loans and deposits depend on loan and deposit maturity date, amount and the client's category.

IRLC of each regional bank approves interest rates for legal entities taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the IRLC of the Bank's Central Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the scenario analysis. Interest rate risk is evaluated through a gap analysis by distributing assets and liabilities with fixed interest rates by contractual maturity dates and by the repricing periods in case of floating interest rates separately for Russian Roubles and foreign currency.

30 Financial Risk Management (Continued)

The table below shows the impact of 100 bps interest rates increase and decrease on net profit as at 31 December 2007:

Change in net interest income as at 31 December 2007 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	793	187	980
Increase in interest rates by 100 bps	(793)	(187)	(980)

The table below shows the impact of 100 bps interest rates increase and decrease on net profit as at 31 December 2006:

Change in net interest income as at 31 December 2006 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	(812)	456	(356)
Increase in interest rates by 100 bps	812	(456)	356

The sensitivity analysis above shows changes in net interest income given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. Moreover interest rate risk is assessed under the following simplifications: the calculation disregards possible early repayment or call of instruments.

The Group regularly stress-tests interest rate risk measuring interest income and expense changes given significant interest rate change, including the risk of early interest payment/repricing and early repayment of loans (before the contractual date).

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

	2007		**2006**	
In % p.a.	**RR**	**Other currencies**	**RR**	**Other currencies**
Assets				
Cash and cash equivalents	0.6	3.0	1.7	3.7
Debt trading securities	6.4	5.6	8.4	5.7
Other debt securities at fair value through profit or loss	6.4	-	6.2	5.7
Due from other banks	8.5	8.0	2.9	4.9
Loans and advances to customers	11.5	9.0	12.6	9.2
Investment securities available for sale	10.3	-	-	-
Debt investment securities held to maturity	-	-	-	15.8
Liabilities				
Due to other banks	1.9	0.9	1.5	3.2
Deposits from individuals	5.8	5.3	6.0	5.6
Customer accounts	3.0	4.1	2.1	4.6
Debt securities in issue	5.8	5.0	2.8	2.0
Other borrowed funds	-	5.9	-	6.1
Subordinated debt	-	6.4	-	6.4

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

30 Financial Risk Management (Continued)

Equity Price Risk. The Group is exposed to equity price risk through investments in corporate shares that may lose value when their market quotations change. In order to limit equity price risk the IRLC shortlists the issuers eligible for investing (this list includes exclusively “blue chips”), sets limits for the aggregate investments into their stock, limits on investment into a single issuer, stop-loss limits for the aggregate trading portfolio and by issuers. Equity trading is the exclusive authority of the Group’s Treasury.

Equity price risk analysis is based of the VaR methodology described below.

Equity price risk is analyzed by portfolio – separately for the portfolio of securities at fair value through profit or loss and for the portfolio of securities available for sale. The Group also performs analysis by issuer and by share category (preferred and ordinary shares of the same issuer are considered as different shares), as well as risk concentration and diversification effect for the portfolio.

Currency Risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RUB and EUR/RUB exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for regional head offices and Moscow branches. Besides limits and control system is in place for Treasury arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

The Bank’s Central Head Office Treasury undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group’s currency position on a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for hedging risk.

30 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and off-balance sheet notional position at 31 December 2007:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	153 156	11 082	69 663	8 330	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	-	-	56 790
Trading securities	218 896	27 242	-	-	246 138
Other securities at fair value through profit or loss	242 325	-	-	1 928	244 253
Due from other banks	3 549	1 522	-	-	5 071
Loans and advances to customers	3 333 393	508 131	63 184	16 838	3 921 546
Investment securities available for sale	1 816	-	-	-	1 816
Other assets (less fair value of derivatives)	25 291	103	131	-	25 525
Total monetary assets	**4 035 216**	**548 080**	**132 978**	**27 096**	**4 743 370**
Liabilities					
Due to other banks	76 576	1 411	703	1 631	80 321
Deposits from individuals	2 409 336	141 140	113 716	17 794	2 681 986
Customer accounts	895 775	226 043	68 877	4 939	1 195 634
Debt securities in issue	159 202	3 062	100	1 463	163 827
Other borrowed funds	-	109 074	2 951	-	112 025
Other liabilities (less fair value of derivatives)	7 352	92	97	0	7 541
Subordinated debt	-	25 064	-	-	25 064
Total monetary liabilities	**3 548 241**	**505 886**	**186 444**	**25 827**	**4 266 398**
Net balance sheet position	**486 975**	**42 194**	**(53 466)**	**1 269**	**476 972**
Off-balance sheet notional position on currency and precious metals derivatives (Note 32)	**3 248**	**(58 248)**	**47 408**	**8 245**	**653**
Credit related commitments (Note 31)	**291 771**	**312 031**	**68 686**	**4 402**	**676 890**

30 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and off-balance sheet notional position at 31 December 2006:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	119 929	43 109	42 473	4 092	209 603
Mandatory cash balances with the Bank of Russia	77 915	-	-	-	77 915
Trading securities	175 645	34 518	-	-	210 163
Other securities at fair value through profit or loss	223 688	15	-	-	223 703
Due from other banks	4 385	1 238	8	-	5 631
Loans and advances to customers	2 084 170	407 412	45 282	600	2 537 464
Investment securities held to maturity	-	26 198	-	-	26 198
Other assets (except fair value of derivative financial instruments)	18 839	2 092	62	-	20 993
Total monetary assets	**2 704 571**	**514 582**	**87 825**	**4 692**	**3 311 670**
Liabilities					
Due to other banks	40 026	3 673	214	923	44 836
Deposits from individuals	1 786 696	182 367	68 495	8 477	2 046 035
Customer accounts	568 873	146 705	64 844	2 367	782 789
Debt securities in issue	121 741	1 651	337	-	123 729
Other borrowed funds	-	104 613	2 719	-	107 332
Other liabilities (except fair value of derivative financial instruments)	4 882	490	84	-	5 456
Subordinated debt	-	26 880	-	-	26 880
Total monetary liabilities	**2 522 218**	**466 379**	**136 693**	**11 767**	**3 137 057**
Net balance sheet position	**182 353**	**48 203**	**(48 868)**	**(7 075)**	**174 613**
Off-balance sheet notional position on currency and precious metals derivatives (Note 32)	**4 459**	**(52 406)**	**46 124**	**1 740**	**(83)**
Credit related commitments (Note 31)	**175 753**	**231 926**	**47 424**	**1 747**	**456 850**

The Group provided loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

The Group's analysis of currency risk is based on the VaR methodology described below.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon. The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates).

30 Financial Risk Management (Continued)

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 500 trading days preceding the reporting date; this data is updated not less than once every three months or in case of significant movements in financial market indicators;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices and price indices;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days or not more than 5 times within 2 calendar years.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

To measure interest rate risk for non-trading positions, the Group applies scenario analysis rather than the VaR methodology.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2007:

In millions of Russian Roubles	**Value as at 31 December 2007**	**Average value for 2007**	**Maximum value for 2007**	**Minimum value for 2007**	**Impact on equity**	**Impact on profit**
Interest rate risk of debt securities	3 501	3 548	4 403	2 313	0.62%	3.04%
Equity risk	14	680	3 255	-	0.12%	0.58%
Currency risk	325	95	357	13	0.02%	0.08%
Market risk including diversification effect	3 495	3 716	4 477	2 319	0.65%	3.18%
Diversification effect	345	607	-	-	-	-

30 Financial Risk Management (Continued)

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2006:

In millions of Russian Roubles	Value as at 31 December 2006	Average value for 2006	Maximum value for 2006	Minimum value for 2006	Impact on equity	Impact on profit
Interest rate risk of debt securities	3 353	3 464	3 604	3 166	1.12%	3.94%
Equity risk	86	34	237	-	0.01%	0.04%
Currency risk	47	50	185	11	0.02%	0.06%
Market risk including diversification effect	3 362	3 628	4 037	3 192	1.17%	4.13%
Diversification effect	124	(80)	-	-	-	-

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

Liquidity Risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the IRLC.

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:

- maintains a stable and diversified liabilities structure including both term resources and funds on demand,
- reserves capacity for immediate borrowing of funds on financial markets, and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

Policy and Procedures. Liquidity risk is managed by the IRLC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision and "Policies of the Bank for Management and Control of Liquidity".

These Policy provisions lay the guidelines for organizing the liquidity management in the regional head offices of the Bank. Board of the Bank's regional head office is responsible for efficiently managing and controlling regional head office liquidity. It is also responsible for monitoring limits and controls required by the Group's internal regulations. Guided by the limits, controls, requirements and policies regional head offices select evaluation methods and the necessary level of liquidity and develop and implement measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the regional head office (according to an established procedure) in the required amount.

Liquidity risk management includes the following procedures:

- forecasting payment flows by major currencies and the necessary volume of liquid assets;
- monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- ensuring diversified funding sources;
- planning of loans issuing; and
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

30 Financial Risk Management (Continued)

The position of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2007 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	80 362	-	-	-	-	80 362
Deposits from individuals	492 127	715 835	557 751	913 149	154 021	2 832 883
Customer accounts	843 955	81 224	67 132	234 616	52	1 226 979
Debt securities in issue	37 810	45 843	35 991	55 380	10	175 034
Other borrowed funds	633	12 304	13 161	64 293	39 006	129 397
Other liabilities (including net currency and precious metals derivatives)	6 508	17 539	407	3 987	6	28 447
Subordinated debt	-	765	765	3 058	31 428	36 016
Total liabilities	**1 461 395**	**873 510**	**675 207**	**1 274 483**	**224 523**	**4 509 118**
Loan commitments - credit lines and overdrafts	328 114	-	-	-	-	328 114
Total liabilities including credit lines and overdrafts	**1 789 509**	**873 510**	**675 207**	**1 274 483**	**224 523**	**4 837 232**

The position of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2006 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	44 309	536	-	-	-	44 845
Deposits from individuals	364 804	500 784	541 177	619 495	131 311	2 157 571
Customer accounts	620 999	68 296	64 902	35 411	82	789 690
Debt securities in issue	70 403	20 555	16 919	20 282	10	128 169
Other borrowed funds	761	2 744	11 026	71 031	43 426	128 988
Deferred income tax liability	-	-	-	-	3 604	3 604
Other liabilities (including net currency and precious metals derivatives)	7 655	9 216	836	1 027	455	19 189
Subordinated debt	-	820	820	3 281	35 353	40 274
Total liabilities	**1 108 931**	**602 951**	**635 680**	**750 527**	**214 241**	**3 312 330**
Loan commitments - credit lines and overdrafts	198 026	-	-	-	-	198 026
Total liabilities including credit lines and overdrafts	**1 306 957**	**602 951**	**635 680**	**750 527**	**214 241**	**3 510 356**

30 Financial Risk Management (Continued)

The above analysis is based on undiscounted cash flows on liabilities of the Group taking into account all future payments (including future payments of interest throughout life of the relevant liability). The liabilities were included in the time intervals according to the earliest possible repayment date. For example:

- Demand liabilities (including demand deposits) are included in the earliest time interval; and
- Credit lines and overdrafts are included in the earliest period when they may be called;

However, in accordance with the Civil Code of the Russian Federation individuals have the right to withdraw their deposits from any accounts (including time deposit accounts) prior to maturity if they forfeit their right to accrued interest. The Group utilises a wide range of market instruments to maintain its own liquidity on the level sufficient for timely execution of the current and forecasted financial obligations including the disposal of liquid assets or funding in domestic and international capital markets.

The table below shows assets and liabilities at 31 December 2007 by their remaining expected maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. The Bank manages its Liquidity Risk using management accounts based on statutory balances. For the purpose of presentation in the consolidated financial statements the tables below approximate the data in those management accounts. The Bank uses internal software system and the internal system of forecasts, which allows to classify the deposits from individuals and customer accounts balances in accordance with the expected terms of settlements based on the internal statistics of the Bank and macroeconomic trends.

30 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities at 31 December 2007 is set out below.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 3 years**	**More than 3 years**	**No stated maturity**	**Total**
Assets							
Cash and cash equivalents	242 231	-	-	-	-	-	242 231
Mandatory cash balances with the Bank of Russia	12 503	3 956	4 026	13 281	23 024	-	56 790
Trading securities	246 221	-	-	-	-	-	246 221
Other securities at fair value through profit or loss	247 024	-	-	-	-	-	247 024
Due from other banks	3 549	614	614	-	294	-	5 071
Loans and advances to customers	173 359	681 047	1 107 451	1 004 106	955 583	-	3 921 546
Investment securities available for sale	-	-	-	-	1 817	8 277	10 094
Deferred income tax asset	-	-	-	68	-	-	68
Premises and equipment	-	-	-	-	-	146 850	146 850
Other assets	34 143	2 451	1 950	2 885	162	11 322	52 913
Total assets	**959 030**	**688 068**	**1 114 041**	**1 020 340**	**980 880**	**166 449**	**4 928 808**
Liabilities							
Due to other banks	80 321	-	-	-	-	-	80 321
Deposits from individuals	61 186	187 792	207 674	667 930	1 557 404	-	2 681 986
Customer accounts	284 087	473 536	151 524	257 943	28 544	-	1 195 634
Debt securities in issue	38 222	44 352	37 076	44 170	7	-	163 827
Other borrowed funds	-	-	19 762	55 402	36 861	-	112 025
Other liabilities	21 143	1 858	1 045	4 626	6	4 076	32 754
Subordinated debt	-	-	-	-	25 064	-	25 064
Total liabilities	**484 959**	**707 538**	**417 081**	**1 030 071**	**1 647 886**	**4 076**	**4 291 611**
Net liquidity gap	**474 071**	**(19 470)**	**696 960**	**(9 731)**	**(667 006)**	**162 373**	**637 197**
Cumulative liquidity gap at 31 December 2007	**474 071**	**454 601**	**1 151 561**	**1 141 830**	**474 824**	**637 197**	**-**

30 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities at 31 December 2006 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	209 603	-	-	-	-	-	209 603
Mandatory cash balances with the Bank of Russia	25 885	14 943	15 964	17 185	3 938	-	77 915
Trading securities	210 641	-	-	-	-	-	210 641
Other securities at fair value through profit or loss	237 847	-	-	-	-	-	237 847
Due from other banks	2 842	2 657	132	-	-	-	5 631
Loans and advances to customers	229 035	533 048	579 563	653 743	542 075	-	2 537 464
Investment securities held to maturity	-		-	-	26 198	-	26 198
Premises and equipment	-	-	-	-	-	125 216	125 216
Other assets	29 009	1 285	599	666	300	4 299	36 158
Total assets	**944 862**	**551 933**	**596 258**	**671 594**	**572 511**	**129 515**	**3 466 673**
Liabilities							
Due to other banks	44 303	533	-	-	-	-	44 836
Deposits from individuals	40 304	110 411	124 501	421 418	1 349 401	-	2 046 035
Customer accounts	245 433	350 781	113 054	40 528	32 993	-	782 789
Debt securities in issue	70 445	20 341	15 473	17 463	7	-	123 729
Other borrowed funds	-	-	2 622	66 799	37 911	-	107 332
Deferred income tax liability	-	-	-	3 604	-	-	3 604
Other liabilities	8 953	9 253	249	1 243	3 032	214	22 944
Subordinated debt	-	-	-	-	26 880	-	26 880
Total liabilities	**409 438**	**491 319**	**255 899**	**551 055**	**1 450 224**	**214**	**3 158 149**
Net liquidity gap	**535 424**	**60 614**	**340 359**	**120 539**	**(877 713)**	**129 301**	**308 524**
Cumulative liquidity gap at 31 December 2006	**535 424**	**596 038**	**936 397**	**1 056 936**	**179 223**	**308 524**	**-**

30 Financial Risk Management (Continued)

Management believes that, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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.

The entire portfolio of trading securities and other securities at fair value through profit or loss is classified within demand and less than one month category as the portfolio is of a high liquid nature, and Management believes this is a fairer portrayal of the Group's liquidity position.

Management believes that in spite of a substantial portion of customer accounts and deposits from individuals being on demand (as at 31 December 2007 total customer deposits and deposits from individuals on demand amounted to RR 1 336 082 million (2006: RR 985 803 million)), diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts and deposits from individuals provide a long-term and stable source of funding.

The Group's liquidity is assessed through all time intervals under different economy development scenarios. For each term to maturity the liquidity ratios are calculated as the ratio of assets redeemable during the term to liabilities callable during the same term. In accordance with the scenario approved by collective bodies of the Group as the stable business development (basic) scenario liquidity ratio can not go below 1, i.e. possible outflow of customers' funds should be completely covered by the disposal of assets.

Minimum liquidity ratios are approved for four different scenarios of macroeconomic environment change: basic (the most probable development of macro economy), two scenarios of macroeconomic deterioration and crisis scenario similar to the crisis of 1998. The trigger for switching from one scenario to another is the average Urals oil price for the last 6 months which is the primary factor reflecting external economic environment. In case of switching from basic scenario or threat of trespassing minimal liquidity ratios approved by the IRLC the expected shortage of liquidity should be covered by implementation of special measures to support liquidity. Actual liquidity ratios are calculated on a monthly basis and are considered by the IRLC.

30 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	161 645	80 586	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	56 790
Trading securities	246 221	-	246 221
Other securities at fair value through profit or loss	245 070	1 954	247 024
Due from other banks	3 549	1 522	5 071
Loans and advances to customers	3 824 166	97 380	3 921 546
Investment securities available for sale	10 094	-	10 094
Deferred income tax asset	68	-	68
Premises and equipment	144 519	2 331	146 850
Other assets	48 094	4 819	52 913
Total assets	**4 740 216**	**188 592**	**4 928 808**
Liabilities			
Due to other banks	64 500	15 821	80 321
Deposits from individuals	2 667 601	14 385	2 681 986
Customer accounts	1 182 425	13 209	1 195 634
Debt securities in issue	162 364	1 463	163 827
Other borrowed funds	-	112 025	112 025
Other liabilities	32 169	585	32 754
Subordinated debt	-	25 064	25 064
Total liabilities	**4 109 059**	**182 552**	**4 291 611**
Net balance sheet position	**631 157**	**6 040**	**637 197**
Credit related commitments (Note 31)	**566 244**	**110 646**	**676 890**

Assets, liabilities and credit related commitments have generally 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.

30 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	127 283	82 320	209 603
Mandatory cash balances with the Bank of Russia	77 915	-	77 915
Trading securities	210 641	-	210 641
Other securities at fair value through profit or loss	237 847	-	237 847
Due from other banks	5 224	407	5 631
Loans and advances to customers	2 537 221	243	2 537 464
Investment securities held to maturity	26 198	-	26 198
Premises and equipment	125 216	-	125 216
Other assets	32 708	3 450	36 158
Total assets	**3 380 253**	**86 420**	**3 466 673**
Liabilities			
Due to other banks	38 965	5 871	44 836
Deposits from individuals	2 037 698	8 337	2 046 035
Customer accounts	773 758	9 031	782 789
Debt securities in issue	123 729	-	123 729
Other borrowed funds	-	107 332	107 332
Deferred income tax liability	3 604	-	3 604
Other liabilities	22 944	-	22 944
Subordinated debt	-	26 880	26 880
Total liabilities	**3 000 698**	**157 451**	**3 158 149**
Net balance sheet position	**379 555**	**(71 031)**	**308 524**
Credit related commitments (Note 31)	**361 582**	**95 268**	**456 850**

31 Contingencies and Commitments

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. 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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

31 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2007 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 11 202 million (2006: RR 5 393 million) and in respect of computer equipment installation of RR 585 million (2006: RR 1 684 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Russian Roubles	2007	2006
Not later than 1 year	4 061	3 154
Later than 1 year and not later than 5 years	7 653	6 020
Later than 5 years	7 604	7 850
Total operating lease commitments	**19 318**	**17 024**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank. Management believes that the Bank is in compliance with covenants as at 31 December 2007 and as at 31 December 2006.

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

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

In millions of Russian Roubles	2007	2006
Undrawn credit lines and commitments to extent credit	328 114	198 026
Export letters of credit	208 085	133 588
Import letters of credit and letters of credit for domestic settlements	111 066	97 309
Guarantees issued	29 625	27 927
Total credit related commitments	**676 890**	**456 850**

At 31 December 2007 included in customer accounts are deposits of RR 65 159 million (2006: RR 50 714 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 16. Fair value of credit related commitments was RR 1 720 million at 31 December 2007 (2006: RR 836 million).

31 Contingencies and Commitments (Continued)

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

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

In millions of Russian Roubles	**2007 Nominal value**	**2006 Nominal value**
State savings bonds and OFZ bonds	103 333	53 328
Corporate shares	52 624	21 839
Promissory notes	49 921	17 687
Corporate bonds	3 471	2 550
VneshEconomBank bonds (VEB bonds)	662	1 090
Debt securities of municipal and subfederal bodies of the Russian Federation	1 451	971
Bonds of the Bank of Russia	605	303
Other securities	1 115	1 187

Assets pledged and restricted. Mandatory cash balances with the Bank of Russia in the amount of RR 56 790 million (2006: RR 77 915 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

As at 31 December 2007 the Group has pledged federal loan bonds (OFZ bonds) with fair value of RR 71 704 million (2006: RR 69 603 million) on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia.

As at 31 December 2006 restricted cash represents monetary funds in the amount of RR 4 million which collateralise settlements on irrevocable letters of credit.

32 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. 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 table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forward and futures contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

32 Derivative Financial Instrument (Continued)

2007:	Domestic counterparties: Principal or agreed amount at fair value of asset purchased	Domestic counterparties: Principal or agreed amount at fair value of asset sold	Domestic counterparties: Assets Positive fair value	Domestic counterparties: Liabilities Negative fair value	Foreign counterparties: Principal or agreed amount at fair value of asset purchased	Foreign counterparties: Principal or agreed amount at fair value of asset sold	Foreign counterparties: Assets Positive fair value	Foreign counterparties: Liabilities Negative fair value
Forwards								
Foreign currency								
- purchase CAD/sale USD	-	-	-	-	1 125	(1 118)	7	-
- purchase JPY/sale USD	-	-	-	-	590	(582)	8	-
- purchase KZT/sale USD	-	-	-	-	2 484	(2 455)	29	-
- purchase RR/sale USD	3 537	(3 543)	-	(6)	1 401	(1 395)	7	(1)
- purchase RR/sale EUR	208	(206)	2	-	-	-	-	-
- purchase USD/sale KZT	-	-	-	-	1 227	(1 240)	-	(13)
- purchase USD/sale RR	2 255	(2 301)	1	(47)	-	-	-	-
- purchase EUR/sale USD	-	-	-	-	47 503	(47 012)	550	(59)
- purchase EUR/sale RR	39	(39)	-	-	-	-	-	-
- purchase EUR/sale CHF	-	-	-	-	72	(72)	-	-
- purchase UAH/sale USD	49	(49)	-	-	-	-	-	-
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	5 066	(4 888)	178	-
- purchase precious metals/sale RR	578	(577)	1	-	-	-	-	-
- purchase USD/sale precious metals	-	-	-	-	331	(335)	-	(4)
Futures								
Foreign currency								
- purchase RR/sale USD	1 019	(1 019)	-	-	-	-	-	-
Total	**7 685**	**(7 734)**	**4**	**(53)**	**59 799**	**(59 097)**	**779**	**(77)**

32 Derivative Financial Instrument (Continued)

2006:	Domestic counterparties: Principal or agreed amount at fair value of asset purchased	Domestic counterparties: Principal or agreed amount at fair value of asset sold	Domestic counterparties: Assets Positive fair value	Domestic counterparties: Liabilities Negative fair value	Foreign counterparties: Principal or agreed amount at fair value of asset purchased	Foreign counterparties: Principal or agreed amount at fair value of asset sold	Foreign counterparties: Assets Positive fair value	Foreign counterparties: Liabilities Negative fair value
Forwards								
Foreign currency								
- purchase JPY/sale USD	-	-	-	-	1 050	(1 053)	-	(3)
- purchase RR/sale USD	-	-	-	-	1 988	(1 975)	13	-
- purchase RR/sale EUR	100	(100)	-	-	126	(126)	-	-
- purchase RR/sale USD	1 436	(1 435)	1	-	-	-	-	-
- purchase USD/sale EUR	49	(49)	-	-	-	-	-	-
- purchase USD/sale CHF	-	-	-	-	53	(53)	-	-
- purchase CAD/sale EUR	-	-	-	-	70	(70)	-	-
- purchase CHF/sale USD	-	-	-	-	15	(15)	-	-
- purchase GBP/sale JPY	-	-	-	-	155	(155)	-	-
- purchase GBP/sale USD	-	-	-	-	14	(14)	-	-
- purchase EUR/sale GBP	-	-	-	-	114	(114)	-	-
- purchase EUR/sale CAD	-	-	-	-	69	(69)	-	-
- purchase EUR/sale USD	-	-	-	-	46 286	(46 338)	3	(55)
- purchase AUD/sale USD	-	-	-	-	1	(1)	-	-
Precious metals								
- purchase precious metals/sale USD	8	(9)	-	(1)	835	(878)	-	(43)
- purchase RR/sale precious metals	19	(17)	2	-	-	-	-	-
Futures								
Foreign currency								
- purchase RR /sale USD	790	(790)	-	-	-	-	-	-
Total	**2 402**	**(2 400)**	**3**	**(1)**	**50 776**	**(50 861)**	**16**	**(101)**

During the year the Group has earned a net gain on foreign currency and precious metals derivatives of RR 1 227 million (2006: net loss of RR 2 637 million), which is recorded in the Group's consolidated income statement within net gains from operations with foreign currency and precious metals derivatives.

The Group had outstanding obligations from unsettled spot transactions with foreign currencies and precious metals settled net of RR 23 966 million (2006: RR 3 314 million). Net fair value of unsettled spot transactions is recorded in other assets.

33 Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss including those classified as repurchase receivable, financial derivatives and available for sale financial assets are carried on the consolidated balance sheet at their fair value. The fair value is based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Interest rates on loans and advances to customers and due from other banks as at 31 December 2007 and 31 December 2006 were as follows:

	2007	2006
Loans and advances to customers and Due from other banks – Note 10		
Corporate loans	8.27% to 10.94% p.a.	6.00% to 11.85% p.a.
Loans to individuals - consumer loans	11.65% to 15.16% p.a.	11.59% to 17.10% p.a.
Due from other banks	7.00% to 9.50% p.a.	3.00 % to 9.50 % p.a.

Refer to Note 10 for the estimated fair values of due from other banks and loans and advances to customers.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Held to maturity financial assets. The fair value of held to maturity financial assets is based on quoted market prices.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, 17, 18 and 20 for the estimated fair values of due to other banks, deposits of individuals and customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.3% p.a. to 10.0% p.a. (2006: from 0.1% p.a. to 11.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 32.

33 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

	31 December 2007		31 December 2006	
In millions of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents				
- Cash on hand	123 087	123 087	83 699	83 699
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	24 782	24 782	8 321	8 321
- Correspondent accounts and overnight placements with other banks with original maturities of less than one month	81 819	81 819	110 010	110 010
- Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	12 543	12 543	7 573	7 573
Mandatory cash balances with the Bank of Russia	56 790	56 790	77 915	77 915
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	1 712 372	1 712 372	1 171 067	1 171 067
- Specialized loans to legal entities	1 296 830	1 296 830	701 176	701 176
- Loans to individuals - consumer and other loans	632 347	632 347	515 546	515 546
- Mortgage loans to individuals	279 997	279 997	149 675	149 675
- Due from other banks	5 071	5 071	5 631	5 631
Investment securities held to maturity - Russian Federation Eurobonds	-	-	26 198	47 550
Other financial assets carried at amortised cost				
- Receivables on plastic cards settlements	23 562	23 562	18 895	18 895
- Funds in settlement	895	895	816	816
- Cession agreements receivables	782	782	571	571
- Other financial assets carried at amortised cost	286	286	712	712
Financial assets carried at fair value				
Trading securities	246 221	246 221	210 641	210 641
Other securities at fair value through profit or loss	247 024	247 024	237 847	237 847
Investment securities available for sale	10 094	10 094	-	-
Other financial assets carried at fair value	783	783	19	19
Total financial assets	**4 755 285**	**4 755 285**	**3 326 312**	**3 347 664**

33 Fair Value of Financial Instruments (Continued)

In millions of Russian Roubles	31 December 2007 Carrying value	31 December 2007 Fair value	31 December 2006 Carrying value	31 December 2006 Fair value
Financial liabilities carried at amortised cost				
Due to other banks	80 321	80 321	44 836	44 836
Deposits from Individuals	2 681 986	2 681 986	2 046 035	2 046 035
Customer accounts	1 195 634	1 195 634	782 789	782 789
Debt securities in issue				
- Promissory notes	142 090	135 795	106 730	102 149
- Savings certificates	18 984	18 984	14 108	14 108
- Deposit certificates	2 753	2 753	2 891	2 891
Other borrowed funds				
- Long-term loans received	106 057	105 913	99 247	100 089
- Term borrowings	5 968	5 968	8 085	8 085
Other financial liabilities carried at amortised cost				
- Plastic card payables	3 269	3 269	1 391	1 391
- Trade payables	2 619	2 619	378	378
- Funds in settlement	961	961	2 520	2 520
- Other financial liabilities carried at amortised cost	692	692	1 167	1 167
Subordinated debt	25 064	24 891	26 880	27 256
Financial liabilities carried at fair value				
Other financial liabilities carried at fair value	130	130	102	102
Total financial liabilities	**4 266 528**	**4 259 916**	**3 137 159**	**3 133 796**

34 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as trading assets.

34 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007:

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Financial assets at fair value through profit or loss**	**Total**
ASSETS				
Cash and cash equivalents	242 231	-	-	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	-	56 790
Trading securities				
- Federal loan bonds (OFZ bonds)	-	-	89 044	89 044
- Bonds of the Bank of Russia	-	-	83 081	83 081
- Corporate bonds	-	-	27 455	27 455
- Russian Federation Eurobonds	-	-	24 507	24 507
- Municipal and subfederal bonds	-	-	19 316	19 316
- VneshEconomBank bonds (VEB bonds)	-	-	2 735	2 735
- Corporate shares	-	-	83	83
Other securities at fair value through profit or loss				
- Federal loan bonds (OFZ bonds)	-	-	196 383	196 383
- Municipal and subfederal bonds	-	-	29 966	29 966
- Corporate bonds	-	-	16 286	16 286
- Corporate shares	-	-	2 771	2 771
- Foreign federal bodies bonds	-	-	1 618	1 618
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	1 712 372	-	-	1 712 372
- Specialized loans to legal entities	1 296 830	-	-	1 296 830
- Loans to individuals - consumer and other loans	632 347	-	-	632 347
- Mortgage loans to individuals	279 997	-	-	279 997
- Due from other banks	5 071	-	-	5 071
Investment securities available for sale	-	10 094	-	10 094
Other financial assets	25 525	-	783	26 308
Total financial assets	**4 251 163**	**10 094**	**494 028**	**4 755 285**

34 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2006:

In millions of Russian Roubles	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	209 603	-	-	209 603
Mandatory cash balances with the Bank of Russia	77 915	-	-	77 915
Trading securities				
- Bonds of the Bank of Russia	-	-	87 500	87 500
- Federal loan bonds (OFZ bonds)	-	-	65 898	65 898
- Russian Federation Eurobonds	-	-	29 473	29 473
- Municipal and subfederal bonds	-	-	13 485	13 485
- Corporate bonds	-	-	8 762	8 762
- VneshEconomBank bonds (VEB bonds)	-	-	5 045	5 045
- Corporate shares	-	-	478	478
Other securities at fair value through profit or loss				
- Federal loan bonds (OFZ bonds)	-	-	186 667	186 667
- Municipal and subfederal bonds	-	-	26 681	26 681
- Corporate shares	-	-	14 144	14 144
- Corporate bonds	-	-	10 340	10 340
- Russian Federation Eurobonds	-	-	15	15
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	1 171 067	-	-	1 171 067
- Specialized loans to legal entities	701 176	-	-	701 176
- Loans to individuals - consumer and other loans	515 546	-	-	515 546
- Mortgage loans to individuals	149 675	-	-	149 675
- Due from other banks	5 631	-	-	5 631
Investment securities held to maturity	-	26 198	-	26 198
Other financial assets	20 994	-	18	21 012
Total financial assets	**2 851 607**	**26 198**	**448 506**	**3 326 311**

35 Related Party Transactions

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

The Group's principal shareholder is the Bank of Russia (refer to Note 1). As the Group continues to apply IAS 24 "Related Party Disclosures" (revised), respective disclosures are made in Note 36 for transactions with state-controlled entities and government bodies.

At 31 December 2007, the outstanding balances with the Bank of Russia were as follows:

35 Related Party Transactions (Continued)

In millions of Russian Roubles	2007	2006
Assets		
Mandatory cash balances with the Bank of Russia (interest rate: 0%)	56 790	77 915
Account with the Bank of Russia (other than mandatory cash balances)	24 782	8 221
Bonds of the Bank of Russia	83 081	87 500
Due from other banks (contractual interest rate: 4.0% – 5.0%)	-	875
Liabilities		
Due to other banks (contractual interest rate: 10.0%)	667	-
Key management personnel remuneration liabilities	29	-

Income and expense items with the Bank of Russia for the year were as follows:

In millions of Russian Roubles	2007	2006
Interest income	10 204	3 099
Interest expense	(342)	(113)
Gains less losses arising from trading securities	2 687	3 681
Other operating expenses	(306)	(251)

In 2007, the remuneration of members of the key management personnel comprised salaries and bonuses totalling RR 1 202 million (2006: RR 865 million).

36 Operations with State-Controlled Entities and Government Bodies

As stated in Note 35, the Group continues to apply IAS 24 “Related Party Disclosures” revised. Disclosures are made below for transactions with state-controlled entities and government bodies.

Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Group disclosed only information that its current internal management accounting system allows to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These consolidated financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Group’s transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) 100% State subsidiaries and government bodies and 2) largest entities where the State controls over 50% of its share capital.

Transactions with government bodies and state-controlled entities are entered into the normal course of business and priced at market rates. At 31 December 2007, the outstanding balances with state-controlled entities and government bodies were as follows:

36 Operations with State-Controlled Entities and Government Bodies (Continued)

	2007		2006	
In millions of Russian Roubles	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**
Cash and cash equivalents	1	1 220	17 468	771
Due from other banks (contractual rates from: 2.9% to 8.5%)	-	-	1 341	-
Trading securities	142 061	7 887	113 964	2 680
Other securities at fair value through profit and loss	226 384	2 772	213 398	11 562
Gross amount of loans and advances to customers	185 419	125 936	119 496	139 656
Impairment provisions for loans and advances to customers	(2 317)	(636)	(502)	(1 208)
Investment securities available for sale	301	-	-	-
Investment securities held to maturity	-	-	26 198	-
Due to other banks (contractual rates from: 0.9% to 1.9%)	3 286	10 901		
Customer accounts (contractual rates from: 2.1% to 4.1%)	82 230	28 926	87 181	20 681

Income and expense items with state-controlled entities and government bodies for the reporting period were as follows:

	2007		2006	
In millions of Russian Roubles	**100% owned state subsidiaries and government bodies**	**Entities where the state controls over 50% of share capital**	**100% owned state subsidiaries and government bodies**	**Entities where the state controls over 50% of share capital**
Interest income	41 248	5 920	38 483	1 826
Interest expense	(3 886)	(1 435)	(2 337)	(1 016)
Gains less losses arising from trading securities	72	316	(875)	-
Gains less losses arising from other securities at fair value through profit or loss	(697)	(149)	(567)	197
Gains arising from disposal of investment securities held to maturity	19 436	-	-	-
Other operating income	-	-	3 346	-
Fee and commission income	2 501	350	2 174	167

Gains arising from disposal of investment securities held to maturity arise from the sale of Russian Federation Eurobonds with maturity date in 2018 on the open market.

Transactions with the State include taxes which are detailed in Note 26.

37 Principal Subsidiaries

The table below provides detail on major consolidated subsidiaries of the Group as at 31 December 2007:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
Russian-German Leasing Company	leasing	100%	100%	Russia
DB AO Sberbank	banking	100%	100%	Kazakhstan
ZAO Bank NRB	banking	100%	100%	Ukraine

38 Business Combinations

On 27 December 2007 the Group acquired 100% of the share capital of ZAO Bank NRB for RR 3 483 million. Net assets of ZAO Bank NRB at the date of acquisition were RR 1 225 million. The transaction resulted in goodwill in the amount of RR 2 258 million. The acquired subsidiary contributed no revenue and profit to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group's net profit for 2007 would have been RR 106 592 million.

The details of the assets and liabilities acquired and goodwill arising are as follows:

In millions of Russian Roubles	IFRS carrying amount immediately before business combination	Provisional fair value
Cash and cash equivalents	608	608
Loans and advances to customers	7 545	7 545
Other assets	1 512	1 512
Due from other banks	(3 147)	(3 147)
Customer accounts	(4 713)	(4 713)
Other liabilities	(580)	(580)
Fair value of net assets of subsidiary	**1 225**	**1 225**
Fair value of acquired interest in net assets of subsidiary	**-**	**1 225**
Goodwill arising from the acquisition	-	2 258
Total purchase consideration	**-**	**3 483**
Less: cash and cash equivalents of subsidiary acquired	-	(608)
Outflow of cash and cash equivalents on acquisition	**-**	**2 875**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The purchase consideration comprises cash and cash equivalents paid of RR 3 483 million.

39 Management of Capital and Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern. The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%. Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation.

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above minimum level of 10%. The Bank's Interest Rates and Limits Committee (IRLC) sets minimum level of capital ratio of 11%. This level exceeds both minimum level set by the Bank of Russia (10%) and Basel Committee (8%) and allows the Bank to participate in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Guarantees on Bank Deposits of Individuals in the Russian Federation" dated 23 December 2003. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises RR 681 581 million as of 31 December 2007 (2006: RR 347 254 million). Management believes the Bank meets all the requirments in relation to the minimum amount of regulatory capital set by the Bank of Russia.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (adopted July 1988, updated November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2007**	**2006**
Tier 1 capital	621 117	293 180
Tier 2 capital	28 551	38 775
Total Basel 1 capital	**649 668**	**331 955**

The Bank has complied with all externally imposed capital requirements throughout 2007 and 2006.

As of 31 December 2007, Capital Adequacy Ratio calculated by the Bank in accordance with the International Convergence of Capital Measurement and Capital Standards (adopted July 1988, updated November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I, requirements was as follows:

	2007	**2006**
Core capital adequacy ratio (Tier 1)	13.9%	9.9%
Total capital adequacy ratio (Tier 1 and Tier 2)	14.5%	11.2%

40 Subsequent events

On 18 March 2008 Supervisory Board of the Bank made a decision to pay out 10% of net profit to shareholders as dividends for the year ended 31 December 2007.