OJSC “VOSTOCHNY EXPRESS BANK”

Consolidated Financial Statements and Auditor’s Report

31 December 2007

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the consolidated financial statements and related notes of Open Joint-Stock Bank “Vostochny express bank” (“the Bank”) and its subsidiary (‘the Group”). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by Management.

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

S.N. Vlasov, President	L. S. Proskurina, Chief Accountant

26 June 2008

INDEPENDENT AUDITOR'S REPORT

To the Management and Board of Directors of OJSC "Vostochny express bank ("the Bank")

We have audited the accompanying financial statements of the Group, which comprise the consolidated balance sheet as at 31 December 2007, and consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the Bank's Management and Board of Directors ("Management"), as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Bank's Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Management as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

OOO Moore Stephens
18A Verkhneportovaya St.
Vladivostok, Russia
26 June 2008

OJSC “Vostochny express bank”
Consolidated Balance Sheet as at 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Assets			
Cash and cash equivalents	**5**	1,619,702	730,748
Mandatory balances with the CBRF		281,134	110,113
Securities	**6**	46,723	111
Due from other banks	**7**	1,795,849	1,057,409
Loans and advances to customers	**8**	18,377,085	5,642,312
Accrued interest income and other assets	**9**	573,742	329,079
Service fee asset		1,702,019	1,137,986
Premises and equipment	**10**	1,070,346	540,774
Intangible assets	**11**	567	-
Total assets		**25,467,167**	**9,548,532**
Liabilities			
Due to other banks	**12**	1,406,515	864,493
Customer accounts	**13**	11,828,309	5,735,026
Debt securities issued	**14**	1,761,883	771,157
Bonds issued by OEFL	**15**	6,409,260	-
Warranty on loans sold	**16**	131,636	153,106
Accrued interest expense and other liabilities	**17**	696,431	191,970
Other borrowings	**18**	220,500	-
Finance lease liability	**19**	44,624	69,879
Deferred tax liability	**20**	297,317	244,687
Total liabilities		**22,796,475**	**8,030,318**
Equity			
Share capital	**21**	399,837	399,837
Share premium		4,697	4,697
Accumulated profit	**22**	2,266,158	1,113,680
Total equity		**2,670,692**	**1,518,214**
Total liabilities and equity		**25,467,167**	**9,548,532**
Credit related commitments	**30**	**67,226**	**5,421**

Approved on behalf of the Management Board on 26 June 2008

S.N. Vlasov, President

L. S. Proskurina, Chief Accountant

(in thousands of Russian Roubles)

	Notes	2007	2006
Interest income	**24**	3,702,555	1,142,582
Interest expense	**24**	(1,488,928)	(426,448)
Net interest income		2,213,627	716,134
Net allowance for impairment losses on loans and advances	**25**	(626,576)	(306,221)
Net interest income after allowance for impairment loss		**1,587,051**	**409,913**
Result on sale of loans	**23**	1,756,178	1,379,822
Gains less losses arising from securities		(252)	3
Gains less losses arising from dealing in foreign currencies		21,279	13,394
Net foreign exchange translation (loss)/gain		(32,502)	959
Net fee and commission income	**26**	1,102,579	756,539
Release of warranty	**16**	181,168	126,183
Other operating income		15,981	2,311
Allowance for impairment losses against loans resold to URSA Bank		(425,215)	(143,095)
Operating income		**4,206,267**	**2,546,029**
Operating expenses	**27**	(2,634,105)	(1,306,814)
Profit before taxation		**1,572,162**	**1,239,215**
Taxation	**28**	(419,684)	(328,602)
Net profit for the year		**1,152,478**	**910,613**

(in thousands of Russian Roubles)

	Notes	2007	2006
Cash flows from operating activities			
Interest received on loans		3,528,485	1,060,377
Interest paid		(939,538)	(383,864)
Interest paid under finance lease		(11,348)	-
Net gains arising from dealing in securities		1,264	22
Income received from dealing in foreign currencies		21,279	13,394
Net fees and commissions received		2,858,757	2,136,361
Other operating income received		164,817	123,293
Operating expenses paid		(2,406,599)	(1,151,314)
Income tax paid		(367,054)	(189,706)
Cash flows from operating activities before changes in operating assets and liabilities		**2,850,063**	**1,608,563**
Net cash increase / (decrease) from changes in operating assets and liabilities			
Net increase in mandatory cash balances with the CBRF		(171,021)	(88,374)
Net increase in due from other banks		(738,440)	(1,057,409)
Net increase in loans and advances to customers		(13,361,349)	(4,613,753)
Net increase in due to other banks		542,022	404,664
Net increase in customer accounts		6,093,283	4,736,459
Net (decrease) / increase in promissory notes		(497,606)	678,711
Net change in other assets and liabilities		(1,078,145)	(931,043)
Net cash (used in)/ generated by operating activities		**(6,361,193)**	**737,818**
Cash flows from investing activities			
Purchase of premises and equipment		(637,690)	(366,941)
Proceeds from sale of premises and equipment		64,664	8,962
Purchase of intangible assets		(600)	-
Purchase of securities		(26,032)	(111)
Purchase of bonds (OFZ)		(20,580)	-
Proceeds from disposal of Securities		-	800
Net cash used in investing activities		**(620,238)**	**(357,290)**
Cash flows from financing activities			
Finance lease capital repayments		(25,255)	(37,880)
Proceeds from borrowings		220,500	-
Bonds issued		1,488,332	-
Interest paid on bonds issued		(122,857)	-
Bonds issued by OEFL		6,409,260	-
Interest paid on bonds issued by OEFL		(67,093)	-
Net cash received from/ (used in) financing activities		**7,902,887**	**(37,880)**
Effect of changes in exchange rate		**(32,502)**	**959**
Net change in cash and cash equivalents		888,954	343,607
Cash and cash equivalents, beginning of the year		**730,748**	**387,141**
Cash and cash equivalents at the end of the year	**5**	**1,619,702**	**730,748**

Non-cash transactions: Premises and equipment with fair values of RUB 24,739 were acquired under conditions of finance lease during the year (2006: RUB 43,521).

(in thousands of Russian Roubles)

	Share Capital	Share premium	Accumulated profit	Total Equity
1 January 2006	**399,837**	**4,697**	**203,067**	**607,601**
Net profit for the year	-	-	910,613	910,613
1 January 2007	**399,837**	**4,697**	**1,113,680**	**1,518,214**
Net profit for the year	-	-	1,152,478	1,152,478
31 December 2007	**399,837**	**4,697**	**2,266,158**	**2,670,692**

The availability of the Bank’s retained earnings for distribution to shareholders is determined by Russian regulations and by shareholders’ decisions and does not correspond to the figures presented above (Note 22).

A reconciliation of equity and net profit per Russian Accounting Standards (“RAS”) and International Financial Reporting Standards (“IFRS”) is set out in Note 3 (c).

1. Principal Activities

The consolidated financial statements include financial statements of open joint stock bank “Vostochny express bank” (the “Bank”) and its subsidiary – Orient Express Finance Limited (“OEFL”).

The Bank is a commercial bank owned by shareholders whose liability is limited. It is constituted as a Russian open joint stock company (“OJSC”). The Bank was granted a license to conduct banking operations by the Central Bank of Russian Federation (“CBRF”) on 12 May 1991. It holds a license to carry out transactions with individuals and a license to make loans. These were last renewed 22 June 2006. At 31 December 2007 the Bank operated a head office in Blagoveshensk, ten branches and over 275 offices located in the Russian Far East, Siberia and North-western Federal District, in Moscow and Saint-Petersburg.

OEFL was established purely for issuing bonds listed on the Irish Stock Exchange and remitting funds to the Bank by the way of loans.

The Bank’s registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 31 December 2007 the Bank had 4,952 employees (2006: 3,124).

A list of major shareholders is set out in Note 21.

The Bank does not have any immediate parent entity. Mr. Igor Kim is considered to be the Bank’s ultimate controlling party.

2. Operating Environment of the Bank

The Russian economy, although essentially transformed to market status, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the government’s continued actions with regard to supervisory, legal, and economic reforms.

3. Basis of Presentation

a) General

These financial statements have been prepared on a consolidated basis.

The consolidated financial statements of the Group are prepared in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian Banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The accompanying consolidated financial statement have been prepared using the Russian Rouble (“RUB”) as the unit of measurement and adjusted for the impact of inflation during periods of hyperinflation in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. Adjustments have been made for periods up to 31 December 2002.

b) Functional and Presentation Currency

Accounting records of the Bank are maintained in RUB and the RUB is also considered to be the Group’s functional currency for the purpose of IFRS financial statements as Management believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Group. Management also believes the RUB to be the most appropriate currency for presentation of the Group’s IFRS financial statements.

Actual exchange rates applied in translation of transactions and balances denominated in currencies other than the RUB are detailed in note 4(n).

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

c) Reconciliation of Equity and Net Profit between RAS and IFRS

	2007		2006	
	Equity	**Net profit**	**Equity**	**Net profit**
RAS	**1,750,523**	**855,762**	**894,761**	**540,173**
Depreciation and other expenses related to fixed assets	(37,942)	(25,831)	(12,111)	(7,229)
Tax liabilities, including profit tax	(377,300)	(132,613)	(244,687)	(138,896)
Effect of accrued interest	133,902	103,210	30,692	39,688
Allowance for loans and fair value adjustment	30,975	(31,749)	62,724	62,992
Result on sales of loans	3,628,746	1,756,178	1,872,568	1,379,822
Reserve against resold loans	1,557	(16,585)	18,142	29,725
Amortisation of service asset	(2,373,835)	(1,351,843)	(1,021,992)	(942,877)
Value of warranty issued	315,472	181,168	134,304	126,183
Other operating accruals	(194,840)	(63,253)	(131,587)	(97,629)
Unused holidays	(73,064)	(40,288)	(32,776)	(27,196)
Low value items written off	(90,396)	(66,430)	(23,966)	(18,857)
Other	(43,106)	(15,248)	(27,858)	(35,286)
IFRS	**2,670,692**	**1,152,478**	**1,518,214**	**910,613**

d) Consolidation

The Bank has subsidiaries and associates whose operations, singly and in aggregate are immaterial in the context of the Bank, with the exception of one subsidiary (Orient Express Finance Limited, "OEFL") which it exerts effective control over. There are also several related parties which are under common control with the Bank (see Note 31). Management has considered whether or not IFRS require the Bank to produce consolidated financial statements consolidating the balances and results of any of these entities and has concluded that consolidation is required only in respect of OEFL.

Where necessary, adjustments are made to the financial statements of OEFL to bring the accounting policies used into line with those used by the Bank.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

e) Changes in Accounting Polices

On 1 January 2007 the Bank adopted IFRS 7 'Financial Instruments: Disclosures' and the amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'. The application of the Standard and the amendment resulted in increased disclosure in respect of the Group's financial instruments and the nature and extent of risks arising from such financial instruments, and increased disclosure in respect of the Group's objectives, policies and processes for managing capital.

f) Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. Further information concerning the most significant estimates and assumptions made by Management are set out below:

3. Basis of Presentation (continued)

f) Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Impairment losses on loans to customers

The Bank reviews loans to customers on a monthly basis for evidence of potential impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis by counterparty industry type and geographical location. When an impairment is required to be recognised it is based for individually material loans on Managements estimate of the future cash-flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on statistical data about repayment of loans specifying time-frames and reasons for overdue amount.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Impairment losses on receivable other than loans

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

Fair values

For assets and liabilities carried at fair value the Group applies market bid prices where these are available. Where they are not available it uses valuation techniques or, as a last resort, estimates.

Depreciation

The Group charges depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

Financial Assets

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

g) Standards, Interpretations and Amendments that are not yet Effective

IAS 1 Presentation of Financial Statements (Revised) is effective for annual periods beginning on or after 1 January 2009 and specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information within the financial statements.

IFRS 8 replaces IAS 14 "Segment Reporting" and requires an entity to report financial and descriptive information about its reportable segments. IFRS 8 is effective for annual periods beginning on or after 1 January 2009. As IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent) whose debt or equity instruments are traded in a public market; or that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, which is not the case with the Group, Management believes that the standard will not have a significant impact on the financial statements of the Group. Management has considered the issue of interpretations of the standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Group.

The Group will adopt these standards when they become effective.

4. Significant Accounting Policies

a) Cash and Cash Equivalents

Cash and cash equivalents are items that can be converted into cash within a day. All short term interbank placements, beyond overnight deposits, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

b) Mandatory Balances with CBRF

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

c) Securities Available for Sale ("AFS")

AFS securities are securities that Management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this classification is regularly reviewed. Securities available for sale are initially recognised at cost (which includes transaction costs). Securities AFS are subsequently valued at market value with gains and losses taken through the statement of changes in equity except for losses arising from impairment.

When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

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

d) Loans and Advances and Allowance for Impairment

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

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated.

Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

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

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

4. Significant Accounting Policies (continued)

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

f) Other Credit Related Commitments
In the normal course of business, the Bank enters into other credit related commitments comprising loan commitments, letters of credit and guarantees. These operations are initially recognised at fair value and are subsequently re-measured at the higher of the amount that would be recognised should a call be made against the guarantee and the amount initially recognised less, when appropriate, cumulative amortisation recognised.

g) Premises and Equipment
Equipment and other fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset’s potential net sales proceeds and its value in use.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

h) Depreciation
Depreciation is applied on the straight line basis over the estimated useful lives of the assets as follows, in years:

Buildings	50
Leasehold improvements	10
Vehicles and other assets	3–5

i) Debt Securities Issued
Debt securities issued represent bonds and promissory notes issued by the Group. These are initially stated at fair value, which represent amounts received on issue (fair value) less expenses incurred in respect of the transaction. Subsequently debt securities issued are stated at amortised cost and the difference between initial value and the value at the date of repayment is reflected in the income statement over the period using the method of effective interest rate. Interest accrued on debt securities issued is accounted for as other liabilities.

j) Share Premium
Share premium represents the excess of shareholders’ contributions to share capital over the nominal value of the issued shares.

k) Dividends
Dividends payable are not accounted for until they have been ratified at the Bank’s Annual Shareholders’ Meeting. They are accounted for in the year they are ratified. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. No dividends were declared during the current period or in 2006.

4. Significant Accounting Policies (continued)

l) Income Taxes
Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date.

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

m) Income and Expense Recognition
Interest income and expense are recognised in the statement of income on the accrual basis. Overdue interest or accrued interest which the Management considers doubtful is included in interest income and an impairment allowance is recognized when required. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. Fees, commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Certain fees and commissions may be charged in place of applying a higher interest rate to the relevant loan. Where it is possible to identify fees and commissions as being similar in nature to interest they are recognised in equal instalments over the life of the loan and are shown as interest income. Where this is not possible they are treated in a manner similar to other fees and commissions.

n) Foreign Currency Translation
Transactions denominated in currencies other than RUB (“foreign currencies”) are recorded in RUB at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into RUB at the official exchange rate of the CBRF at the balance sheet date.

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 24.5462 (not thousands) (2006: USD 1 = RUB 26.3311 (not thousands)).

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a fully convertible currency outside the Russian Federation.

o) Offsetting
Financial assets and liabilities are offset and the net amount reported in the 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.

p) Pension Costs
The Bank contributes to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Bank’s pension scheme contributions amount to 20% of employees’ gross salaries, and are expensed as incurred. The contributions are included in staff costs. The Bank has no liability or obligation other than for the annual contribution.

(in thousands of Russian Roubles)

4. Significant Accounting Policies (continued)

q) Leases

Leases of fixed assets where the Bank obtains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligation, net of finance charges, is included in payables. The interest element is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining lease liability. Fixed assets acquired under finance lease are depreciated similar to assets owned by the Bank.

Where the Bank is a lessee under operating lease agreements, the total payments made under operating leases are charged against income in equal instalments over the period of the lease.

r) Comparative Information

Certain comparative information was restated to comply with current presentation. These restatements have had no effect on profit or equity for either year.

5. Cash and Cash Equivalents

	2007	2006
Cash on hand	521,420	406,633
Cash balances with the CBRF (other than mandatory reserves)	501,630	218,347
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	571,235	104,347
Other countries	25,417	1,421
	1,619,702	**730,748**

6. Securities

	2007	2006
Securities AFS		
Investments in Companies	26,143	111
Bonds of the Federal Loan ("BFL")	20,580	-
	46,723	**111**

Investments in Companies represent the Bank's shareholdings in the following subsidiaries and associates:

Name	% Held	Activity	Country of incorporation	2007	2006
"TPC Gamma" Ltd.	100	Commerce	Russia	26,032	-
"VEB-Finance" Ltd.	100	Commerce	Russia	100	100
"Vostochnoye Bureau of Credit Histories" Ltd.	50	Commerce	Russia	5	5
CJSC "Sibirskoye Bureau of Credit Histories"	20	Commerce	Russia	6	6
Orient Express Finance Ltd	-	Special purpose entity	Ireland	-	-
				26,143	**111**

The Bank exercises control or exerts significant influence over the subsidiaries and associates mentioned above.

(in thousands of Russian Roubles)

6. Securities (continued)

The Securities are held at fair value which equates to original cost as there are no market values for the Securities. Management believes that this is the best representation of fair value at the present time and no allowance for impairment of the Securities is required as at the year end (2006: nil).

During 2007 the Bank purchased BFL securities, which are quoted in the active market and are reflected at fair value based on market quotations.

7. Due from Other Banks

	2007	2006
Short term loans and deposits with Russian banks	1,795,849	1,057,409
	1,795,849	**1,057,409**

Short term unsecured loans were provided to various Russian banks at fixed rates varying from 4% to 11.5% p.a. and with maturity in January 2008. The size of the bank the loan is placed with is considered to reflect its credit quality; an analysis of loans by size of bank placed with, in terms of ranking based on net assets (obtained from RBK. ratings), is presented below:

Ranking position	**2007**	**%**	**2006**	**%**
Top 50 banks	606,828	34.0	514,318	49.0
Banks at 51st to 300th place	982,107	55.0	543,091	51.0
Banks at 301st to 600th place	206,914	11.0	-	-
	1,795,849	**100.0**	**1,057,409**	**100.0**

The Bank also carries out its own estimation of the financial position of other banks based on professional judgement.

8. Loans and Advances to Customers

	2007	2006
Current loans	17,492,168	5,234,725
Overdue loans:		
instalments overdue as per loan schedule	564,991	214,326
portion not yet due on loans with overdue repayments	1,306,038	552,797
	1,871,029	767,123
	19,363,197	6,001,848
Less: Allowance for impairment	(986,112)	(359,536)
	18,377,085	**5,642,312**

The amount above best represents the maximum exposure of the Bank to the credit risk at the reporting date without taking into account any collateral held or credit enhancements.

The estimated fair value of collateral taken to secure the Bank's loan portfolio amounted to RUB 2,817,860 (2006: RUB 74,346). The Bank also accepted personal guarantees with nominal value of RUB 1,479,822 (2006: RUB 89,839) to secure loans issued. These are not included in the fair value of collateral quoted above as Management believes the fair value of such guarantees is very difficult to estimate reliably.

During the year 2007 there were no instances when the Bank took any possession of collateral held (2006: none).

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

Movements in the allowance for impairment loss on loans and advances to customers are as follows:

	2007	2006
1 January	359,536	53,315
Net movement in allowance for impairment loss (Note 25)	626,576	306,221
31 December	**986,112**	**359,536**

Allowance is calculated on a portfolio basis only. There are therefore no loans which have a specific impairment allowance that are not overdue (2006: nil) and loans which are overdue but for which no specific allowance was made are RUB 1,871,029 (2006: RUB 767,123)

Loans maturity analysis	2007	2006
Within the terms of repayment schedule	18,798,206	5,798,954
Overdue up to 30 days	20,606	9,330
Overdue from 31-60 days	18,322	8,364
Overdue from 61-90 days	18,561	9,547
Overdue from 91 to 180 days	70,133	33,544
Overdue from 181 to 360 days	192,745	129,368
Overdue more than 360 days	244,624	12,741
	19,363,197	**6,001,848**

Loan portfolio stratification at 31 December 2007 is as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	467	1,603	0.4
From 500 to 5,000	124,154	46,489	10.3
From 5001 to 10,000	295,889	39,681	8.8
From 10,001 to 50,000	6,604,464	242,372	53.8
From 50,001 to 100,000	6,098,045	86,171	19.1
From 100,001 to 250,000	4,135,533	30,348	6.7
From 250,001 to 1,000,000	1,039,506	3,198	0.7
More than 1,000,000	1,065,139	834	0.2
Total loans and advances to customers	**19,363,197**	**450,696**	**100.0**

Loan portfolio stratification at 31 December 2006 is as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	91	3,021	-
From 500 to 5000	74,647	24,853	1.2
From 5001 to 10000	280,079	37,363	4.7
From 10,001 to 50,000	3,807,601	144,348	63.4
From 50,001 to 100,000	1,358,950	23,380	22.6
From 100,001 to 250,000	328,332	2,710	5.5
From 250,001 to 1,000,000	35,078	90	0.6
More than 1,000,000	117,070	12	2.0
	6,001,848	**235,777**	**100.0**

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

As the credit portfolio comprises a large number of relatively low value loans Management believe there was no concentration to a single individual or groups of related individuals, although the portfolio represents exposure almost exclusively to individuals as a population. The Bank did not have any borrowers who accounted for more than 5% of the loan portfolio as at 31 December 2007 (2006: none). The ten largest borrowers accounted for RUB 225,340 or 1.16% (2006: RUB 115,052, 1.9%).

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

	2007		2006	
	Amount	**%**	**Amount**	**%**
Consumer lending	19,170,779	99.0	5,886,284	98.1
Trade and catering	2,849	-	16,971	0.3
Manufacturing	1,659	-	1,809	-
Other	187,910	1.0	96,784	1.6
	19,363,197	**100.0**	**6,001,848**	**100.0**

Geographic and currency analysis, interest rates and the maturity structure of the loan portfolio are detailed in Note 29. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 31.

The Bank quantifies loans by reference to a six ratings system of credit quality from I to VI in descending order of quality. Loans by reference to this system were as follows:

Category	Name of the Category	2007	2006
Category I	Non classified loans	2,378,948	1,541,522
Category II	Good loans	14,411,158	3,449,267
Category III	Loans with impairment signs	702,062	254,302
Category IV	Loans with delays up to 90 days	852,987	304,300
Category V	Loans with delays 91 - 360 days	666,339	434,553
Category VI	Fully impaired loans	351,703	17,904
		19,363,197	**6,001,848**

Category I contain very new loans which therefore have not received a classification as there is no observable repayment or other data.
Category V has eleven sub groups depending on the reasons of non-repayment of loan.

During 2007 the Bank sold to URSA Bank a portfolio of loans to individuals amounting to RUB 7,984,888 (2006: RUB 7,160,997) (See Note 23).

9. Accrued Interest Income and Other Assets

	2007	2006
Receivable from customers on loans previously sold	862,857	361,274
Accrued interest income	264,600	92,046
Debtors and prepayments	87,684	33,700
Balances with Post Office	34,304	29,023
Settlements with Siberian Interbank Currency Exchange	5,289	1,400
Other	6,175	5,258
	1,260,909	522,701
Less: Allowance for impairment loss	(687,167)	(193,622)
	573,742	**329,079**

(in thousands of Russian Roubles)

9. Accrued Interest Income and Other Assets (continued)

Movements in the allowance for impairment loss are as follows:

	2007	2006
1 January	193,622	13,772
Charge during the period	493,545	179,850
31 December	**687,167**	**193,622**

10. Premises and Equipment

	Land	Buildings	Capital Investment	Equipment	Total
Cost					
1 January 2006	**-**	**50,871**	**9,620**	**121,308**	**181,799**
Additions	-	221,639	77,340	111,483	410,462
Disposals	-	(170)	(190)	(6,221)	(6,581)
Transferred	-	115	(8,919)	8,804	-
31 December 2006	**-**	**272,455**	**77,851**	**235,374**	**585,680**
Additions	2,000	298,735	177,797	159,158	637,690
Disposals	-	(2,995)	-	(43,906)	(46,901)
Transferred	-	64,130	(64,130)	-	-
31 December 2007	**2,000**	**632,325**	**191,518**	**350,626**	**1,176,469**
Depreciation					
1 January 2006	-	**886**	**-**	**11,576**	**12,462**
Charge	-	2,724	-	31,820	34,544
Disposals	-	(4)	-	(2,096)	(2,100)
31 December 2006	**-**	**3,606**	**-**	**41,300**	**44,906**
Charge	-	7,980	-	67,806	75,786
Disposals	-	(26)	-	(14,543)	(14,569)
31 December 2007	**-**	**11,560**	**-**	**94,563**	**106,123**
Net book values					
31 December 2006	**-**	**268,849**	**77,851**	**194,074**	**540,774**
31 December 2007	**2,000**	**620,765**	**191,518**	**256,063**	**1,070,346**

Assets with a net book value of RUB 87,128 are held under finance leases (2006: RUB 92,867).

The balance on "Capital Investments" is represented by equipment which has not yet been put into operation as well as acquired apartments before they were transferred to "non-residential" status.

As at 31 December 2007 fixed assets of the Bank were insured for RUB 185,254 with Russian insurance companies (2006: RUB 30,222).

(in thousands of Russian Roubles)

11. Intangible Assets

	Trademarks
Cost	
31 December 2006	-
Additions	600
Disposal	-
31 December 2007	**600**
Accumulated depreciation	
31 December 2006	-
Charge	33
Disposal	-
31 December 2007	**33**
NBV at 31 December 2006	**-**
NBV at 31 December 2007	**567**

12. Due to Other Banks

	2007	2006
Unsecured short-term loans from Russian banks	1,366,812	824,492
Unsecured long-term loans from Russian banks	-	20,000
Vostro accounts with Russian banks	39,703	20,001
	1,406,515	**864,493**

Unsecured loans were provided by various Russian banks at fixed rates varying from 6.25% to 13% p.a.

13. Customer Accounts

	2007	2006
State and public organisations		
Current/settlement accounts	474	6,290
Term deposits	38,489	21,639
	38,963	27,929
Other legal entities		
Current/settlement accounts	121,658	113,253
Term deposits	605,911	586,464
	727,569	699,717
Individuals		
Current/demand accounts	974,104	546,917
Term deposits	10,087,673	4,460,463
	11,061,777	5,007,380
	11,828,309	**5,735,026**

Deposits and current accounts of the Bank’s ten largest depositors amounted to RUB 1,003,973 or 8.5% of the overall balance as at 31 December 2007 (2006: RUB 897,241 or 15.6%).

(in thousands of Russian Roubles)

13. Customer Accounts (continued)

Customer accounts stratification at 31 December 2007 is as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	32,623	629,025	0.3
From 501 to 5,000	338,103	156,602	2.9
From 5,001 to 10,000	189,593	28,166	1.6
From 10,001 to 50,000	774,486	31,683	6.5
From 50,001 to 100,000	1,115,824	15,448	9.4
From 100,001 to 250,000	2,884,096	19,140	24.4
From 250,001 to 500,000	2,303,959	6,639	19.5
500,001 and higher	4,189,625	2,754	35.4
	11,828,309	**889,457**	**100.0**

Customer accounts stratification at 31 December 2006 is as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	20,278	469,014	0.4
From 501 to 5,000	225,005	109,017	3.9
From 5,001 to 10,000	90,238	14,304	1.6
From 10,001 to 50,000	404,116	17,073	7.0
From 50,001 to 100,000	569,144	8,200	9.9
From 100,001 to 250,000	1,528,525	10,604	26.7
From 250,001 to 500,000	580,476	1,751	10.1
500,001 and higher	2,317,244	1,215	40.4
	5,735,026	**631,178**	**100.0**

Geographical, currency analysis of customers, interest rates and the maturity structure of the accounts are provided in Note 29. The Bank has several deposits from related parties. Information on related party deposits is disclosed in Note 31.

Economic sector concentrations within customer accounts are as follows:

	2007		**2006**	
	Amount	**%**	**Amount**	**%**
Individuals	11,191,267	94.6	5,007,380	87.3
Financial intermediation	439,719	3.7	328,032	5.7
Construction	67,638	0.6	15,345	0.3
Transport, storage and communications	21,347	0.2	21,405	0.4
Agriculture, hunting and forestry	5,769	0.1	3,889	0.1
Community and personal activities	15,133	0.1	16,524	0.3
Wholesale and retail trade	10,410	0.1	70,012	1.2
Manufacturing	33,926	0.3	227,900	4.0
Shipping	36,112	0.3	-	-
Hotels and restaurants	106	-	198	-
Electricity, gas and water supply	72	-	10,804	0.2
Real estate, renting	1,256	-	1,104	-
Health and social work	660	-	117	-
Education	45	-	828	-
Other	4,849	-	31,488	0.5
	11,828,309	**100.0**	**5,735,026**	**100.0**

(in thousands of Russian Roubles)

14. Debt Securities Issued

	2007	2006
Promissory notes	273,551	771,157
Bonds	1,488,332	-
	1,761,883	**771,157**

Issued Promissory notes are represented by interest bearing Promissory Notes, denominated in RUB with maturity dates up to March 2010 (2006: up to March 2010). Effective interest rates range is from 3% to 16.5% (2006: from 11% to 22.5%).

Bonds issued represent non-convertible interest bearing bonds with a maturity date of 17 March 2010 without the possibility of early redemption at the holders’ request. Coupon rate is 10.3%. 83% of issued bonds were purchased by CJSC "Bank Credit Swiss".

15. Bonds issued by OEFL

Orient Express Finance Limited issued two series of Loan Participation Notes quoted on the Irish Stock Exchange. Terms of the Notes are as follows:

Currency	Coupon rate	Coupon payment dates	Date of maturity	2007	2006
RUB	9.875%	3 July and 3 January	2009	5,370,796	-
USD	11%	3 July and 3 January	2017	1,038,464	-
				6,409,260	-

16. Warranty on Loans Sold

The warranty on loans sold arises from the transactions described in Note 23. Movements on the warranty during the period are as follows:

	2007	2006
Opening balance	153,106	64,459
Fair value of warranty issued in period at date of issue	159,698	214,830
Movement in fair value of warranty in issue	(181,168)	(126,183)
	131,636	**153,106**

17. Accrued Interest Expense and Other Liabilities

	2007	2006
Accrued interest expense	409,527	61,435
Other accrued expenses	201,516	118,159
Taxes	84,071	11,953
Other	1,317	423
	696,431	**191,970**

18. Other Borrowings

	2007	2006
Loan from EBRD	**220,500**	**-**

(in thousands of Russian Roubles)

18. Other Borrowings (continued)

Loan from EBRD

Within the framework of Russia for supporting small business VEB and the European Bank for Reconstruction and Development concluded a loan agreement in the amount of RUB 450,000 in December 2007. The loan is to be obtained via two tranches of RUB 225,000, the first of which was received by the Bank on 24 December 2007. It has a maturity date of 24 December 2012.

Coupon rate is base rate (MosPrime rate) plus a margin of 4% p.a. Coupon payment is on 24th of the month every three months after the drawdown date. Capital repayments are to be carried out, in equal instalments, twice a year commencing from the second year after drawdown.

19. Finance Lease Liability

Amounts payable under finance lease liability as at 31 December 2007 are:

	Minimum lease payments	Present value of minimum lease payments
Within one year	41,189	37,042
From two to five years	8,451	7,582
Minimum lease payments	**49,640**	**44,624**
Less: Future finance charges	(5,016)	
Present value of minimum lease payments	**44,624**	

The interest rate implicit in the lease is 17%.

20. Deferred Tax Liability

	2007	2006
Liability at 1 January	**(244,687)**	**(105,791)**
Deferred tax recognised during the year (Note 28)	(52,630)	(138,896)
Liability at 31 December	**(297,317)**	**(244,687)**

Major components making up the deferred tax liability at the end of the year were:

		31 December 2006		Movement during the year		31 December 2007	
	Tax rate %	Tempor-ary differen-ces	Deferred tax asset/ (liability)	Temporary differences	Deferred tax asset/ (liability)	Temporary differences	Deferred tax asset/ (liability)
Securities	24	(20,892)	(5,014)	10,447	2,507	(10,445)	(2,507)
Loan loss allowance	24	(53,231)	(12,775)	(672,272)	(161,346)	(725,503)	(174,121)
Other allowances	24	(148,743)	(35,698)	176,787	42,429	28,044	6,731
Accrued income	24	(56,919)	(13,661)	(93,452)	(22,428)	(150,371)	(36,089)
Accrued expenses	24	121,008	29,042	87,275	20,946	208,283	49,988
Premises and equipment	24	(321,113)	(77,067)	(116,243)	(27,898)	(437,356)	(104,965)
Loans sold	24	(2,159,978)	(518,395)	(1,915,876)	(459,810)	(4,075,854)	(978,205)
Depreciation of the part related to maintenance of the asset	24	1,021,992	245,278	1,351,843	324,442	2,373,835	569,720
Loans to customers	24	361,274	86,706	526,863	126,447	888,137	213,153
Other items of work Capital	24	237,073	56,897	425,335	102,081	662,408	158,978
		(1,019,529)	**(244,687)**	**(219,293)**	**(52,630)**	**(1,238,822)**	**(297,317)**

(in thousands of Russian Roubles)

21. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2007		2006	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Ordinary shares with nominal value of RUB 100 (not thousands) each	2,799,883	279,988	2,799,883	279,988
Preference shares with nominal value of RUB 1 (not thousands) each	11,700	12	11,700	12
Inflation effect on share capital	-	119,837	-	119,837
	2,811,583	**399,837**	**2,811,583**	**399,837**

The nominal value of ordinary shares, all of which carry equal rights, is RUB 280,000 (2006: RUB 280,000).

All preference shares, which are irredeemable, carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. Holders are entitled to receive annual dividends of 1.7 RUB (not thousands) per share. If the dividends are not paid, preference shareholders carry the right to vote at annual and general meetings until the dividends are paid. Currently preference shareholders have the right to vote.

The Bank's major shareholders were:

	2007		2006	
	Number of shares	**% holding**	**Number of shares**	**% holding**
Third parties				
Sibakademinvest Ltd.	-	-	559,000	19.96
Renaissance Capital Finance Ltd.	-	-	209,991	7.50
Rekha Holdings Limited (controlled by Renaissance Capital Finance)	419,981	15.00	-	-
Alexander Taranov	409,706	14.63	371,033	13.25
Schouplova Evgeniya (on behalf of Sergei Vlasov)	160,000	5.71	360,000	12.86
Members of the Board of Directors				
Igor Kim	819,421	29.27	554,634	19.81
Sergei Vlasov	544,635	19.45	527,758	18.85
Andrey Bekarev	409,706	14.63	171,033	6.11
Yuri Vavilov	44,501	1.19	44,469	1.18
Other				
Shareholders comprising individuals and legal entities with less than 5% each.	3,633	0.12	13,665	0.48
	2,811,583	**100.0**	**2,811,583**	**100.0**

22. Accumulated Profit

In accordance with Russian Law on banking activity and the Law on joint stock companies, the Bank must use financial statements as the basis for calculating distributable profit. Profits may be used to pay dividends or may be transferred to reserves in accordance with the decision made at annual shareholders meeting. The Bank's reserves under RAS as at 31 December 2007 were RUB 612,209 (2006: RUB 617,401).

(in thousands of Russian Roubles)

23. Result on Sale of Loans

	2007	2006
Sales of loans to URSA Bank (shown below)	1,756,178	1,379,822
Other sales of loans	-	-
	1,756,178	**1,379,822**

During the year the Bank sold loans with a carrying value of RUB 7,984,888 (2006: RUB 7,160,997) at the time of sale to URSA Bank, a related party, who upon receipt recognise the loans as an asset on their balance sheet. Under the sale agreement the Bank is an agent for accepting payments under loans sold and has the right to retain fees for servicing borrowers' current accounts on which funds for repayment of the sold loans are transferred. Interest and capital payments are forwarded to URSA Bank. In accordance with the agreement URSA Bank charges the Bank a fee for representing amount registers specifying borrowers per every working day.

As part of the sales agreement the Bank has issued a warranty in respect of the recovery of the loans sold. The limit of renewable warranty was set at RUB 115,000 and was in the form of a guarantee issued in favour of URSA. Should the Bank refuse to renew the warranty, it is to pay a penalty of 2% of the outstanding balance of the loan principal and accrued interest. Management are of the opinion that the penalty of 2% represents the maximum value of the warranties and this has been used in calculating the result on disposal.

The result on disposal has been calculated as follows:

	2007	2006
Fair value of consideration (present and future) received in respect of the sale of loans	7,984,888	7,160,997
Carrying value of loans derecognised	7,984,888	7,160,997
Less element attributable to cash flows from servicing fees	(1,915,876)	(1,594,652)
	6,069,012	**(5,566,345)**
Less fair value of warranties issued at date of issue	(159,698)	(214,830)
Result on disposal	**1,756,178**	**1,379,822**

Movements on the service fee asset during the year were as follows:

	2007	2006
Brought forward	1,137,986	486,211
Additions in the year, represented by cash flows from service fees on loans sold to be retained by the Bank	1,915,876	1,594,652
Amortisation in the year	(1,351,843)	(942,877)
	1,702,019	**1,137,986**

(in thousands of Russian Roubles)

24. Interest Income and Expense

	2007	2006
Interest income		
Loans and advances to legal entities	24,064	10,838
Loans and advances to individuals	3,598,702	1,114,161
Securities	1,516	19
Due from other banks	78,273	17,564
Total interest income	**3,702,555**	**1,142,582**
Interest expense		
Term deposits of individuals	(813,210)	(234,123)
Finance lease charges	(11,348)	(10,857)
Term deposits of legal entities	(56,648)	(32,982)
Other borrowings	(479)	-
Bonds issued	(122,857)	-
Bonds issued by OEFL	(330,756)	-
Promissory notes	(100,487)	(64,848)
Current/settlement accounts	(3,507)	(3,804)
Term deposits of banks	(49,636)	(79,834)
Total interest expense	**(1,488,928)**	**(426,448)**
	2,213,627	**716,134**

25. Net Allowance for Impairment Losses on Loans and Advances

	2007	2006
Release of allowance credited to profits during the year	(1,823,645)	(701,314)
New allowance charged to profits during the year	2,450,221	1,007,535
	626,576	**306,221**

26. Net Fee and Commission Income

	2007	2006
Service fees receivable	2,001,537	1,558,080
Commission on cash transactions	569,822	165,309
Amortisation of Service Fee Asset (Note 23)	(1,351,843)	(942,877)
Other commissions	25,323	15,505
Total fee and commission income	**1,244,839**	**796,017**
Commission on settlement and foreign currency exchange	(8,975)	(545)
Commission on cash transactions	(835)	(1,100)
Agency fees	(103,466)	(28,652)
Other	(28,984)	(9,181)
Total fee and commission expense	**(142,260)**	**(39,478)**
	1,102,579	**756,539**

(in thousands of Russian Roubles)

27. Operating Expenses

	2007	2006
Staff costs	1,309,789	708,884
Administrative expenses	708,145	275,924
Other expenses related to premises and equipment	210,516	152,669
Taxes other than on income (Note 27)	148,337	55,793
Advertising and marketing	113,169	42,245
Depreciation and Amortisation (Notes 10 and 11)	75,819	34,544
Allowance for impairment of other assets	68,330	36,755
	2,634,105	**1,306,814**

28. Taxation

Income tax comprised the following:

	2007	2006
Current tax charge	(367,054)	(189,706)
Deferred tax charge relating to the origination and reversal of temporary differences (Note 20)	(52,630)	(138,896)
Income tax charge for the year	**(419,684)**	**(328,602)**

The income tax rate applicable to the majority of the Bank’s income was 24% (2006: 24%). The Banks’s accounting profit may be reconciled to profit for taxable purposes as follows:

	2007	2006
Accounting profit before tax	1,572,162	910,613
Adjustments to comply with IFRS including:		
Allowance for loan loss	(31,749)	62,992
Additional depreciation due to use of higher rates	(39,298)	(7,229)
Taxes	(3,397)	(328,602)
Net accrued interest	103,210	39,688
Other accruals	(103,541)	(124,825)
Result on sale of loans	1,756,178	1,379,822
Amortisation of service asset	(1,351,843)	(942,877)
Value of warranty issued	181,168	126,183
Other	(84,796)	(24,418)
	425,932	180,734
Accounting profit under RAS	1,146,230	729,879
Adjustments for disallowable items	383,162	60,561
Taxable profit	1,529,392	790,440
Tax liability at 24%	**(367,054)**	**(189,706)**

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

(in thousands of Russian Roubles)

28. Taxation (continued)

Other significant taxes borne by the Bank and included in operating expenses (Note 27) include:

	2007	2006
Irrecoverable VAT	134,994	50,466
Property tax	11,563	4,478
Other	1,780	849
	148,337	**55,793**

Property tax is calculated at a rate of 2.2% (2006: 2.2%) on the value of assets as computed under Russian statutory taxation regulations. Most of the income of the Bank is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

29. Financial Risk Management

The Group has a pro-active approach to Management of financial risks (credit, market including interest rate, exchange rate and liquidity risks), operational risk, legal and reputation risk. The primary objectives of the financial risk Management function are to establish risk limits, and then, through the internal control process to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that deviations are corrected in accordance with Management's policies. The operational and legal Management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational, legal and reputation risks.

Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Since the Bank specialises in retail lending market, the main risk for the Bank is credit risk in respect of individual borrowers. The share of consumer loans in the Bank's total assets comprises more than 60%. In addition, of the Bank's income no less than 65% depends on interest and non-interest income from individuals lending. Another risk factor exists for the Bank in that there is a concentration of unsecured loans in the retail loan portfolio.

The Bank has a credit policy which establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans and contingent operations.

For the purpose of minimising credit risk concentration the Bank diversifies the loan portfolio by lending a large number of loans to small borrowers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

There is a credit group function in the Bank whose main task is the on-going 'perfection' of the algorithm of borrowers' credit assessment as well as other elements on lending.

There is a successful information and analytics system in the Bank for support of making credit decisions. This system provides analysis of the Bank's loan portfolio promptly and it helps to manage the key parameters of the credit scoring system depending on the factors such as the current rate of overdue debt, specification of credit products, regional analysis and credit generations.

29. Financial Risk Management (continued)
Credit Risk (continued)

An essential part of credit risk Management is the regular estimation of the adequacy of the used scoring system to ensure its forecasting accuracy and timeliness of necessary changes. There is also a centralization of the process for making credit decisions and reviewing the scoring system supported by an extensive data base. The bank also uses different credit ratings companies.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

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

The Bank measures credit risk by reference to its internal rating system which is shown in Note 8.

The bank assumes credit risk in terms of its transfer of loans to URSA Bank, as detailed in Note 23, however it deems the risk from URSA to be minimal as cash consideration is received at or very close to the time loans are transferred. The Banks exposure to loss in terms of the underlying loans sold is also detailed in Note 23.

Country Risk
Country risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets.

The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk associated with Russian tax are set out in Note 30.

A geographical analysis of the Group's assets and liabilities as at 31 December 2007 is set out on the following page.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Country Risk (continued)

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	1,376,458	217,827	25,417	1,619,702
Mandatory cash balances with the CBRF	281,134	-	-	281,134
Due from other banks	1,795,849	-	-	1,795,849
Loans and advances to customers	18,377,085	-	-	18,377,085
Accrued interest income and other assets	573,742	-	-	573,742
Securities	46,723	-	-	46,723
Service fee asset	1,702,019	-	-	1,702,019
Premises and equipment	1,070,346	-	-	1,070,346
Intangible assets	567	-	-	567
Total assets	**25,223,923**	**217,827**	**25,417**	**25,467,167**
Liabilities				
Customer accounts	11,828,309	-	-	11,828,309
Due to other banks	1,406,515	-	-	1,406,515
Debt securities issued	1,761,883	-	-	1,761,883
Bonds issued by OEFL	-	6,409,260	-	6,409,260
Deferred tax liability	297,317	-	-	297,317
Accrued interest expense and other liabilities	423,578	272,853	-	696,431
Other Borrowings	220,500	-	-	220,500
Warranties on loans sold	131,636	-	-	131,636
Finance lease	44,624	-	-	44,624
Total liabilities	**16,114,362**	**6,682,113**	**-**	**22,796,475**
Net on-balance sheet position	**9,109,561**	**(6,464,286)**	**25,417**	**2,670,692**
Credit related commitments	**(67,226)**	**-**	**-**	**(67,226)**

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

	Russia	OECD	Non OECD	Total
Net on-balance sheet position	**1,515,632**	**2,533**	**49**	**1,518,214**
Credit related commitments	**(5,421)**	**-**	**-**	**(5,421)**

Market Risk

A) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Bank manages currency risk via providing maximum possible matching of assets and liabilities. Assets & Liabilities Management Committee establishes limits as for the level of accepted risk by currencies as well as on the whole both at the end of every day and within one day.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Market Risk (continued)

A) Currency Risk (continued)

At 31 December 2007, the Group had the following positions in Russian Roubles and other currencies:

	RUB	USD	Other	Total
Assets				
Cash and cash equivalents	1,253,635	229,090	136,977	1,619,702
Mandatory cash balances with CBRF	281,134	-	-	281,134
Due from other banks	530,000	1,136,489	129,360	1,795,849
Loans and advances to customers	18,377,085	-	-	18,377,085
Accrued int. income and other assets	571,957	1,377	408	573,742
Securities	46,723	-	-	46,723
Service fee asset	1,702,019	-	-	1,702,019
Premises and equipment	1,070,346	-	-	1,070,346
Intangibles	567	-	-	567
Total assets	**23,833,466**	**1,366,956**	**266,745**	**25,467,167**
Liabilities				
Customer accounts	10,995,216	554,495	278,598	11,828,309
Due to other banks	1,161,053	245,462	-	1,406,515
Debt securities issued	1,761,883	-	-	1,761,883
Bonds issued by OEFL	5,370,796	1,038,464	-	6,409,260
Deferred tax liability	297,317	-	-	297,317
Accrued interest expense and other liabilities	685,884	9,365	1,182	696,431
Other borrowings	220,500	-	-	220,500
Warranties on loans sold	131,636	-	-	131,636
Finance lease	44,624	-	-	44,624
Total liabilities	**20,668,909**	**1,847,786**	**279,780**	**22,796,475**
Net balance sheet position	**3,164,557**	**(480,830)**	**(13,035)**	**2,670,692**
Credit related commitments	**(66,490)**	**(736)**	**-**	**(67,226)**

As of 31 December 2006 the Bank had the following positions in Russian Roubles and other currencies:

	RUB	USD	Other currencies	Total
Net balance sheet position	**1,529,289**	**(10,583)**	**(492)**	**1,518,214**
Credit related commitments	**(4,368)**	**(1,053)**	**-**	**(5,421)**

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Market Risk (continued)

A) Currency Risk (continued)
The following table demonstrates the sensitivity to a reasonably possible change in the RUB to US Dollar exchange rate, with all other variables held constant, of the Group’s profit before tax and the Group’s equity. Analysis has not been provided for other currencies as there are no significant exposures.

	Increase / decrease in USD rate	Effect on equity only
2007	+ 8% / - 8%	(38,466)/38,466
2006	+ 8% / - 8%	(847) / 847

B) Interest Rate Risk
The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements take place.

The Group is exposed to the interest rate risk as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds, including bonds issued by OEFL at fixed interest rates.

In practice, the Group has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. The estimation of interest rate risk in the Group is based on gap-analysis of sensitive (towards interest rate changes) financial instruments (SFI). The basic methodological approach of gap-analysis is in recording of future SFI payment flows at balance sheet cost. The balance sheet cost is broken down by dates of interest rates revision in compliance with contract maturity dates depending on what date is the earliest.

The Bank measures and sets itself targets to its interest rate risk in terms of three ratios:

- Overall level of Risk Sensitive Assets (‘RSA’) to Risk Sensitive Liabilities (‘RSL’)
- Overall gap in interest sensitive assets (‘Gap’) to RSA and
- Weighted average days of RSA (‘WARSA’) to weighted average days to RSL (‘WARSL’)

The level of compliance with the target is then assessed as a percentage via a formula and this is transcribed into a score. Scores are averaged and then assessed against a chart to define in general terms the risk group for the risk the bank is running. These are presented below:

Gap Analysis

	Target	31 December 2007	31 December 2006	Compliance score	Score
RSA/ RSL	0.5	0.9835	0.9976	97%	20
Gap/ RSA	0.5	0.0167	0.0024	97%	20
WARSA/ WARSL	1.7	1.0298	1.1956	39%	40
Average score					26.67

Group of risk	Name of the group	Score for the group
Group 1	Minimal risk	Up to 20
Group 2	Low risk	From 21 to 40
Group 3	Middle risk	From 41 to 60
Group 4	High risk	From 61 to 80
Group 5	Maximum risk	From 81 to 100

Following the above schedule the Banks is in the Low Risk position for both years.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Market Risk (continued)

B) Interest Rate Risk (continued)
The majority of interest bearing liabilities are on fixed rate terms but the Group reserved its right to reprice in case of significant fluctuations of interest rates. Management does not consider the Group to have significant exposure as a result of taking long term deposits at fixed interest rates.

The table below summarises the effective average interest rate, by major currencies, for the main categories of interest bearing assets and liabilities. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end contracted interest rates.

	RUB	USD	EURO
Assets			
Due from banks	0.47	2.98	0.42
Loans and advances to customers	14.20	-	-
Liabilities			
Due to other banks:			
- current term loans and deposits of other banks	7.54	-	-
Customer accounts:			
- term deposits of legal entities	8.46	-	-
- term deposits of individuals	11.80	10.50	10.80
Promissory notes issued	14.80	-	-
Bonds issued	10.30	-	-
Bonds issued by OEFL	9.88	11.00	-
Other borrowings (EBRD)	10.77	-	-

A significant proportion of the Group’s revenue on loans is earned from charging service fees. This significantly increases the profitability of the Group’s interest bearing assets. Service fees are calculated on a fixed rate basis based on the original loan amount.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points (“bp”) with all other variables held constant, of the Group’s profit before tax and the Group’s equity:

	2007	2006
RUB		
100 bp parallel increase	86,357	40,370
100 bp parallel decrease	(86,357)	(40,370)
USD		
50 bp parallel increase	3,933	1,833
50 bp parallel decrease	(3,933)	(1,833)

C) Liquidity Risk
Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk. The table below shows assets and liabilities as at 31 December 2007 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Market Risk (continued)

C) Liquidity Risk (continued)
The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to 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. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and Management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Group or securities retained for short term capital appreciation and thus do not have a stated maturity date. Securities to split out by time element

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Group would indicate that deposits provide a long-term and stable source of funding for the Group.

The Group calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- 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 capital and liabilities maturing after one year

The Group was in compliance with the above ratios during the years ended 31 December 2007 and 31 December 2006. The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2007 and 31 December 2006:

	Requirement	31 December 2007	31 December 2006
Instant liquidity ratio (N2)	Minimum 15%	116%	65%
Current liquidity ratio (N3)	Minimum 50%	142%	83%
Long-term liquidity ratio (N4)	Maximum 120%	86%	74%

The Group’s liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior Management immediately. The Group performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity Management is controlled by the Asset and Liability Committee.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)
Market Risk (continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	1,619,702	-	-	-	-	1,619,702
Mandatory cash balances with CBRF	-	-	-	-	281,134	281,134
Due from other banks	1,648,571	147,278	-	-	-	1,795,849
Loans and advances to customers	834,771	3,987,549	3,938,221	9,616,330	214	18,377,085
Securities	-	-	-	20,580	26,143	46,723
Accrued interest income and other assets	240,982	3,553	3,156	998	325,053	573,742
Service fee asset	133,486	546,315	404,646	617,572	-	1,702,019
Premises and equipment	-	-	-	-	1,070,346	1,070,346
Intangibles	-	-	-	-	567	567
Total assets	**4,477,512**	**4,684,695**	**4,346,023**	**10,255,480**	**1,703,457**	**25,467,167**
Liabilities						
Customer accounts	2,673,970	4,778,649	3,309,782	1,065,908	-	11,828,309
Due to other banks	974,653	146,400	285,462	-	-	1,406,515
Debt securities issued	6,000	-	103,000	1,652,883	-	1,761,883
Bonds issued by OEFL	-	-	-	6,409,260	-	6,409,260
Deferred tax liability	-	-	-	-	297,317	297,317
Accrued interest expense and other liabilities	443,564	138,408	6,389	35,006	73,064	696,431
Other borrowings	-	-	-	220,500	-	220,500
Finance lease liability	3,878	19,463	13,700	7,583	-	44,624
Warranties on loans sold	10,531	42,123	31,593	47,389	-	131,636
Total liabilities	**4,112,596**	**5,125,043**	**3,749,926**	**9,438,529**	**370,381**	**22,796,475**
Net liquidity gap	**364,916**	**(440,348)**	**596,097**	**816,951**	**1,333,076**	**2,670,692**
Cumulative gap 31 December 2007	**364,916**	**(75,432)**	**520,665**	**1,337,616**	**2,670,692**	**-**
Cumulative gap 31 December 2006	**(352,349)**	**(140,803)**	**(240,649)**	**911,906**	**1,518,214**	**-**

Operational Risk
Operational risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional wrongful actions of personnel and force majeur circumstances.

The Group has internal regulations and procedures aimed to minimise operational risk. A report on operational risk is considered quarterly by the Management Board and once a year at the meeting of the Board of Directors of the Bank.

(in thousands of Russian Roubles)

29. Financial Risk Management (continued)

Insurance

The use of insurance as a means of regulating liability risk is still relatively undeveloped in Russian Federation as this type of cover is not widely available. Management has therefore not been able to make extensive use of this risk Management tool.

Details of property insurance are set out in Note 10.

As at the end of the year the Bank was registered with the Central Bank's retail deposit insurance scheme.

30. Contingencies, Commitments and Derivative Financial Instruments

Legal Proceedings

From time to time and in the normal course of business, claims against the Bank are received. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no allowance has been made in these financial statements.

Tax Legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital Commitments

As at 31 December 2007 and 31 December 2006 the Group had no material capital commitments.

Credit Related Commitments

Credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, all the Bank's import letters of credit are fully collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2007	2006
Undrawn credit lines	61,490	2,341
Guarantees issued to third parties	5,736	3,080
	67,226	**5,421**

Management evaluated the likelihood of impairment in respect of other credit related commitments and concluded that no allowance for impairment loss was necessary as at 31 December 2007 (2006: nil). The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives

As at 31 December 2007 and 31 December 2006 the Group had no outstanding derivative contracts.

Assets Pledged

As at 31 December 2007 there were no assets pledged to secure liabilities of the Group (2006 - nil).

(in thousands of Russian Roubles)

30. Contingencies, Commitments and Derivative Financial Instruments (continued)

Leased Fixed Assets

During the year the Bank leased certain assets from third parties. Details of lease payments lease payable are set out below:

	2007	2006
Operating lease:		
Payable within one year	103,564	57,380
Payable within two to five years	91,402	48,844
Payable over five years	-	2,475
	194,966	**108,699**

Operating lease includes a number of contracts expiring in 2008, but which can be prolonged, and this will result in substantial lease payable within two to five years.

31. Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A holding of 5% or more by one party in another is considered by Management to be one of the possible indicators that the parties are related. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The list of those companies and individuals considered by Management to be related parties as at 31 December 2007 is set out below:

31. Related Parties (continued)

Significant shareholders

	Activities
Igor Kim	
Sergei Vlasov	President of the Bank
Andrey Bekarev	
Evgeniya Schouplova	
Alexandr Taranov	
Rekha Holdings Limited	Investments
Subsidiary companies	
VEB Finance Ltd.	Financial intermediary
Business concern AVK-Gamma Ltd.	Rent
First Collection Bureau Ltd.	Financial Intermediary
Associated companies	
Vostochnoye Bureau of Credit Histories Ltd.	Financial intermediary
CJSC Sibirskoye Credit Bureau	Financial intermediary
Companies under common control through shareholders	
OJSC URSA Bank	Banking
OJSC Etalonbank	Banking
Yuzhny Region Ltd.	Banking
CJSC ZapSibZHASO	Insurance
Blagoveschenskoye Credit Agency Ltd.	Financial Intermediary
Khabarovskoye Credit Agency Ltd.	Financial Intermediary
Primorskoye Credit Agency Ltd.	Financial Intermediary
Irkoutskoye Credit Agency Ltd.	Financial Intermediary
Zabaikal’skoye Credit Agency Ltd.	Financial Intermediary
Stroyinvest Ltd.	Financial Intermediary
Members of the Board of Management	
Sergey Vlasov (also a shareholder)	
Elena Kalinina	
Ludmila Proskurina	
Natalia Popova	
Members of the Board of Directors	
Yuriy Vavilov	Chairman of the Board of Directors
Sergey Vlasov (also a shareholder)	President of the Bank
Andrey Bekarev (also a shareholder)	
Igor Kim (also a shareholder)	
Sergei Nazarov	

During the reporting period the Group entered into transactions with related parties, which included loan and deposit agreements, and provision of guarantees. Details of transactions and balances with related parties are set out in the tables below (all balances are unsecured unless otherwise stated). Balances and transactions with shareholders are included as such below regardless of whether the shareholders concerned also belong to another category of related party.

(in thousands of Russian Roubles)

31. Related Parties (continued)

	2007								
	Share-holders	**Mem-bers of BOD**	**Manage ment (excl-uding BOD)**	**Subsid-iaries**	**Assoc iates**	**Other related parties**	**Total balances/ trans-actions with related parties**	**Parties that ceased to be related during the year**	**Total for the cat-egory**
Balances									
Cash and cash equivalents	-	-	-	-	-	50,796	**50,796**	**-**	**1,619,702**
Due from other banks	-	-	-	-	-	-	**-**	**-**	**1,795,849**
Loans issued	-	-	-	-	-	507	**507**	**-**	**19,363,197**
Loan loss allowance	-	-	-	-	-	-	**-**	**-**	**(986,112)**
Other assets	-	-	-	-	-	1,078	**1,078**	**-**	**573,742**
Balances on correspondent accounts	10,935	2	2,232	3,044	95	232	**16,540**	**-**	**1,096,236**
Deposits	543,083	17,473	18,292	-	-	12,000	**590,848**	**-**	**10,732,073**
Due to other banks	-	-	-	-	-	-	**-**	**-**	**1,406,515**
Promissory notes issued	-	-	-	-	-	-	**-**	**-**	**273,551**
Other liabilities	-	-	-	13,368	-	6,481	**19,849**	**-**	**87,639**
Liabilities under finance lease	-	-	-	-	-	16,264	**16,264**	**-**	**44,624**
Unused credit lines	-	-	-	5,000	-	-	**5,000**	**-**	**61,490**
Guarantees issued	-	-	-	-	-	23,195	**23,195**	**-**	**28,932**
Accrued interest income	-	-	-	-	-	5	**5**	**-**	**264,600**
Accrued interest expense	188	135	25	-	-	76	**424**	**-**	**409,527**
Balances on loans resold to URSA Bank	-	-	-	-	-	6,340,527	**6,340,527**	**-**	**6,340,527**
Balance on warranties on loans sold to URSA Bank	-	-	-	-	-	131,636	**131,636**	**-**	**131,636**
Transactions									
Interest income on loans issued	-	-	29	9,089	-	363	**9,481**	**-**	**3,702,555**
Interest expense	54,656	389	5,920	-	-	4,647	**65,612**	**-**	**1,488,928**
Rent expense	4,599	-	4,103	-	-	251	**8,953**	**-**	**131,052**
Commission received	2	-	2	313	1	17,968	**18,286**	**4**	**1,244,839**
Commission paid	-	-	-	134,104	-	-	**134,104**	**343**	**142,260**
Other income	-	-	4	-	-	-	**4**	**-**	**15,981**
Other expense	32,331	-	28,516	129,055	-	45,900	**235,802**	**-**	**2,634,105**
Results on disposal of loans	-	-	-	-	-	1,756,178	**1,756,178**	**-**	**1,756,178**
Loans sold to URSA Bank	-	-	-	-	-	7,984,888	**7,984,888**	**-**	**7,984,888**

(in thousands of Russian Roubles)

31. Related Parties (continued)

	2006								
	Share-holders	**Mem-bers of BOD**	**Manage ment (excludi ng BOD)**	**Subsid-iaries**	**Assoc iates**	**Other related parties**	**Total balances /transact-ions with related parties**	**Parties that ceased to be related during the year**	**Total for the category**
Balances									
Cash and cash equivalents	-	-	-	-	-	4,136	**4,136**	**-**	**730,748**
De from other banks	-	-	-	-	-	30,000	**30,000**	**-**	**1,057,409**
Loans issued	-	-	2,000	82,000	-	-	**84,000**		**6,001,848**
Loan loss allowance	-	-	-	-	-	-	**-**	**-**	**(359,536)**
Other assets	-	-	130	-	-	1,824	**1,954**	**-**	**329,079**
Balances on correspondent accounts	645	-	174	211	32	122	**1,184**	**-**	**592,842**
Deposits	255,538	2	4,010	-	-	-	**259,550**	**95,790**	**5,142,184**
Due to other banks	-	-	-	-	-	60,001	**60,001**	**87**	**864,493**
Debt securities issued	-	-	-	-	-	-	**-**	**463,400**	**771,157**
Other liabilities	-	-	-	-	-	5,463	**5,463**	**25,302**	**191,970**
Liabilities under finance lease	-	-	-	-	-	39,854	**39,854**	**-**	**69,879**
Guarantees issued	-	-	-	-	-	2,026	**2,026**	**-**	**2,026**
Balances on loans resold to URSA Bank	-	-	-	-	-	5,103,542	**5,103,542**	**-**	**5,103,542**
Balance on warranties on loans sold to URSA Bank	-	-	-	-	-	153,106	**153,106**	**-**	**153,106**
Transactions									
Interest income on loans issued	-	-	4	1,359	477	1,036	**2,876**	**-**	**1,142,582**
Interest expense	832	-	331	-	-	26,249	**27,412**	**64,443**	**426,448**
Rent expense	16,963	-	2,334	-	-	1,508	**20,805**	**-**	**97,020**
Commission received	3	-	-	14	17	14,596	**14,630**	**-**	**796,017**
Commission paid	-	-	-	12,892	10,702	1	**23,595**	**-**	**39,478**
Other income	721	-	6	-	2	86	**815**	**1**	**2,311**
Other expense	19,200	-	17,183	-	-	63,733	**100,116**	**638**	**1,209,794**
Results on disposal of loans	-	-	-	-	-	1,379,822	**1,379,822**	**-**	**1,379,822**
Loans sold to URSA Bank	-	-	-	-	-	7,160, 997	**7,160,997**	**-**	**7,160,997**

The salaries paid to the members of the Bank's Management during 2007 amounted to RUB 60,527 (2006: RUB 35,501). There were no long term benefits, post-employment benefits, termination benefits or share based payments. No remuneration to other members of the Board of Directors was paid during 2007 and 2006.

(in thousands of Russian Roubles)

32. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian Accounting Legislation. As of 31 December 2007, the Bank’s capital adequacy ratio calculated on this basis was 11.5%, exceeding the statutory minimum (2006: 11.4%)

Capital adequacy calculation is prepared by Treasury Department for each operating day. Each day treasury department receives information about receipts and placements of interbank loans, securities, loans from/to individuals and legal entities. Using this information as well as accounting records for particular day employee in charge performs the calculation of capital adequacy ratio. Calculation is then reviewed by head of Treasury department and then goes to Chairman of Executive committee.

Liquidity is controlled by ratios calculated in accordance with requirements of the CBRF (see Note 29). In addition there are two limits of liquidity ratios control in the Bank: limit Stop-loss and limit Stop-out. If the stop-loss limit has been reached, Head of Branch/Head of Treasury department is informed and necessary actions are taken to recover the limit to necessary ratio. If the stop-out limit has been reached Chairman of Executive Committee is informed to make a decision regarding recovery procedures.

The Bank’s international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1998, as of 31 December 2007 was 11.9% (2006: 18.9%). This ratio exceeded the minimum ratio of 8% recommended by Basle Accord.

The capital adequacy ratio in accordance with the 1998 Basle Accord guidelines based on the audited financial statements of the Group as of 31 December 2007 was computed as follows:

	2007	**2006**
Tier 1 Capital		
Share capital	399,837	399,837
Share Premium	4,697	4,697
Accumulated profit	2,266,158	1,113,680
Total Tier 1 Capital	**2,670,692**	**1,518,214**
Total Capital	**2,670,692**	**1,518,214**
Risk weighted assets	**22,368,970**	**8,039,083**
Capital adequacy ratio	**11.9%**	**18.9%**

(in thousands of Russian Roubles)

32. Capital Adequacy (continued)

Capital is calculated as the total of restricted and unrestricted components of equity plus general provision for loan losses to the extent that this provision does not exceed 1.25% of assets calculated using the following risk weightings:

Weighting	Description
0%	Cash, amounts with the Central Bank of Russian Federation and claims on the Government of the Russian Federation denominated in Roubles and funded in Roubles
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% - 5%	Foreign exchange contracts
0% - 0,5%	Interest rate contracts

33. Post Balance Sheet Events

On 29 February 2008 the Bank placed through open subscription 1,680,000 ordinary shares with par value RUB 100 (not thousands) at a price RUB 1,309.53 each (not thousands). Share capital has increased to RUB 448,000 and share premium has amounted to RUB 2,032,010.

On 7 March 2008 Management decided to repurchase the bonds detailed in Note 14 with nominal value of RUB 1,500 that were issued on 22 March 2007.