

**Bank Petrocommerce Group**

**Interim Consolidated Financial  
Statements and Review Report**

**30 June 2007**

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## REVIEW REPORT

To the Shareholders and the Board of Directors of Bank Petrocommerce:

### *Introduction*

We have reviewed the accompanying interim consolidated balance sheet of Bank Petrocommerce and its subsidiaries (hereinafter the "Group") as of 30 June 2007, and the related interim consolidated statements of income, changes in equity and cash flows for the six months then ended. Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2007, and its financial performance and its cash flows for the six months then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

### *Other Matter*

We draw attention to the fact that the Group has also prepared interim condensed consolidated financial information for the six months ended 30 June 2007 and a review report on that financial information was issued on 13 September 2007.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation  
30 October 2007


**Bank Petrocommerce Group**  
**Interim Consolidated Balance Sheet**

<i>In thousands of Russian Roubles</i>	Note	30 June 2007 (unaudited)	31 December 2006
<b>ASSETS</b>			
Cash and cash equivalents	7	16 410 342	16 319 839
Mandatory cash balances with central banks		2 152 976	2 243 064
Trading securities	8	15 535 156	14 450 761
Due from other banks	9	944 711	373 659
Loans and advances to customers	10	115 765 340	108 948 841
Investment securities available for sale	11	1 762 263	1 032 404
Repurchase receivable	12	4 635 161	1 230 240
Deferred income tax asset	26	2 964	15 329
Premises and equipment	13	2 736 109	2 638 913
Other assets	14	1 229 597	1 039 582
<b>TOTAL ASSETS</b>		<b>161 174 619</b>	<b>148 292 632</b>
<b>LIABILITIES</b>			
Due to other banks	15	23 064 829	13 801 709
Customer accounts	16	82 221 518	82 596 442
Debt securities in issue	17	13 001 127	11 978 734
Other borrowed funds	18	21 127 297	19 075 731
Deferred income tax liability	26	32 389	113 949
Other liabilities	19	938 770	973 070
Subordinated debt	20	3 962 565	4 002 016
<b>TOTAL LIABILITIES</b>		<b>144 348 495</b>	<b>132 541 651</b>
<b>EQUITY</b>			
Share capital	21	6 752 558	6 752 558
Fair value reserve for investment securities available for sale		(21 386)	(17 641)
Retained earnings	22	9 943 741	8 893 534
<b>Net assets attributable to the Bank's equity holders</b>		<b>16 674 913</b>	<b>15 628 451</b>
Minority interest		151 211	122 530
<b>TOTAL EQUITY</b>		<b>16 826 124</b>	<b>15 750 981</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>161 174 619</b>	<b>148 292 632</b>

Approved for issue by the Executive Board and signed on its behalf on 30 October 2007.

  
 Nikitenko V.N.  
 President



  
 Fedotova E.V.  
 Chief Accountant

**Bank Petrocommerce Group**  
**Interim Consolidated Income Statement**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>Six months ended 30 June 2007 (unaudited)</b>	<b>Six months ended 30 June 2006 (unaudited)</b>
Interest income	23	7 202 753	4 294 131
Interest expense	23	(3 686 592)	(1 937 000)
<b>Net interest income</b>		<b>3 516 161</b>	<b>2 357 131</b>
Recovery of/(provision for) loan impairment	9, 10	30 943	(135 427)
<b>Net interest income after provision for loan impairment</b>		<b>3 547 104</b>	<b>2 221 704</b>
Fee and commission income	24	943 358	914 969
Fee and commission expense	24	(202 029)	(124 845)
(Losses net of gains)/gains less losses from trading securities		(714 040)	2 308 545
Gains less losses from trading in foreign currencies		173 269	289 133
Foreign exchange translation losses net of gains		(46 428)	(22 498)
Losses net of gains arising from investment securities available for sale		(724)	(7 551)
Other operating income		105 648	57 189
Administrative and other operating expenses	25	(2 239 150)	(1 736 485)
<b>Profit before tax</b>		<b>1 567 008</b>	<b>3 900 161</b>
Income tax expense	26	(486 413)	(895 528)
<b>Profit for the period</b>		<b>1 080 595</b>	<b>3 004 633</b>
<b>Profit is attributable to:</b>			
Equity holders of the Bank		1 050 619	2 970 207
Minority interest		29 976	34 426
<b>Profit for the period</b>		<b>1 080 595</b>	<b>3 004 633</b>

**Bank Petrocommerce Group**  
**Interim Consolidated Statement of Changes in Equity**

	Note	Attributable to equity holders of the Bank			Minority Interest	Total Equity	
		Share capital	Fair value reserve for investment securities available for sale	Retained earnings			Total
<i>In thousands of Russian Roubles</i>							
<b>Balance at 1 January 2006</b>		<b>6 752 558</b>	<b>(9 691)</b>	<b>5 132 509</b>	<b>11 875 376</b>	<b>79 910</b>	<b>11 955 286</b>
Investment securities available for sale:							
- Fair value losses net of gains		-	(18 546)	-	(18 546)	(237)	(18 783)
- Disposals		-	7 254	-	7 254	297	7 551
Income tax recorded directly in equity	26	-	2 425	-	2 425	92	2 517
Other movements		-	707	(30 126)	(29 419)	(3 463)	(32 882)
Net loss recognised directly in equity		-	(8 160)	(30 126)	(38 286)	(3 311)	(41 597)
Profit for the period		-	-	2 970 207	2 970 207	34 426	3 004 633
Total recognised income/(expense) for the period		-	(8 160)	2 940 081	2 931 921	31 115	2 963 036
<b>Balance at 30 June 2006 (unaudited)</b>		<b>6 752 558</b>	<b>(17 851)</b>	<b>8 072 590</b>	<b>14 807 297</b>	<b>111 025</b>	<b>14 918 322</b>
<b>Balance at 1 January 2007</b>		<b>6 752 558</b>	<b>(17 641)</b>	<b>8 893 534</b>	<b>15 628 451</b>	<b>122 530</b>	<b>15 750 981</b>
Investment securities available for sale:							
- Fair value losses net of gains		-	(5 680)	-	(5 680)	(156)	(5 836)
- Disposals		-	700	-	700	24	724
Income tax recorded directly in equity	26	-	986	-	986	32	1 018
Other movements		-	249	(412)	(163)	(1 195)	(1 358)
Net loss recognised directly in equity		-	(3 745)	(412)	(4 157)	(1 295)	(5 452)
Profit for the period		-	-	1 050 619	1 050 619	29 976	1 080 595
Total recognised income/(expense) for the period		-	(3 745)	1 050 207	1 046 462	28 681	1 075 143
<b>Balance at 30 June 2007 (unaudited)</b>		<b>6 752 558</b>	<b>(21 386)</b>	<b>9 943 741</b>	<b>16 674 913</b>	<b>151 211</b>	<b>16 826 124</b>

**Bank Petrocommerce Group**  
**Interim Consolidated Statement of Cash Flows**

<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2007 (unaudited)	Six months ended 30 June 2006 (unaudited)
<b>Cash flows from operating activities</b>			
Interest received		7 069 283	4 137 973
Interest paid		(3 749 775)	(1 549 454)
Income received from trading in trading securities		249 871	2 807 953
Income received from trading in foreign currencies		180 383	289 133
Fees and commissions received		978 117	905 134
Fees and commissions paid		(206 345)	(125 635)
Other operating income received		77 799	35 648
Administrative and other operating expenses paid		(1 826 013)	(1 629 369)
Income tax paid		(734 647)	(611 820)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>2 038 673</b>	<b>4 259 563</b>
<b>Changes in operating assets and liabilities</b>			
Net decrease/(increase) in mandatory cash balances with central banks		89 371	(219 636)
Net (increase)/decrease in trading securities		(2 057 560)	470 716
Net increase in due from other banks		(578 986)	(93 822)
Net increase in loans and advances to customers		(7 397 431)	(12 641 628)
Net (increase)/decrease in repurchase receivable		(3 391 997)	100 767
Net (increase)/decrease in other assets		(65 428)	161 773
Net increase/(decrease) in due to other banks		9 388 663	(3 746 961)
Net (decrease)/increase in customer accounts		(225 123)	13 777 794
Net increase in debt securities in issue		983 350	1 457 242
Net decrease in other liabilities		(273 461)	(310 366)
<b>Net cash (used in)/provided from operating activities</b>		<b>(1 489 929)</b>	<b>3 215 442</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available for sale		(2 521 286)	(1 342 400)
Proceeds from disposal of investment securities available for sale		1 772 428	1 075 588
Acquisition of premises and equipment	13	(277 054)	(131 496)
Proceeds from disposal of premises and equipment		17 282	6 441
Dividend income received		26 823	18 641
<b>Net cash used in investing activities</b>		<b>(981 807)</b>	<b>(373 226)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		6 792 353	8 980 535
Repayment of other borrowed funds		(4 198 551)	(1 383 125)
Dividends paid		(1)	-
<b>Net cash from financing activities</b>		<b>2 593 801</b>	<b>7 597 410</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>			
Accrued interest income on cash and cash equivalents		(37 819)	(69 025)
<b>Net increase in cash and cash equivalents</b>		<b>90 503</b>	<b>10 373 926</b>
Cash and cash equivalents at the beginning of the period		16 319 839	14 350 855
<b>Cash and cash equivalents at the end of the period</b>		<b>16 410 342</b>	<b>24 724 781</b>

The notes set out on pages 5 to 65 form an integral part of these interim consolidated financial statements.

## **1 Introduction**

These interim consolidated financial statements for the six months ended 30 June 2007 have been prepared for OAO Bank Petrocommerce (the “Bank”) and its subsidiaries (together referred to as the “Group” or “Bank Petrocommerce Group”) in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

The activities of the Group are regulated by the Central Bank of the Russian Federation (the “CBRF”), legislation of the Russian Federation and countries in which the subsidiaries are registered.

The Bank is an open joint-stock commercial bank owned by shareholders whose liability is limited. The Bank was established in the Russian Federation as a limited liability partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a partnership to an open joint stock company. The principal activities of the Bank include deposit taking and commercial lending, support of clients’ export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank’s operations are conducted in both Russian and international markets.

The Bank participates in the State deposit insurance programme, which was introduced by Federal Law No. 177-FZ “On Insurance of Individuals’ Deposits with Banks of the Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency will guarantee 100% repayment of individual deposits up to RR 100 thousand per individual and 90% repayment of individual deposits exceeding RR 100 thousand per individual but not exceeding RR 400 thousand in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank’s office is registered at the following address: Petrovka 24, Moscow, Russia 127051. At 30 June 2007 the Bank had 18 branches (31 December 2006: 18 branches) in the Russian Federation. The average number of the Bank’s employees during the reporting period was 2 551 (2006: 2 375).

In 2004 the Bank’s main shareholder changed. OAO LUKOIL, a major Russian oil company, which was the Bank’s main shareholder, sold a controlling block of ordinary shares (324 092 500 ordinary shares), accounting for 78.07% of the Bank’s voting shares, to the financial group IFD Kapital. IFD Kapital is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services, administration of pension funds and the provision of insurance services within the Russian Federation. IFD Kapital and OAO LUKOIL also concluded a preliminary agreement on the sale and purchase of an additional 87 350 700 ordinary shares of the Bank before 1 July 2007 for certain consideration. In October 2005 this preliminary agreement was cancelled. In December 2005 an open tender for the right to purchase 86 895 100 ordinary shares of the Bank was announced. Based on the results of the tender, IFD Kapital obtained the right to purchase these shares. Between 15 May and 2 June 2006 ownership rights on 86 895 100 ordinary shares of the Bank have been transferred to IFD Kapital Group. Also refer to Note 21.

The main subsidiaries of Bank Petrocommerce Group are the following: OAO Komi Regional Bank Ukhtabank, ZAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and Petrocommerce Invest S.A. Refer to Note 34.

Below is the description of the main operations of the principal subsidiaries.

**Open Joined-Stock Company Komi Regional Bank Ukhtabank** (“Ukhtabank”) is a commercial bank owned by shareholders whose liability is limited. The Bank’s principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Russia, 169300, Komi Republic, Ukhta, Oktyabrskaya str., 14. At 30 June 2007 Ukhtabank had six branches within the Russian Federation (31 December 2006: six branches). The average number of employees of Ukhtabank during the reporting period was 518 (2006: 544). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.



## **1 Introduction (Continued)**

**ZAO Bank Petrocommerce-Ukraine** ("Petrocommerce-Ukraine") was registered on 26 September 1996 by the National Bank of Ukraine as a joint-stock company under the name Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Petrocommerce-Ukraine. The current banking licence #108-1 was received by Petrocommerce-Ukraine on 9 April 2002. Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. Bank Petrocommerce-Ukraine's head office is located in Kiev. At 30 June 2007 Bank Petrocommerce-Ukraine also had four branches in Ukraine (31 December 2006: four branches). The average number of Bank Petrocommerce-Ukraine's employees during the reporting period was 540 (2006: 510).

**Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie**, an open joint-stock company ("Stavropolpromstroybank"), was created in December 1991 as a result of restructuring of commercial bank "Stavropolie" previously founded on 26 December 1990. In March 1996 the bank changed its legal form and became an open jointed-stock company. In May 2002, Stavropolpromstroibank was acquired by the Group. Stavropolpromstroybank has banking licence #1288. Stavropolpromstroibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroibank's head office is located in Stavropol. At 30 June 2007 the Bank had seven branches within the Russian Federation (31 December 2006: seven branches). The average number of the Bank's employees during the reporting period was 639 (2006: 609).

**Commercial Bank Unibank S.A.** ("Unibank") was created in the Republic of Moldova in August 1992. In December 2002 it became a subsidiary of the Bank. Unibank has a type "B" licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. At 30 June 2007 Unibank had five branches in the Republic of Moldova (31 December 2006: five branches). The average number of the Bank's employees during the reporting period was 238 (2006: 247).

**Petrocommerce Invest S.A.** was founded in Luxembourg in February 2006. The registration number is B114800. Main activity of the company is attraction of medium- and long-term funds on international financial markets for the benefit of the Group.

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

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to settlements, lending, deposit taking, guarantees, trade finance and foreign currency transactions. At 30 June 2007, a substantial portion of the Group's liabilities (14% of total liabilities) (31 December 2006: 14% of total liabilities) are due to related parties. Refer to Note 33.

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies**

**Basis of preparation.** These interim consolidated financial statements have been prepared in accordance with IAS 34 “*Interim Financial Reporting*” under the historical cost convention, as modified by revaluation of trading securities, investment securities available for sale and derivative financial instruments. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies’ law in respective jurisdictions. These interim consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IAS 34. The principal accounting policies applied in the preparation of these interim 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 de-consolidated 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.

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.

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.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group’s equity.

Other movements in the consolidated statement of changes in equity include the result of net assets revaluation arising on the consolidation of the Group’s subsidiaries whose functional currency differs from the Group’s presentation currency (Russian Rouble). The cumulative balance of currency translation differences recorded in equity at 30 June 2007 amounted to a loss of RR 55 992 thousand (30 June 2006: loss of RR 52 555 thousand).

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

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

**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 all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with central banks.** Mandatory cash balances with the Central Bank of the Russian Federation and other central banks 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 interim consolidated cash flow statement.

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

**Credit related commitments.** The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans 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; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

**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 debt 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. All other elements of changes in the fair value are deferred 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 liabilities are presented within due to other banks or customer accounts.

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, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Derecognition of financial assets.** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained 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.

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

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. 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. Changes in the carrying value are recorded in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

Premises	2% per annum; and
Office and computer equipment	20-33% per annum.

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.

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

**Debt securities in issue.** Debt securities in issue include bonds, promissory notes, deposit and savings certificates issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

**Other borrowed funds.** Other borrowed funds include 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 purchases its own other 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 or losses arising from early retirement of debt.

### 3 Basis of Preparation and Significant Accounting Policies (Continued)

**Subordinated debt.** Subordinated debt is a non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts 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 either gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts. The Group does not apply hedge accounting.

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

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

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 in a transaction other than a business combination 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 and liabilities are netted only within the *individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the consolidated balance sheet only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.*

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**Uncertain tax positions.** The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

**Provisions 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.

**Preference shares.** Preference shares that are not redeemable and with discretionary dividends, are classified as 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 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.

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

At 30 June 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 25.8162 (31 December 2006: USD 1 = RR 26.3311).

**Fiduciary assets and trust activities.** 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 30. For the purposes of disclosure, fiduciary and trust activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these interim 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 and bonuses are accrued in the period 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 ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these interim consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

**Changes in accounting policies and presentation.** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current period amounts. The effect of reclassifications made in the interim consolidated statement of cash flows for the six months ended 30 June 2006 was RR 1 250 740 thousand in the line "Net increase in cash and cash equivalents".



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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period 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 consolidated income statement, 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 can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Also the Group made reversals of loan impairment provisions primarily as a result of improving macroeconomic conditions and so far limited effects of the global liquidity recession on the Russian markets and the Group's customers. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised.

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

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

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

**IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase 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. These interim consolidated financial statements disclose this additional information.

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

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

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

## 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:

**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.

**IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).** This Standard applies to entities the debt instrument of which are traded in the open market, and entities which provide, or plan to provide, their financial statements to supervisory bodies in connection with placement of certain instruments in the open market. IFRS 8 requires to disclose financial and narrative information in respect of operating segments and clarifies how to disclose it in the financial statements. Currently, the management evaluates the effect of this Standard on disclosing information on segments in the Group's consolidated financial statements.

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

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

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

**7 Cash and Cash Equivalents**

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Cash on hand	3 496 332	3 873 287
Balances with central banks (other than mandatory reserve deposits)	4 227 000	6 600 519
Correspondent accounts and overnight placements with other banks		
- Russian Federation	1 402 814	968 910
- Other countries	1 161 706	1 376 000
Placements with other banks with original maturities of less than three months	398 295	1 784 990
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	4 646 772	802 775
Settlement accounts with trading systems	1 077 423	913 358
<b>Total cash and cash equivalents</b>	<b>16 410 342</b>	<b>16 319 839</b>

At 30 June 2007 cash and cash equivalents of RR 4 646 772 thousand (31 December 2006: RR 802 775 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 4 885 339 thousand (31 December 2006: RR 1 006 728 thousand).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**8 Trading Securities**

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Federal loan bonds (OFZ bonds)	6 350 078	5 643 697
Corporate bonds	3 931 736	1 395 267
US Treasury Strip securities	664 797	676 846
Corporate Eurobonds	183 908	535 135
Bonds of the Bank of Russia	169 809	283 795
Promissory notes	132 800	250 362
Russian Federation Eurobonds	91 113	150 500
Municipal bonds and bonds of the Russian Federation's regions	16 977	219 878
Credit-linked notes	-	51 438
<b>Total debt securities</b>	<b>11 541 218</b>	<b>9 206 918</b>
Corporate shares-listed	3 822 460	5 175 681
Global depository receipts	171 478	68 162
<b>Total equity securities</b>	<b>3 993 938</b>	<b>5 243 843</b>
<b>Total trading securities</b>	<b>15 535 156</b>	<b>14 450 761</b>

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate bonds are debt securities denominated in Russian Roubles, issued by large Russian companies in transport, trading and banking sectors.

**8 Trading Securities (Continued)**

Corporate shares mainly include shares of major Russian oil and gas, energy, metallurgical and other sectors. These shares are freely tradable in Russia.

US Treasury Strip securities represent zero-coupon debt securities issued in the United States of America under Separate Trading of Registered Interest and Principal Securities (STRIP) program, and are freely tradable internationally.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally.

Bonds of the Bank of Russia are zero-coupon securities denominated in Russian Roubles, issued by the Central Bank of the Russian Federation at a discount.

Promissory notes are debt securities of leading Russian banks. These securities are traded on over-the-counter market.

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.

Municipal bonds and bonds of Russian Federation's regions represent debt securities denominated in Russian Roubles, issued by the Moscow Government and other regional authorities.

Credit-linked notes represent debt securities denominated in USD. These securities are linked to the Russian Federation performance of its payment obligations under the Sovereign Debt Agreements and are freely tradable internationally.

The analysis of the Group's trading debt securities at 30 June 2007 (unaudited) is set out below:

	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2008	February 2036	5.8%	10.0%	5.3%	6.8%
Corporate bonds	November 2007	June 2018	7.4%	13.7%	6.6%	35.5%
US Treasury Strip securities	February 2011	February 2011	-	-	6.0%	6.0%
Corporate Eurobonds	July 2007	November 2007	9.0%	10.5%	9.4%	12.3%
Bonds of the Bank of Russia	January 2008	January 2008	-	-	4.8%	4.8%
Promissory notes	September 2007	June 2009	-	-	6.5%	11.3%
Russian Federation Eurobonds	June 2028	June 2028	12.8%	12.8%	6.0%	6.0%
Municipal bonds and bonds of the Russian Federation's regions	December 2007	June 2015	10.0%	13.5%	6.4%	7.6%

The analysis of the Group's trading debt securities held for trading at 31 December 2006 is set out below:

	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	June 2007	November 2021	6.0%	10.0%	5.7%	6.5%
Corporate bonds	June 2008	June 2018	5.5%	11.0%	6.9%	9.7%
US Treasury Strip securities	February 2011	February 2011	-	-	4.6%	4.6%
Corporate Eurobonds	June 2007	October 2010	8.0%	10.5%	6.6%	13.2%
Bonds of the Bank of Russia	September 2009	September 2009	-	-	4.8%	4.8%
Promissory notes	January 2007	July 2007	-	-	7.6%	21.0%
Russian Federation Eurobonds	March 2030	March 2030	5.0%	5.0%	5.9%	5.9%
Municipal bonds and bonds of the Russian Federation's regions	December 2007	June 2015	10.0%	13.5%	5.5%	7.3%
Credit-linked notes	October 2014	October 2014	9.6%	9.6%	5.2%	5.2%

**8 Trading Securities (Continued)**

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

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

At 30 June 2007 trading securities with the fair value of RR 2 599 178 thousand (31 December 2006: RR 2 485 872 thousand) were pledged as collateral with respect to a credit line opened with the CBRF. At 30 June 2007 the Group had no deposits from the CBRF attracted within this credit limit (31 December 2006: nil). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 29. The information on trading securities issued by related parties is disclosed in Note 33.

**9 Due from Other Banks**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Term placements with other banks with original maturities of more than three months	944 844	374 253
Overdue placements with other banks	13 201	13 473
Less: Provision for impairment of due from other banks	(13 334)	(14 067)
<b>Total due from other banks</b>	<b>944 711</b>	<b>373 659</b>

Movements in the provision for impairment of due from other banks are as follows:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	30 June 2006 (unaudited)
<b>Provision for impairment of due from other banks at 1 January</b>	<b>14 067</b>	<b>7 970</b>
(Recovery of)/provision for impairment of due from other banks during the period	(450)	6 930
Effect of translation to presentation currency	(283)	(420)
<b>Provision for impairment of due from other banks at 30 June (unaudited)</b>	<b>13 334</b>	<b>14 480</b>

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

The analysis of due from other banks by credit quality at 30 June 2007 and 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		31 December 2006	
	Term placements with other banks with original maturities of more than three months	Overdue placements with other banks	Term placements with other banks with original maturities of more than three months	Overdue placements with other banks
<b>Due from other banks (gross amount)</b>				
- Russian Federation banks	456 947	-	11	-
- OECD countries banks	-	-	6 907	-
- Non-OECD countries banks	487 897	13 201	367 335	13 473
<b>Total due from other banks (gross amount)</b>	<b>944 844</b>	<b>13 201</b>	<b>374 253</b>	<b>13 473</b>
Less: Provision for impairment of due from other banks	(133)	(13 201)	(594)	(13 473)
<b>Total due from other banks</b>	<b>944 711</b>	<b>-</b>	<b>373 659</b>	<b>-</b>

The overdue placements with other banks represent placements with other banks past due more than one year.

At 30 June 2007 term placements with other banks totalling RR 474 602 thousand (31 December 2006: RR 353 416 thousand) were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 15 and 30.

Carrying value of each class of amounts due from other banks approximates fair value at 30 June 2007 and 31 December 2006. At 30 June 2007 the estimated fair value of due from other banks was RR 944 711 thousand (31 December 2006: RR 373 659 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

10 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
<b>Corporate entities</b>		
Commercial loans	90 738 574	83 515 576
Reverse sale and repurchase agreements	11 773 837	11 109 292
Factoring	7 527 767	10 949 842
<b>Individuals</b>		
Loans to individuals	9 000 171	6 938 323
Reverse sale and repurchase agreements	192 917	-
Less: Provision for loan impairment	(3 467 926)	(3 564 192)
<b>Total loans and advances to customers</b>	<b>115 765 340</b>	<b>108 948 841</b>

At 30 June 2007 loans and advances to customers of RR 11 966 754 thousand (31 December 2006: RR 11 109 292 thousand) were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 14 602 629 thousand (31 December 2006: RR 13 749 193 thousand).

Movements in the provision for loan impairment are as follows:

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
Provision for loan impairment at 1 January 2007	3 263 695	-	109 440	191 057	-	3 564 192
(Recovery of)/provision for loan impairment during the period	(184 470)	-	(26 525)	180 502	-	(30 493)
Loans and advances to customers written off during the period as uncollectible	(63 928)	-	-	(108)	-	(64 036)
Effect of translation to presentation currency	(794)	-	-	(943)	-	(1 737)
<b>Provision for loan impairment at 30 June 2007 (unaudited)</b>	<b>3 014 503</b>	<b>-</b>	<b>82 915</b>	<b>370 508</b>	<b>-</b>	<b>3 467 926</b>

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
Provision for loan impairment at 1 January 2006	2 261 717	-	41 937	116 925	-	2 420 579
Provision for loan impairment during the period	71 001	-	12 915	44 581	-	128 497
Loans and advances to customers written off during the period as uncollectible	(1 748)	-	-	(12)	-	(1 760)
Effect of translation to presentation currency	(8 704)	-	-	(275)	-	(8 979)
<b>Provision for loan impairment at 30 June 2006 (unaudited)</b>	<b>2 322 266</b>	<b>-</b>	<b>54 852</b>	<b>161 219</b>	<b>-</b>	<b>2 538 337</b>

**10 Loans and advances to customers (Continued)**

The analysis of the Group's loan portfolio by credit quality at 30 June 2007 (unaudited) is set out below:

	Corporate entities			Individuals		Total
	Commer- cial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
<i>In thousands of Russian Roubles</i>						
<i>Current and not impaired loans</i>						
- standard	87 560 837	11 773 837	6 860 617	7 912 549	192 917	114 300 757
- watch list	1 147 244	-	-	383 472	-	1 530 716
<b>Total current and not impaired loans</b>	<b>88 708 081</b>	<b>11 773 837</b>	<b>6 860 617</b>	<b>8 296 021</b>	<b>192 917</b>	<b>115 831 473</b>
<i>Past due but not impaired loans</i>						
- less than 1 month overdue	384 298	-	-	370 429	-	754 727
<b>Total past due but not impaired loans</b>	<b>384 298</b>	<b>-</b>	<b>-</b>	<b>370 429</b>	<b>-</b>	<b>754 727</b>
<i>Loans individually determined to be impaired (gross)</i>						
- current	197 500	-	-	153 746	-	351 246
- less than 1 month overdue	126 915	-	-	15 164	-	142 079
- 1 to 3 months overdue	209 955	-	-	16 905	-	226 860
- 3 to 6 months overdue	208 541	-	667 150	12 755	-	888 446
- 6 to 12 months overdue	118 288	-	-	43 842	-	162 130
- over 1 year overdue	784 996	-	-	91 309	-	876 305
<b>Total individually impaired loans (gross)</b>	<b>1 646 195</b>	<b>-</b>	<b>667 150</b>	<b>333 721</b>	<b>-</b>	<b>2 647 066</b>
<b>Total loans and advances to customers (before provision for impairment)</b>	<b>90 738 574</b>	<b>11 773 837</b>	<b>7 527 767</b>	<b>9 000 171</b>	<b>192 917</b>	<b>119 233 266</b>
<b>Less impairment provisions</b>	<b>(3 014 503)</b>	<b>-</b>	<b>(82 915)</b>	<b>(370 508)</b>	<b>-</b>	<b>(3 467 926)</b>
<b>Total loans and advances to customers</b>	<b>87 724 071</b>	<b>11 773 837</b>	<b>7 444 852</b>	<b>8 629 663</b>	<b>192 917</b>	<b>115 765 340</b>



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

The analysis of the Group's loan portfolio by credit quality at 31 December 2006 is set out below:

	Corporate entities			Individuals		Total
	Commer- cial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
<i>In thousands of Russian Roubles</i>						
<b>Current and not impaired loans</b>						
- standard	80 952 297	11 109 292	10 946 412	6 654 122	-	109 662 123
- watch list	1 112 536	-	-	124 647	-	1 237 183
<b>Total current and not impaired loans</b>	<b>82 064 833</b>	<b>11 109 292</b>	<b>10 946 412</b>	<b>6 778 769</b>	<b>-</b>	<b>110 899 306</b>
<b>Past due but not impaired loans</b>						
- less than 1 month overdue	61 825	-	-	2 695	-	64 520
<b>Total past due but not impaired loans</b>	<b>61 825</b>	<b>-</b>	<b>-</b>	<b>2 695</b>	<b>-</b>	<b>64 520</b>
<b>Loans individually determined to be impaired (gross)</b>						
- current	180 371	-	-	36 783	-	217 154
- less than 1 month overdue	41 651	-	3 430	2 911	-	47 992
- 1 to 3 months overdue	108 062	-	-	2 292	-	110 354
- 3 to 6 months overdue	84 703	-	-	12 500	-	97 203
- 6 to 12 months overdue	180 051	-	-	39 000	-	219 051
- over 1 year overdue	794 080	-	-	63 373	-	857 453
<b>Total individually impaired loans (gross)</b>	<b>1 388 918</b>	<b>-</b>	<b>3 430</b>	<b>156 859</b>	<b>-</b>	<b>1 549 207</b>
<b>Total loans and advances to customers (before provision for impairment)</b>	<b>83 515 576</b>	<b>11 109 292</b>	<b>10 949 842</b>	<b>6 938 323</b>	<b>-</b>	<b>112 513 033</b>
<b>Less impairment provisions</b>	<b>(3 263 695)</b>	<b>-</b>	<b>(109 440)</b>	<b>(191 057)</b>	<b>-</b>	<b>(3 564 192)</b>
<b>Total loans and advances to customers</b>	<b>80 251 881</b>	<b>11 109 292</b>	<b>10 840 402</b>	<b>6 747 266</b>	<b>-</b>	<b>108 948 841</b>

The primary factors that the Group considers whether a loan is impaired are its overdue status, individual signs of impairment and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

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

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 30 June 2007 and 31 December 2006 was as follows:

<i>In thousands of Russian Roubles</i>	<b>Commercial loans</b>	<b>Loans to individuals</b>	<b>Total</b>
<b>30 June 2007 (unaudited)</b>			
<i>Fair value of collateral - loans past due but not impaired</i>			
- financial claims to the Group and cash	-	16	16
- mortgage	153 423	343 828	497 251
- equipment and transport	31 191	2 788	33 979
- other assets	5 332	72	5 404
<i>Fair value of collateral - individually impaired loans</i>			
- financial claims to the Group and cash	2 914	-	2 914
- tradable securities	35 817	-	35 817
- mortgage	1 652 836	20 384	1 673 220
- equipment and transport	473 869	99 312	573 181
- other assets	746 827	376	747 203
<b>Total</b>	<b>3 102 209</b>	<b>466 776</b>	<b>3 568 985</b>

<i>In thousands of Russian Roubles</i>	<b>Commercial loans</b>	<b>Loans to individuals</b>	<b>Total</b>
<b>31 December 2006 (unaudited)</b>			
<i>Fair value of collateral - loans past due but not impaired</i>			
- mortgage	32 155	626	32 781
- equipment and transport	21 766	970	22 736
- other assets	49 926	54	49 980
<i>Fair value of collateral - individually impaired loans</i>			
- financial claims to the Group and cash	2 633	-	2 633
- tradable securities	1 142 075	-	1 142 075
- mortgage	1 003 276	1 805	1 005 081
- equipment and transport	808 011	20 277	828 288
- other assets	712 517	346	712 863
<b>Total</b>	<b>3 772 359</b>	<b>24 078</b>	<b>3 796 437</b>

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

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>		<b>31 December 2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade	25 707 764	22	27 853 213	25
Manufacturing	23 723 491	20	20 000 396	18
Finance sector	18 714 066	16	18 481 540	16
Construction	10 937 825	9	8 504 500	8
Agriculture	10 070 596	8	8 389 447	8
Individuals	9 193 088	8	6 938 323	6
Transport	7 811 606	7	7 032 455	6
Food processing	5 427 682	4	7 815 776	7
Oil and energy	4 013 830	3	5 028 895	4
Other	3 633 318	3	2 468 488	2
<b>Total loans and advances to customers (before provision for impairment)</b>	<b>119 233 266</b>	<b>100</b>	<b>112 513 033</b>	<b>100</b>

**11 Investment Securities Available for Sale (Continued)**

The analysis of the Group's debt investment securities available for sale at 31 December 2006 is set out below:

	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Corporate bonds	February 2007	September 2013	7.8%	12.0%	7.5%	10.1%
Municipal bonds and bonds of the Russian Federation's regions	September 2007	October 2011	7.8%	12.0%	6.9%	8.3%
Debt securities of central banks of non-OECD countries	January 2007	January 2007	-	-	14.6%	15.5%
State debt securities of non-OECD countries	January 2007	September 2008	10.0%	11.7%	3.1%	16.5%
Promissory notes	Demand	April 2007	-	-	0.0%	9.0%
Corporate Eurobonds	October 2010	October 2010	8.4%	8.4%	6.7%	6.7%
OVGVZ	May 2008	May 2008	3.0%	3.0%	5.7%	5.7%

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**12 Repurchase Receivable**

Repurchase receivable represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge.

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Federal loan bonds (OFZ bonds)	3 252 021	613 176
Corporate Eurobonds	271 254	-
<b>Total debt securities</b>	<b>3 523 275</b>	<b>613 176</b>
Corporate shares-listed	1 111 886	617 064
<b>Total equity securities</b>	<b>1 111 886</b>	<b>617 064</b>
<b>Total repurchase receivable</b>	<b>4 635 161</b>	<b>1 230 240</b>

**12 Repurchase Receivable (Continued)**

The analysis of the Group's Repurchase receivable at 30 June 2007 (unaudited) is set out below:

	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2008	November 2021	5.8%	10.0%	5.3%	6.4%
Corporate Eurobonds	February 2009	October 2010	8.0%	8.6%	6.8%	7.1%

The analysis of the Group's Repurchase receivable at 31 December 2006 is set out below:

	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2008	August 2018	6.0%	10.0%	5.8%	6.4%

At 30 June 2007 due from other banks includes RR 3 272 654 thousand (31 December 2006: RR 685 918 thousand) received under repurchase agreements with securities at a fair value of RR 3 580 732 thousand (31 December 2006: RR 799 362 thousand). Refer to Notes 15 and 30.

At 30 June 2007 customer accounts include RR 1 005 051 thousand (31 December 2006: RR 429 928 thousand) received under repurchase agreements with securities at a fair value of RR 1 054 429 thousand (31 December 2006: RR 430 878 thousand). Refer to Notes 16 and 30.

At 30 June 2007 the estimated fair value of repurchase receivable was RR 4 635 161 thousand (31 December 2006: RR 1 230 240 thousand).

Geographical, currency, maturity and interest rate analyses of repurchase receivable are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**13 Premises and Equipment**

<i>In thousands of Russian Roubles</i>	Land and Premises	Office and computer equipment	Construction in progress	Total
<b>Carrying amount at 1 January 2006</b>	<b>1 274 274</b>	<b>764 933</b>	<b>266 547</b>	<b>2 305 754</b>
<b>Cost</b>				
Opening balance	1 395 208	1 423 057	266 547	3 084 812
Additions	3 616	90 294	37 586	131 496
Transfers	38 807	39 086	(77 893)	-
Disposals	(1 394)	(18 092)	(26 385)	(45 871)
Effect of translation to presentation currency	(2 081)	(12 969)	(2 481)	(17 531)
<b>Balance at 30 June 2006 (unaudited)</b>	<b>1 434 156</b>	<b>1 521 376</b>	<b>197 374</b>	<b>3 152 906</b>
<b>Accumulated depreciation</b>				
Opening balance	120 934	658 124	-	779 058
Depreciation and amortisation charge (Note 25)	13 322	115 532	-	128 854
Disposals	(281)	(10 679)	-	(10 960)
Transfers	-	-	-	-
Effect of translation to presentation currency	8 455	(16 466)	-	(8 011)
<b>Balance at 30 June 2006 (unaudited)</b>	<b>142 430</b>	<b>746 511</b>	<b>-</b>	<b>888 941</b>
<b>Carrying amount at 30 June 2006 (unaudited)</b>	<b>1 291 726</b>	<b>774 865</b>	<b>197 374</b>	<b>2 263 965</b>
<b>Carrying amount at 1 January 2007</b>	<b>1 286 251</b>	<b>811 153</b>	<b>541 509</b>	<b>2 638 913</b>
<b>Cost</b>				
Opening balance	1 430 618	1 703 663	541 509	3 675 790
Additions	77 721	156 946	42 387	277 054
Transfers	263 263	52 073	(315 336)	-
Disposals	(2 052)	(20 160)	(189)	(22 401)
Effect of translation to presentation currency	(19)	(1 239)	35	(1 223)
<b>Balance at 30 June 2007 (unaudited)</b>	<b>1 769 531</b>	<b>1 891 283</b>	<b>268 406</b>	<b>3 929 220</b>
<b>Accumulated depreciation</b>				
Opening balance	144 367	892 510	-	1 036 877
Depreciation and amortisation charge (Note 25)	16 261	155 993	-	172 254
Disposals	(750)	(11 814)	-	(12 564)
Effect of translation to presentation currency	(181)	(3 275)	-	(3 456)
<b>Balance at 30 June 2007 (unaudited)</b>	<b>159 697</b>	<b>1 033 414</b>	<b>-</b>	<b>1 193 111</b>
<b>Carrying amount at 30 June 2007 (unaudited)</b>	<b>1 609 834</b>	<b>857 869</b>	<b>268 406</b>	<b>2 736 109</b>

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, assets are transferred to premises and equipment.

**14 Other Assets**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Prepaid income tax	455 872	322 783
Trade debtors and other prepayments	308 886	307 958
Settlements on non-banking operations	255 175	154 011
Settlements on other operations	164 958	252 267
Derivative financial instruments	34 033	113
Prepaid other taxes	10 673	2 450
<b>Total other assets</b>	<b>1 229 597</b>	<b>1 039 582</b>

Geographical, currency and maturity analyses of other assets are disclosed in Note 29.

**15 Due to Other Banks**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Term deposits of other banks	15 674 186	11 531 173
Sale and repurchase agreements with other banks	6 599 245	1 088 049
Correspondent accounts and overnight placements of other banks	791 398	650 938
Sale and repurchase agreements with the CBRF	-	531 549
<b>Total due to other banks</b>	<b>23 064 829</b>	<b>13 801 709</b>

At 30 June 2007, included in amounts due to other banks are liabilities of RR 6 599 245 thousand (31 December 2006: RR 1 088 049 thousand), under sale and repurchase agreements with securities with a fair value of RR 7 065 842 thousand (31 December 2006: RR 1 214 177 thousand). The Group purchased part of these securities with a fair value of RR 3 485 110 thousand (31 December 2006: RR 528 406 thousand) under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 3 580 732 thousand (31 December 2006: RR 685 771 thousand) are included in repurchase receivables. Refer to Notes 12 and 30.

At 31 December 2006, the fair value of securities transferred to the CBRF under sale and repurchase agreements in the amount of RR 531 549 thousand, comprised RR 545 350 thousand. The Group purchased part of these securities with a fair value of RR 431 759 thousand under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 113 591 thousand are included in repurchase receivables. Refer to Notes 12 and 30.

At 30 June 2007 term placements of other banks of RR 475 096 thousand (31 December 2006: RR 353 505 thousand) have been collateralised by term placements with other banks of RR 474 602 thousand (31 December 2006: RR 353 416 thousand). Refer to Notes 9 and 30.

Carrying value of each class of due to other banks approximates fair value at 30 June 2007 and 31 December 2006. At 30 June 2007 the estimated fair value of due to other banks was RR 23 064 829 thousand (31 December 2006: RR 13 801 709 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**16 Customer Accounts**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
<b>State and public organisations</b>		
- Current/settlement accounts	6 389 041	5 776 675
- Term deposits	1 590	2 872
<b>Corporate entities</b>		
- Current/settlement accounts	20 507 751	16 258 262
- Term deposits	18 171 198	26 640 859
- Sale and repurchase agreements	1 447 744	1 218 701
<b>Individuals</b>		
- Current/demand accounts	9 230 264	7 794 762
- Term deposits	26 473 930	24 904 311
<b>Total customer accounts</b>	<b>82 221 518</b>	<b>82 596 442</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		31 December 2006	
	Amount	%	Amount	%
Individuals	35 704 194	43	32 699 073	40
Trade	8 328 726	10	8 953 009	11
Finance sector	7 189 804	9	7 504 260	9
Oil production and refining	6 709 254	8	4 377 750	5
State organisations	6 390 631	8	5 779 547	7
Energy	5 642 485	7	4 829 457	6
Services	4 312 677	6	8 501 359	10
Construction	2 876 930	3	5 428 506	7
Manufacturing	1 390 773	2	1 604 281	2
Other	3 676 044	4	2 919 200	3
<b>Total customer accounts</b>	<b>82 221 518</b>	<b>100</b>	<b>82 596 442</b>	<b>100</b>

At 30 June 2007, included in customer accounts are deposits of RR 2 584 265 thousand (31 December 2006: RR 2 138 918 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit for settlements in the Russian Federation. Refer to Note 30.

At 30 June 2007, the fair value of securities transferred to clients under sale and repurchase agreements in the amount of RR 1 447 744 thousand (31 December 2006: RR 1 218 701 thousand), comprised RR 1 512 206 thousand (31 December 2006: RR 1 197 668 thousand). The Group purchased part of these securities with a fair value of RR 457 777 thousand (31 December 2006: RR 766 790 thousand) under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 1 054 429 thousand (31 December 2006: RR 430 878 thousand) are included in repurchase receivables. Refer to Notes 12 and 30.

Carrying value of each class of customer accounts approximates fair value at 30 June 2007 and 31 December 2006. At 30 June 2007 the estimated fair value of customer accounts was RR 82 221 518 thousand (31 December 2006: RR 82 596 442 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**17 Debt Securities in Issue**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Promissory notes	9 352 242	8 466 696
Bonds	2 942 601	2 966 772
Deposits and saving certificates	706 284	545 266
<b>Total debt securities in issue</b>	<b>13 001 127</b>	<b>11 978 734</b>

Issued promissory notes represent debt securities denominated in Russian Roubles, US Dollars and Euro with maturities from "demand" to April 2027 (31 December 2006: from "demand" to December 2021). The effective interest rates on these promissory notes range from 0.0% to 12.7% (31 December 2006: 0.0% to 12.7%).

Bonds are debt securities denominated in Russian Roubles and issued in the Russian Federation in August 2006 (31 December 2006: in August 2006). These bonds mature in August 2009 (31 December 2006: August 2009), and have a fixed coupon rate of 8.5% (31 December 2006: 8.5%) and yield to maturity of 8.3% (31 December 2006: 8.9%).

At 30 June 2007 and at 31 December 2006 the fair values of debt securities in issue were as in the below table. Refer also to Note 32.

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		31 December 2006	
	Fair value	Carrying value	Fair value	Carrying value
Promissory notes	9 567 861	9 352 242	8 470 191	8 466 696
Bonds	2 985 429	2 942 601	2 976 502	2 966 772
Deposits and saving certificates	706 284	706 284	545 266	545 266
<b>Total debt securities in issue</b>	<b>13 259 574</b>	<b>13 001 127</b>	<b>11 991 959</b>	<b>11 978 734</b>

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 29. The information on debt securities in issue held by related parties is disclosed in Note 33.

**18 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Term borrowings	16 779 888	15 581 019
Syndicated loans	4 347 409	3 494 712
<b>Total other borrowed funds</b>	<b>21 127 297</b>	<b>19 075 731</b>

Term borrowings represent medium and long-term funds attracted by the Group on the international financial markets.

In March 2006 the Group issued Euro Medium Term Notes with a nominal value of USD 225 000 thousand, a fixed nominal interest rate of 8.0%, maturity in March 2009 and the effective interest rate of 8.7%.

In December 2006 the Group issued Loan Participation Notes with a nominal value of USD 300 000 thousand, a fixed nominal interest rate of 8.75%, maturity in December 2009 and the effective interest rate of 9.3%.



**18 Other Borrowed Funds (Continued)**

In March 2007 the Group additionally issued Loan Participation Notes with a nominal value of USD 125 000 thousand, a fixed nominal interest rate of 8.75%, maturity in December 2009 and the effective interest rate of 9.3%.

A syndicated loan in the amount of USD 14 000 thousand was received by the Group in October 2005 from two Croatian banks. The loan has maturity date in October 2010 and a floating interest rate of 6 month LIBOR plus 1.25%. At 30 June 2007 the effective interest rate was 9.1% (31 December 2006: 9.1%).

A syndicated loan in the amount of USD 14 338 thousand was received by the Group in June 2006 from the above two Croatian banks. The loan has maturity date in June 2011 and a floating interest rate of 6 month LIBOR plus 1.25%. At 30 June 2007 the effective interest rate was 7.5% (31 December 2006: 7.4%).

A syndicated loan in the amount of USD 14 398 thousand was received by the Group in October 2006 from the above two Croatian banks. The loan matures in October 2011 and has a floating interest rate of 6 month LIBOR plus 1.25%. At 30 June 2007 the effective interest rate was 7.3% (31 December 2006: 7.3%).

A syndicated loan in the amount of USD 135 000 thousand was received by the Group in June 2007 from a consortium of Russian and foreign banks. The loan has maturity date in June 2008 and a floating interest rate of 6 month LIBOR plus 0.9%. At 30 June 2007 the effective interest rate was 7.3%.

At 31 December 2006 the Group had Loan Participation Notes issued in February 2004 through a large foreign bank with a nominal of USD 120 000 thousand, a fixed interest rate of 9.0%, maturity date in February 2007 and the effective interest rate of 10.1%. In November 2004 part of the securities with a nominal value of USD 55 560 thousand were claimed by holders for early redemption and were repaid by the Group in connection with notification of bond holders on changes in the shareholding structure of the Bank. Refer to Note 1. Loan Participation Notes were redeemed on time.

At 31 December 2006 the Group had a syndicated loan of USD 91 500 thousand, received in April 2006 from a consortium of Russian and foreign banks. This loan had maturity date in April 2007 and interest rate of 3 month LIBOR plus 1.9%. At 31 December 2006 the effective interest rate was 8.6%. The loan was repaid at maturity date.

At 30 June 2007 and at 31 December 2006 the fair values of other borrowed funds were as in the below table. Refer also to Note 32.

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		31 December 2006	
	Fair value	Carrying value	Fair value	Carrying value
Term borrowings	17 054 093	16 779 888	15 830 804	15 581 019
Syndicated loans	4 396 296	4 347 409	3 525 952	3 494 712
<b>Total other borrowed funds</b>	<b>21 450 389</b>	<b>21 127 297</b>	<b>19 356 756</b>	<b>19 075 731</b>

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29.

## 19 Other Liabilities

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Settlements on bank operations	310 420	576 064
Accrued staff costs	278 367	170 982
Other taxes payable	78 746	58 176
Income taxation payable	67 787	55 154
Derivative financial instruments	41 147	5 905
Other	162 303	106 789
<b>Total other liabilities</b>	<b>938 770</b>	<b>973 070</b>

Geographical, currency, maturity analyses of other liabilities are disclosed in Note 29.

## 20 Subordinated Debt

In November 2006, the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% and maturity in May 2012. Under the contract, the loan ranks after all other creditors in case of liquidation of the Bank. At 30 June 2007 the effective interest rate for this subordinated loan was 9.7% (31 December 2006: 9.7%).

At 30 June 2007 the estimated fair value of this subordinated debt was RR 3 962 565 thousand (31 December 2006: RR 4 002 016 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

## 21 Share Capital

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)			31 December 2006		
	Number of shares, in thousand units	Nominal value	Inflation adjusted amount	Number of shares, in thousand units	Nominal value	Inflation adjusted amount
Ordinary shares	500 000	5 000 000	6 752 558	450 000	4 500 000	6 228 658
Preference shares	-	-	-	500	500 000	523 900
<b>Total share capital</b>	<b>500 000</b>	<b>5 000 000</b>	<b>6 752 558</b>	<b>450 500</b>	<b>5 000 000</b>	<b>6 752 558</b>

All ordinary shares have a nominal value of RR 10 per share, rank equally and carry one vote.

The amount of dividend is determined and approved at the Bank's general shareholders meeting.

Preference shares in the amount of 500 thousand units with nominal value of RR 1 000 each were converted into 50 000 thousand convertible preference shares with a nominal value of RR 10 per share. Then convertible preference shares were converted into ordinary shares.

In December 2006, the ownership structure of the Bank was changed within the companies of IFD Kapital Group. As a result of this change and upon additional acquisition of shares from other shareholders, at 30 June 2007 Reserve Invest Holding (Cyprus) Limited owns 87.94% of the Bank's share capital (31 December 2006: 89.25%).

## 22 Retained Earnings

In accordance with Russian legislation, the Group allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with the Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 30 June 2007 (unaudited) are RR 9 357 054 thousand (31 December 2006: RR 8 724 370 thousand).

**23 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	30 June 2006 (unaudited)
<b>Interest income</b>		
Loans and advances to customers	6 425 046	3 683 496
Debt trading securities	455 195	390 820
Correspondent accounts and due from other banks	272 531	150 534
Debt investment securities available for sale	49 981	69 281
<b>Total interest income</b>	<b>7 202 753</b>	<b>4 294 131</b>
<b>Interest expense</b>		
Deposits of individuals	1 140 302	876 909
Other borrowed funds	797 809	289 594
Term deposits of legal entities	673 873	356 675
Debt securities in issue	503 751	333 540
Due to other banks	383 718	74 129
Subordinated debt	181 559	-
Current accounts of legal entities	5 426	6 117
Other	154	36
<b>Total interest expense</b>	<b>3 686 592</b>	<b>1 937 000</b>
<b>Net interest income</b>	<b>3 516 161</b>	<b>2 357 131</b>

**24 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	30 June 2006 (unaudited)
<b>Fee and commission income</b>		
Commission on settlement transactions	437 796	368 520
Commission on cash transactions	239 493	206 301
Guarantees issued	50 096	33 150
Commission for trust management	40 379	72 705
Commission on cash collection	35 725	24 516
Other	139 869	209 777
<b>Total fee and commission income</b>	<b>943 358</b>	<b>914 969</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions	121 929	87 629
Commission on cash collection	26 034	18 487
Commission on cash transactions	12 465	8 258
Other	41 601	10 471
<b>Total fee and commission expense</b>	<b>202 029</b>	<b>124 845</b>
<b>Net fee and commission income</b>	<b>741 329</b>	<b>790 124</b>

**25 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	Note	30 June 2007 (unaudited)	30 June 2006 (unaudited)
Staff costs		1 329 637	963 930
Administration expenses		227 370	210 070
Depreciation of premises and equipment	13	172 254	128 854
Rent		117 949	112 531
State deposit insurance system membership fee		94 470	71 276
Other expenses related to premises and equipment		56 414	52 879
Advertising and marketing		34 950	17 022
Taxes other than on income		29 127	41 874
Other		176 979	138 049
<b>Total administrative and other operating expenses</b>		<b>2 239 150</b>	<b>1 736 485</b>

Included in staff costs are statutory social security and pension contributions of RR 227 277 thousand (30 June 2006: RR 167 695 thousand).

**26 Income Tax**

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	30 June 2006 (unaudited)
Current tax	554 590	902 160
Deferred tax	(68 177)	(6 632)
<b>Income tax expense for the period</b>	<b>486 413</b>	<b>895 528</b>

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

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	30 June 2006 (unaudited)
<b>IFRS profit before taxation</b>	<b>1 567 008</b>	<b>3 900 161</b>
Theoretical tax charge at statutory rate (2007: 24 %; 2006: 24 %)	376 082	936 039
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	164 616	107 010
- Income on government securities taxed at different rates	(44 400)	(31 926)
- Unrecognised tax losses	43 335	-
- Other non-temporary differences	(53 220)	(115 595)
<b>Income tax expense for the period</b>	<b>486 413</b>	<b>895 528</b>

**26 Income Tax (Continued)**

The Group has unrecognised potential deferred tax assets in respect of unused tax losses carry forwards of RR 43 335 thousand (2006: nil). The tax loss carry forwards expire in five years.

Differences between IFRS and Russian statutory taxation regulations and between IFRS and statutory taxation regulation of non-resident subsidiaries 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 movement on these temporary differences is recorded at the rate of 24% (2006: 24%), except for income on state securities of the Russian Federation that is taxed at 15% (2006: 15%).

	1 January 2007	Charged/ (credited) to profit or loss	Charged directly to equity	30 June 2007 (unaudited)
<i>In thousands of Russian Roubles</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Provision for loan impairment	208 404	(257 981)	-	(49 577)
Premises and equipment	(97 896)	(43 200)	-	(141 096)
Fair valuation of trading investments	(337 542)	328 664	-	(8 878)
Fair valuation of investment securities available-for-sale	(3 624)	(1 602)	1 018	(4 208)
Debt securities in issue	38 997	3 176	-	42 173
Other	93 041	39 120	-	132 161
<b>Net deferred income tax asset/(liability)</b>	<b>(98 620)</b>	<b>68 177</b>	<b>1 018</b>	<b>(29 425)</b>
Recognised deferred tax asset	15 329	(12 365)	-	2 964
Recognised deferred tax liability	(113 949)	80 542	1 018	(32 389)
<b>Net deferred income tax asset/(liability)</b>	<b>(98 620)</b>	<b>68 177</b>	<b>1 018</b>	<b>(29 425)</b>

	1 January 2006	Charged/ (credited) to profit or loss	Charged directly to equity	30 June 2006 (unaudited)
<i>In thousands of Russian Roubles</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Provision for loan impairment	211 214	(83 742)	-	127 472
Premises and equipment	(100 052)	5 028	-	(95 024)
Fair valuation of trading investments	(436 499)	101 066	-	(335 433)
Fair valuation of investment securities available-for-sale	3 065	(9 403)	2 517	(3 821)
Debt securities in issue	20 510	18 105	-	38 615
Other	85 227	(24 422)	-	60 805
<b>Net deferred income tax asset/(liability)</b>	<b>(216 535)</b>	<b>6 632</b>	<b>2 517</b>	<b>(207 386)</b>
Recognised deferred tax asset	15 867	(17 544)	2 517	840
Recognised deferred tax liability	(232 402)	24 176	-	(208 226)
<b>Net deferred income tax asset/(liability)</b>	<b>(216 535)</b>	<b>6 632</b>	<b>2 517</b>	<b>(207 386)</b>

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

A deferred tax asset in the amount of RR 2 964 thousand (31 December 2006: RR 15 329 thousand) and a deferred tax liability in the amount of RR 32 389 thousand (31 December 2006: RR 113 949 thousand) have been recorded in the interim consolidated balance sheet after offsetting of the gross amounts presented above.

## **27 Dividends**

On 26 May 2006, the Annual General Shareholders' Meeting resolved not to pay dividends based on the results for the 2005 financial year.

On 25 May 2007, the Annual General Shareholders' Meeting resolved not to pay dividends based on the results for the 2006 financial year.

## **28 Segment Analysis**

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, trust management, custody, plastic cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, factoring and foreign currency products.
- Financial market transactions – representing stock and money market transactions, brokerage and depositary services, securities, foreign exchange trading and trading in derivative financial instruments, sale and repurchase (repo) agreements, attraction of long-term funds on international financial markets.

Starting from 2007 the Group has been applying a transfer pricing system. Under this system funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group, which are determined by reference to the market yield curves. In addition internal management accounting system allows reallocation of certain operating expenses between the reportable segments. The presentation of the comparative information for the six-month period ended 30 June 2006 and at 31 December 2006 has been changed to conform to the current period presentation.

## 28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2007 and 30 June 2006 and at 30 June 2007 and at 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Eliminations	Total
<b>Six months ended 30 June 2007 (unaudited)</b>					
External revenues	1 087 024	6 181 801	982 934	-	8 251 759
Intersegment revenues	1 463 736	2 072 634	1 806 403	(5 342 773)	-
<b>Total revenues</b>	<b>2 550 760</b>	<b>8 254 435</b>	<b>2 789 337</b>	<b>(5 342 773)</b>	<b>8 251 759</b>
<b>Total revenues comprise:</b>					
Interest income					7 202 753
Fee and commission income					943 358
Other operating income					105 648
<b>Total revenues</b>					<b>8 251 759</b>
<b>Segment results</b>	<b>14 801</b>	<b>3 415 220</b>	<b>(897 464)</b>	<b>-</b>	<b>2 532 557</b>
Unallocated costs					(965 549)
<b>Profit before tax</b>					<b>1 567 008</b>
Income tax expense					(486 413)
<b>Profit for the period</b>					<b>1 080 595</b>
<b>Other segment items</b>					
Capital expenditure	93 009	173 972	10 073	-	277 054
Depreciation charge	(79 532)	(87 467)	(5 255)	-	(172 254)
Recovery of/(provision) for loan impairment	(180 502)	210 995	450	-	30 943
<b>At 30 June 2007 (unaudited)</b>					
<b>Segment assets</b>	<b>12 307 359</b>	<b>103 159 686</b>	<b>43 955 336</b>	<b>-</b>	<b>159 422 381</b>
Deferred income tax asset					2 964
Other unallocated assets					1 749 274
<b>Total assets</b>					<b>161 174 619</b>
<b>Segment liabilities</b>	<b>36 798 765</b>	<b>46 308 232</b>	<b>56 702 417</b>	<b>-</b>	<b>139 809 414</b>
Deferred income tax liability					32 389
Other unallocated liabilities					4 506 692
<b>Total liabilities</b>					<b>144 348 495</b>

**28 Segment Analysis (Continued)**

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Eliminations	Total
<b>Six months ended 30 June 2006 (unaudited)</b>					
External revenues	832 122	3 849 625	584 542	-	5 266 289
Intersegment revenues	1 135 226	2 036 145	306 793	(3 478 164)	-
<b>Total revenues</b>	<b>1 967 348</b>	<b>5 885 770</b>	<b>891 335</b>	<b>(3 478 164)</b>	<b>5 266 289</b>
<b>Total revenues comprise:</b>					
Interest income					4 294 131
Fee and commission income					914 969
Other operating income					57 189
<b>Total revenues</b>					<b>5 266 289</b>
<b>Segment results</b>	<b>168 047</b>	<b>2 437 350</b>	<b>1 792 928</b>	<b>-</b>	<b>4 398 325</b>
Unallocated costs					(498 164)
<b>Profit before tax</b>					<b>3 900 161</b>
Income tax expense					(895 528)
<b>Profit for the period</b>					<b>3 004 633</b>
<b>Other segment items</b>					
Capital expenditure	46 390	81 403	3 703	-	131 496
Depreciation charge	(58 314)	(67 350)	(3 190)	-	(128 854)
Provision for loan impairment	(44 581)	(83 916)	(6 930)	-	(135 427)
<b>At 31 December 2006</b>					
<b>Segment assets</b>	<b>10 309 306</b>	<b>102 251 972</b>	<b>34 233 364</b>	<b>-</b>	<b>146 794 642</b>
Deferred income tax asset					15 329
Other unallocated assets					1 482 661
<b>Total assets</b>					<b>148 292 632</b>
<b>Segment liabilities</b>	<b>33 501 976</b>	<b>49 491 432</b>	<b>44 981 664</b>	<b>-</b>	<b>127 975 072</b>
Deferred income tax liability					113 949
Other unallocated liabilities					4 452 630
<b>Total liabilities</b>					<b>132 541 651</b>



**28 Segment Analysis (Continued)**

**Geographical segments.** Segment information for the main reportable geographical segments of the Group for the six months ended 30 June 2007, the six months ended 30 June 2006, at 30 June 2007 and at 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>30 June 2007 (unaudited)</b>				
Segment assets	152 436 499	1 930 138	6 807 982	161 174 619
Segment liabilities	102 663 550	33 782 748	7 902 197	144 348 495
Credit related commitments	6 933 555	52 963	969 001	7 955 519
<b>Six months ended 30 June 2007 (unaudited)</b>				
External revenues	7 624 711	184 693	442 355	8 251 759
Capital expenditure	262 841	-	14 213	277 054
<b>31 December 2006</b>				
Segment assets	136 636 136	3 901 047	7 755 449	148 292 632
Segment liabilities	97 690 820	27 404 307	7 446 524	132 541 651
Credit related commitments	4 847 214	22 482	1 839 414	6 709 110
<b>Six months ended 30 June 2006 (unaudited)</b>				
External revenues	4 500 728	158 282	607 279	5 266 289
Capital expenditure	121 898	-	9 598	131 496

External revenues, assets, liabilities and credit related commitments have generally been allocated based on ultimate domicile of the counterparty, i.e. based on their respective geographical locations.

**29 Financial Risk Management**

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. The Group's risk management policy is intended to ensure an optimal balance between the acceptable level of risk undertaken by the Group and the return from banking activities to restrict potential adverse effects on the Group's financial performance, to ensure sustainability of the business of the Group and as well as to protect the rights and interests of the Group's stakeholders - shareholders, clients, counterparties and other.

**Risk management structure.** The risk management governance system of the Group includes setting, implementing and controlling risk management policies and procedures and subsequent updating of policies and procedures based on current economic, business and regulatory environment.

The Board of Directors is responsible for the overall supervision of the risk management system.

The Executive Board has overall responsibility over asset and liability management including approval of key risk management policies and procedures and large risk exposures, assessment of risk management system bodies and approval of contingency plans.

The Executive Board, Financial and Economic Committee and Credit Committees make decisions that set out the risk management procedures that fall within the competence of the respective unit and establish limits to bound the risks related to particular operations.

## **29 Financial Risk Management (Continued)**

The Financial and Economic Committee is a coordinating body responsible for the management of the assets and liabilities of the Group.

The Risk Control Department is directly responsible for the developing of policies on assessment of current level of risks, risk management procedures, identification and analysis of different types of risk and monitoring of compliance of the procedures and established limits bounding the risks. The Risk Control Department is independent from business units, its members have voting rights on the decisions of the Financial and Economic Committee and veto power on Credit Committee. The Risk Control Department reports to the Group's management on a regular basis. The review of major risks is communicated to the Board of Directors on a semi-annual basis in the report on risk management, which includes credit, market, liquidity, operating and reputation risks.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge of obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-balance sheet items, such as guarantees and loan commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the interim consolidated balance sheet. For guarantees and loan commitments, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 30.

The following committees are responsible for approval of corporate and retail transactions which might create credit risk exposure:

- The Financial and Economic Committee establishes credit risk management procedures for REPO transactions, the procedure for use of credit risk limits by counterparty on REPO transactions and settlements, and also determines credit risk limits for banks, including for transactions with their own debt securities, for transactions with government securities and by security type (for investments and reverse REPO transactions);
- The Credit Committee approves decisions on issued loans with limits exceeding RR 150 million (RR 30 million for individuals) under standard lending programs and also all non-standard loan applications. The Credit Committee sets credit limits for lending business units;
- The Small Credit Committee approves decisions on issued loans with limits up to RR 150 million (RR 30 million for individuals);
- The Branch Credit Committee considers lending applications from customers and takes lending decisions on the basis of the established credit limits.

The credit risk management system implies setting of limits which includes individual counterparty limits, industry limits, as well as limits restricting credit product type, currency, period, type of collateral and other.

The Group developed a methodology that enables evaluation of creditworthiness and credit quality of all types of counterparties: corporate clients, small and medium businesses, security issuers, banks, individuals, counterparties within the scope of financing on terms of claim assignment (factoring), insurance companies, etc.

The Group's credit risk management system includes a model, which allows to assess expected losses on the credit portfolio (the 'expected loss model') by using (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely economic loss ratio on the defaulted obligations (the 'loss given default'). By calculating these measurements the Group determines a risk premium for covering expected losses on the credit portfolio. This model takes into consideration such parameters as financial position of a counterparty, credit risk exposure, lending period, offered collateral and other factors that adjust the final risk premium. The Group continuously improves its credit risk measurement model. However, these measurements can be contrasted with impairment allowances recorded by the Group in these interim consolidated financial statements as required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses. Refer to Note 3.

## **29 Financial Risk Management (Continued)**

The Group actively continues to develop its risk management system for lending to individuals. The scoring models that are used in lending to individuals enable the Group to reduce its risks at credit issue, however, the Group continues to enhance the efficiency of its systems.

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.

The Group usually takes collateral as security for all loans and credit facilities granted to its customers. Loans, even to related parties, are generally over-secured in terms of value of the security. However, borrowers regarded as “prime” by the Group may be granted short-term treasury loans without collateral. The main types of collateral or credit support taken are guarantees, Russian Government securities, shares in blue-chip companies, liquid promissory notes, real estate, goods, wares and merchandise and similar monetary assets. Pledges of, amongst other things, equipment are a typical form of security taken by the Group. According to the Group’s internal procedures, collateral should be provided (where it is required) to cover outstanding liabilities during the whole the term of a loan.

The major part of factoring finance provided by the Group implies the possibility of claim recourse from the Debtor to the Seller. The Group treats this as a security to mitigate its risks.

Transactions of the Group can give rise to a settlement risk at the time of settlement for transactions. Settlement risk is the risk of losses resulting from the counterparty’s inability to meet its obligations to provide cash, securities or other assets stipulated by the contract.

For certain types of transactions the Group reduces this risk by making settlements in form of “delivery versus payment” or by clearing agents in order to be sure that final settlements will be completed only after both parties fulfil their contractual obligations in full. Undertaking an exposure to the settlement risk on unconditional settlement transactions requires availability of credit risk limits and (or) special limits of settlement risk by counterparty. Such limits constitute part of the above process of approval/monitoring of limits per counterparty.

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Management of market risks includes limitation of possible losses on own positions that may be incurred by the Group over a specified time horizon with given level of confidence as a result of movements in exchange rates, market prices and interest rates by establishing limits for each type of transactions, and control over compliance with the set limits.

The Financial and Economic Committee sets limits to restrict possible losses arising from market risks. The Risk Control Department is responsible for developing recommendations on setting and revising risk minimisation limits and procedures.

Market risks are managed on the basis of the following methods:

- Diversification of the active portfolio in the money and stock market, using, inter alia, a multilevel system of limits;
- Daily revaluations of positions on the basis of market prices;
- Implementation and monitoring of compliance over aggregate and private limits on all money/stock market instruments;
- Implementation and permanent monitoring of compliance with stop-out limits to restrict the Group’s losses on instruments;
- Limits on investments in securities are revised with consideration of their liquidity (possibility of immediate disposal of the portfolio without significant effect on the market price).

## **29 Financial Risk Management (Continued)**

The Group uses the VaR (value-at-risk) method for most trading positions and stress tests for non-liquid financial instruments. The VaR method is a method of evaluating potential losses that may occur on risk positions as a result of a change in market rates and prices over a specified time horizon with given level of confidence. The VaR model used by the Group is based on a 99% confidence level and stipulates a 1 to 10 day holding period depending on the item category. The VaR model represents forecasting based on historical data. The model builds probability future development scenarios based on historical data of market quotations with consideration of interdependence between different markets and instruments. Potential changes in market prices are calculated with reference to market data for the last twelve months.

Although the VaR methodology is an important instrument for evaluation of the probable market risk value, it has several constraints, especially in respect of low liquid markets:

- Using historical data as the basis for estimation of future events may not reflect all possible scenarios;
- Implementation of 1 to 10 day holding period stipulates that the Bank considers to sell or hedge the position within 1 to 10 days. In practice, this is always the case. However, in case of low market liquidity even a 10 day period may not be sufficient;
- A confidence level of 99% does not consider losses that may occur beyond this level. Probability distribution of losses that may occur beyond the 99% level is not evaluated;
- Since the VaR amount is calculated on the basis of closing trading sessions data, it does not always reflect intraday fluctuations.

The Group does not confine market risk evaluation to VaR calculation only, as this method is associated with certain constraints described above. Constraints inherent in the VaR method are corrected by revising limits on open positions set with consideration of instruments' liquidity, limits on volumes of transactions in respect of each trading portfolio. In addition, the Group also uses stress-tests for modelling possible financial effect of certain exceptional market scenarios for the Group's capital position.

Information on the level of VaR associated with the Group's currency risk and securities price risk at 30 June 2007 and at 31 December 2006 is provided below:

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006 (unaudited)</b>
Currency rate risk exposure	7 062	9 272
Fixed income securities price risk	415 348	330 349
Equity securities price risk	546 673	1 034 278

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**29 Financial Risk Management (Continued)**

**Geographical risk.** The geographical concentration of the Group's assets and liabilities at 30 June 2007 (unaudited) is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	14 670 537	1 192 110	547 695	16 410 342
Mandatory cash balances with central banks	2 061 566	-	91 410	2 152 976
Trading securities	14 870 359	664 797	-	15 535 156
Due from other banks	456 947	-	487 764	944 711
Loans and advances to customers	110 509 142	717	5 255 481	115 765 340
Investment securities available for sale	1 541 734	7 336	213 193	1 762 263
Repurchase receivable	4 635 161	-	-	4 635 161
Deferred income tax asset	2 645	-	319	2 964
Premises and equipment	2 631 908	-	104 201	2 736 109
Other assets	1 056 500	65 178	107 919	1 229 597
<b>Total assets</b>	<b>152 436 499</b>	<b>1 930 138</b>	<b>6 807 982</b>	<b>161 174 619</b>
<b>Liabilities</b>				
Due to other banks	10 195 961	10 391 792	2 477 076	23 064 829
Customer accounts	74 084 652	4 085 273	4 051 593	82 221 518
Debt securities in issue	12 868 911	-	132 216	13 001 127
Other borrowed funds	642 505	19 298 509	1 186 283	21 127 297
Deferred income tax liability	31 559	-	830	32 389
Other liabilities	877 397	7 174	54 199	938 770
Subordinated debt	3 962 565	-	-	3 962 565
<b>Total liabilities</b>	<b>102 663 550</b>	<b>33 782 748</b>	<b>7 902 197</b>	<b>144 348 495</b>
<b>Net balance sheet position</b>	<b>49 772 949</b>	<b>(31 852 610)</b>	<b>(1 094 215)</b>	<b>16 826 124</b>
<b>Credit related commitments (Note 30)</b>	<b>6 933 555</b>	<b>52 963</b>	<b>969 001</b>	<b>7 955 519</b>

Assets, liabilities and credit related commitments have been based on the country, in which the counterparty is located. The column "OECD" in the table above includes mainly balances with counterparties from the USA, Germany and the Great Britain. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the region in which they are physically held.

**29 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	12 519 077	3 047 322	753 440	16 319 839
Mandatory cash balances with central banks	2 113 545	-	129 519	2 243 064
Trading securities	13 722 477	728 284	-	14 450 761
Due from other banks	11	6 907	366 741	373 659
Loans and advances to customers	102 774 868	38 987	6 134 986	108 948 841
Investment securities available for sale	826 652	7 435	198 317	1 032 404
Repurchase receivable	1 230 240	-	-	1 230 240
Deferred income tax asset	8 286	-	7 043	15 329
Premises and equipment	2 534 152	-	104 761	2 638 913
Other assets	906 828	72 112	60 642	1 039 582
<b>Total assets</b>	<b>136 636 136</b>	<b>3 901 047</b>	<b>7 755 449</b>	<b>148 292 632</b>
<b>Liabilities</b>				
Due to other banks	7 123 484	6 410 449	267 776	13 801 709
Customer accounts	73 842 638	3 651 228	5 102 576	82 596 442
Debt securities in issue	11 459 890	-	518 844	11 978 734
Other borrowed funds	245 859	17 334 790	1 495 082	19 075 731
Deferred income tax liability	113 141	-	808	113 949
Other liabilities	903 792	7 840	61 438	973 070
Subordinated debt	4 002 016	-	-	4 002 016
<b>Total liabilities</b>	<b>97 690 820</b>	<b>27 404 307</b>	<b>7 446 524</b>	<b>132 541 651</b>
<b>Net balance sheet position</b>	<b>38 945 316</b>	<b>(23 503 260)</b>	<b>308 925</b>	<b>15 750 981</b>
<b>Credit related commitments (Note 30)</b>	<b>4 847 214</b>	<b>22 482</b>	<b>1 839 414</b>	<b>6 709 110</b>

## 29 Financial Risk Management (Continued)

**Currency risk.** Currency risk is the risk that the Group's income or financial instruments portfolio may change due to exchange rate fluctuations.

The Financial and Economic Committee manages the volume of currency risk by setting a limit on the level of open currency positions. The Department for Financial Market Operations manages the level of open currency positions within the set limits. The Treasury transfers open currency position to the Department for Financial Market Operations through concluding intragroup transactions. The Risk Control Department monitors the aggregate currency risk level.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 30 June 2007 (unaudited):

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other	Total
<b>Assets</b>					
Cash and cash equivalents	13 665 180	1 805 171	450 117	489 874	16 410 342
Mandatory cash balances with central banks	2 061 566	29 639	9 520	52 251	2 152 976
Trading securities	14 595 339	939 817	-	-	15 535 156
Due from other banks	-	470 146	-	474 565	944 711
Loans and advances to customers	73 656 391	35 585 483	4 791 518	1 751 948	115 765 340
Investment securities available for sale	882 562	661 899	4 608	213 194	1 762 263
Repurchase receivable	4 363 907	271 254	-	-	4 635 161
Deferred income tax asset	2 645	-	-	319	2 964
Premises and equipment	2 631 908	-	-	104 201	2 736 109
Other assets	1 101 141	29 887	1 568	97 001	1 229 597
<b>Total assets</b>	<b>112 960 639</b>	<b>39 773 296</b>	<b>5 257 331</b>	<b>3 183 353</b>	<b>161 174 619</b>
<b>Liabilities</b>					
Due to other banks	12 030 408	8 067 592	2 961 556	5 273	23 064 829
Customer accounts	65 081 769	10 229 182	4 529 077	2 381 490	82 221 518
Debt securities in issue	12 824 021	72 740	104 366	-	13 001 127
Other borrowed funds	-	21 127 297	-	-	21 127 297
Deferred income tax liability	31 390	-	-	999	32 389
Other liabilities	834 497	41 193	24 195	38 885	938 770
Subordinated debt	-	3 962 565	-	-	3 962 565
<b>Total liabilities</b>	<b>90 802 085</b>	<b>43 500 569</b>	<b>7 619 194</b>	<b>2 426 647</b>	<b>144 348 495</b>
<b>Net balance sheet position</b>	<b>22 158 554</b>	<b>(3 727 273)</b>	<b>(2 361 863)</b>	<b>756 706</b>	<b>16 826 124</b>
<b>Derivative financial instruments (Note 31)</b>	<b>(6 095 563)</b>	<b>4 326 608</b>	<b>1 812 817</b>	<b>(50 976)</b>	<b>(7 114)</b>

**29 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other	Total
<b>Assets</b>					
Cash and cash equivalents	11 665 967	2 089 756	1 853 262	710 854	16 319 839
Mandatory cash balances with central banks	2 113 545	36 956	6 461	86 102	2 243 064
Trading securities	12 990 167	1 413 919	46 675	-	14 450 761
Due from other banks	22	314 112	905	58 620	373 659
Loans and advances to customers	69 691 900	30 519 985	6 416 999	2 319 957	108 948 841
Investment securities available for sale	824 320	5 159	4 608	198 317	1 032 404
Repurchase receivable	1 230 240	-	-	-	1 230 240
Deferred income tax asset	8 286	-	2	7 041	15 329
Premises and equipment	2 534 151	-	-	104 762	2 638 913
Other assets	991 281	3 440	3 759	41 102	1 039 582
<b>Total assets</b>	<b>102 049 879</b>	<b>34 383 327</b>	<b>8 332 671</b>	<b>3 526 755</b>	<b>148 292 632</b>
<b>Liabilities</b>					
Due to other banks	6 910 398	3 436 686	2 897 230	557 395	13 801 709
Customer accounts	63 823 376	11 431 114	4 949 192	2 392 760	82 596 442
Debt securities in issue	11 053 311	821 112	104 311	-	11 978 734
Other borrowed funds	-	19 075 731	-	-	19 075 731
Deferred income tax liability	113 141	-	-	808	113 949
Other liabilities	869 809	44 460	8 498	50 303	973 070
Subordinated debt	-	4 002 016	-	-	4 002 016
<b>Total liabilities</b>	<b>82 770 035</b>	<b>38 811 119</b>	<b>7 959 231</b>	<b>3 001 266</b>	<b>132 541 651</b>
<b>Net balance sheet position</b>	<b>19 279 844</b>	<b>(4 427 792)</b>	<b>373 440</b>	<b>525 489</b>	<b>15 750 981</b>
<b>Derivative financial instruments (Note 31)</b>	<b>(4 237 145)</b>	<b>5 253 269</b>	<b>(1 021 916)</b>	<b>-</b>	<b>(5 792)</b>

Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses. At the same time, the Group seeks to provide to corporate clients loans in the currency which meets the requirements of the borrower's business structure in order to minimise the incurrence of loan losses due to realisation of potential currency risk for the borrower.

**Liquidity risk.** Liquidity risk is the risk of difficulties with settling the Group's financial liabilities. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Given the diversity of the Group's transactions and associated uncertainty, the full matching of maturities of assets and liabilities is not a standard practice for financial institutions, which enables them to increase profitability of operations, but, at the same time, increases the risk of losses or the risk that the Group will be unable to meet its obligations.



## **29 Financial Risk Management (Continued)**

The objective of liquidity management is to establish and maintain such condition of the Group's asset and liability structure by type and basic maturity that would enable the Group to timely fulfil its obligations to creditors, to satisfy the demand of Group's clients for cash borrowings and to maintain the Group's reputation as a reliable financial institution that is paying special attention to liquidity risk regulation.

The Group seeks to maintain a diversified and stable structure of sources of financing consisting of issued debt securities, long-term and short-term deposits of banks, deposits of major corporate and retail clients as well as a diversified portfolio of highly liquid assets so that the Group could be able to promptly react to unforeseen liquidity requirements.

The Financial and Economic Committee is responsible for liquidity management organisation. In order to streamline the liquidity management procedures the Group separately conducts short-term liquidity management, day-to-day management of which is performed by the Treasury and structured liquidity management, where decisions are taken by the Financial and Economic Committee and information is prepared by the Risk Control Department.

Liquidity risk management is centralised in the Treasury by entering into transfer deals for all term transactions among the Treasury and business units. The deals are concluded for the period corresponding to the period of transactions at transfer rates.

The Group's liquidity management policy comprises:

- daily projecting of cash flows by major currencies and calculation of the required level of current liquidity which complies these cash flows;
- maintaining current liquidity in the amount sufficient for full coverage of the liabilities with maturity within 30 days;
- maintaining diversified structure of the sources and structure of financing;
- management of the concentration and structure of borrowed funds;
- development and implementation of debt financing plans;
- development of additional plans for liquidity and specified financing level maintenance;
- control over the compliance of the Group's balance sheet liquidity ratios with statutory ratios;
- establishing of limits and rates for attraction/placement of funds by instruments and of transfer rates.

The Treasury receives information on planned transactions from the business units. If the dates for notification about the planned transactions are not observed and also if the transaction exceeds the established limits on amount the Treasury has the right to ban this transaction of the business unit.

Monitoring of current and projected current liquidity position is done daily on the basis of preparation of payment schedule and forecast of short-term resources requirements. Monitoring of structural liquidity position is done by means of regular preparation of current and projected reports on assets and liabilities gaps (GAP-report).

The Bank and its Russian subsidiaries calculate liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russian Federation. These ratios are:

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

The Bank was in compliance liquidity ratios calculated in accordance with the requirement of the Central Bank of Russian Federation at 30 June 2007 (unaudited) and at 31 December 2006.

Subsidiary banks in Ukraine and Moldova calculate liquidity ratios in accordance with the requirements of National banks of these countries accordingly.

**29 Financial Risk Management (Continued)**

The table below shows liabilities at 30 June 2007 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, including prices specified in deliverable forward agreements to purchase financial assets for cash. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

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

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 30 June 2007 (unaudited) is as follows:

<i>In thousands of Russian Rubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to other banks	10 906 080	9 829 454	1 289 795	1 402 764	80 800	23 508 893
Customer accounts	45 628 532	22 809 042	14 009 769	1 320 967	21 327	83 789 637
Debt securities in issue	538 471	4 279 148	3 447 905	5 292 711	450 022	14 008 257
Other borrowed funds	-	964 125	4 435 944	19 398 307	-	24 798 376
Subordinated debt	90 270	182 719	180 733	5 272 260	-	5 725 982
Derivative financial instruments						
- Inflows	(37 862 259)	(1 416 750)	-	-	-	(39 279 009)
- Outflows	37 900 265	1 419 891	-	-	-	39 320 156
<b>Total</b>	<b>57 201 359</b>	<b>38 067 629</b>	<b>23 364 146</b>	<b>32 687 009</b>	<b>552 149</b>	<b>151 872 292</b>
Credit related commitments	1 521 048	4 244 811	1 544 394	645 266	-	7 955 519

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2006 (unaudited) is as follows:

<i>In thousands of Russian Rubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to other banks	7 417 075	1 952 172	4 116 022	663 299	3 911	14 152 479
Customer accounts	47 888 485	19 345 615	15 779 370	1 139 025	20 111	84 172 606
Debt securities in issue	1 469 635	3 141 921	4 435 347	3 586 460	381 042	13 014 405
Other borrowed funds	93 987	4 948 501	724 246	16 782 216	-	22 548 950
Subordinated debt	52 749	91 156	278 235	1 385 104	4 174 926	5 982 170
Derivative financial instruments						
- Inflows	(6 142 657)	-	-	-	-	(6 142 657)
- Outflows	6 148 562	-	-	-	-	6 148 562
<b>Total</b>	<b>56 927 836</b>	<b>29 479 365</b>	<b>25 333 220</b>	<b>23 556 104</b>	<b>4 579 990</b>	<b>139 876 515</b>
Credit related commitments	949 217	2 686 310	1 691 695	1 381 888	-	6 709 110

The table below shows assets and liabilities at 30 June 2007 (unaudited) by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The entire portfolio of trading securities and repurchase receivable are classified within demand and less than one month as these portfolios are of trading nature and Management believe this is a fairer portrayal of its liquidity position.

**29 Financial Risk Management (Continued)**

The Group's liquidity position at 30 June 2007 (unaudited) is set out below:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	16 363 342	47 000	-	-	-	-	16 410 342
Mandatory cash balances with central banks	2 152 976	-	-	-	-	-	2 152 976
Trading securities	15 535 156	-	-	-	-	-	15 535 156
Due from other banks	474 696	-	-	470 015	-	-	944 711
Loans and advances to customers	20 361 177	37 223 702	17 086 123	38 437 663	2 656 675	-	115 765 340
Investment securities available for sale	102 668	51 557	279 511	612 306	18 686	697 535	1 762 263
Repurchase receivable	4 635 161	-	-	-	-	-	4 635 161
Deferred income tax asset	-	-	2 846	118	-	-	2 964
Premises and equipment	-	-	-	-	-	2 736 109	2 736 109
Other assets	342 010	579 370	39 098	6 693	262 426	-	1 229 597
<b>Total assets</b>	<b>59 967 186</b>	<b>37 901 629</b>	<b>17 407 578</b>	<b>39 526 795</b>	<b>2 937 787</b>	<b>3 433 644</b>	<b>161 174 619</b>
<b>Liabilities</b>							
Due to other banks	10 814 414	9 689 583	1 194 368	1 363 632	2 832	-	23 064 829
Customer accounts	45 776 389	21 962 610	13 277 298	1 195 309	9 912	-	82 221 518
Debt securities in issue	586 759	4 039 909	3 102 564	4 821 873	450 022	-	13 001 127
Other borrowed funds	-	120 614	3 587 044	17 419 639	-	-	21 127 297
Deferred income tax liability	30 400	-	1 989	-	-	-	32 389
Other liabilities	560 230	171 530	205 775	1 235	-	-	938 770
Subordinated debt	-	-	-	3 962 565	-	-	3 962 565
<b>Total liabilities</b>	<b>57 768 192</b>	<b>35 984 246</b>	<b>21 369 038</b>	<b>28 764 253</b>	<b>462 766</b>	<b>-</b>	<b>144 348 495</b>
<b>Net liquidity gap</b>	<b>2 198 994</b>	<b>1 917 383</b>	<b>(3 961 460)</b>	<b>10 762 542</b>	<b>2 475 021</b>	<b>3 433 644</b>	<b>16 826 124</b>
<b>Cumulative liquidity gap</b>	<b>2 198 994</b>	<b>4 116 377</b>	<b>154 917</b>	<b>10 917 459</b>	<b>13 392 480</b>	<b>16 826 124</b>	

**29 Financial Risk Management (Continued)**

The liquidity position of the Group at 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
<b>Assets</b>							
Cash and cash equivalents	16 319 839	-	-	-	-	-	16 319 839
Mandatory cash balances with central banks	2 243 064	-	-	-	-	-	2 243 064
Trading securities	14 450 761	-	-	-	-	-	14 450 761
Due from other banks	364 420	1 208	-	8 031	-	-	373 659
Loans and advances to customers	13 239 866	29 093 389	20 939 427	42 359 993	3 316 166	-	108 948 841
Investment securities available for sale	98 814	211 003	55 628	613 987	15 133	37 839	1 032 404
Repurchase receivable	1 230 240	-	-	-	-	-	1 230 240
Deferred income tax asset	-	-	1 060	14 269	-	-	15 329
Premises and equipment	-	-	-	-	-	2 638 913	2 638 913
Other assets	405 318	336 598	15 778	9 278	272 610	-	1 039 582
<b>Total assets</b>	<b>48 352 322</b>	<b>29 642 198</b>	<b>21 011 893</b>	<b>43 005 558</b>	<b>3 603 909</b>	<b>2 676 752</b>	<b>148 292 632</b>
<b>Liabilities</b>							
Due to other banks	6 297 088	1 920 467	3 911 504	1 229 237	443 413	-	13 801 709
Customer accounts	47 857 869	18 429 880	15 289 939	1 007 425	11 329	-	82 596 442
Debt securities in issue	1 570 296	2 959 385	3 933 842	3 134 169	381 042	-	11 978 734
Other borrowed funds	-	4 368 046	121 171	14 586 514	-	-	19 075 731
Deferred income tax liability	24 516	-	89 433	-	-	-	113 949
Other liabilities	789 810	168 333	12 594	2 333	-	-	973 070
Subordinated debt	-	-	-	-	4 002 016	-	4 002 016
<b>Total liabilities</b>	<b>56 539 579</b>	<b>27 846 111</b>	<b>23 358 483</b>	<b>19 959 678</b>	<b>4 837 800</b>	<b>-</b>	<b>132 541 651</b>
<b>Net liquidity gap</b>	<b>(8 187 257)</b>	<b>1 796 087</b>	<b>(2 346 590)</b>	<b>23 045 880</b>	<b>(1 233 891)</b>	<b>2 676 752</b>	<b>15 750 981</b>
<b>Cumulative liquidity gap</b>	<b>(8 187 257)</b>	<b>(6 391 170)</b>	<b>(8 737 760)</b>	<b>14 308 120</b>	<b>13 074 229</b>	<b>15 750 981</b>	

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

## **29 Financial Risk Management (Continued)**

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Apart from the above stated, the Group also monitors the level of mismatch in maturity of assets and liabilities within the major time intervals.

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

**Management of capital.** The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of the Russian Federation, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Refer to Note 30.

The Group's policy is aimed at maintaining a level of capital sufficient for retaining investors', creditors' and the market's confidence in general, and ensuring the Group's future development.

The Central Bank of the Russian Federation sets and monitors compliance with regulatory capital ratios on the part of the Group's Russian banks and the Group in general. National banks of Ukraine and Moldova set and monitor compliance with regulatory capital ratios mandatory for Petrocommerce-Ukraine and Unibank, respectively.

The Group manages capital adequacy using capital ratio projections based on the Basel Agreement and the CBRF requirements with the quarter to year horizon. Growth rates for asset-side transactions in the medium- and long term are planned with consideration of capital requirements. The Group develops and implements capital growth measures when appropriate.

To ensure compliance with the capital adequacy ratio in the short run (up to one month), the Group uses a system of limits on the use of capital. Limits on the use of capital are revised on a monthly basis and are generally set for business units with consideration of loan portfolio growth planning for the nearest month, projected expenses and possible losses resulting from crystallisation of credit and/or market risks in the short run. The collegial body in charge of approval of capital management procedures and setting limits on the use of capital is the Financial and Economic Committee. The body in charge of development of capital management procedures and compliance with the set limits on the use of capital is the Risk Control Department. Business units should comply with set limits on the use of capital. Compliance with limits is monitored on a daily basis.

Today, in accordance with the CBRF requirements the Bank and the Group should maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the determined minimum level, which at 30 June 2007 is set at 10% (31 December 2006: 10%).

At 30 June 2007 (unaudited) and at 31 December 2006, the Bank's and the Group's capital adequacy ratio complied with the statutory level. Apart from this, the Group and the Bank should comply with the minimum capital level stipulated by the terms of the Bank's and the Group's obligations, including requirements to the capital adequacy level calculated on the basis of the Basel Agreement (generally known as Basel I). See also Note 30.

## 29 Financial Risk Management (Continued)

**Interest rate risk.** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may also increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks at 30 June 2007 (unaudited). The table presents the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and cash equivalents	16 363 342	47 000	-	-	-	-	16 410 342
Mandatory cash balances with central banks	2 152 976	-	-	-	-	-	2 152 976
Trading securities	53 698	851 986	499 146	8 868 865	1 267 523	3 993 938	15 535 156
Due from other banks	474 696	-	-	470 015	-	-	944 711
Loans and advances to customers	20 361 177	37 869 107	16 440 718	38 437 663	2 656 675	-	115 765 340
Investment securities available for sale	103 867	51 140	295 858	611 881	18 814	680 703	1 762 263
Repurchase receivable	-	427 697	291 657	2 260 383	543 538	1 111 886	4 635 161
Deferred income tax asset	-	-	-	-	-	2 964	2 964
Premises and equipment	-	-	-	-	-	2 736 109	2 736 109
Other assets	-	-	-	-	-	1 229 597	1 229 597
<b>Total assets</b>	<b>39 509 756</b>	<b>39 246 930</b>	<b>17 527 379</b>	<b>50 648 807</b>	<b>4 486 550</b>	<b>9 755 197</b>	<b>161 174 619</b>
<b>Liabilities</b>							
Due to other banks	13 404 074	8 504 053	982 352	174 350	-	-	23 064 829
Customer accounts	45 836 029	22 122 518	13 277 298	975 761	9 912	-	82 221 518
Debt securities in issue	586 759	4 039 909	3 102 564	4 821 873	450 022	-	13 001 127
Other borrowed funds	-	4 347 410	-	16 779 887	-	-	21 127 297
Deferred income tax liability	-	-	-	-	-	32 389	32 389
Other liabilities	-	-	-	-	-	938 770	938 770
Subordinated debt	3 962 565	-	-	-	-	-	3 962 565
<b>Total liabilities</b>	<b>63 789 427</b>	<b>39 013 890</b>	<b>17 362 214</b>	<b>22 751 871</b>	<b>459 934</b>	<b>971 159</b>	<b>144 348 495</b>
<b>Net sensitivity gap</b>	<b>(24 279 671)</b>	<b>233 040</b>	<b>165 165</b>	<b>27 896 936</b>	<b>4 026 616</b>	<b>8 784 038</b>	<b>16 826 124</b>

## 29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2006.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and cash equivalents	16 319 839	-	-	-	-	-	16 319 839
Mandatory cash balances with central banks	2 243 064	-	-	-	-	-	2 243 064
Trading securities	4 763	582 534	723 277	7 153 782	742 562	5 243 843	14 450 761
Due from other banks	364 420	1 208	-	8 031	-	-	373 659
Loans and advances to customers	13 239 866	29 925 412	20 734 084	41 733 313	3 316 166	-	108 948 841
Investment securities available for sale	98 814	211 003	55 628	613 987	15 133	37 839	1 032 404
Repurchase receivable	-	-	-	553 814	59 362	617 064	1 230 240
Deferred income tax asset	-	-	-	-	-	15 329	15 329
Premises and equipment	-	-	-	-	-	2 638 913	2 638 913
Other assets	-	-	-	-	-	1 039 582	1 039 582
<b>Total assets</b>	<b>32 270 766</b>	<b>30 720 157</b>	<b>21 512 989</b>	<b>50 062 927</b>	<b>4 133 223</b>	<b>9 592 570</b>	<b>148 292 632</b>
<b>Liabilities</b>							
Due to other banks	6 307 883	2 478 196	3 904 338	667 879	443 413	-	13 801 709
Customer accounts	47 857 869	18 429 880	15 289 939	1 007 351	11 403	-	82 596 442
Debt securities in issue	1 570 296	2 959 385	3 933 842	3 134 169	381 042	-	11 978 734
Other borrowed funds	2 489 335	2 759 972	-	13 826 424	-	-	19 075 731
Deferred income tax liability	-	-	-	-	-	113 949	113 949
Other liabilities	-	-	-	-	-	973 070	973 070
Subordinated debt	-	4 002 016	-	-	-	-	4 002 016
<b>Total liabilities</b>	<b>58 225 383</b>	<b>30 629 449</b>	<b>23 128 119</b>	<b>18 635 823</b>	<b>835 858</b>	<b>1 087 019</b>	<b>132 541 651</b>
<b>Net sensitivity gap</b>	<b>(25 954 617)</b>	<b>90 708</b>	<b>(1 615 130)</b>	<b>31 427 104</b>	<b>3 297 365</b>	<b>8 505 551</b>	<b>15 750 981</b>

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates in amounts and periods which differ; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors the level of mismatch of interest rate repricing terms and dates and manages interest rate risk by regulating the level of the mismatch. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions in respect of dates and repricing terms.

**29 Financial Risk Management (Continued)**

The table below summarises the effective interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on period-end effective rates.

<i>In % p.a.</i>	30 June 2007 (unaudited)				31 December 2006			
	RR	USD	Euro	Other	RR	USD	Euro	Other
<b>Assets</b>								
Correspondent accounts and overnight placements with other banks	2.9	4.7	1.0	6.7	2.3	4.4	2.1	3.1
Placements with other banks with original maturities of less than three months	6.1	5.1	-	13.3	6.5	5.3	3.6	13.9
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	5.3	-	-	-	7.7	-	-	-
Debt trading securities	7.1	5.9	-	-	6.4	6.3	-	-
Due from other banks	-	10.7	-	1.6	-	5.0	2.2	8.4
Loans and advances to customers	11.6	12.1	9.3	16.7	12.1	12.3	8.9	17.3
Debt investment securities available for sale	8.7	6.5	-	13.7	8.5	6.2	-	12.8
Repurchase receivable	6.0	6.8	-	-	6.2	-	-	-
<b>Liabilities</b>								
Due to other banks	4.1	6.6	5.1	0.0	4.7	6.7	5.0	6.3
Customer accounts								
- current and settlement accounts	0.1	0.0	0.1	0.9	0.1	0.1	0.2	0.9
- term deposits	7.6	7.3	6.1	9.1	7.5	6.6	5.3	9.0
Debt securities in issue	7.8	5.9	2.5	-	7.7	4.8	2.5	-
Other borrowed funds	-	8.7	-	-	-	9.1	-	-
Subordinated debt	-	9.7	-	-	-	9.7	-	-

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

Interest risk management by means of monitoring of the mismatching of the maturities of interest bearing assets and liabilities is supplemented by the procedure of monitoring of the Group’s net interest income sensitivity to various standard and non-standard interest rate change scenario. Also, for the purpose of balance sheet interest rate risk management the Group regulates conditions of early repayment of assets and liabilities. In order to limit mismatch in the conditions of early repayment of the Group’s assets and liabilities, certain clauses are introduced into standard forms of contracts on term transactions that protect from the risk of early repayment and from failure to meet deadlines for fulfilment of commitments.

The analysis of the sensitivity of net interest income on the Group’s non-trading book for one year based on the increase or decrease in market interest rates, prepared on the basis of a simplified scenario of parallel decrease or increase of yield curves by 100 basis points on the assumption of the absence of asymmetric changes in yield curves and presence of a constant balance sheet position, is set out below.

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006 (unaudited)
Parallel increase by 100 basis points	47 562	(5 983)
Parallel decrease by 100 basis points	(47 562)	5 983



### **30 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 interim consolidated financial statements, except for the provision made in respect of assessed tax claims disclosed below.

**Tax legislation.** The tax, currency and customs legislation within the Russian Federation 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.

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

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

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

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

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

In addition to the above transfer pricing matters management estimates that the Group has other possible obligations from exposure to other than remote tax risks in the range from zero to RR 273 223 thousand (31 December 2006: from zero to RR 273 223 thousand). The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. At 30 June 2007 the Group has recorded provision of RR 81 729 thousand including penalties and interest of potential liabilities arising from such tax contingencies (31 December 2006: no provision).

**Capital commitments.** At 30 June 2007 the Group did not have contractual capital expenditure commitments in respect of premises and equipment (31 December 2006: RR 67 324 thousand).

**30 Contingencies and Commitments (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Not later than 1 year	191 451	188 887
Later than 1 year and not later than 5 years	454 312	420 892
Later than 5 years	758 604	783 860
<b>Total operating lease commitments</b>	<b>1 404 367</b>	<b>1 393 639</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to other borrowed funds. Non-compliance with such covenants may result in claims from creditors for early repayment of debt by the Group.

One of these covenants is fulfilment by the Group of minimum capital adequacy requirements calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Group's capital calculated in accordance with Basel Accord at 30 June 2007 and at 31 December 2006 is as follows:

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006 (unaudited)</b>
Tier 1 capital	16 847 510	15 768 622
Tier 2 capital	3 952 941	3 994 078
<b>Total capital</b>	<b>20 800 451</b>	<b>19 762 700</b>
<b>Total risk weighted assets</b>	<b>155 145 316</b>	<b>138 056 726</b>
Total capital-to-risk-weighted-assets ratio (%) (total capital adequacy ratio)	13.4%	14.3%
Total Tier 1 capital-to-risk-weighted-assets ratio (%) (Tier 1 capital adequacy ratio)	10.9%	11.4%

Also the Group's objective of capital management is to comply with the capital requirements set by the Central Bank of the Russian Federation. Refer to Note 29.

**30 Contingencies and Commitments (Continued)**

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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 commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

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. The outstanding credit related commitments of the Group are as follows:

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Guarantees issued	7 028 558	3 841 829
Import letters of credit	823 160	2 566 825
Export letters of credit	61 358	133 287
Letters of credit for settlements in the Russian Federation	42 443	167 169
<b>Total credit related commitments</b>	<b>7 955 519</b>	<b>6 709 110</b>

Deposits in the amount of RR 2 584 265 thousand (31 December 2006: RR 2 138 918 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit with settlement in the Russian Federation are recorded in customer accounts (Refer to Note 16). These letters of credit are not included in the table above.

At 30 June 2007 the Group also had commitments in relation to unused credit lines totalling RR 17 530 187 thousand (31 December 2006: RR 15 576 861 thousand), which includes non-cancellable commitments totalling RR 10 536 thousand (31 December 2006: RR 36 046 thousand).

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

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Russian Roubles	3 779 025	1 643 885
USD	3 298 263	3 709 712
Euro	747 804	1 326 698
Other	130 427	28 815
<b>Total credit related commitments</b>	<b>7 955 519</b>	<b>6 709 110</b>

## 30 Contingencies and Commitments (Continued)

**Trust activities.** The Group provides asset management services to its customers in its own name, but on their account. The assets of these funds are not included in the Group's interim consolidated balance sheet as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Corporate shares	4 814 503	3 110 729
Corporate bonds	2 128 034	2 246 486
Cash funds	62 182	377 357
Federal loan bonds (OFZ bonds)	-	447 482
Municipal bonds and bonds of the Russian Federation's regions	-	333 634
Other	471 378	284 629
<b>Total assets in trust management</b>	<b>7 476 097</b>	<b>6 800 317</b>

**Fiduciary assets.** These assets are not included in the Group's interim consolidated balance sheet as they are not assets of the Group. Investment units are recorded at their estimated fair value. Other securities are disclosed at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)	31 December 2006
Corporate shares	1 658 006	1 613 157
Corporate Eurobonds	90 357	92 159
Promissory notes	27 503	28 069
Corporate bonds	1 937	12 349
Investment units	-	1 765 108
Other	4 500	15 302

**Assets pledged and restricted.** At 30 June 2007 the Group has the following assets pledged as collateral:

<i>In thousands of Russian Roubles</i>	Note	30 June 2007 (unaudited)		31 December 2006	
		Asset pledged	Related liability	Asset pledged	Related liability
Trading securities pledged for the credit limit of the CBRF	8	2 599 178	-	2 485 872	-
Trading securities pledged under sale and repurchase agreements	12, 15, 16	4 635 161	4 277 705	1 230 240	1 115 846
Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements	15, 16	3 942 887	3 769 284	1 726 955	1 722 453
Term deposits of other banks	9, 15	474 602	475 096	353 416	353 505

### 31 Derivative Financial Instruments

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

The principal or agreed amounts and fair values of derivative financial instruments are set out in the following table. The table reflects contracts 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.

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)			31 December 2006		
	Principal or agreed amount	Positive fair value	Negative fair value	Principal or agreed amount	Positive fair value	Negative fair value
<b>Forwards</b>						
Foreign currency						
- purchase of USD for RR	28 528 191	22 268	(2 027)	4 752 764	-	(3 931)
- purchase of USD for EUR	4 539 826	6 747	(703)	1 021 860	103	(1 790)
- purchase of EUR for RR	663 751	-	(1 180)	1 631	2	-
- purchase of EUR for USD	5 682 854	206	(15 567)	-	-	-
- purchase of RR for USD	21 167 795	4 690	(21 669)	521 180	8	(184)
- other	52 210	92	(1)	-	-	-
Securities						
-purchase of securities	743	30	-	-	-	-
<b>Futures</b>						
Foreign currency						
- purchase of USD	770 063	-	-	-	-	-
- sale of USD	2 679 554	-	-	-	-	-
<b>Total</b>		<b>34 033</b>	<b>(41 147)</b>		<b>113</b>	<b>(5 905)</b>

### 32 Fair Value of Financial Instruments

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

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

**Financial instruments carried at fair value.** Trading securities, investment securities available for sale, derivative financial instruments and repurchase receivable are carried on the consolidated balance sheet at their fair value. Fair values were determined based on quoted market prices. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

### **32 Fair Value of Financial Instruments (Continued)**

**Loans and receivables carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest bearing placements 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. Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

**Liabilities carried at amortised cost.** The fair value of bonds and Eurobonds in issue 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, customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively.

### **33 Related Party Transactions**

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 paid to the substance of the relationship, not merely the legal form.

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. A majority stake in IFD Kapital Group is beneficially owned by Mr. Alekperov and Mr. Fedun (the “ultimate beneficiaries”) and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into the normal course of business with significant shareholders of the Bank, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced at market rates.

**33 Related Party Transactions (Continued)**

At 30 June 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		31 December 2006	
	Shareholders	Other	Shareholders	Other
Correspondent accounts and overnight placements with other banks (contractual interest rate: 30 June 2007: 0.0%; 31 December 2006: 0.0%)	-	25 684	-	2 575
Trading securities	-	661 168	-	1 124 321
Loans and advances to customers				
Loans and advances (contractual interest rate: 30 June 2007: 9.0%-17.0%; 31 December 2006: 7.2%-16.0%)	19 008	739 259	2 359 307	1 000 726
Provisions for loans and advances to customers	(576)	(4 821)	(9 014)	(6 546)
Debt investment securities available for sale (contractual interest rate: 30 June 2007: 14.0%; 31 December 2006: 14.0%)	-	48 399	-	47 835
Equity investment securities available for sale	-	26 215	-	24 476
Repurchase receivable	-	490 165	-	178 135
Due to other banks				
Correspondent accounts and overnight placements of other banks (contractual interest rate: 30 June 2007: 0.1%; 31 December 2006: 0.0%-0.1%)	-	94 503	-	4 045
Term placements of other banks (contractual interest rate: 31 December 2006: 2.0%)	-	-	-	40 004
Customer accounts				
Current/settlement accounts (contractual interest rate: 30 June 2007: 0.0%-0.1%; 31 December 2006: 0.0%-0.1%)	17 041	7 204 284	1 122 921	4 405 825
Term deposits (contractual interest rate: 30 June 2007: 0.5% - 10.3%; 31 December 2006: 0.5% - 11.5%)	3 023 797	4 448 259	4 524 482	3 727 007
Debt securities in issue (contractual interest rate: 30 June 2007: 0.0%-11%; 31 December 2006: 0.0%-11.0%)	-	859 414	29 019	607 451
Subordinated debt (contractual interest rate: 30 June 2007: 9.4%; 31 December 2006: 9.4%)	-	3 962 565	-	4 002 016
Guarantees issued by the Group	1 290 810	1 582 076	285	1 483 208
Guarantees received by the Group	-	210 113	67 321	129 500
Import letters of credit	-	39 753	-	48 530
Letters of credit for settlements in the Russian Federation	-	21 153	-	145 879
Assets in trust management	2 281 253	531 453	2 706 841	30 302

**33 Related Party Transactions (Continued)**

The income and expense items with related parties for the six months ended 30 June 2007 and the six months ended 30 June 2006 were as follows:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		30 June 2006 (unaudited)	
	Shareholders	Other	Shareholders	Other
Interest income:				
- Loans to customers	1 462	9 155	2 494	22 471
- Debt investment securities available for sale	-	1 551	-	1 635
Interest expense:				
- Due to other banks	-	(37)	-	(12)
- Customer accounts	(162 551)	(276 604)	(158 226)	(210 581)
- Debt securities issued	-	(7 453)	(123)	(3 968)
(Losses net of gains)/gains less losses from trading securities	-	(209 165)	-	51 268
Gains less losses from disposal of investment securities available for sale	-	-	-	2 029
Gains less losses from trading in foreign currencies	855	9 850	988	94 046
Fee and commission income	-	129 322	2 410	190 099
Fee and commission expense	-	(67)	(9)	(51)

Aggregate amounts lent to and repaid by related parties during six months ended 30 June 2007 and six months ended 30 June 2006 were:

<i>In thousands of Russian Roubles</i>	30 June 2007 (unaudited)		30 June 2006 (unaudited)	
	Shareholders	Other	Shareholders	Other
Amounts lent to related parties during the period	222 738	2 986 949	2 570 482	968 282
Amounts repaid by related parties during the period	2 563 037	3 236 321	2 603 823	929 380

The "Shareholders" column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The "Other" column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

At 30 June 2007, included in customer accounts are amounts of RR 929 331 thousand (31 December 2006: RR 2 860 571 thousand) belonging to ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts for the reporting period is RR 47 562 thousand (six-month period ended 30 June 2006: RR 31 921 thousand).

In the six-month period ended 30 June 2007, the remuneration of the Management Board members comprised salaries, discretionary bonuses and other short-term benefits totalling RR 148 415 thousand (six-month period ended 30 June 2006: RR 113 290 thousand).



### **34 Principal Subsidiaries**

<b>Name</b>	<b>Nature of business</b>	<b>Percentage of the Bank's direct ownership</b>	<b>Percentage of Group's control</b>	<b>Country of registration</b>
Komi Regional Bank "UKHTABANK"	Banking	96.74	96.74	Russia
Petrocommerce-Ukraine Bank	Banking	74.96	95.30	Ukraine
Stavropolpromstroybank	Banking	77.27	77.27	Russia
UNIBANK	Banking	100.00	100.00	Moldova
Petrocommerce Invest S.A.	Finance	100.00	100.00	Luxembourg

In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities on the Russian market.

### **35 Subsequent Events**

In September 2007, the Group sold 100% block of shares of Commercial Bank "UNIBANK" A.O. (Moldova) to an Austrian investment fund VCP Capital Partners Unternehmensberatungs AG, an unrelated party to the Group. The total amount of this transaction was 241.97 million Moldavian Leus or equivalent of RR 522 669 thousand. The Austrian fund won the auction of 24 September 2007. The settlements on this transaction were completed on 28 September 2007.