

OJSC “First United Bank”

Financial Statements

For the Year Ended 31 December 2007

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Independent Auditors' Report

To the Shareholders
Open Joint-Stock Company "First United Bank"
(OJSC "First United Bank")

Report on the Financial Statements

We have audited the accompanying financial statements of OJSC "First United Bank" (the "Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

Opinion


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

ZAO KPMG
23 May 2008


OJSC "First United Bank"
Income Statement for the year ended 31 December 2007

	Notes	2007 RUR'000	2006 RUR'000
Interest income	4	2,244,559	1,325,331
Interest expense	4	(867,274)	(354,982)
Net interest income		1,377,285	970,349
Net loan impairment losses	5	(169,068)	(130,432)
Net interest income after loan impairment losses		1,208,217	839,917
Fee and commission income	6	164,419	79,617
Fee and commission expense	7	(20,566)	(18,540)
Net fee and commission income		143,853	61,077
Net gain on financial instruments held for trading	8	5,197	4,484
Net foreign exchange gain	9	33,566	17,460
Other income		18,304	17,870
		1,409,137	940,808
Other impairment and provision recoveries	10	-	5,123
General administrative expenses	11	(803,203)	(476,355)
Profit before taxes		605,934	469,576
Income tax expense	12	(154,105)	(109,944)
Net profit		451,829	359,632

The financial statements as set out on pages 4 to 52 were approved by the Board of Directors on 23 May 2008.



O. Bagaev
President



T. Radaeva
Chief Accountant

	Notes	2007 RUR'000	2006 RUR'000
ASSETS			
Cash and cash equivalents	13	1,271,317	706,905
Mandatory reserves with the Central Bank of the Russian Federation		273,710	229,835
Placements with banks and other financial institutions	14	411,201	502,726
Financial instruments held for trading	15	1,535,261	1,800,662
Loans to customers	16	18,162,790	8,886,905
Available-for-sale assets	17	1,867	1,650
Property and equipment	18	144,927	133,027
Income tax prepayment		10,000	-
Other assets	19	38,971	27,955
Goodwill		73,297	73,297
Deferred tax asset	25	3,046	11,105
Total assets		21,926,387	12,374,067
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and balances from banks and other financial institutions	20	1,252,961	221,593
Current accounts and deposits from customers	21	12,088,358	6,402,322
Certificates of deposit and promissory notes	22	5,158,412	4,163,362
Subordinated debt	23	455,700	455,700
Income tax payable		2,357	28,085
Other liabilities	24	67,447	58,066
Total liabilities		19,025,235	11,329,128
Shareholders' equity			
Share capital	26	1,078,772	490,860
Share premium	26	1,326,374	314,286
Retained earnings		496,006	239,793
Total shareholders' equity		2,901,152	1,044,939
Total liabilities and shareholders' equity		21,926,387	12,374,067
Commitments and Contingencies	29-31		

OJSC "First United Bank"
Statement of Cash Flows for the year ended 31 December 2007

	Notes	2007 RUR'000	2006 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		2,428,434	1,394,062
Interest and fee and commission payments		(884,666)	(304,315)
Net receipts from financial instruments held for trading		11,718	487
Net receipts from foreign exchange		21,776	15,863
Other income		18,304	17,870
General administrative expenses		(783,720)	(435,185)
(Increase)/decrease in operating assets			
Mandatory reserves with the Central Bank of the Russian Federation		(43,875)	(100,984)
Placements with banks and other financial institutions		93,521	197,265
Financial instruments held for trading		254,369	(1,068,135)
Loans to customers		(9,447,119)	(5,025,577)
Available-for-sale assets		(217)	31,791
Other assets		(11,724)	(14,004)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		1,031,350	(118,553)
Current accounts and deposits from customers		5,694,843	1,728,396
Certificates of deposit and promissory notes		989,267	3,513,849
Other liabilities		6	(4,054)
Net cash used in operating activities before taxes paid		(627,733)	(171,224)
Taxes paid		(181,774)	(89,096)
Cash flows from operations		(809,507)	(260,320)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(36,723)	(22,225)
Sale of property		7,537	5,351
Proceeds from business combination		-	194,132
Cash flows from investing activities		(29,186)	177,258
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,600,000	249,959
Dividends paid		(195,616)	(159,589)
Cash flows from financing activities		1,404,384	90,370
Net increase in cash and cash equivalents		565,691	7,308
Effect of changes in exchange rates on cash and cash equivalents		(1,279)	(2,237)
Cash and cash equivalents at the beginning of the year		706,905	701,834
Cash and cash equivalents at the end of the year	13	1,271,317	706,905

OJSC "First United Bank"
Statement of Changes in Shareholders' Equity for the year ended 31 December 2007

	Share capital	Share premium	Retained earnings	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 1 January 2006	173,742	87,801	39,750	301,293
Net profit for the year	-	-	359,632	359,632
Business combination	199,821	93,823	-	293,644
Shares issued (Note 26)	117,297	132,662	-	249,959
Dividends declared	-	-	(159,589)	(159,589)
Balance at 31 December 2006	490,860	314,286	239,793	1,044,939
Net profit for the year	-	-	451,829	451,829
Shares issued (Note 26)	587,912	1,012,088	-	1,600,000
Dividends declared	-	-	(195,616)	(195,616)
Balance at 31 December 2007	1,078,772	1,326,374	496,006	2,901,152

The statement of changes in shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the financial statements.

1 Background

Principal activities

These financial statements include the financial statements of Open Joint-Stock Company "First United Bank" (the "Bank" or OJSC "First United Bank").

OJSC "First United Bank" was created as a result of a merger of Open Joint-Stock Company Commercial Bank "Samarsky Credit" (OJSC CB "Samarsky Credit") and Closed Joint-Stock Company "NOVA Bank" (CJSC "NOVA Bank") on 18 January 2006.

OJSC CB "Samarsky Credit" was established in the Russian Federation and was granted its banking license in 1994. CJSC "NOVA Bank" was established in the Russian Federation and was granted its general banking license in 1994.

On 18 January 2006 OJSC CB "Samarsky Credit" merged with CJSC "NOVA Bank" and the new entity, OJSC "First United Bank", was established. All of the outstanding shares of OJSC CB "Samarsky Credit" and CJSC "NOVA Bank" were converted into the newly issued ordinary shares of OJSC "First United Bank". As a result of the merger, OJSC CB "Samarsky Credit" and CJSC "NOVA Bank" ceased to exist as legal entities with all their assets and liabilities being transferred to OJSC "First United Bank". Management of the Bank identified that OJSC CB "Samarsky Credit" was the acquirer in the business combination.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash operations, operations with securities and foreign exchange operations. The Bank's Head office is located in the city of Samara. The Bank also has 4 branches, through which it conducts business in the Russian Federation. The majority of the Bank's assets and liabilities are located in the Russian Federation. The average number of people employed by the Bank during the year ended 31 December 2007 was 707 (2006: 470).

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank is a member of a state deposit insurance scheme in the Russian Federation.

The Bank's registered office is: 3A Eroshevskogo Street, Samara, 443086, Russian Federation.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments held for trading and available-for-sale assets are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management has determined the Bank's functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the Bank's presentation currency for the purposes of these financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in Note 16 in respect of loan impairment estimates.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied. Changes in accounting policies are described at the end of this Note.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

As at 31 December 2007 the official CBR foreign exchange rates used for translation of balances in foreign currencies were 24.5462 RUR/USD and 35.9332 RUR/EUR (31 December 2006: 26.3311 RUR/USD and 34.6965 RUR/EUR).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Bank's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Bank considers cash, nostro accounts with other banks and nostro accounts with the CBR to be cash and cash equivalents. The mandatory reserves with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- securities held for trading that are acquired principally for the purpose of selling in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or
- upon initial recognition, designated by the Bank as at fair value through profit or loss.

The Bank designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Bank intends to sell immediately or in the near term;
- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank upon initial recognition designates as available-for-sale; or
- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in the income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in the income statement over the term of the reverse repo agreement using the effective interest rate method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments under operating leases, in accordance with the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed over the term of the lease.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Office and computer equipment	4 to 5 years
Vehicles	5 years
Computer software	4 years

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired business undertaking at the date of acquisition. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Goodwill is allocated to each of the cash-generating unit expecting to benefit from the combination. Impairment is determined by assessing of the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of a cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill can not be reversed in a subsequent period.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and 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 receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when the Bank's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Share capital

Share capital and share premium

Share capital comprises the nominal amount of the Bank's shares fully paid by the shareholders adjusted for the effect of hyperinflation.

Share premium is the amount by which contributions to share capital exceeded the nominal value of the shares issued adjusted for the effect of hyperinflation.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

With the exception of financial assets held for trading, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading comprises coupon interest only.

Accrued discounts and premiums on financial instruments held for trading are recognised in net gain from financial instruments held for trading.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Net gain from financial instruments held for trading

Net gain from financial instruments held for trading includes gains and losses arising from disposals and changes in the fair value of financial instruments held for trading.

Net foreign exchange gain

Net foreign exchange gain includes foreign exchange translation gains and losses and gains and losses from trading in foreign currencies, including gains and losses from trading in foreign currency derivative financial instruments.

Dividend income

Dividend income from investments in companies where the Bank does not have control or significant influence is recognised in the income statement on the date that the dividends are declared.

Business combinations

The purchase method of accounting is used to account for the business combination. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. If the cost of acquisition is less than the fair value of the net assets of the business acquired, the difference is recognised immediately in the income statement.

Segment reporting

The Bank has elected to early adopt definitions and requirements included in IFRS 8 "Operating Segments" from 1 January 2006.

An operating segment is a component of a Bank:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank),
- whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

Based on the analysis of the requirements listed above the Management determined that the Bank operates in one segment.

Changes in presentation of comparative information

Subordinated debt of RUR 455,700 thousand presented within current accounts and deposits from customers in the financial statements of the Bank for the year ended 31 December 2006 is presented as subordinated debt on the face of the balance sheet in these financial statements.

Commission for the servicing of loans of RUR 53,559 thousand, presented within fee and commission income in the financial statements of the Bank for the year ended 31 December 2006, is presented as interest income on loans to customers on the face of the income statement in these financial statements as it is in substance interest income.

Changes in accounting policies

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

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt this pronouncement when it becomes effective. The Bank has not yet analysed the likely impact of the new standard on its financial statements.

International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" (Revised), which is effective for annual periods beginning on or after 1 January 2009, 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 in the financial statements.

4 Interest income and interest expense

	2007 RUR'000	2006 RUR'000
Interest income		
Loans to customers	2,045,619	1,134,376
Financial instruments held for trading	147,780	133,633
Placements with banks and other financial institutions	40,432	48,973
Reverse repurchase agreements	10,728	8,349
	2,244,559	1,325,331
Interest expense		
Current accounts and deposits from customers	(476,316)	(184,691)
Certificates of deposit and promissory notes	(281,643)	(123,490)
Subordinated debt	(51,954)	(35,692)
Deposits and balances from banks and other financial institutions	(54,312)	(10,753)
Repurchase agreements	(3,049)	(356)
	(867,274)	(354,982)

The amount of interest income on overdue loans recognised in the income statement for the year ended 31 December 2007 amounted to RUR 81 thousand (31 December 2006: RUR 5,723 thousand).

5 Net loan impairment losses

	2007 RUR'000	2006 RUR'000
Loans to customers	(169,068)	132,389
Placements with banks and other financial institutions	-	(1,957)
	(169,068)	130,432

6 Fee and commission income

	2007 RUR'000	2006 RUR'000
Settlement fees	82,141	48,868
Guarantee and letter of credit fees	46,204	9,833
Cash operations	28,150	14,159
Other	7,924	6,757
	164,419	79,617

7 Fee and commission expense

	2007	2006
	RUR'000	RUR'000
Settlement fees	7,842	11,320
Plastic cards settlement fees	9,830	4,826
Cash operations	2,093	1,595
Guarantee and letter of credit fees	664	612
Other	137	187
	20,566	18,540

8 Net gain on financial instruments held for trading

	2007	2006
	RUR'000	RUR'000
Equity instruments	5,682	1,975
Debt instruments	(485)	2,509
	5,197	4,484

9 Net foreign exchange gain

	2007	2006
	RUR'000	RUR'000
Gain from revaluation of financial assets and liabilities	11,790	1,597
Gain on spot transactions and derivatives	21,776	15,863
	33,566	17,460

10 Other impairment and provision recoveries

	2007	2006
	RUR'000	RUR'000
Recovery of provision for credit related commitments	-	5,112
Recovery of other assets impairment	-	11
	-	5,123

11 General administrative expenses

	2007 RUR'000	2006 RUR'000
Employee compensation	530,896	309,472
Payroll related taxes	50,625	35,391
Repairs and maintenance	43,259	21,234
Occupancy	40,772	16,449
Taxes other than income taxes	20,244	13,016
Insurance	17,708	12,597
Depreciation	17,286	15,537
Advertising and marketing	14,223	9,465
Communications and information services	10,436	8,696
Travel expenses	10,246	3,226
Security	8,213	6,775
Professional services	4,221	4,675
Other	35,074	19,822
	803,203	476,355

12 Income tax expense

	2007 RUR'000	2006 RUR'000
Current year income tax expense	146,046	112,470
Origination and reversal of temporary differences	8,059	(2,526)
Total income tax expense in the income statement	154,105	109,944

The Bank's applicable tax rate for current and deferred tax is 24% (2006: 24%), except for Russian government bonds, which are taxable at 15% (2006: 15%).

Reconciliation of the effective tax rate:

	2007 RUR'000	%	2006 RUR'000	%
Income before tax	605,934		469,576	
Income tax at the applicable tax rate	145,424	24.0%	112,698	24.0%
Non-deductible costs	15,881	2.6%	1,462	0.3%
Income taxed at lower tax rates	(7,200)	(1.2%)	(4,216)	(0.9%)
	154,105	25.4%	109,944	23.4%

13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow are composed of the following items:

	2007 RUR'000	2006 RUR'000
Cash	742,356	226,237
Nostro accounts and overnight placements with other banks	73,219	66,796
Cash balances with the CBR (other than mandatory reserves with the CBR)	455,742	413,872
	1,271,317	706,905

14 Placements with banks and other financial institutions

	2007 RUR'000	2006 RUR'000
<i>Not impaired or past due</i>		
Loans and deposits		
OECD banks	130,429	357,531
Large Russian banks	106,180	144,450
Large Russian brokerage companies	123,358	-
Other	51,234	745
Total loans and deposits not impaired	411,201	502,726
<i>Overdue or impaired</i>		
Loans to Russian banks	-	10,000
Impairment allowance	-	(10,000)
Net impaired loans to Russian banks	-	-

As at 31 December 2007, the Bank does not have overdue or impaired placements with banks and other financial institution.

Concentration of placements with banks and other financial institutions

As at 31 December 2007, the Bank had placements with five counterparties exceeding 10% of total placements with banks and other financial institutions (31 December 2006: two counterparties). The gross value of these balances as at 31 December 2007 was RUR 269,324 thousand (31 December 2006: RUR 447,180 thousand).

Analysis of movements in the impairment allowance

	2007 RUR'000	2006 RUR'000
Balance at the beginning of the year	10,000	10,000
Loan impairment allowance for loans acquired in the business combination	-	1,957
Net impairment recovery for the year (Note 5)	-	(1,957)
Write-offs	(10,000)	-
Balance at the end of the year	-	10,000

15 Financial instruments held for trading

	2007 RUR'000	2006 RUR'000
Debt and other fixed-income instruments		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1,034,409	1,018,984
Other regional authorities and municipal bonds	103,687	26,779
Total government and municipal bonds	1,138,096	1,045,763
Corporate bonds of Russian banks		
Rated from BBB- to BBB+	-	9,247
Rated from BB- to BB+	-	15,363
Rated from B- to B+	-	209,948
Not rated	-	6,435
Total corporate bonds of Russian banks	-	240,993
Promissory notes of Russian banks		
Rated from BBB- to BBB+	300	6,927
Rated from BB- to BB+	-	51,657
Rated from B- to B+	36,429	317,917
Total promissory notes of Russian banks	36,729	376,501
Corporate bonds of Russian companies		
Rated from BBB- to BBB+	30,272	-
Rated from BB- to BB+	20,583	-
Rated from B- to B+	56,294	19,596
Not rated	195,668	87,546
Total corporate bonds of Russian companies	302,817	107,142
Equity investments		
Shares of Russian companies		
Rated from BBB- to BBB+	37,618	7,173
Rated from BB- to BB+	12,000	8,485
Rated from B- to B+	3,057	6,972
Not rated	3,968	7,633
Total shares of Russian companies	56,643	30,263
Shares of Russian banks		
Rated from BBB- to BBB+	372	-
Rated from BB- to BB+	604	-
Total shares of Russian banks	976	-
	1,535,261	1,800,662

16 Loans to customers

	2007 RUR'000	2006 RUR'000
Commercial loans		
Loans to large corporates	-	194,050
Loans to small and medium size companies	16,151,452	8,144,781
Total commercial loans	16,151,452	8,338,831
Loans to individuals		
Consumer loans	2,339,112	932,023
Mortgage loans	82,451	-
Credit cards	2,505	1,195
Auto loans	244	-
Total loans to individuals	2,424,312	933,218
Gross loans to customers	18,575,764	9,272,049
Impairment allowance	(412,974)	(385,144)
Net loans to customers	18,162,790	8,886,905

Movements in the loan impairment allowance for the year ended 31 December 2007 and 31 December 2006 are as follows:

	2007 RUR'000	2006 RUR'000
Balance at the beginning of the year	385,144	172,642
Loan impairment allowance for loans acquired in the business combination	-	84,597
Write-offs	(141,238)	(4,484)
Net charge for the year (Note 5)	169,068	132,389
Balance at the end of the year	412,974	385,144

As at 31 December 2007, net interest accrued on impaired loans amounted to RUR 46 thousand (31 December 2006: RUR 3,814 thousand).

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2007:

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans not past due	16,064,639	(366,275)	15,698,364	2.28%
Total loans for which no impairment has been identified	16,064,639	(366,275)	15,698,364	2.28%
Impaired loans:				
- watch list loans not past due	80,476	(14,324)	66,152	17.80%
- overdue more than 90 days and less than 1 year	527	(527)	-	100.00%
- overdue more than 1 year	5,810	(5,810)	-	100.00%
Total impaired loans	86,813	(20,661)	66,152	23.80%
Total loans to small and medium size companies	16,151,452	(386,936)	15,764,516	2.40%
Total commercial loans	16,151,452	(386,936)	15,764,516	2.40%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2006:

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans not past due	194,050	(5,162)	188,888	2.66%
Total loans for which no impairment has been identified	194,050	(5,162)	188,888	2.66%
Total loans to large corporates	194,050	(5,162)	188,888	2.66%
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans not past due	7,986,491	(212,440)	7,774,051	2.66%
- watch list loans not past due	1,068	(29)	1,039	2.72%
Total loans for which no impairment has been identified	7,987,559	(212,469)	7,775,090	2.66%
Impaired loans:				
- overdue less than 90 days	65,000	(65,000)	-	100.00%
- overdue more than 90 days and less than 1 year	34,821	(34,821)	-	100.00%
- overdue more than 1 year	57,401	(57,401)	-	100.00%
Total impaired loans	157,222	(157,222)	-	100.00%
Total loans to small and medium size companies	8,144,781	(369,691)	7,775,090	4.54%
Total commercial loans	8,338,831	(374,853)	7,963,978	4.50%

As described in Note 3, the Bank uses its experience and judgment to estimate the amount of impairment loss for loans to customers. The Bank has estimated loan impairment for loans to customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified. In determining the impairment allowance for the loan portfolio for which no specific indications of impairment has been identified, Management of the Bank have assumed a loss rate of 2.28% which is derived from historic losses as at 31 December 2007.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on commercial loans as of 31 December 2007 would be RUR 157,645 thousand lower/higher (31 December 2006: RUR 79,640 thousand).

Should actual repayments be less than the Management of the Bank estimates, the Bank would be required to record additional loan impairment losses.

During the year ended 31 December 2007 the Bank renegotiated commercial loans that would otherwise be past due or impaired of RUR 86,813 thousand (31 December 2006: RUR 157,222 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 are as follows:

	Loans to large corporates	Loans to small and medium size companies	Total
	RUR'000	RUR'000	RUR'000
Loan impairment allowance as at 1 January	5,162	369,691	374,853
Loans written off during the year as uncollectible	-	(141,238)	(141,238)
Loan impairment (losses recovery)/losses during the year	(5,162)	158,483	153,321
Loan impairment allowance as at 31 December	-	386,936	386,936

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2006 are as follows:

	Loans to large corporates	Loans to small and medium size companies	Total
	RUR'000	RUR'000	RUR'000
Loan impairment allowance as at 1 January	-	167,525	167,525
Loan impairment allowance for loans acquired in the business combination	-	84,597	84,597
Loans written off during the year as uncollectible	-	(4,484)	(4,484)
Loan impairment losses during the year	5,162	122,053	127,215
Loan impairment allowance as at 31 December	5,162	369,691	374,853

Analysis of collateral

Principal types of collateral used by the Bank are guarantees, pledge over real estate or equipment and securities.

Management believes that it is impracticable to estimate fair value of collateral held in respect of impaired or overdue commercial loans.

During the years ended 31 December 2007 and 31 December 2006 the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans.

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Consumer loans				
Not past due	2,338,034	(24,313)	2,313,721	1.04%
Overdue less than 30 days	118	(2)	116	1.69%
Overdue 30-89 days	126	(3)	123	2.38%
Overdue 90-179 days	183	(183)	-	100.00%
Overdue 180-360 days	59	(59)	-	100.00%
Overdue more than 360 days	592	(592)	-	100.00%
Total consumer loans	2,339,112	(25,152)	2,313,960	1.08%
Mortgage loans				
Not past due	82,451	(857)	81,594	1.04%
Total mortgage loans	82,451	(857)	81,594	1.04%
Credit cards				
Not past due	2,505	(26)	2,479	1.04%
Total credit card	2,505	(26)	2,479	1.04%
Auto loans				
Not past due	244	(3)	241	1.23%
Total auto loans	244	(3)	241	1.23%
Total loans to individuals	2,424,312	(26,038)	2,398,274	1.07%

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Consumer loans				
Not past due	931,448	(9,686)	921,762	1.04%
Overdue more than 360 days	575	(575)	-	100.00%
Total consumer loans	932,023	(10,261)	921,762	1.10%
Credit cards				
Not past due	1,178	(13)	1,165	1.10%
Overdue less than 30 days	2	(2)	-	100.00%
Overdue 30-89 days	15	(15)	-	100.00%
Total credit card	1,195	(30)	1,165	2.51%
Total loans to individuals	933,218	(10,291)	922,927	1.10%

The Bank has estimated loan impairment for loans to individuals based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified. In determining the impairment allowance for the loan portfolio for which no specific indications of impairment has been identified, Management of the Bank have assumed loss rates ranging from 1.04 to 1.23% which are derived from historic losses as at 31 December 2007.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows is less by one percent, the loan impairment on retail loans as of 31 December 2007 would be RUR 23,398 thousand higher (31 December 2006: RUR 9,229 thousand).

Should actual repayments be less than the Management of the Bank estimates, the Bank would be required to record additional loan impairment losses.

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying car. A significant portion of consumer loans are secured by pledge of real estate, traded and non-traded securities and guarantees provided by individuals. Credit card are not secured.

The Bank estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 95% of the mortgage balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other loans to individuals.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2007 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Loan impairment allowance as at 1 January	10,261	-	30	-	10,291
Loan impairment losses/(losses recovery) during the year	14,891	3	(4)	857	15,747
Loan impairment allowance as at 31 December	25,152	3	26	857	26,038

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2006 are as follows:

	Consumer loans	Credit cards	Total
	RUR'000	RUR'000	RUR'000
Loan impairment allowance as at 1 January	5,117	-	5,117
Loan impairment losses during the year	5,144	30	5,174
Loan impairment allowance as at 31 December	10,261	30	10,291

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	2007 RUR'000	2006 RUR'000
Trade	6,111,627	4,817,570
Real estate	2,734,383	650,478
Individuals	2,424,312	933,218
Construction	1,390,223	563,345
Manufacturing	1,367,788	392,021
Finance	1,159,405	636,940
Services	1,123,695	149,254
Transportation	689,606	356,130
Food	565,194	118,658
Metallurgy	286,984	-
Agriculture	205,000	6,079
Energy	196,000	234,820
Other	321,547	413,536
	18,575,764	9,272,049
Impairment allowance	(412,974)	(385,144)
	18,162,790	8,886,905

Significant credit exposures

As at 31 December 2007 and 2006 the Bank did not have borrowers or groups of related borrowers with loan balances exceeding 10% of loans to customers.

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 27, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

17 Available-for-sale assets

	2007 RUR'000	2006 RUR'000
Corporate shares	2,618	2,401
Impairment	(751)	(751)
	1,867	1,650

Investments without a determinable fair value

Equity securities of Russian companies available-for-sale are stated at cost. There is no market for these assets and there have not been any recent transactions that provide evidence of the current fair value as at the end of the reporting period. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

18 Property and equipment

RUR'000	Land and Buildings	Office and computer equipment	Vehicles	Computer software	Const- ruction in progress	Total
Cost						
At 1 January 2007	77,755	65,270	13,872	3,434	22,669	183,000
Additions	-	31,111	3,810	1,144	658	36,723
Disposals	(7,406)	(1,273)	(1,537)	(546)	-	(10,762)
Transfers	21,815	-	-	-	(21,815)	-
At 31 December 2007	92,164	95,108	16,145	4,032	1,512	208,961
Depreciation						
At 1 January 2007	(8,127)	(33,134)	(6,394)	(2,318)	-	(49,973)
Depreciation charge	(1,656)	(13,073)	(2,122)	(435)	-	(17,286)
Disposals	201	1,181	1,379	464	-	3,225
At 31 December 2007	(9,582)	(45,026)	(7,137)	(2,289)	-	(64,034)
Carrying value						
At 31 December 2007	82,582	50,082	9,008	1,743	1,512	144,927
RUR'000						
RUR'000	Land and Buildings	Office and computer equipment	Vehicles	Computer software	Const- ruction in progress	Total
Cost						
At 1 January 2006	55,004	34,374	12,034	2,967	26,266	130,645
Additions	647	17,048	3,723	807	-	22,225
Disposals	(2,730)	(3,171)	(5,259)	(800)	-	(11,960)
Transfers	3,597	-	-	-	(3,597)	-
Acquired in the business combination	21,237	17,019	3,374	460	-	42,090
At 31 December 2006	77,755	65,270	13,872	3,434	22,669	183,000
Depreciation						
At 1 January 2006	(4,600)	(21,776)	(5,472)	(2,699)	-	(34,547)
Depreciation charge	(1,489)	(11,054)	(2,765)	(229)	-	(15,537)
Disposals	38	2,832	2,947	792	-	6,609
Acquired in the business combination	(2,076)	(3,136)	(1,104)	(182)	-	(6,498)
At 31 December 2006	(8,127)	(33,134)	(6,394)	(2,318)	-	(49,973)
Carrying value						
At 31 December 2006	69,628	32,136	7,478	1,116	22,669	133,027

As at 31 December 2007 the gross carrying amount of fully depreciated property and equipment that is still in use by the Bank was RUR 26,346 thousand (31 December 2006: RUR 13,625 thousand).

19 Other assets

	2007 RUR'000	2006 RUR'000
Amounts in settlement	21,677	14,858
Prepayments	13,815	10,408
Materials and supplies	-	1,003
Other	3,479	1,686
	38,971	27,955

20 Deposits and balances from banks and other financial institutions

	2007 RUR'000	2006 RUR'000
Vostro accounts	81,447	1,487
Term deposits	1,171,514	220,106
	1,252,961	221,593

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2007 the Bank had deposits from one counterparty exceeding 10% of total deposits and balances from banks and other financial institutions (31 December 2006: three counterparties). The gross value of these balances as at 31 December 2007 was RUR 127,284 thousand (31 December 2006: RUR 185,101 thousand).

21 Current accounts and deposits from customers

	2007 RUR'000	2006 RUR'000
Current accounts and demand deposits		
- Retail	511,612	348,197
- Corporate	4,304,944	2,890,430
- State	259,620	62,780
Term deposits		
- Retail	3,346,726	1,835,350
- Corporate	3,665,456	1,265,565
	12,088,358	6,402,322

Blocked accounts

As at 31 December 2007 and 31 December 2006, the Bank did not maintain customer deposit balances which were blocked by the Bank as collateral for loans or off balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2007 the Bank had current accounts and deposits of two customers exceeding 10% of total customer accounts (31 December 2006: nil). These balances as at 31 December 2007 were RUR 2,836,655 thousand.

22 Certificates of deposit and promissory notes

	2007 RUR'000	2006 RUR'000
Certificates of deposits	3,640,059	2,631,349
Promissory notes	1,518,353	1,532,013
	5,158,412	4,163,362

23 Subordinated debt

	2007 RUR'000	2006 RUR'000
Subordinated debt	455,700	455,700
	455,700	455,700

As at 31 December 2007 subordinated borrowings comprise subordinated loans of RUR 426,400 thousand received from related parties maturing in 2011-2014 which carry an annual interest rate of 11.23% and subordinated loans of RUR 29,300 thousand received from third parties maturing in 2012 and 2014 which carry an annual interest rate of 13.84%. In case of bankruptcy, the repayment of the subordinated borrowings shall be made after repayment in full of all other liabilities of the Bank.

24 Other liabilities

	2007 RUR'000	2006 RUR'000
Accrued expenses	37,747	34,173
Liabilities under financial guarantees	14,064	4,979
Taxes payable other than income taxes	9,590	7,086
Amounts in settlement	5,952	8,214
Other	94	3,614
	67,447	58,066

25 Deferred tax asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2007 and 2006.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the year ended 31 December 2007 are as follows.

RUR'000	Balance 1 January 2007	Recognised in the income statement	Balance 31 December 2007
Placements with banks and other financial institutions	(1)	-	(1)
Financial instruments held for trading	(26,221)	21,100	(5,121)
Loans to customers	24,962	(30,705)	(5,743)
Available-for-sale assets	180	-	180
Property and equipment	1,302	(449)	853
Other assets	3,295	177	3,472
Certificates of deposit and promissory notes	58	(58)	-
Other liabilities	7,530	1,876	9,406
Deferred tax asset	11,105	(8,059)	3,046

Movements in temporary differences during the year ended 31 December 2006 are as follows.

RUR'000	1 January 2006	Recognised in the income statement	Acquired in business combination	31 December 2006
Placements with banks and other financial institutions	(37)	(22)	58	(1)
Financial instruments held for trading	(21,113)	(5,108)	-	(26,221)
Loans to customers	15,309	2,071	7,582	24,962
Available-for-sale assets	180	-	-	180
Property and equipment	1,642	449	(789)	1,302
Other assets	1,518	1,130	647	3,295
Certificates of deposit and promissory notes	24	34	-	58
Other liabilities	2,875	3,972	683	7,530
Deferred tax asset	398	2,526	8,181	11,105

26 Share capital and share premium

Issued capital and share premium

The authorised, issued and outstanding share capital as at 31 December 2007 comprises 97,012,982 ordinary shares (31 December 2006: 38,221,759). All ordinary shares have a nominal value of RUR 10 per share. During 2007 58,791,223 ordinary shares (2006: 38,221,759) were issued at their nominal value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as at the balance sheet date, reserves available for distribution amounted to RUR 280,083 thousand (2006: RUR 144,219 thousand).

During the year ended 31 December 2007 the general shareholders' meeting declared and paid out dividends in amount RUR 195,616 thousand (2006: RUR 159,589 thousand).

27 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major financial risks faced by the Bank are those related to credit risk as well as liquidity and market risks.

Risk management framework

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risk levels and adherence to limits. The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Bank's exposure to internal and external risk factors.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies and procedures of the Bank as well as approving significantly large exposures.

The Management Board of the Bank implements the Bank's risk management strategy approved by the Board of Directors.

Credit, market and liquidity risks both at portfolio and transaction levels are managed and controlled through a system of credit committees and a Financial committee.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure.

The Bank's risk assessment, reporting and control procedures vary by risk type, but share a common methodology developed and updated periodically by the Bank.

Market risk

The Bank is exposed to market risk. Market risk arises from open positions in interest rate and currency financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, whilst optimising the return on risk.

Overall authority for market risk is vested in the Financial Committee, chaired by the President of the Bank. Market risk limits are approved by the Financial Committee based on recommendations of the Risk Management Department of the Bank.

The Bank manages market risk by the periodic assessment of potential losses in the event that negative changes in the market conditions arise.

(i) Currency risk

The Bank is exposed to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies, by branches and in total. These limits comply with the minimum requirements of the CBR.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2007.

	RUR RUR'000	USD RUR'000	Other currencies RUR'000	Total RUR'000
Assets				
Cash and cash equivalents	1,117,816	48,412	105,089	1,271,317
Mandatory reserves with the Central Bank of the Russian Federation	273,710	-	-	273,710
Placements with banks and other financial institutions	174,592	110,193	126,416	411,201
Financial instruments held for trading	1,535,261	-	-	1,535,261
Loans to customers	18,044,894	40,556	77,340	18,162,790
Available-for-sale assets	1,867	-	-	1,867
Property and equipment	144,927	-	-	144,927
Income tax prepayment	10,000	-	-	10,000
Other assets	38,009	962	-	38,971
Goodwill	73,297	-	-	73,297
Deferred tax asset	3,046	-	-	3,046
Total assets	21,417,419	200,123	308,845	21,926,387
Liabilities				
Deposits and balances from banks and other financial institutions	1,246,722	1,902	4,337	1,252,961
Current accounts and deposits from customers	11,518,903	315,229	254,226	12,088,358
Certificates of deposit and promissory notes	5,158,412	-	-	5,158,412
Subordinated debt	455,700	-	-	455,700
Income tax payable	2,357	-	-	2,357
Other liabilities	65,791	1,536	120	67,447
Total liabilities	18,447,885	318,667	258,683	19,025,235
Net on balance sheet positions as at 31 December 2007	2,969,534	(118,544)	50,162	2,901,152
Net off balance sheet positions as at 31 December 2007	(9,147)	64,988	(55,841)	-
Net on and off balance sheet positions as at 31 December 2007	2,960,387	(53,556)	(5,679)	2,901,152
Net on and off balance sheet positions as at 31 December 2006	1,098,142	(57,950)	4,747	1,044,939

An analysis of sensitivity of the Bank's net profit for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2007 RUR'000	2006 RUR'000
5% appreciation of USD against RUR	(2,035)	(2,202)
5% depreciation of USD against RUR	2,035	2,202
5% appreciation of EUR against RUR	(216)	180
5% depreciation of EUR against RUR	216	(180)

(ii) *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net profit for the year and equity to changes in equity securities prices based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in prices of equity securities held for trading is as follows:

	2007	2006
	RUR'000	RUR'000
5% increase in securities prices	2,189	1,150
5% decrease in securities prices	(2,189)	(1,150)

(iii) *Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank 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 arise. The Financial Committee is responsible for the Bank's asset and liability management. Organization business units, including a Treasury department, are responsible for management of the interest rate risk.

The table below summarises the effective average interest rates, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for various financial instruments using year-end effective interest rates.

	Value RUR'000	2007 Average Effective Interest Rate	Value RUR'000	2006 Average Effective Interest Rate
Interest bearing assets				
Placements with banks and other financial institutions				
<i>Loans and deposits</i>				
- RUR	174,592	5.41%	143,155	6.48%
- USD	110,193	4.33%	121,187	4.86%
- EUR	126,416	3.76%	238,384	3.41%
Financial instruments held for trading				
- RUR	1,477,642	8.02%	1,770,399	7.37%
Loans to customers				
- RUR	18,044,894	15.40%	8,710,986	14.22%
- USD	40,556	14.20%	67,731	13.60%
- EUR	77,340	14.50%	108,188	14.13%
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Vostro accounts</i>				
- RUR	75,208	0.00%	51	0.00%
- USD	1,902	0.00%	1,301	0.00%
- EUR	4,337	0.00%	135	0.00%
<i>Term deposits</i>				
- RUR	1,171,514	6.84%	185,029	3.47%
- EUR	-	-	35,077	3.96%
Current accounts and deposits from customers				
<i>Current accounts and demand deposits</i>				
- RUR	4,978,140	0.41%	3,274,557	0.01%
- USD	33,626	0.28%	22,644	0.09%
- EUR	64,410	0.30%	4,206	0.17%
<i>Term deposits</i>				
- RUR	6,540,763	10.76%	2,486,780	7.46%
- USD	281,603	8.51%	282,216	8.48%
- EUR	189,816	6.84%	331,919	5.56%
Certificates of deposit and promissory notes				
- RUR	5,158,412	7.58%	4,163,362	7.55%
Subordinated debt				
- RUR	455,700	11.40%	455,700	11.40%

Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, the remaining contractual maturity dates in Note 27 also represent the contractual interest rate repricing dates.

An analysis of sensitivity of the Bank's net profit for the year and equity to interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 31 December 2006 is as follows:

	2007 RUR'000	2006 RUR'000
100 bp parallel rise	(17,645)	(16,376)
100 bp parallel fall	17,645	16,376

An analysis of sensitivity of the Bank's net profit for the year and equity as a result of changes in fair value of financial instruments at fair value through profit or loss due to changes in interest rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2007 RUR'000	2006 RUR'000
100 bp parallel rise	(43,160)	(43,558)
100 bp parallel fall	43,160	43,558

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Bank considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk, country and industry risk.

For risk management purposes, credit risk arising from positions in securities held for trading and other financial instruments at fair value through profit or loss is managed and reported as a market risk exposure.

(i) Credit risk governance

The Bank has established two Credit Committees, which are responsible for oversight of the Bank's credit risk.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Senior Credit Committee is responsible for implementing and performing the Bank's credit policy and it reviews all customers' applications (which are not financial institution) for loans and guarantees above USD 10 million;
- The Junior Credit Committee reviews all customers' applications for loans and guarantees up to USD 10 million.

The Financial Committee is responsible for approving credit risk exposures to financial institutions and transaction with securities.

(ii) Credit risk management

The Bank's credit risk management procedures are determined by the Bank's credit policy, approved by the Board of Directors of the Bank. The credit policy determines the major types of credit products provided by the Bank, credit guidances, procedures and credit limits. The Bank limits concentrations of exposure to individual customers, counterparties and issuers (for securities), groups of related customers, counterparties and issuers, as well as by industry/sector, credit rating and market liquidity (for securities). Exposure to credit risk is managed through a regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate.

The appropriate Credit Committee reviews applications for loans on the basis of reports provided by the Lending Department, Security Department and Legal Department.

The Risk Management Department of the Bank assesses the credit portfolio as a whole with regard to the credit risk concentration.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Internal credit rating of the borrower can be revised according to the review performed. The current market value of collateral is regularly assessed by the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to provide additional security.

Information on the Bank's loan portfolio quality is disclosed in Note 16.

(iii) Collateral and other credit enhancements

Exposure to credit risk is also managed, in part, by obtaining and monitoring collateral.

While collateral is an important mitigant to credit risk, it is the Bank's policy to provide loans that are within the borrower's capacity to repay rather than to rely on collateral. In certain cases, depending on the borrower's standing and the type of product, facilities may be unsecured.

The principal collateral types are as follows:

- promissory notes of the Bank;
- other liquid securities;
- mortgages over land, real estate, properties and construction in progress;
- motor vehicles;
- goods in turnover;
- guarantees of state or municipal bodies;

- guarantees of banks and other financial institutions;
- guarantees of legal entities;
- personal guarantees.

The Bank may accept several types of collateral in order to decrease credit risk. The Bank accepts personal guarantees as additional collateral in order to emphasise responsibility of managers and/(or) shareholders of the borrower.

Collateral is not generally held over loans and advances to banks, except where securities are held as part of reverse repurchase agreements. Collateral is not held against exposures to securities.

(iv) Allowance for loan impairment losses

The Bank establishes an allowance for loan impairment losses that represents its estimate of losses incurred in its loan portfolio.

The Bank writes off uncollectible loans against the related allowance for loan impairment after a decision of the Board of Directors of the Bank. Write-offs of uncollectible balances are usually made if a borrower fails to make payments for a period of more than 1 year.

(v) Maximum exposure to credit risk

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in 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 procedures and methodologies as defined by the Bank's credit policy for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). The Bank's maximum exposure to off balance sheet credit risk is reflected in Note 29.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 16.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising from its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of a bank. It is unusual for financial institutions 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 Bank's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising issued securities, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. The Bank was in compliance with these ratios during the years ended 31 December 2006 and 31 December 2007.

The following tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal (inflows)/outflows disclosed in the tables are the contractual, undiscounted cash flows on the financial liability or commitment. The Bank's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

The position of the Bank as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 3 month	From 3 to 12 months	More than 1 year	Total gross nominal outflow/ (inflow)	Carrying Amount
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	1,027,594	232,795	-	-	1,260,389	1,252,961
Current accounts and deposits from customers	5,344,763	552,257	5,436,793	1,371,009	12,704,822	12,088,358
Certificates of deposit and promissory notes	218,243	530,622	4,633,406	6,186	5,388,457	5,158,412
Subordinated debt	1,242	11,747	38,966	663,696	715,651	455,700
Income tax payable	-	2,357	-	-	2,357	2,357
Other liabilities	22,353	11,895	19,250	13,949	67,447	67,447
Derivative liabilities						
- Inflow	(242,203)	-	-	-	(242,203)	-
- Outflow	242,203	-	-	-	242,203	-
Total	6,614,195	1,341,673	10,128,415	2,054,840	20,139,123	19,025,235
Credit related commitments	389,728	549,621	4,222,757	431,405	5,593,511	5,593,511

The position of the Bank as at 31 December 2006 was as follows:

	Demand and less than 1 month	From 1 to 3 month	From 3 to 12 months	More than 1 year	Total gross nominal outflow/ (inflow)	Carrying amount
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	171,850	15,294	35,358	-	222,502	221,593
Current accounts and deposits from customers	4,322,385	259,668	1,555,983	404,501	6,542,537	6,402,322
Certificates of deposit and promissory notes	286,608	551,383	3,063,135	478,249	4,379,375	4,163,362
Subordinated debt	1,015	11,293	36,926	720,906	770,140	455,700
Income tax payable	-	28,085	-	-	28,085	28,085
Other liabilities	24,256	6,809	13,756	13,245	58,066	58,066
Derivative liabilities						
- Inflow	(13,105)	-	-	-	(13,105)	-
- Outflow	13,105	-	-	-	13,105	-
Total	4,806,114	872,532	4,705,158	1,616,901	12,000,705	11,329,128
Credit related commitments	366,513	207,540	978,885	496,942	2,049,880	2,049,880

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank.

The table which follows shows carrying amounts of assets and liabilities of the Bank by their remaining contractual maturity.

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Assets	Less than 1 month RUR'000	1 to 3 months RUR'000	3 months to 1 year RUR'000	1 to 5 years RUR'000	More than 5 years RUR'000	No maturity RUR'000	Total RUR'000
Cash and cash equivalents	1,271,317	-	-	-	-	-	1,271,317
Mandatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	273,710	273,710
Placements with banks and other financial institutions	394,103	5,646	11,452	-	-	-	411,201
Financial instruments held for trading	2,496	-	120,936	850,288	503,922	57,619	1,535,261
Loans to customers	2,291,745	2,748,782	9,496,832	3,127,774	497,657	-	18,162,790
Available-for-sale assets	-	-	-	-	-	1,867	1,867
Property and equipment	-	-	-	-	-	144,927	144,927
Income tax prepayment	-	10,000	-	-	-	-	10,000
Other assets	38,876	95	-	-	-	-	38,971
Goodwill	-	-	-	-	-	73,297	73,297
Deferred tax asset	-	-	-	-	-	3,046	3,046
Total assets	3,998,537	2,764,523	9,629,220	3,978,062	1,001,579	554,466	21,926,387

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	Less than 1 month RUR'000	1 to 3 months RUR'000	3 months to 1 year RUR'000	1 to 5 years RUR'000	More than 5 years RUR'000	No maturity RUR'000	Total RUR'000
Liabilities							
Deposits and balances from banks and other financial institutions	1,022,961	230,000	-	-	-	-	1,252,961
Current accounts and deposits from customers	5,293,298	415,920	5,101,686	1,277,297	157	-	12,088,358
Certificates of deposit and promissory notes	218,227	523,446	4,411,560	5,179	-	-	5,158,412
Subordinated debt	1,231	11,438	36,242	99,000	307,789	-	455,700
Income tax payable	-	2,357	-	-	-	-	2,357
Other liabilities	22,353	11,895	19,250	13,949	-	-	67,447
Total liabilities	6,558,070	1,195,056	9,568,738	1,395,425	307,946	-	19,025,235
Net position as at 31 December 2007	(2,559,533)	1,569,467	60,482	2,582,637	693,633	554,466	2,901,152
Net position as at 31 December 2006	(2,686,364)	1,169,367	238,480	1,597,380	246,899	479,177	1,044,939

Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

28 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2007, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2006 and 31 December 2007.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2007:

	2007	2006
	RUR'000	RUR'000
Tier 1 capital		
Share capital	1,078,772	490,860
Share premium	1,326,374	314,286
Retained earnings	496,006	239,793
Goodwill	(73,297)	(73,297)
Total tier 1 capital	2,827,855	971,642
Tier 2 capital		
Subordinated debt (unamortised portion)	427,250	448,900
Total tier 2 capital	427,250	448,900
Total capital	3,255,105	1,420,542
Risk-weighted assets		
Banking book	20,041,775	9,550,181
Trading book	1,101,113	1,317,880
Total risk weighted assets	21,142,888	10,868,061
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	15.40%	13.07%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	13.37%	8.94%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

29 Commitments

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2007 RUR'000	2006 RUR'000
Contracted amount		
Commitments to extend credit facilities	3,946,378	1,682,822
Guarantees and letters of credit	1,647,133	367,058
	5,593,511	2,049,880

Movements in provision for losses on credit related commitments are as follows.

	2007 RUR'000	2006 RUR'000
Balance at the beginning of the year	-	5,112
Net recovery for the year (Note 10)	-	(5,112)
Balance at the end of the year	-	-

The total outstanding contractual commitments to extend credit facilities indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Foreign currency contracts

The following table summarizes, by major currencies, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2007 and 31 December 2006 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date.

	Notional amount		Weighted average contracted exchange rates	
	2007 RUR'000	2006 RUR'000	2007 RUR	2006 RUR
Buy USD sell RUR				
Less than three months	73,572	7,900	24.77	26.34
Buy Euros sell RUR				
Less than three months	52,103	3,470	36.02	34.74
Buy RUR sell USD				
Less than three months	8,584	-	24.53	-
Buy RUR sell Euros				
Less than three months	107,944	-	36.00	-
Buy Euros sell USD				
Less than three months	-	1,735	-	1.31
Total	242,203	13,105		

Fair value of foreign currency contracts is not significant and included in other assets.

30 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2007 RUR'000	2006 RUR'000
Less than one year	15,915	12,131
Between one and five years	917	1,609
More than five years	2,992	-
	19,824	13,740

The Bank leases a number of premises and equipment under operating lease. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUR 40,772 thousand was recognised as an expense in the income statement in respect of operating leases (2006: RUR 16,449 thousand).

31 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank's property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

The Management of the Bank is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Bank's financial position, if the authorities were successful in enforcing their interpretations, could be significant.

32 Trust and custody activities

Trust activities

The Bank provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2007 the total assets held by the Bank on behalf of customers were RUR 2,186,303 thousand (2006: RUR 5,232,171 thousand).

Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the balance sheet.

33 Related party transactions

Transactions with key management personnel

Key management personnel comprise of the members of the Board of Directors and the Management Board.

During the year ended 31 December 2007 total remuneration of the members of the Board of Directors and the Management Board of the Bank, including bonuses and discretionary compensation, amounted to RUR 318,228 thousand (2006: RUR 141,898 thousand). The Bank does not provide post-employment benefit plans in the form of shares or other types of long-term remuneration to the members of the Board of Directors and the Management Board.

The outstanding balances and the related average interest rates as at 31 December 2007 for transactions with the members of the Board of Directors, the Management Board and entities, controlled or significantly influenced by them are as follows.

	2007 RUR'000	Average Interest Rate	2006 RUR'000	Average Interest Rate
Balance Sheet				
Assets				
Loans to customers	278,934	16.10%	21,141	14.80%
Liabilities				
Current accounts and deposits from customers	39,598	9.20%	18,240	10.20%
Certificates of deposit and promissory notes	140,249	10.60%	426,330	11.60%

As at 31 December 2007, included in current accounts and deposits from the members of the Board of Directors and the Management Board are current accounts and deposits from the members of the Board of Directors and the Management Board, which are also shareholders of the Bank, of RUR 25,572 thousand (31 December 2006: RUR 18,240 thousand).

Other amounts included in the income statement in relation to transactions with the members of the Board of Directors, the Management Board and entities, controlled or significantly influenced by them are as follows:

	2007 RUR'000	2006 RUR'000
Income statement		
Interest income	14,194	1,216
Interest expense	(4,139)	(23,166)
General administrative expenses	(3,960)	-

Transactions with other related parties

Other related parties comprise mainly shareholders, which are not members of the Board of Directors and the Management Board of the Bank, and entities, which are controlled or significantly influenced by them.

The outstanding balances and the related average interest rates as at 31 December 2007 for transactions with other related parties are as follows:

	2007 RUR'000	Average Interest Rate	2006 RUR'000	Average Interest Rate
Balance Sheet				
Assets				
Loans to customers	1,123,616	14.70%	530,751	10.10%
Liabilities				
Current accounts and deposits from customers	2,972,287	9.00%	3,566	7.80%
Certificates of deposit and promissory notes	976,701	10.90%	770,799	10.20%
Subordinated debt	426,400	11.23%	426,400	11.23%

As at 31 December 2006, included in loans to other related parties are loans to shareholders of the Bank of RUR 110,039 thousand.

Amounts included in the income statement in relation to other related parties transactions are as follows:

	2007 RUR'000	2006 RUR'000
Income statement		
Interest income	22,242	34,308
Commission income	9,258	-
Interest expense	(170,939)	(23,676)
General administrative expenses	-	(107)

34 Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IFRS 7 "Financial Instruments: Disclosures".

The estimated fair values of financial instruments held for trading are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date. As disclosed in Note 17 the fair value of unquoted equity securities with a carrying value of RUR 1,867 thousand could not be determined.

Based on the assessment made, the Management of the Bank believes that fair value of financial instruments does not differ significantly from their carrying value.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

35 Business combination

On 18 January 2006 OJSC CB "Samarsky Credit" merged with CJSC "NOVA Bank" and the new entity, OJSC "First United Bank", was established. All of the outstanding shares of OJSC CB "Samarsky Credit" and CJSC "NOVA Bank" were converted into the newly issued ordinary shares of OJSC "First United Bank". As a result of the merger, OJSC CB "Samarsky Credit" and CJSC "NOVA Bank" ceased to exist as legal entities with all their assets and liabilities being transferred to OJSC "First United Bank".

Management of the Bank identified that OJSC CB "Samarsky Credit" was the acquirer in the business combination. This conclusion was based on the following:

- The total assets of OJSC CB "Samarsky Credit" exceeded total assets of CJSC "NOVA Bank";
- Management of OJSC "First United Bank" comprise mainly management of OJSC CB "Samarsky Credit";
- Shareholders of OJSC CB "Samarsky Credit" received 55.37% of shares of OJSC "First United Bank" and shareholders of CJSC "NOVA Bank" received 44.63% of shares of OJSC "First United Bank".

The fair value of consideration paid was determined by reference to the value of 100% of CJSC "NOVA Bank" shares which were exchanged for the newly issued ordinary shares of OJSC "First United Bank" as described above. 100% of CJSC "NOVA Bank" shares at the date of acquisition were valued at RUR 293,644 thousand, that gave rise to a share premium of RUR 93,823 thousand.

The primary basis for determining the value of 100% of CJSC "NOVA Bank" shares was comparable sales approach. A multiple to net assets of 1.33 calculated based on comparable sales was applied to net assets of CJSC "NOVA Bank" to achieve a valuation of 100% CJSC "NOVA Bank" shares.

Changes in assumptions used in the valuation could affect the goodwill. In particular, an increase/decrease in multiple by 0.10 would lead to an increase/decrease in goodwill of RUR 21,452 thousand.

The profit and loss of CJSC "NOVA Bank" from 1 January 2006 to the acquisition date is not significant.

The fair value of the net assets of CJSC "NOVA Bank" at the acquisition date were as follows:

	RUR'000
Assets	
Cash and cash equivalents	194,132
Mandatory reserves with the Central Bank of the Russian Federation	25,484
Placements with banks and other financial institutions	96,789
Financial instruments held for trading	97,707
Loans to customers	769,585
Property and equipment (Note 18)	35,592
Other assets	6,735
Deferred tax asset (Note 25)	8,181
Liabilities	
Deposits and balances from banks and other financial institutions	(230,005)
Current accounts and deposits from customers	(781,125)
Certificates of deposit and promissory notes	(597)
Other liabilities	(897)
Income tax payable	(1,234)
Net identifiable assets and liabilities	220,347
Goodwill arising in the business combination	73,297
	293,644
Consideration paid in form of shares	293,644

There were no significant differences between the carrying amount of assets and liabilities and the fair values above at acquisition date.