

**Novosibirsk Social Commercial Bank “Levoberezhniy”
(Open Joint Stock Company)**

Financial Statements and Auditors’ Report

31 December 2007

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(Translation from Russian original)

STATEMENT OF THE BOARD

Increasing the clients’ base and developing partnership relationships are the top priorities in the Bank’s activities.

During 2007, the Bank followed a specific strategy aimed to develop a broader range of products and introduce a series of new banking services. The Bank is taking active part in the development of the financial market in Novosibirsk region, by expanding its branch network and presence in practically most of business centres along the region.

The Bank’s net profit in 2007 is 3.6 times higher than in the previous year. At the end of 2007, the volume of total assets amounted to RUR 7,124 million, representing an increase of 42% from year 2006.

The results of the Bank’s operations in 2007, evidence the consolidation and strengthening of our entity and its position in the market and the increasing volume of products and services.

Among the main achievements during 2007, we would like to remark the following:

- First place on connecting private clients to the “Faktura.ru” system in the Top-5 of Retail Bank rating (according to data from Faktura.ru)
- 114th place on consumer lending loans in the Top 977 (according to the data of “RosBusinessConsulting” (RBC rating)
- 148th place among the Top 500 most profitable and efficient banks in 2007 (according to RBC rating)
- 168th place on total liquid assets (according to RBC rating)
- 176th place on volume of loan portfolio among the Top 988 (according to RBC rating)
- 193th place on lending to legal entities among the Top 981 (according to the data of RBC rating)
- 206th place among the Top 500 largest banks in Russian Federation (according to the data of RBC rating)

The Bank has been actively granting loans to clients from different economic sectors and industries, and providing financing through different types of products, being the most used credit line agreements within limits and conditions agreed in advance. In the market of Novosibirsk region, the Russian Roubles is the preferred currency.

During 2007, the Bank diversified the industry risk of its loan portfolio. The structure of lending has changed significantly as a result of a more active lending through overdraft and lines of credit to companies operating in the industrial and trade sectors.

The demand for consuming lending is constantly growing in the market. Despite its inherent risks, this type of lending has proved the most profitable. During 2007, under the brand “Start”, the Bank actively granted loans to individuals. As at 1 January 2008, the portfolio of consumer loans amounted to RUR 1,834 million.

The active development of services to individuals and a policy of adequate interest margins enabled the Bank to increase the number of clients (individuals) by more than 50 thousand.

Another of Bank’s priorities during 2007, was the introduction of up-to-date high-tech products and changing the characteristics of existing ones with the purpose of improving their quality, profitability and competitiveness. In dealing with clients the Bank uses the latest information technology resources available aimed to provide the highest level of services, introduce new lines and products, and ultimately, improve all the Bank’s business processes.

During the reporting year, the Bank issued 76,276 plastic cards of the system “Zolotaya Korona”. The total number of cards issued to date is 197,970. In 2007 the Bank’s share in the market of plastic cards in the Novosibirsk region increased to 13.2%

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In 2008, the Bank has the intention to start issuing plastic cards of the international system “MasterCard”. Concurrently, important investments are projected to increase the number of ATMs, improve the IT network and communications infrastructure, installation of terminals for entities dealing with trading and provision of services, and ultimately increase significantly the number of terminals.

One of the main objectives of the Bank for 2007 was keeping and improving its position amongst the banks of the Siberian federal district, both in terms of volume of active transactions and quality of services. For the year 2008, management of the Bank has set the strategic target of being among the top 100 leading regional banks in Russia. We always evaluate our possibilities objectively and we believe that the Bank has the full capability to achieve its goals.

General Director
Ivashchenko N. P.
Bank “Levoberezhniy” (OAO)

Bank "Levoberezhniy" (OAO)
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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of the Novosibirsk Social Commercial Bank "Levoberezhniy" OAO ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

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

Approved on behalf of the Board on 28 March 2008

Ivashchenko N. P.
General Director

Kolesnikova C. V.
Chief Accountant

AUDITORS' REPORT

To the Management, the Board of Directors and Shareholders of Bank "Levoberezhniy" OAO:

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

Management's Responsibility for the Financial Statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

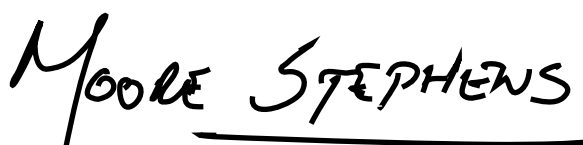
An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

OOO Moore Stephens
38, Stremyanny Pereulok
Moscow, 113093
Russian Federation

The image shows the handwritten signature of Moore Stephens in black ink. The signature is written in a stylized, cursive font. The word "MOORE" is written in a larger, more prominent script, and "STEPHENS" is written in a smaller, more compact script. A horizontal line is drawn underneath the signature.

7 April 2008

Bank "Levoberezhniy" (OAO)
Balance Sheet as at 31 December 2007
In thousands of Russian Roubles (unless otherwise indicated)
(Translation from Russian original)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Assets			
Cash and Cash Equivalents	5	1,212,565	1,092,376
Mandatory Cash Balances with the Central Bank of Russian Federation		78,502	69,814
Financial Assets at Fair Value through Profit or Loss	6	521,754	381,990
Due from Financial Institutions	7	44,000	62,247
Loans and Advances to Customers	8	4,730,390	3,147,357
Other Assets	9	48,946	15,274
Property, Plant and Equipment	10	487,983	231,946
Total assets		<u>7,124,140</u>	<u>5,001,004</u>
Liabilities			
Due to Financial Institutions	11	97,683	237,611
Customer Accounts	12	5,877,850	4,128,290
Debt Securities Issued	13	167,845	196,345
Subordinated loan	14	95,000	35,000
Deferred tax liability	25	68,713	12,591
Other liabilities	15	93,845	17,321
Total liabilities		<u>6,400,936</u>	<u>4,627,158</u>
Equity			
Share capital	16	349,956	349,956
Fixed Assets Revaluation Reserve	10	184,430	19,163
Retained Earnings		188,818	4,727
Total Equity		<u>723,204</u>	<u>373,846</u>
Total Liabilities and Equity		<u>7,124,140</u>	<u>5,001,004</u>

Approved on behalf of the Board on 28 March 2008

Ivashchenko N. P.
General Director

Kolesnikova C. V.
Chief Accountant

Bank "Levoberezhniy" (OAO)
Income statement for the year ended 31 December 2007
In thousands of Russian Roubles (unless otherwise indicated)
(Translation from Russian original)

	Notes	2007	2006 (restated)
Interest income	18	887,769	524,057
Interest expense	18	(283,065)	(225,520)
Net interest income		604,704	298,537
(Charge) / Release of allowance for impairment of interest bearing assets	7,8	(31,847)	19,608
Net interest income after allowance for impairment of interest bearing assets		572,857	318,145
Net gains from dealing with securities	19	9,936	7,787
Net gains from operations with foreign currencies	20	31,081	22,706
Net losses from revaluation of assets/ liabilities denominated in foreign currencies		(5,489)	(7,069)
Transfer value of loans given and promissory notes purchased at less than commercial rates		11,658	(21,796)
Commission income	21	248,653	106,362
Commission expense	21	(36,673)	(16,855)
Fair value adjustment of financial assets at fair value through profit or loss		(4,845)	38
Other operating income	22	30,894	12,047
Net operating income		285,215	103,220
Staff costs	23	(330,197)	(186,527)
Operating expenses	24	(279,944)	(164,933)
(Charge) / Recovery of allowance for other assets and liabilities related to loan commitments	9,15	(497)	82
Profit before taxation		247,434	69,987
Income tax	25	(63,343)	(18,744)
Net profit	17	184,091	51,243

Approved on behalf of the Board on 28 March 2008

Ivashchenko N. P.
General Director

Kolesnikova C. V.
Chief Accountant

Bank "Levoberezhniy" (OAO)
Statement of Cash Flows for the year ended 31 December 2007
In thousands of Russian Roubles (unless otherwise indicated)
(Translation from Russian original)

	Notes	2007	2006 (restated)
Cash flow from operating activity			
Interest received		912,651	534,236
Interest paid		(299,551)	(221,654)
Commissions received		247,961	106,105
Commissions paid		(36,673)	(16,855)
Gains from dealing with securities		13,557	5,406
Gains from dealing with foreign currency		31,081	22,706
Other operating income		30,894	12,030
Operating expense		(538,586)	(283,758)
Income tax charge	25	(59,410)	(23,254)
Operating profit before changes in operating assets and liabilities		301,924	134,962
Cash flows from operating assets and liabilities			
Net (increase)/decrease in assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		(8,688)	9,053
Financial assets at fair value through profit or loss		(143,385)	(212,461)
Due from financial institutions		18,797	299,138
Loans and advances to customers		(1,608,927)	(631,067)
Other assets		(58,049)	(18,280)
Net increase/(decrease) in liabilities:			
Due to financial institutions		(139,928)	65,440
Customer accounts		1,809,560	1,166,501
Debt securities issued		(28,500)	(75,174)
Other liabilities		47,286	(38,375)
Net cash received from operating activities		190,090	699,737
Cash flow from investing activities			
Purchase of fixed assets	10	(92,010)	(19,180)
Sale of fixed assets	10	27,598	4,651
Net cash used in investing activities		(64,412)	(14,529)
Cash flow from financing activities			
Dividends paid	26	-	(1,052)
Net cash used in financing activities		-	(1,052)
Effect of foreign exchange movements on cash and cash equivalents		(5,489)	(7,069)
Net increase of cash and cash equivalents		120,189	677,087
Cash and cash equivalents at the beginning of the period	5	1,092,376	415,289
Cash and cash equivalents at the end of the period	5	1,212,565	1,092,376

Approved on behalf of the Board on 28 March 2008

Ivashchenko N. P.
General Director

Kolesnikova C. V.
Chief Accountant

The accompanying notes on pages 5 to 63 form an integral part of these financial statements

Bank «Levoberezhniy» (OAO)
Statements of Changes in Equity for the year ended 31 December 2007
In thousands of Russian Roubles (unless otherwise indicated)
(Translation from Russian original)

	Notes	Share capital	Fixed assets revaluation reserve	(Accumulated deficit) / Retained earnings	Total equity
Balance at 31 December 2005		349,956	19,163	(45,464)	323,655
Profit for the year	17	-	-	51,243	51,243
Dividends for the year 2005	26	-	-	(1,052)	(1,052)
Balance at 31 December 2006		349,956	19,163	4,727	373,846
Profit for the year	17	-	-	184,091	184,091
Revaluation of fixed assets	10	-	165,267	-	165,267
Balance at 31 December 2007		349,956	184,430	188,818	723,204

Approved on behalf of the Board on 28 March 2008

N. P. Ivashchenko
General Director

C. V. Kolesnikova.
Chief Accountant

Bank «Levoberezhniy» (OAO)
Notes to Financial Statements - 31 December 2007
In thousands of Russian Roubles (unless otherwise indicated)
(Translation from Russian original)

1. Principal Activities

The Novosibirsk Social Commercial Bank “Levoberezhniy” (Open Joint Stock Company) (“the Bank”) was established in 1991.

As at 31 December 2007, the Bank holds the following licenses:

- License № 1343 dated 27 August 2002 to carry out banking and foreign exchange activities; issued by the Central Bank of the Russian Federation.
- License № 1343 dated 27 August 2002 to carry out activities on receiving deposits from individuals in Russian Roubles (“RUR”) and foreign currency; issued by the Central Bank of the Russian Federation
- License as professional participant of the securities’ stock exchange №-03158-000100 dated 4 December 2000 to carry out broker activity; issued by the Federal Commission for the Securities’ Stock Exchange.
- License as professional participant of the securities’ stock exchange №054-03039-010000 dated 27 November 2000 to carry out dealing activity; issued by the Federal Commission for the Securities’ Stock Exchange.
- License of professional participant of the securities’ stock exchange №054-03158-000100 dated 4 December 2000 to carry out deposit activity; issued by the Federal Commission for the Securities’ Stock Exchange.
- License № 857 dated 24 August 2006 to carry out commodity futures and options transactions; issued by the Federal Commission for the Securities’ Stock Exchange.

The General Director of the Bank is Mrs. Ivashchenko Nadezhda Pavlovna. The Board of Directors is headed by Mr. Robkanov Mikhail Fyodorovich.

The following shareholders held 5% or more shares of the Bank’s share capital as at 31 December 2007 and 31 December 2006, respectively:

Shareholder	2007 %	2006 %
State organisation “Facilities Administration of Novosibirsk region”	-	36.36
Shelestova Irina Anatolievna	20.00	19.97
Bulakh Evgeniy Yur’evich	20.00	-
Limited liability Company “Forseti-2003”	19.94	14.17
Limited liability Company “Primorskaya Sotsialnaya Kompania”	12.40	-
Ivashchenko Nadezhda Pavlovna	9.14	-
Limited liability Company “ Compliance-Brock”	7.60	-
Makarenko Vitaliy Ivanovich		16.29
Madison Nina Sergeevna		9.98
Pertsev Vyacheslav Mikhailovich	5.00	-
Robkanov Mikhail Fyodorovich	5.00	-
Other	0.92	3.23
Total	100.00	100.00

The Management of Bank considers the mentioned above shareholders as holding control over the Bank’s activity.

(continued)

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1. Principal Activities (continued)

The main activities of the Bank include cash services, loan transactions, dealing with securities, attraction of deposits, and dealing in foreign currencies. The main location where the Bank actively operates is Novosibirsk city and Novosibirsk region. The headquarters of the Bank are situated at 25/1 Plakhotnogo Street, Novosibirsk, 630054. The Bank also has a branch situated at 1 Rogachyova street, Berdsk 633009, and 39 additional offices.

In 2007 the average number of employees of the Bank was 739 (2006: 685). As at 31 December 2007 the Bank employed 939 members of staff. (2006: 722).

2. Operating Environment of the Bank

The year 2007 was marked by an increasing strain in the world financial markets as well as by an increase of negative scenarios for the Russian banking sector.

The mortgage loan crisis that took place in USA at the beginning of the year and then appeared in other developed markets caused the fall of basic world stock indexes, record price rise for raw materials and the US dollar's fall almost to the rate of USD 1,50 per Euro. The losses accounted for by international global banks are evaluated in billions of dollars. Amid those events, the Russian economy, oriented basically to the exportation of raw materials and with a relatively weak integration into the world's financial system, has not been directly impacted by the crisis, maintaining its attraction to additional investments.

In 2007, the Russian banking system continued its stable development. Total assets of Russian banks have increased by 43% to RUR 20.08 trillion. For the first 9 months of 2007, the return on equity and assets amounted 16.2% and 2.1% respectively. The volume of deposits of individuals and legal entities has increased by 26.7% and by 50.9% respectively. The total loan portfolio of the banking sector increased by 46.8% to RUR 12.9 trillion as of November 2007; the expansion of lending resulted in the increase of overdue debt. Last year the total amount of overdue debt of individuals surpassed the important limit of RUR 100 billion, more than 3% of the total loans to customers.

The active development of Russian economy over the last years has increased the role of banks as guarantors of stability. A great demand of resources and investments in all spheres attracted an intense interest to banking products.

3. Basis of Presentation

a) Basis of Presentation

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing Interpretations Committee Interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Legislation ("RAL").

These financial statements are based on the Bank's RAL analytical books and records adjusted and reclassified in order to comply with IFRS.

The Bank does not have any subsidiary company and therefore does not prepare consolidated financial statements.

(continued)

Bank «Levoberezhniy» (OAO)
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3. Basis of presentation (continued)

The preparation of the financial statements requires the use of estimations and assumptions, which may impact the amounts of assets and liabilities at the reporting date and also the amounts of income and expenses during the period. In spite of the fact that all these estimations are based on the Bank's management's understanding of current events and operations, actual result may differ from these estimations and assumptions.

In these financial statements, the Bank uses a number of different methods of estimation in different proportion and combination:

- Cost method (actual cost of purchase). Assets are recorded at the amount of cash paid or their current cost set by mutual agreements between parties. Liabilities are recorded at the amount of assets or rights received in return of an obligation or in some circumstances at the amount of cash that will be necessary to repay the obligations in the normal course of business.
- Current cost (recovery cost). Assets are recorded at the amount of cash that would need to be paid if these assets were purchased at the present date. Liabilities are recorded at the amount of non-discounted cash that will be required to settle the liability.
- Realisable value (possible selling/repurchase price (fair value)). Assets are recorded at the amount of cash that can be received from sale. Liabilities are recorded at settlement value, which is the undiscounted amount of cash required for settling the liabilities.
- Amortised cost/(expenses), assets/(liabilities) are recorded at the current estimate of future net receipt (disposals) of cash in the normal course of business according to market interest rates effective at the moment of transaction.
- Book value. This is the value of assets and liabilities recorded in the balance sheet at the reporting date.

It is assumed that the future cash flows and the term of a pool of similar financial instruments can be reliably estimated. However, when cash flows or the term of a financial instrument is impossible to estimate, the Bank uses the contractual estimated cash flows under the term determined by the agreement.

In the opinion of the Bank, the market interest rate is defined as the "best" interest rate (the highest interest rate for financial assets and the lowest one for financial liabilities) between the two following rates:

- Interest rate on similar financial instruments operating in an active market;
- Interest rate on similar financial instruments in the portfolio of the Bank at the reporting date or transactions performed during the reporting period.

Under similar financial instruments stand financial instruments which have similar conditions including borrowing capacity of a debtor, remaining maturity period, currency in which the repayment is to be done etc.

b) Impairment of assets

The Bank creates allowance for possible impairment for all types of financial assets, except for financial assets at fair value through profit or loss.

Financial assets are considered impaired and losses from the impairment occur if objective factors of impairment occurred as a result of one or more events taking place after the initial recognition of assets ("loss event"); and the event (events) can impact the expected future cash flows of the financial assets and its effect can be reliably estimated.

(continued)

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Notes to Financial Statements - 31 December 2007
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3. Basis of presentation (continued)

The main factors according to which the Bank considers a financial asset to be impaired or not are the existence of overdue amounts and, eventually, the possibility of realisation of the corresponding collateral. A financial asset is considered overdue if the counterpart did not fulfil its payment obligations at the date stated in the contract.

Among other main factors of determination of objective evidence of impairment are the following:

- Delinquency in contractual payments of principal or interest not related to technical problems in the payment system
- A borrower or an issuer has serious financial problems that can be evident from their financial statements received by the Bank
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of the collateral
- An active market for the particular financial asset has disappeared as a result of financial difficulties of an issuer (not due to the fact that the asset does not operate on the market any more)
- There is an information that an issuer or a borrower has a tendency to violate the conditions of contracts on similar financial assets

Losses from impairment of financial assets reflected at amortised cost are recognised in the income statement as they occur because of one or more events ("loss event") taking place after the original recognition of an asset. The Bank does not recognise losses from impairment at initial recognition.

Subsequently, the Bank assesses whether objective evidence of impairment exists individually for financial assets which are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(continued)

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Notes to Financial Statements - 31 December 2007
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3. Basis of presentation (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for the assets with credit risks characteristics similar to those in the group. They can also be determined on the basis of management's statistics about the volumes of overdue debts that can occur as result of loss events and also about the possibility of recovery of overdue debts. Previous year's statistics are adjusted on the basis of current observable data to reflect the effects of current conditions that did not influence the previous periods as well to eliminate the effect of previous events that do not currently exist.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's payment ability), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement as part of the movement in impairment charge for credit losses.

Uncollectible financial assets in respect of which all necessary procedures are finished for the purpose of full or partial recovery and the final amount of loss is defined, are written off against the allowance for impairment created in the balance sheet.

Losses from impairment of financial assets available for sale are recognised in the income statement as they occur as a result of one or more events ("loss event") taking place after the initial recognition of assets available for sale.

The Bank assesses at least at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as available for sale is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised as profit or loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

In respect of debt instruments classified as available for sale, evidence of impairment is estimated in accordance with the same criteria ("loss events") as in respect of financial assets at amortised cost. The amount of loss that is to be transferred to income statement is equal to the difference between initial cost of the asset (less repayments of principal debt and adjusted for amortisation on assets estimated with the use of effective interest rate method) and the current fair value less losses from impairment on the asset, recognised earlier in income statement. Interest income on impaired assets is charged according to amortised expenses taking into account recognition of loss from impairment with the interest rate used for discounting of future cash flows to evaluate losses from impairment. Interest income is reflected within "Interest income" in the income statement. When in the next reporting period the fair value of a debt instrument classified as available for sale increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

(continued)

Bank «Levoberezhniy» (OAO)
Notes to Financial Statements - 31 December 2007
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3. Basis of presentation (continued)

c) Functional and presentation currency

The Bank considers the Russian Rouble to be its functional currency given the fact that all operations of the Bank are carried out in the Russian Federation and significant part of them and its cash flows are denominated in Russian Roubles.

The RUR has been selected as the presentation currency for the financial statements of the Bank and amounts have been rounded to the nearest thousand.

d) Adoption of new and revised International Financial Reporting Standards

In the current year, the Bank has adopted all of the new and revised Standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Bank's accounting policies, being the most important the adoption of *IFRS 7 "Financial Instruments: Disclosures"* and adjustments to *IAS 1 "Presentation of Financial Statements"* – capital disclosure (effective from 1 January 2007). The new standard introduced new disclosures aimed to improve the information about financial instruments, including the information on quantitative risk aspects and methods of risk management. New disclosures on quantitative aspects enable the user to receive information on the degree of risk based on information provided to the key management of the Bank. Qualitative and quantitative data enable to get information about the degree of exposure to credit, liquidity and market risks including sensitivity analysis to market risk. The Standard replaces *IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"*, and disclosure requirements in *IAS 32 "Financial Instruments: Disclosure and Presentation"*. The addendum to *IAS 1* extended the volume of disclosure on capital of credit organisations and the methods of management of capital. In these financial statements the additional information required is disclosed.

New interpretations as *IFRIC 7 "Applying the Restatement Approach under IAS 29"* (effective for annual periods beginning on or after 1 March 2006), *IFRIC 8 "Scope of IFRS 2"* (effective for annual periods beginning on or after 1 May 2006), *IFRIC 9 "Reassessment of Embedded Derivatives"* (effective for annual periods beginning on or after 1 June 2006), *IFRIC 10 "Interim Financial Reporting and Impairment"* (effective for annual periods beginning on or after 1 November 2006) did not have substantial impact on the financial Statement of the Bank.

All changes in the accounting policies were made in accordance with the transition provisions in the respective applicable standards.

There was no impact on opening retained earnings at 1 January 2007 from the adoption of any of the above-mentioned standards.

e) Standards, interpretations and amendments not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- *IAS 1 "Presentation of Financial Statements"* (Revised in September 2007) – Effective from 1 January 2009. The main change concerns replacement of income statement to comprehensive income statement that will also include all non-owner changes in equity, such as revaluation of financial assets available for sale. It also requires presentation of a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the Bank applies an accounting policy retrospectively or makes a retrospective restatement. The Banks considers the revised standard will impact the presentation of financial statements but will not affect the recognition or estimation of particular transactions or balances.

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3. Basis of presentation (continued)

- *IFRS 8 “Operating Segments”* – Effective for annual periods beginning on or after 1 January 2009. Management does not anticipate a direct effect of the standard on the accounting policies or reporting procedures of the Bank.
- *IAS 23 “Borrowing Costs” (Revised in March 2007)* – Effective from 1 January 2009. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. It is required to capitalise borrowing costs as part of the cost of such assets. Now the Bank is estimating the effect of the revised standard on the financial statements.
- Management also anticipates no effect on the application of *IFRIC 11 IFRS 2 “Group and Treasury Share Transactions”*, (effective for annual periods beginning on 1 March 2007), *IFRC 12 “Service Concession Arrangements”*, (effective for annual periods beginning on or after 1 January 2008), *IFRIC 13 “Customer Loyalty Programs”* (effective for annual periods beginning on or after 1 January 2008), *IFRIC 14 IFRS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”* (effective for annual periods beginning on or after 1 January 2008)

f) Foreign currency translation

Transactions denominated in currencies other than Russian Roubles are recorded at the exchange rate prevailing at the date of transaction. Translation differences occurring as a result of transactions performed in foreign currencies are recorded in the income statement at the exchange rate prevailing on that date.

The official CBRF exchange rates as at 31 December 2007 were RUR 24.5462 and 35.9332 for 1 USD and 1 EUR, respectively. (2006: RUR 26.3311 and 34.6965 for 1 USD and 1 EUR, respectively).

Translation differences related to debt securities and other monetary financial assets denominated in foreign currencies recorded at fair value are included in the income statement in the line of gains less losses arising from revaluation of assets/liabilities denominated in foreign currencies. Translation differences related to non-monetary items such as equity securities, included in financial assets carried at fair value through profit or loss are recorded as part of gains less losses from revaluation at fair value. Translation differences on non-monetary financial assets available for sale are recorded in equity through revaluation reserve of financial assets available for sale.

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash in one day. They include cash balances, non mandatory cash balances with the Central Bank, cash in correspondent accounts with Banks of high reliability and non-bank credit institutions, as well as deposits in other Banks with maturity date not later than the first working day following the reporting date. All other inter-Bank deposits are disclosed as due from financial institutions. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

b) Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory balances with the Central Bank of the Russian Federation represent mandatory reserve deposits, which are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of cash flow statement.

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4. Significant Accounting Policies (continued)

c) Amounts due from financial institutions

In the normal course of business, the Bank maintains current accounts or deposits for various terms in other credit institutions. Amounts granted are recorded from the moment of granting funds to a borrower. Initially items with a fixed maturity term are measured at fair value calculated based on the amount of discounted cash flows using market interest rates for instruments with similar level of credit risk and maturity term. Subsequently these loans are measured at amortised cost less allowance for impairment. Amortised cost is measured based on the yield to maturity calculated using the effective interest rate method.

Those loans that do not have fixed maturities (granted according to their agreements "on demand" or as a credit line) are carried at cost, which is considered a reasonable approximation to their fair value.

The amounts outstanding from credit institutions are carried less the allowance for impairment, calculated in accordance with the internal documents regulating the creation of allowances for possible losses on loans and other similar debts according to IFRS.

d) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if its acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. The Bank classifies financial assets as trading in case it aims to sell them in less than 180 days from the moment of purchase

Trading financial assets that operate on the Moscow Interbank Currency Exchange (apart from those mentioned in the paragraph below) are measured on the basis of market prices set by the above mentioned currency exchange.

Trading financial assets whose nominal value is denominated in foreign currency, operating on the currency exchanges of European countries (financial assets of the Russian Federation, of entities of the Russian Federation, other Russian issuers, or financial assets issued under the guarantee of the above mentioned entities), are measured on the basis of sale prices, quoted by Reuters or (if these data are unavailable) on the basis of other information agencies or leading market operators that publish their information on sale and purchase rates daily.

Trading financial assets which are recognised as debt instruments and are not mentioned above are measured according to market conditions current on the date of their acquisition and using the interest rates set by the Bank or by leading participants of the market for similar debt instruments and which are published by these participants daily. Subsequently if the credit risk of the debtor remains the same the estimation of the current market interest rate is made based on a benchmark interest rate.

The benchmark interest rate records the yield of debt instruments measured considerably equally (with similar maturity dates, schedule of cash payments, currency of payments etc.) but with a higher level of borrowing capacity. The current level of the benchmark interest rate on the date of estimation is set based on objective data from independent sources. The interest rate that is used for calculating the fair value of a financial asset is measured by summarising the current benchmark interest rate and the spread between the rate at which this financial asset was purchased and the benchmark interest rate which was effective on the date of the asset's acquisition. Costs of acquisition of financial instruments at fair value through profit or loss are not added to the fair value of the respective financial instruments at their initial recognition.

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4. Significant Accounting Policies (continued)

Changes in fair value are recognised in the income statement at the period when they occurred as net gains or losses from transactions with trading financial assets. Coupon and interest income on trading financial assets are recorded in the income statement as interest income on financial assets. Dividends received are recorded as other operating income.

Sale and purchase of trading financial assets whose delivery is to be performed in terms set by the legislation or by rules of the current market are recorded on the date of transaction, which is considered for the Bank the date of recognition of its obligations on asset's sale or purchase. In all other cases, such transactions are recorded as derivative financial instruments until the moment of settling the accounts.

Bank's management, using its professional judgement and based on reliable objective information of specific operations and transactions, decided to refer all debt and equity securities to the category of financial assets and liabilities at the fair value through profit or loss except those investments into equity securities which have no market prices and are not quoted in active markets, loans granted and instruments held to maturity. Assets are allocated into this category on the date of initial recognition and then are remeasured at fair value based on market value. For determining its market value, all financial assets at fair value through profit or loss are measured according to the latest bid price.

At initial recognition a financial asset or liability is classified by the Bank as at fair value through profit or loss if the economical specifications of any embedded derivative are not connected to the economical specifications and risks of the principal agreement.

Financial assets classified into this category cannot be reclassified.

Financial assets at fair value through profit or loss include mortgage loans designated to be sold to other financial institutions under specific existing agreements.

The fair value of these loans is estimated based on the discounted anticipated sale price less the discounted value of the guarantee that would be given plus or minus the present value of any cash flows anticipated to occur between the current time and the anticipated sale date.

The gain or loss from the sale of these mortgage loans is equal to the received cash funds less the fair value of the guarantee and the present value of the loans.

e) Sale/purchase agreements and repurchase/resell ("repos"/"reverse repos") agreements, borrowing of debt securities

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. When these securities are sold to third parties the financial result from purchase and resale is recorded in "Net gains from dealing with securities and derivative financial instruments". Liabilities on repurchase of securities are recorded at fair value as trading liabilities.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

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4. Significant Accounting Policies (continued)

Securities provided by the Bank as loans to counterparties continue to be treated as securities in the financial statements of the Bank. Securities received as loans are not recorded in the financial statements apart from the case when these securities are sold to third parties. In this case the financial result from purchase and resell of securities is recorded in the income statement as part of net gains from dealing with trading securities. Liabilities on repurchase of these securities are recorded at fair value as trading financial liabilities.

f) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable schedule of payments that are not quoted in an active market apart from those:

- intended for sale directly or in the near future and which should be recognised as trading measured at initial recognition at fair value through profit or loss;
- that after initial recognition are classified as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Initially, loans and receivables are recognised at fair value plus costs incurred on transaction. Loans and receivables are recorded from the moment of granting funds to borrowers (customers and lending institutions) and are valued at their granting date at fair value, which consists of future interest income repayments and principal discounted at market interest rates set for similar loans.

Separately we calculate the fair value of the following categories of loans:

- Loans granted at interest rates different from market interest rates regardless of their term
- Long term loans repaid at the end of the maturity date in one amount.

The difference between fair value and nominal cost of loans is recorded in the income statement as income arising from assets granted at rates higher than commercial or as expenses floated at rates less than commercial. Afterwards the carrying value of these loans is adjusted according to the amortisation schedule of the income (expense) of loans, and the corresponding income is recorded in the income statement using the effective interest method.

g) Financial assets available for sale

This category includes non-derivative financial assets that are designated as available for sale or not classified as loans, financial assets held to maturity or financial assets at fair value through profit or loss. The Bank classifies financial assets into the relative category at the date of their purchase.

This category includes debt and equity investment securities, which the Bank commits to, held within indefinite period of time and which can be sold (exchanged) depending on the liquidity requirements or as a result of changes in interest rates, exchange rates or prices for financial assets.

Financial assets available for sale are initially recognised at fair value plus transaction costs related to the purchase of the financial asset. Normally fair value is the transaction cost on the purchasing date of the financial asset. Subsequently available for sale financial assets are carried at fair value based on the quotes on purchasing of financial assets. Some available for sale investments that do not have quotes from external independent resources are carried by the Bank at fair value based on the results of recent sale of similar equity securities to non related parties, on analyses of other information such as discounted cash flows and financial information about the investment objects and also on use of other evaluation methods.

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4. Significant Accounting Policies (continued)

Depending on the circumstances, different evaluation methods can be used. Estimation by initial cost is used only in respect of investments in equity instruments, that do not have market quotes and whose fair value can not be reliably estimated.

Unrealised gains and losses arising as a result of changes in fair value of available for sale financial assets are included in the financial statements within "changes in equity".

By disposals of available for sale assets corresponding accumulated unrealised gains and losses are included in the income statement within "gains less expenses from transactions with available for sale assets"

Interest income on available for sale assets are calculated on the bases of effective interest rate method and are recognised in the income statement as interest income on available for sale financial assets.

h) Promissory notes purchased

The Bank also purchases promissory notes from its customers and on the stock exchange. These promissory notes are included in either of the following categories: loans and receivables, financial assets carried at fair value through profit or loss, investments held to maturity or available-for-sale securities, depending on their substance. Subsequently they are remeasured and accounted for in accordance with the accounting policies of the respective categories.

i) Financial guarantee contracts and other credit related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

In the normal course of business, the Bank enters into other credit related commitments including loan commitments. Accounting policies and methods of provisioning of such liabilities are similar to those related to loans and advances granted as described above. The Bank creates special allowances against other credit related commitments if there is a possibility of losses on these commitments.

j) Property, plant and equipment

Land and buildings comprise mainly branches and offices. Property, plant and equipment are recorded at purchase cost adjusted (where appropriate) to the equivalent of the purchase power of the Russian Rouble as at 31 December 2002 or at revalued cost less accumulated depreciation and allowance for impairment. Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down to its recoverable amount and the difference after eliminating any revaluation reserve balances, is charged to the income statement.

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4. Significant Accounting Policies (continued)

The estimated recoverable amount is the higher of the assets' net realisable value and its value in use.

An independent appraiser regularly revalues premises and constructions of the Bank. The frequency of revaluations depends on changes of the estimated fair value of revalued items. The balance of revaluation reserve included in equity is transferred directly to retained earnings on the date of assets' disposals or realisation. The amount of realised gain arising from revaluation is the difference between the depreciation calculated based on the revalued cost of the asset and the depreciation calculated based on its historical cost. If an individual item is revalued the entire group of property and equipment to which it relates is also revalued.

At the end of construction, assets are transferred into premises and are recognised at its carrying value at the date of transfer. Construction in progress is not depreciated until introduction into use of respective assets.

Gains and losses arising as a result of disposal or sale of fixed assets are determined by comparing proceeds with carrying amount. Repair and maintenance cost are charged to other operating expenses when the expenditure is incurred.

k) Depreciation

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

	<u>Rate %</u>
Premises	2
Improvement of rented premises	10
Intangible assets	10
Vehicles	16.7
Office and computer equipment	16.7-33.3
Other	5-20

Land and assets under construction are not depreciated.

Depreciation is charged from the month following the month of introduction into service of a fixed or intangible asset.

Depreciation is charged to the income statement as operating expense.

l) Borrowed funds

Borrowed funds include amounts due to customers, due to Banks and other borrowed funds. Borrowed funds are initially carried at fair value, which includes the amount of received funds less transaction costs. Subsequently borrowed funds are recorded at amortised cost and the difference between the amount of received funds and the amount of repayments is charged to the income statement during the period of borrowing using the effective interest method. Fair value of borrowed funds with interest rate different from market interest rates is estimated at the date of inception, with reference to future interest payments and principal discounted at market interest rates for similar borrowings. The difference between fair value and nominal cost at the date of inception is recorded in the income statement as gain from attracting borrowed funds at rates less than commercial or as losses from attracting borrowed funds at rates higher than commercial. Subsequently the carrying value of borrowed funds is adjusted for the amortisation of their initial gain or loss and the corresponding expenses are recorded as interest expenses in the income statement using the effective interest rate method.

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4. Significant Accounting Policies (continued)

m) Operating leases

An operating lease is defined as one where the lessor reserves risks and gains related to the asset. When the Bank acts as lessee, the amount of payments due to the agreements of operating lease is recorded in the income statement using the method of amortisation on a straight-line basis during the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

n) Software maintenance

Expenses related directly to an identified and unique software that is controlled by the Bank, are capitalised and an intangible asset is recognised only in the case of high probability of economic benefits, during a period exceeding 1 year exceeding the expenses for their development and if the expenses for their development can be reliably estimated. An intangible asset is recognised only if the Bank has technical possibilities, recourses and intention to finish its development and to use the final product. Direct expenses include payroll of software engineers and the respective portion of general and administrative cost. Expenses related to the research activity are recognised as expenses in the period when they occurred.

All future expenses related to intangible assets are capitalised only when they increase any future economic benefits connected with the object to which they relate.

Expenses connected with software development or technical maintenance are recognised as expenses as they occur.

Intangible assets with the limited useful life are recorded in accordance with the actual expenditure less accumulated depreciation and impairment losses.

o) Debt securities issued

The Bank issues promissory notes and deposit certificates to its customers. Debt securities issued by the Bank are recognised initially at sale cost that includes proceeds from selling those securities (fair value of the consideration received) less transaction costs. Subsequently debt securities are carried at amortised cost, and the difference between the consideration received from the sale of those debt securities and their redemption amount is recorded in the income statement along its term, using the effective interest rate method.

When the Bank repurchases its own debt securities issued before their maturity date, the income received is recorded as commission income in the income statement.

p) Share capital

Share capital is recorded at the adjusted value taking into account the purchase power of the Russian Rouble as at 31 December 2002.

q) Dividends

When dividends are declared after the reporting date but before the approval of the financial statements, the information on dividends is disclosed in the notes to the financial statements. Outstanding dividends are recorded in the statements of changes in equity in the period when they were approved by the general shareholders' meeting.

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4 Significant Accounting Policies (continued)

r) Taxes

Taxation is recorded in the financial statements in accordance with Russian legislation currently in force. Tax charges in the income statement of the period comprise current profit tax and changes in deferred tax. Current profit tax is calculated on the basis of expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than profit tax, are recorded in operating expenses in the income statement.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the value of taxable assets and liabilities and their carrying values according to these financial statements. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised in full. Deferred tax assets and liabilities are determined at tax rates that are expected to be applied in the period when the assets would be realised or the liabilities settled, based on tax rates that would be effective in that period.

Deferred tax liabilities arising from revaluation of premises are recorded directly to the revaluation reserve in equity. Changes of deferred tax arising as a result of decreasing the amount of revaluation reserve are recorded against retained earnings. Changes of deferred tax occurring due to reasons other than changes of the revaluation reserve are recorded in the income statement.

Deferred tax arising from revaluation of available for sale securities to their fair value by recording it as decrease or increase of equity is also recognised in the equity. When realising such securities the corresponding amounts of deferred tax are recorded in the income statement.

s) Income and expense recognition

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

This calculation includes all commissions and fees paid or received by the parties according to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for third parties, -such as the arrangement for the acquisition of loans, shares or other securities or sell or purchase of businesses- are recognised on completion of the underlying transaction.

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4 Significant Accounting Policies (continued)

Commission and fee income from management of investment portfolio and from other managing and consulting services is recognised based on the applicable service contracts, usually on a time-proportional basis.

Fee income arising from services related to management of assets and investment funds is recognised in accordance with the agreement at the date when the Bank receives the right on receipt of income and the amount of income can be reliably determined. Income from rendering long term services is recognised in each reporting period proportionally to the volume of services rendered.

Accrued interest income and expenses including accrued coupon and discount are included in the carrying value of corresponding assets and liabilities.

Expenses on audit services and payments for the deposit insurance scheme are recognised when occurred on accrual basis.

Supplies are accounted as they acquired and are included in operating expenses.

t) Offsetting

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

u) Staff costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and medical insurance funds in respect of its employees. These costs are expensed as incurred and are included in staff costs.

v) Changes in comparatives

<u>Item</u>	<u>Before adjustments</u>	<u>Effect of retrospective recalculations</u>	<u>After adjustments</u>
Income statement			
Interest income	493,796	30,261	524,057
Commission income	136,623	(30,261)	106,362
Statement of cash flows			
Interest received	503,975	30,261	534,236
Commissions received	136,366	(30,261)	106,105
Income tax charge	(6,153)	(17,101)	(23,254)
Other liabilities	(50,966)	12,591	(38,375)
Deferred tax liabilities	(4,510)	4,510	-
Purchase of fixed assets	(14,529)	(4,651)	(19,180)
Sale of fixed assets	-	4,651	4,651

Adjusted data did not impact the Bank's financial result as they were recognised within the items of the income statement and statement of the cash flows.

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5. Cash and Cash Equivalents

	<u>2007</u>	<u>2006</u>
Cash on hand	549,861	345,077
Cash balances with the CBRF (other than mandatory reserve deposits)	270,793	324,529
Correspondent accounts and overnight deposits with other banks:		
- Russian Federation	351,734	402,865
- Other countries	40,177	19,905
Total cash and cash equivalents	<u>1,212,565</u>	<u>1,092,376</u>

Geographical, currency, maturity and interest rate analysis on cash and cash equivalents are disclosed in Note 28.

6. Financial Assets at Fair Value through Profit or Loss

	<u>2007</u>	<u>2006</u>
Federal bonds (OFZ)	187,693	172,799
Corporate bonds:		
Solidarnost'-2	37,670	-
AVTOVAZBANK-1	43,241	-
RusStand – 6	-	3,775
Uniastrum	-	18,978
SobinB 01`	-	30,093
UBRiR-f 02`	-	20,002
SevKazna-1`	-	19,946
Promissory notes:		
OOO "TsUM Mir Modi"	12,405	-
OOO " TsUM TAIM"	1,922	-
Commercial Bank Sibcontact Incorporated	-	14,111
ZAO "GLOBEKSBANK"	-	9,725
OOO "Kompania Holiday "	-	49,624
OOO LPZ "Segal"	-	19,487
ZAO "UZPS"	-	19,160
Shares:		
JSC "Kemerovo Social Innovation Bank"	994	3,838
OOO "Kraevoy Kommercheskiy Sibirskiy Sotsialniy Bank"	305	315
ZAO "Siberian Interbank Currency Stock Exchange"	137	137
Mortgage loan portfolio for sale	242,232	-
Less: allowance for possible losses	(4,845)	-
Total financial assets at fair value through profit or loss	<u>521,754</u>	<u>381,990</u>

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6. Financial Assets at Fair Value through Profit or Loss (continued)

Federal Bonds are represented by securities issued by the Ministry of Finance of the Russian Federation denominated in RUR. Their maturity dates are:

- as at 31 December 2007: from 20 January 2010 until 24 November 2021, the coupon rate varies from 6% to 10% and yield to maturity – from 5.97% to 6.47% depending on the issue;
- as at 31 December 2006: from 13 June 2007 until 3 August 2016, the coupon rate varies from 6% to 10% and yield to maturity – from 5.81% to 6.48% depending on the issue.

The market of promissory notes in the Novosibirsk region is composed mainly by titles issued by credit institutions and important commercial and industrial organizations operating in Novosibirsk and also in other regions. All issued promissory notes are denominated in RUR and have maturity from 1 month to 2 1/2 years. Discount rates vary from 4.6% to 15.5% per annum in 2007 and from 6% to 16% per annum in 2006, depending on the term and the issuer.

Corporate bond loans include securities issued by Russian banks and legal entities related to Russian banks denominated in RUR. They have the following maturity dates (dates prior to redemption):

- as at 31 December 2007: from 11 April 2008 until 29 April 2008, the coupon rate varies from 10.7% to 11.95% depending on the issuer.
- as at 31 December 2006: from 20 February 2007 until 15 November 2007, the coupon rate varies from 8.1% to 12.5% depending on the issuer

As the Bank has started recently the sale of mortgages to other banks, it has enough historical evidence related to risks of loan repurchase. Based on isolated case of loan repurchase the Bank can assure that fair value of mortgage loans will not differ significantly from the present value of mortgage loans available for sale.

The table below shows the movement of the allowance for impairment of financial assets at fair value through profit or loss:

	2007	2006
Balance at 1 January	-	38
Charge/ (Recovery) of allowance for impairment of financial assets at fair value through profit or loss	4,845	(38)
Balance at 31 December	4,845	-

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets at fair value through profit and loss are disclosed in Note 28.

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7. Due from Financial Institutions

	<u>2007</u>	<u>2006</u>
Term deposits in other banks	31,500	55,000
Other funds:		
RNKO "Platyozhniy tsentr"	12,156	3,205
ZAO "KTs RTS"	250	-
RTs ORTsB	62	4,309
ZAO SRTs	31	-
ZAO MMVB	1	-
COMMERZBANK (letter of credit)	-	283
Less: Allowance for possible losses	-	(550)
Total due from financial institutions	<u>44,000</u>	<u>62,247</u>

As at 31 December 2007 term deposits in other banks were placed in the following financial institutions:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Balance at 31 December 2007</u>
AKB "Novosibirskiy Munitsipalnyi Bank" OAO	16 January 2008	11%	31,500
Total term deposits in other financial institutions			<u>31,500</u>

As at 31 December 2006 term deposits in other banks were placed in the following financial institutions:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Balance at 31 December 2006</u>
OOO "SibSotsBank"	22 August 2007	13.5%	50,000
OAO "Kemsotsinbank"	11 January 2007	11.0%	5,000
Total term deposits in other financial institutions			<u>55,000</u>

The table below shows movement of the allowance for impairment of amounts due from financial institutions:

	<u>2007</u>	<u>2006</u>
Balance as at 1 January	550	2,697
Recovery of allowance for impairment of due from financial institutions during the year	(550)	(2,147)
Balance as at 31 December	<u>-</u>	<u>550</u>

Geographical analysis, currency and maturity analyses as well as interest rate analysis on due from financial institutions are disclosed in Note 28.

Information on loans granted to credit institutions considered related parties is disclosed in Note 31.

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8. Loans and Advances to Customers

	<u>2007</u>	<u>2006</u>
Current loans	4,559,929	2,991,609
Overdue loans	151,352	83,559
Customers' promissory notes	179,283	199,966
Less: Allowance for impairment of loan portfolio	<u>(160,174)</u>	<u>(127,777)</u>
Total loans and advances to customers	<u>4,730,390</u>	<u>3,147,357</u>

The table below shows movement in allowance for impairment of loan portfolio:

	<u>2007</u>	<u>2006</u>
Balance as at 1 January	127,777	148,010
Charge / (Release) of allowance for impairment of loan portfolio	32,397	(17,461)
Loans and advances to customers written off during the year as unrecoverable	-	<u>(2,772)</u>
Balance as at 31 December	<u>160,174</u>	<u>127,777</u>

On 30 August 2006 the following debts have been written off against the created allowance: OOO "Mustang" in amount of RUR 580 thousand, OAO "Novosibirskiy zavod meditsinskih preparatov" in amount of RUR 1,394 thousand and OOO "Biom" in amount of RUR 798 thousand.

Geographical analysis, currency and maturity analyses, as well as interest rate analysis on loans and advances to customers are disclosed in Note 28.

Information on loans to related parties is disclosed in Note 31.

9. Other Assets

	<u>2007</u>	<u>2006</u>
Resources with restricted right of use	8,667	10,846
Debtors and prepayments	21,644	2,775
Tax prepayments	7,643	808
Balance in transit accounts	36	-
Claims on other transactions	11,172	874
Less: Allowance for impairment of other assets	<u>(216)</u>	<u>(29)</u>
Total other assets	<u>48,946</u>	<u>15,274</u>

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9. Other Assets (continued)

The table below shows the movement of allowance for impairment of other assets:

	<u>2007</u>	<u>2006</u>
Balance as at 1 January	29	64
Charge/(recovery) of allowance for impairment of other assets during the year	497	(35)
Assets written off during the year as unrecoverable	<u>(310)</u>	<u>-</u>
Balance as at 31 December	<u>216</u>	<u>29</u>

As at 31 December 2007 claims on other transactions are include guaranty deposits of members of the Settlement Centre for the Stock Market and settlements on commission income under the agreements of transfer of mortgage receivables to ZAO KB "DeltaKredit"

On 26 December 2007 based on the decision of the Board the following debts have been written off: Municipal Unitary Enterprise "Housing and Public utilities Trust" of Berdsk town in amount of RUR 303 thousand and IFTS (Inspectorate of the Federal Tax Service) in Leninskiy region of Novosibirsk in amount of RUR 7 thousand.

Geographical analysis, currency and maturity analyses on other assets are disclosed in Note 28.

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10. Property, Plant and Equipment

	<u>Land and premises</u>	<u>Leasehold improvements</u>	<u>Office and computer equipment</u>	<u>Vehicles</u>	<u>Construc- tion in progress</u>	<u>Other</u>	<u>Total</u>
Cost or valuation							
Balance at 31 Dec. 2005	137,840	45,315	69,047	14,334	31,339	34,543	332,418
Additions	113	3,424	10,156	2,374	-	3,113	19,180
Disposals	-	(15)	(764)	(2,486)	(3,216)	(93)	(6,574)
Balance at 31 Dec. 2006	137,953	48,724	78,439	14,222	28,123	37,563	345,024
Additions	-	-	-	-	92,010	-	92,010
Transfers between categories	15,283	7,812	35,501	1,071	(62,648)	2,981	-
Disposals	(11,680)	(1,609)	(3,555)	(3,130)	(13,785)	(698)	(34,457)
Revaluation	288,357	-	-	-	-	-	288,357
Balance at 31 Dec 2007	429,913	54,927	110,385	12,163	43,700	39,846	690,934
Accumulated depreciation							
Balance at 31 Dec. 2005	(29,083)	(6,549)	(39,412)	(5,068)	-	(12,811)	(92,923)
Depreciation	(2,742)	(4,622)	(9,695)	(2,226)	-	(2,793)	(22,078)
Disposals	-	4	697	1,133	-	89	1,923
Balance at 31 Dec 2006	(31,825)	(11,167)	(48,410)	(6,161)	-	(15,515)	(113,078)
Depreciation	(2,762)	(5,015)	(13,094)	(2,088)	-	(2,872)	(25,831)
Disposals	166	550	3,484	2,003	-	656	6,859
Revaluation	(70,901)	-	-	-	-	-	(70,901)
Balance at 31 Dec 2007	(105,322)	(15,632)	(58,020)	(6,246)	-	(17,731)	(202,951)
Net book value							
As at 31 Dec. 2007	324,591	39,295	52,365	5,917	43,700	22,115	487,983
As at 31 Dec. 2006	106,128	37,557	30,029	8,061	28,123	22,048	231,946
As at 31 Dec. 2005	108,757	38,765	29,636	9,266	31,339	21,732	239,495

Leasehold improvements include capital repairs of premises rented by the Bank under operating lease agreements.

Construction in progress includes construction and expenses on refurbishment of additional offices in Novosibirsk city and Novosibirsk region. At the end of the construction work, these assets will be transferred into the corresponding category of fixed assets.

As at 31 December 2007 the actual cost of totally amortised fixed assets that are still in use by the Bank, does not represent significant amount.

Intangible assets are recorded in the category "Other" and do not represent a significant amount.

The Bank has in place insurance for its offices and premises for up to RUR 13 million, rented premises for RUR 11 million, vehicles for RUR 16.7 million and equipment for RUR 35.6 million. As at 31 December 2006 the fixed assets of the Bank were insured for RUR 187 million in total.

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10. Property, Plant and Equipment (continued)

As at 31 December 2007 the independent appraiser, ZAO "Sibirskoye Agenstvo Otsenki ASPEKT" from Novosibirsk city performed an independent valuation of the Bank's premises. The basis of estimation was market value. The net book value of premises as at 31 December 2007 mentioned above includes the amount of RUR 217,456 thousand, being the positive result of revaluation of the Bank's premises. As at 31 December 2007, deferred tax has been calculated in respect of this amount for RUR 52,189 thousand. The positive result of the revaluation less deferred tax liabilities in amount of RUR 165,267 thousand was recorded in the Statement of Changes in Equity.

11. Due to Financial Institutions

	<u>2007</u>	<u>2006</u>
LORO accounts		
ZAO KB DeltaKredit	125	-
OAO "Novosibirskiy munitsipalnyi bank"	3,252	-
OOO "Kraevoy Kommercheskiy Sibirskiy Sotsialiniy Bank"	115	120
OOO RNKO "Platyozhniy Tsentr"	24,191	116,224
Term deposits of other banks		
OAO KB "Tsentr-Invest"	-	30,017
OAO "Rossiyskiy Bank Razvitiya"	70,000	11,250
OAO Bank "Alema"	-	50,000
OOO Bank "Iturup"	-	30,000
Total due to financial institutions	<u>97,683</u>	<u>237,611</u>

Term deposits of other banks were attracted under the following conditions:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Total at 31 December 2007</u>
OAO "Rossiyskiy Bank Razvitiya"	24 June 2008	11.5%	8,000
OAO "Rossiyskiy Bank razvitiya "	17 Dec. 2008	11.5%	10,000
OAO "Rossiyskiy Bank razvitiya "	21 Dec. 2009	11.5%	27,000
OAO "Rossiyskiy Bank razvitiya "	31 Sept. 2009	11.5%	15,000
OAO "Rossiyskiy Bank Razvitiya "	26 Dec. 2008	11.5%	10,000
Total term deposits from other banks			<u>70,000</u>

Geographical analysis, currency and maturity analyses as well as interest rate analysis on due to financial institutions are disclosed in Note 28.

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12. Customer Accounts

	<u>2007</u>	<u>2006</u>
Individuals		
- Current and on demand accounts	1,073,600	623,147
- Term deposits	2,677,886	1,866,342
State organisations		
- Current and settlement accounts	302,040	300,816
- Term deposits	15,000	6,000
Legal entities		
- Current and settlement accounts	1,423,008	1,077,917
- Term deposits	354,943	229,935
Other customer accounts	<u>31,373</u>	<u>24,133</u>
Total customer accounts	<u>5,877,850</u>	<u>4,128,290</u>

The item other customer accounts includes the following:

	<u>2007</u>	<u>2006</u>
Settlements in transit	26,320	16,911
Settlement in process on transactions with plastic cards	4,930	6,342
Customer accounts on broker transactions with securities and other financial assets	123	334
Customer deposits	-	283
Customer accounts on settlement operations in process	<u>-</u>	<u>263</u>
Other customer accounts	<u>31,373</u>	<u>24,133</u>

As at 31 December 2006 customer deposits are provided as collateral for Bank's liabilities on customers' letters of credit. These deposits are frozen until the customers' settlements on letters of credit are closed.

The table below shows the analysis per economic sector of customer accounts:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Individuals	3,754,529	63.9%	2,454,948	59.5%
Trade and services	1,069,657	18.2%	1,024,887	24.8%
State organisations	390,493	6.6%	79,335	1.9%
Industry	354,525	6.0%	156,145	3.8%
Agriculture	108,392	1.8%	33,557	0.8%
Construction	82,461	1.4%	220,279	5.3%
Transport	22,300	0.4%	31,611	0.8%
Public health services	16,880	0.3%	13,652	0.3%
State off-budget funds	157	0.0%	32,733	0.8%
Other	<u>78,456</u>	<u>1.3%</u>	<u>81,143</u>	<u>2.0%</u>
Total customer accounts	<u>5,877,850</u>	<u>100.0%</u>	<u>4,128,290</u>	<u>100.0%</u>

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12. Customer Accounts (continued)

Geographical analyses, currency and maturity analyses, as well as interest rate analysis on customer accounts are disclosed in Note 28.

Information on customer accounts of related parties is disclosed in Note 31.

13. Debt Securities Issued

	<u>2007</u>	<u>2006</u>
Promissory notes	166,896	195,855
Other	949	490
Total debt securities issued	<u>167,845</u>	<u>196,345</u>

As at 31 December 2007 the Bank issued promissory notes with terms from 2 weeks to 2.5 years. Discount rates are from 5% to 10% per annum (2006: terms – from 2 weeks to 2.5 years, discount rates – from 9% to 15% per annum).

Geographical analysis, currency and maturity analyses as well as interest rate analysis on debt securities issued are disclosed in Note 28.

Information on debt securities issued to related parties is disclosed in Note 31.

14. Subordinated Loans

As at 31 December 2007 the Bank held a subordinated loan from OJS SKBP “Primsotsbank” in amount of RUR 35,000 thousand, with maturity date until 15 February 2012 and interest rate 11.0% per annum and from OOO “Primorskaya Sotsialnaya Kompania” in amount of RUR 60,000 thousand with maturity date until 24 October 2013 and interest rate 12.6%.

Geographical analyses, currency and maturity analyses as well as interest rate analysis on subordinated loan are disclosed in Note 28.

Information on subordinated loan received from related parties is disclosed in Note 31.

15. Other Liabilities

	<u>2007</u>	<u>2006</u>
Accounts payable	46,818	3,861
Taxes payable	7,016	10,060
Transit accounts	38,938	895
Other liabilities	1,073	2,505
Total other liabilities	<u>93,845</u>	<u>17,321</u>

As at 31 December 2006 other liabilities mainly include liabilities on travellers' cheques on transfers of individuals in amount of RUR 2,158 thousand and liabilities for audit services in amount of RUR 403 thousand.

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15. Other Liabilities (continued)

Geographical analyses, currency and maturity analyses on other liabilities are disclosed in Note 28.

The table below shows the movement in provision for liabilities related to loan commitments:

	<u>2007</u>	<u>2006</u>
Balance as at 1 January	-	47
Release of provision for liabilities related to loan commitments during the year.	-	(47)
Balance as at 31 December	<u>-</u>	<u>-</u>

16. Share Capital

The Bank's share capital issued and totally paid includes the following components:

	<u>2007</u>			<u>2006</u>		
	Number of shares	Nominal amount	Amount adjusted for inflation	Number of shares	Nominal amount	Amount adjusted for inflation
Ordinary shares	150,250	150,250	349,956	150,250	150,250	349,956
Total share capital	150,250	150,250	349,956	150,250	150,250	349,956

All ordinary shares have the nominal value of RUR 1 (not thousands) for each share. Each share has the right of one vote.

17. Equity

The influence of adjustments made according to IFRS on equity and profit of the Bank are as follows:

	<u>2007</u>		<u>2006</u>	
	Equity less Profit	Profit of the year	Equity less Profit	Profit of the year
Under RAL	606,781	221,556	355,502	62,960
Charge of allowances	20,544	42,945	(5,039)	28,355
Current tax	59,410	(59,410)	14,841	(23,254)
Deferred tax	(6,539)	(3,933)	(17,101)	4,510
Depreciation of fixed assets	(80,193)	(1,052)	(41,950)	(1,797)
Revaluation of fixed assets	(36,893)	-	25,281	-
Revaluation of securities	3,858	(5,419)	2,788	(20,807)
Accrued interest income and expense	4,990	5,985	(7,294)	12,284
Accrued operating income and expense	(10,817)	(33,514)	(8,642)	(2,175)
Transactions at rates less than commercial	(22,122)	19,608	(524)	279
Expenses transferred through capital funds	2,361	(2,361)	6,152	(6,152)
Other	(2,267)	(314)	(1,411)	(2,960)
Under IFRS	539,113	184,091	322,603	51,243

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18. Net Interest Income

	2007	2006 (restated)
Interest income		
Loans to customers	788,803	477,845
Due from financial institutions	47,330	31,468
Investments securities	51,636	14,744
Total interest income	887,769	524,057
Interest expense		
Customers' deposits	(250,605)	(200,439)
Due to financial institutions	(18,514)	(10,183)
Debt securities issued	(13,946)	(14,898)
Total interest expense	(283,065)	(225,520)
Net interest income	604,704	298,537

19. Net Gains from Dealing with Securities

	2007			2006		
	Fair value adjustments	Income realised	Total	Fair value adjustments	Income realised	Total
Financial assets at fair value through profit or loss	(8,123)	18,064	9,941	(577)	8,367	7,790
Other	-	(5)	(5)	-	(3)	(3)
Total net gains from dealing with securities	(8,123)	18,059	9,936	(577)	8,364	7,787

20. Net Gains from Operations with Foreign Currencies

	2007	2006
Currency exchange	26,092	21,126
Swap operations	4,989	1,580
Total net gains from operations with foreign currencies	31,081	22,706

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21. Net Commission Income

	<u>2007</u>	<u>2006</u> <u>(restated)</u>
Commission income		
Settlement transactions	109,939	46,355
Cash transactions	89,538	39,521
Transactions with plastic cards	35,566	10,936
Anticipated redemption of promissory notes	610	2,816
Guarantees issued	386	416
Other transactions	12,614	6,318
Total commission income	248,653	106,362
Commission expenses		
Transactions on plastic cards	(28,871)	(11,192)
Cash transactions	(4,216)	(3,684)
Settlement transactions	(2,454)	(948)
Dealing with securities	(448)	(150)
Other commissions	(684)	(881)
Total commission expense	(36,673)	(16,855)
Net commission income	211,980	89,507

22. Other Operating Income

	<u>2007</u>	<u>2006</u>
Renting of property and other income from fixed assets	27,738	6,410
Fines, penalties and other charges	2,588	49
Other	568	5,588
Total other operating income	30,894	12,047

The line Other includes mainly income arising from adjustments of rates in deposits in case of early termination of contracts, installation of "Client – Bank", "Internet-Bank" as well as income from execution of pledge agreements and guarding of collateral values.

23. Staff Costs

	<u>2007</u>	<u>2006</u>
Salaries and bonuses	(270,553)	(145,848)
Unified social tax	(48,636)	(31,843)
Education	(1,002)	(1,004)
Other staff payments	(10,006)	(7,832)
Total staff costs	(330,197)	(186,527)

In 2007 the average monthly salary of employees amounted to RUR 30.5 thousand. (2006: RUR 17.5 thousand)

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24. Operating Expenses

	<u>2007</u>	<u>2006</u>
Other expenses related to fixed assets	(69,390)	(27,674)
Depreciation of fixed assets (Note 10)	(25,831)	(22,078)
Taxes other than on income	(34,440)	(19,683)
Expenses on operating leases	(30,467)	(18,980)
Advertising and marketing	(19,194)	(6,862)
Security expenses	(19,065)	(17,295)
Office expenses	(18,756)	(13,502)
Payments for insurance of customers' deposits	(16,429)	(12,487)
Expenses on issuing plastic cards	(9,169)	(1,370)
Expenses on cash insurance	(8,031)	(9,665)
Expenses on materials	(7,072)	(4,865)
Expenses on charity	(6,970)	(1,231)
Professional services	(5,732)	(2,929)
Business travel expenses	(2,820)	(1,377)
Expenses on insurance	(937)	(849)
Expenses of representation	(166)	(209)
Write offs	(129)	111
Transport expenses	(69)	(6)
Other operating expenses	(5,277)	(3,982)
Total operating expenses	<u>(279,944)</u>	<u>(164,933)</u>

The main part of other operating expenses during the years 2007 and 2006 consists of expenses arising from insurance of property and civil liability.

Taxes other than on income include the following:

	<u>2007</u>	<u>2006</u>
Repayment VAT	(27,935)	(13,979)
Property tax	(5,629)	(4,871)
Other taxes	(876)	(833)
	<u>(34,440)</u>	<u>(19,683)</u>

25. Income Tax

Expenses for income tax included the following components:

	<u>2007</u>	<u>2006</u>
Current income tax	59,410	23,254
Charge / (Release) of deferred tax	3,933	(4,510)
Income tax	<u>63,343</u>	<u>18,744</u>

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25. Income Tax (continued)

The income tax for banks and non-bank organisations except for the income arising from dealing with state securities was charged at the rate of 24%. The income tax rate on income arising from transactions with state securities is 15%.

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, except for income on state securities, which is taxed at 15%.

The effective income tax rate differs from the rates determined by the Russian tax legislation. Reconciliation between the effective income tax and the income tax calculated based on the rate determined by the legislation can be presented as follows:

	2007	2006
Income according to IFRS before tax	247,434	69,987
Official rate of income tax	24%	24%
Theoretical tax accrual at the normal rate	59,384	16,797
Income and expenses not recognized for tax purposes:		
- Income on state securities taxed at other rates	(1,419)	(1,108)
- Income not increasing the tax base	(114)	(13)
- Expenses not decreasing the tax base	5,492	3,068
	63,343	18,744
Income tax	63,343	18,744

The tax effect of the temporary difference is presented in the following way:

	2005	Effect in the income statement	2006	Effect in the income statement	Effect in equity	2007
Temporary differences decreasing the tax base						
Allowance for impairment	2,049	(3,656)	(1,607)	(11,085)	-	(12,692)
Accrued income and expenses	541	1,241	1,782	(2,713)	-	(931)
Other	597	5,799	6,396	5,321	-	11,717
	3,187	3,384	6,571	(8,477)	-	(1,906)
Temporary differences increasing the tax base						
Revaluation of securities at fair value through profit or loss	(943)	138	(805)	1,950	-	1,145
Property and equipment	(19,652)	974	(18,678)	198	(52,189)	(70,669)
Other	307	14	321	2,396	-	2,717
	(20,288)	1,126	(19,162)	4,544	(52,189)	(66,807)
Total deferred tax liability	(20,288)	1,126	(19,162)	4,544	(52,189)	(66,807)
Total net deferred tax liability	(17,101)	4,510	(12,591)	(3,933)	(52,189)	(68,713)

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26. Dividends

In 2007 the Bank did not declare and did not pay dividends. (2006: RUR 1,502 thousand). All the dividends were declared and paid in RUR.

	2007	2006
Dividends outstanding at the beginning of the year	1	1
Dividends declared during the year	-	1,052
Dividends repaid during the year	-	(1,052)
Dividend outstanding at the end of the year	1	1
Dividends per share declared during the year	-	7

27. Segment Risk Management

The Bank's operations are organised in accordance with two basic business-segments.

- Services to individuals – this business segment includes bank services to individual customers – opening and running bank (settlement) accounts, acceptance of deposits, safekeeping services, accrual of investments, debit and credit card services, services on consumer and mortgage loans.
- Services to organisations – this business segment includes services on running settlement and current accounts of organisations, acceptance of deposits, granting of credit lines, granting of loans and operations in foreign currency and derivative financial instruments.

28. Financial Risk Management

The activities carried out by the Bank expose it to a variety of financial risks and performing those activities include analysing, evaluating, accepting and managing some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Bank's aim is therefore to achieve an adequate balance between risk and return and minimise potential adverse effects on the Bank's financial performance, through a set of risk management policies. These policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products, to adhere to changes in the normative issued by the Central Bank of the Russian Federation and ultimately to follow emerging best practice.

The Board of Directors approves the Credit policy and the policy of risk management, sets basic characteristics of loan portfolio of the Bank and limits the risks upon the factors, among which are:

- Value limits of loan types with different risk profile
- Loan portfolio diversification
- Loan terms
- Limitations on granting loans to related parties
- Quality criteria of collateral
- Borrowers' risk assessment principles

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28. Financial Risk Management (continued)

In addition to this, the credit policy determines the functions of separate bodies of the Bank, including:

- Management of the Bank (issue of regulatory documents related to risk management procedures including credit, currency and interest risks, and financial instruments' risks on the development of the Bank's business);
- Finance committee (determination of limits on all Bank's activities) and;
- Credit committee (decisions on issues such as granting, prolonging or changing conditions of loan agreements, portfolio structure and overall quality of the loan portfolio).

To minimise the risks, the Bank's departments in charge of loans operate within the scope of their competence, and each department is included into the system of risk management and control, among them are:

- Business department (collecting updated information of the client during the effective period of the contracts, monitoring of the clients' financial position, control of clients' repayment record, performing of scheduled and non scheduled visits to clients)
- Security group (evaluation of proposed collaterals, their conditions, fair value assessments along the term of contracts and evaluations of changes of collateral)
- Department of Bank's risk evaluation (business risk evaluation, monitoring of risk categories of loans, advances and other financial instruments, calculation of allowance considering the provided collateral, the department is also in charge of suggestions on improvement of the evaluation risk methods and evaluation of operational and legal risk of the Bank)
- Economic security department and legal management (legal assessment of documents provided by borrowers, evaluation of borrowers' business reputation, debt collection in case of default on obligations, participation in realisation of pledged collateral)
- Internal control department (subsequent inspection of lending procedures for their compliance with internal and external requirements)

Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business and therefore management carefully monitors it. Credit exposures arise mainly in lending activities that lead to loans and advances, and investing activities that bring debt securities and other bills into the Bank's assets portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Department of bank exposure evaluation and reported to the Credit Committee regularly.

Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (a) the "probability of default" by the client or counterparty on its contractual obligations; (b) current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and (c) the likely recovery ratio on the defaulted obligations (the "loss given default").

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28. Financial Risk Management (continued)

These credit risk measurements, which reflect expected losses (the “expected loss model”) and are required by the Central Bank of the Russian Federation, are embedded in the Bank’s daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the “incurred loss model”) rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally, based on the regulations issued by the Central Bank of the Russian Federation and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data. For this purpose the loan portfolio of the Bank is classified into five risk categories:

- Category I (the highest quality - standard loans) – with absence of credit risk (possibility of losses as result of default or improper fulfilment of liabilities on loans is nil);
- II quality category (non-standard loans) - medium credit risk (possibility of losses as result of default determines their impairment on a variable rate between 1 to 20%)
- III quality category (doubtful loans) – significant credit risk (possibility of losses as result of default determines their impairment on a variable rate between 21 to 50%)
- IV quality category (problematic loans) - high credit risk (possibility of losses as result of default determines their impairment on a variable rate between 51 to 100%)
- Category V, the lowest quality (bad loans) – absence of repayment possibility of a loan due to the inability or unwillingness of a borrower to fulfil his credit obligations, determines the full impairment of a loan (100%)

In order to achieve a more representative classification of borrowers, each category (apart from the lowest one) includes subcategories that characterise more specifically the capability of a borrower to repay a loan.

The analysis of debt securities and other liabilities does not differ from the analyses of the Bank’s borrowers and is performed with the use of similar models, although, keeping into account that not all the financial information is consistent or readily available from all issuers. In relation to this, the department of bank’s risk evaluation uses additional methods to assess the issuers’ financial position based on fundamental and technical analysis of the securities’ market. The department also uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and on over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor’s, Moody’s or Fitch Ratings. Investments in these securities are considered as a mean to improve the credit quality profile of the Bank’s assets and at the same time a tool for liquidity management.

Risk limit control and mitigation policies

The Bank manages, sets limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, economic groups and industries, through its loan granting policies and regulations. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored through regular review (quarter and annual inspections as well as inspection by arising of impairment evidence). Risk limits are updated once a quarter, and for risk factors changing more frequently (e.g. market risks, debts of credit institutions) – once a month. The finance committee approves the limits.

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28. Financial Risk Management (continued)

The Bank has a differential approach for the assessment of different groups of borrowers (taking into consideration the activity or industry they belong to and the specifics of the preparation of their financial statements. In particular, the Bank has specific exposure evaluation models used for:

- industrial and agricultural entities
- trade organisations
- construction companies
- state organisations
- investment design
- small business
- individuals

The exposure to any borrower or economic group, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

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

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for loans, which is a common practice. The Bank has set guidelines on the acceptability of specific types of collateral for credit risk mitigation. The main collateral types for loans and advances include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equity instruments.

Long term finance and lending to corporate entities are generally secured; consumer individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, promissory notes and similar instruments are generally unsecured.

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit –which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions-, are collateralised by the underlying shipments of goods to which they relate, or by additional collaterals and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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28. Financial Risk Management (continued)

Impairment and provisioning policies

The internal rating described before in this note, used for regulatory purposes as per the instructions of the CBRF focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the balance sheet under IFRS at year-end is derived from each of the five statutory risk categories. The majority of the impairment allowance comes from the last grading, in direct correlation to the impaired loans, and from the first category corresponding to loans assessed on a pool basis. The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories:

Risk category	Loans and advances (%)	Impairment allowance (%)	Loans and advances (%)	Impairment allowance (%)
I	44.77	29.95	38.62	32.85
II	45.55	-	54.32	5.14
III	7.00	2.48	4.43	0.02
IV	0.57	2.60	0.80	17.96
V	2.11	64.97	1.83	44.03
	100.00	100.00	100.00	100.00

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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28. Financial Risk Management (continued)

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the balance sheet. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities. Providing monitoring of credit risk the specialists of department of credit risk evaluation present regular reports based on structured analysis of business and financial results of clients. All information on significant risks in respect of client's credit capacity comes to the Credit committee of the Bank. The Credit committee performs maturity analysis, monitoring and control of overdue loans.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

In 2007 the Bank has actively developed consumer lending products based on a scoring system.

In accordance with the results of stress testing which is performed twice a year to estimate the Bank's strength against changes in the structure of the loan portfolio, the Bank develops emergency plans and takes measures limiting the most risky scenarios and lending schemes.

Loans and advances to customers include the following portfolios:

	<u>2007</u>	<u>2006</u>
Loans and advances to customers		
<i>Individuals (retail customers)</i>		
Overdrafts	14,826	2,794
Consumer loans guaranteed by legal entities	426,339	612,379
Other consumer loans	955,056	252,119
Auto loans	40,158	543
Mortgages	184,729	40,910
<i>Corporate entities</i>		
Large corporate customers	2,333,107	1,512,005
SMEs	755,452	499,369
Federal, State and public	180,897	355,015
Gross loans and advances	4,890,564	3,275,134
Less: allowance for impairment	(160,174)	(127,777)
Loans and advances, net	<u>4,730,390</u>	<u>3,147,357</u>

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28. Financial Risk Management (continued)

The loan portfolio of the Bank is summarised as follows:

	2007		2006	
	Loans and advances to customers	Due from Banks	Loans and advances to customers	Due from Banks
Loans and advances				
Neither past due nor impaired	4,690,281	73,411	3,191,574	77,711
Past due but not impaired	48,931	-	-	-
Impaired	151,352	-	83,560	-
Gross loans and advances	4,890,564	73,411	3,275,134	77,711
Less: Allowance for impairment	(160,174)	-	(127,777)	-
Net loans and advances	4,730,390	73,411	3,147,357	77,711

a) Loans and advances neither past due nor impaired

As at 31 December 2007, loans and advances neither past due nor impaired to individuals were composed by:

Risk category	Overdrafts	Consumer loans guaranteed by legal entities	Consumer loans	Auto loans	Mortgages	Total
I	14,566	426,339	838,809	34,085	175,480	1,489,279
Total	14,566	426,339	838,809	34,085	175,480	1,489,279

As at 31 December 2007 loans and advances neither past due nor impaired to corporate entities included:

Risk category	Large corporate customers	SMEs	Federal, State and public	Total
I	327,269	168,719	38,897	534,885
II	1,825,612	366,876	140,000	2,332,488
III	180,226	151,403	2,000	333,629
Total	2,333,107	686,998	180,897	3,201,002

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28. Financial Risk Management (continued)

Summarizing, the credit quality of the loan portfolio of loans and advances that were neither due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	1,489,279	534,885	2,024,164
II	-	2,332,488	2,332,488
III	-	333,629	333,629
Total	1,489,279	3,201,002	4,690,281

As at 31 December 2006 loans and advances neither past due nor impaired to individuals were composed by:

Risk category	Overdrafts	Consumer loans guaranteed by legal entities	Consumer loans	Auto loans	Mortgages	Total
I	2,789	612,379	227,275	543	40,910	883,896
II	-	-	18,300	-	-	18,300
Total	2,789	612,379	245,575	543	40,910	902,196

As at 31 December 2006 loans and advances neither past due nor impaired to corporate entities included:

Risk category	Large corporate customers	SMEs	Federal, State and public	Total
I	317,348	142,057	22,785	482,190
II	1,074,875	249,921	327,206	1,652,002
III	93,471	43,317	5,024	141,812
IV	-	13,374	-	13,374
Total	1,485,694	448,669	355,015	2,289,378

In summary:

Risk category	Individuals	Legal entities	Total
I	883,896	482,190	1,366,086
II	18,300	1,652,002	1,670,302
III	-	141,812	141,812
IV	-	13,374	13,374
Total	902,196	2,289,378	3,191,574

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28. Financial Risk Management (continued)

b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired as at 31 December 2007 were as follows:

	<u>Past due up to 30 days</u>	<u>Past due up to 31-60 days</u>	<u>Past due more than 90 days</u>	<u>Total</u>	<u>Fair value of collateral</u>
Individuals (retail clients)					
Overdrafts	176	-	-	176	-
Consumer loans	38,477	-	-	38,477	-
Mortgages	-	1,905	7,343	9,248	9,941
Legal entities					
SMEs	139	891	-	1,030	-
Total	<u>38,792</u>	<u>2,796</u>	<u>7,343</u>	<u>48,931</u>	<u>9,941</u>

As at 31 December 2006 the Bank did not have loans and advances past due but not impaired.

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2007		2006	
	<u>Balance (gross)</u>	<u>Fair value of collateral</u>	<u>Balance (gross)</u>	<u>Fair value of collateral</u>
Individuals (retail customers)				
Overdrafts	84	-	5	-
Consumer loans	77,771	-	6,544	-
Auto loans	6,072	6,980	-	-
Corporate entities				
Large corporate customers	-	-	26,311	-
SMEs	67,425	-	50,700	-
Total	<u>151,352</u>	<u>6,980</u>	<u>83,560</u>	<u>-</u>

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28. Financial Risk Management (continued)

In 2007, the movement of the allowance for impairment of loans and advances to individuals was as follows:

	<u>Over-drafts</u>	<u>Consumer loans guaranteed by legal entities</u>	<u>Consumer loans</u>	<u>Auto loans</u>	<u>Mortgages</u>	<u>Total</u>
As at 1 January	140	30,619	12,056	11	818	43,644
Charge for the period	335	-	59,465	3,268	2,706	65,774
Loans written off	-	(17,829)	-	-	-	(17,829)
As at 31 December	<u>475</u>	<u>12,790</u>	<u>71,521</u>	<u>3,279</u>	<u>3,525</u>	<u>91,589</u>

In 2007, the movement of the allowance for impairment of loans and advances to corporate entities was as follows:

	<u>Large corporate customers</u>	<u>SMEs</u>	<u>Federal, State and public</u>	<u>Total</u>
As at 1 January	32,831	51,260	42	84,133
Charge for the period	-	17,165	118	17,283
Loans written off	(32,831)	-	-	(32,831)
As at 31 December 2007	<u>-</u>	<u>68,425</u>	<u>160</u>	<u>68,585</u>

In summary:

	<u>Individuals</u>	<u>Legal entities</u>	<u>Total</u>
As at 1 January	43,644	84,133	127,777
Charge for the period	65,774	17,283	83,057
Loans written off	(17,829)	(32,831)	(50,660)
As at 31 December 2007	<u>91,589</u>	<u>68,585</u>	<u>160,174</u>

In 2006, the movement of the allowance for impairment of loans and advances to individuals was as follows:

	<u>Over-drafts</u>	<u>Consumer loans guaranteed by legal entities</u>	<u>Consumer loans</u>	<u>Auto Loans</u>	<u>Mortgages</u>	<u>Total</u>
At 1 January	-	-	972	-	-	972
Charge for the period	140	30,619	11,084	11	818	42,672
At 31 December	<u>140</u>	<u>30,619</u>	<u>12,056</u>	<u>11</u>	<u>818</u>	<u>43,644</u>

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28. Financial Risk Management (continued)

In 2006, the movement of the allowance for impairment of loans and advances to corporate entities was as follows:

	Large corporate customers	SMEs	Federal, State and public	Total
At 1 January 2006	105,173	17,178	24,687	147,038
Charge for the period	-	36,854	-	36,854
Loans written off	(72,342)	-	(24,645)	(96,987)
Recovered amounts	-	(2,772)	-	(2,772)
At 31 December 2006	32,831	51,260	42	84,133

In summary:

	Individuals	Legal entities	Total
At 1 January 2006	972	147,038	148,010
Charge for the period	42,672	36,854	79,526
Loans written off	-	(96,987)	(96,987)
Recovered amounts	-	(2,772)	(2,772)
At 31 December 2006	43,644	84,133	127,777

d) Loans and advances renegotiated

Restructuring activities included extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due or impaired comprised:

	2007	2006
Individuals (retail customers)		
Consumer loans	669	4,607
Mortgages	3,124	-
Corporate entities		
Large corporate customers	42,200	21,901
SMEs	25,129	5,600
Total	71,122	32,108

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28. Financial Risk Management (continued)

e) Repossessed collateral

During 2007 the Bank obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Additions	Disposals	31 Dec 2006	Additions	Disposals	31 Dec 2007
Residential property	57,199	(1,228)	55,971	1,176,904	(860,321)	372,554
Total	57,199	1,228	55,971	1,176,904	860,321	372,554

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

f) Industry analysis of loans and advances to customers

The structure of the Bank's loan portfolio per economic sector is presented below:

	2007	%	2006	%
Trade and services	1,736,196	36%	998,558	31%
Industry	537,097	11%	402,836	12%
Construction	433,635	9%	307,734	9%
Power engineering	138,432	3%	118,615	4%
Food industry and agriculture	109,213	2%	83,627	3%
Oil, gas and chemical industries	105,084	2%	91,019	3%
Transport	65,020	1%	72,537	2%
State organisations	63,815	1%	230,086	7%
Timber industry	44,618	1%	49,083	1%
Individuals	1,657,454	34%	921,039	28%
Total loans and advances to customers	4,890,564	100%	3,275,134	100%

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28. Financial Risk Management (continued)

g) Concentration of loans and advances to customers

In terms of size of loans and number of borrowers, the structure of the Bank's loan portfolio is as follows:

Amount in thousands RUR	2007			2006		
	Number of borrowers	Total debt	% of loan portfolio	Number of borrowers	Total debt	% of loan portfolio
More than 60,001	19	1,679,174	34.3%	9	697,626	21.3%
From 30,001 to 60,000	17	766,931	15.7%	18	845,303	25.8%
From 15,001 to 30,000	18	415,773	8.5%	14	295,289	9.0%
From 7,501 to 15,000	17	185,721	3.8%	27	288,342	8.8%
From 3,001 to 7,500	38	151,588	3.1%	36	172,486	5.3%
From 1,501 to 3,000	80	161,660	3.3%	30	61,261	1.9%
From 601 to 1,500	125	112,915	2.3%	70	68,450	2.1%
From 301 to 600	96	37,560	0.8%	45	20,837	0.6%
From 151 to 300	202	34,644	0.7%	57	11,435	0.3%
From 31 to 150	13,824	730,972	15.0%	4,697	222,896	6.8%
From 15 to 30	15,989	318,797	6.5%	12,997	264,914	8.1%
From 1 to 15	43,035	294,829	6.0%	49,779	326,295	10.0%
Total	73,460	4,890,564	100.0%	67,779	3,275,134	100.0%

As at 31 December 2007 the twenty largest borrowers have an outstanding debt totalling RUR 1,722,844 thousand, which represent 35.23% of the total loan portfolio (2006: RUR 1,312,666 thousand and 41.71%, respectively). As at 31 December 2007 the largest borrower has a total debt of RUR 135,505 thousand which represent 2.77% of the total loan portfolio (2006: RUR 124,500 thousand and 3.96%, respectively).

Market risk

The Bank undertakes market risk connected to open positions on interest, currency and equity instruments that are considered to be the subjects of risks of general and specific changes on the market. The General Director sets limits on the level of accepted risk. However if more significant changes on the market take place this method does not ensure preventing of losses exceeding the limits.

The method of evaluation of market risks has developed significantly. In 2006 the Bank started estimating the market risks related to its debt securities issued portfolio using the "Value at Risk" methodology (VAR) currently accepted as best practice. Since the number of financial instruments the Bank was working with increased, the Bank developed rules, including estimations of limits on groups of securities joint into pools in accordance with specific features of risk as well as rules of obligatory closing of positions on specific types of securities.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over one day will follow a similar pattern to those that have occurred over the periods in the past. The Bank's assessment of past movements is based on data for the past 365 days. The Bank applies these historical changes in rates, prices, indices, and so on directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

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28. Financial Risk Management (continued)

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading and non-trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated Bank-wide VAR, is reviewed daily by the Department of bank exposure evaluation. Average daily VAR for the Bank was RUR 3,667.5 thousand in 2007 (2006: RUR 2,006.5 thousand).

The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

Financial instruments sensitive to the market risk include state securities, corporate securities, and foreign currencies.

State securities sensitive to the market risk:

Rate	1 January 2007	1 April 2007	1 July 2007	1 October 2007	1 January 2008
Fair value of the portfolio (*)	174,999	266,422	239,880	173,212	187,575
Possible losses (**)	1,738	3,157	2,292	1,139	1,260
Possible losses, in % from fair value of the portfolio	0.99	1.18	0.96	0.66	0.67

(*) Fair value of the portfolio was calculated according to daily prices of Moscow Interbank Currency Exchange

(**) To evaluate possible losses value-at-risk has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day)

Corporate securities sensitive to the market risk:

Rate	1 January 2007	1 April 2007	1 July 2007	1 October 2007	1 January 2008
Fair value of the portfolio (*)	95,121	76,200	-	79,271	82,437
Possible losses (**)	399	1,183	-	1,692	2,713
Possible losses, in % from fair value of the portfolio	0.42	1.55	-	2.13	3.29

(*) Fair value of the portfolio was calculated according to daily prices of Moscow Interbank Currency Exchange

(**) To evaluate possible losses value-at-risk has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day).

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28. Financial Risk Management (continued)

The following table shows the sensitivity of the market risk of foreign currencies:

Rate	1 July 2007	1 October 2007	1 January 2008
Amount of open currency positions (*)	2,952	1,823	4,930
Possible losses (**)	6	14	8
Possible losses in % from the amount of open positions (***)	0.2	0.77	0.16

(*) Amount of open currency positions was calculated in accordance with daily currency rates and methodologies set by Central Bank of Russian Federation (including own transactions and transactions to the client's benefit)

(**) To evaluate possible losses value-at-risk has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day),

(***) The analysis of the Bank's sensitivity to exchange fluctuations has been performed regularly since 1 July 2007.

The sensitivity of the Bank to the market risk is presented below:

Rate	1 January 2007	1 April 2007	1 July 2007	1 October 2007	1 January 2008
Equity (share capital) (*)	430,672	460,371	491,282	545,722	633,600
Possible losses (**)	2,137	4,340	2,298	2,845	3,981
Possible losses, in% from the equity (share)	0.50	0.94	0.47	0.52	0.63

(*) Equity was calculated in accordance with methodology set by the Central bank of Russian Federation

(**) Possible losses were calculated by summarizing the rates of possible losses presented in the tables at corresponding dates. This method of calculating does not fully corresponds to portfolio's approach of value-at-risk calculation as it is supposed that there is no correlation between the risk factors of separate portfolios. In relation to this, the calculation gives higher (maximally safe) estimate of the Bank's sensitivity to the market risk factors.

The Bank did not perform the analyses on sensitivity of the portfolio of the financial instruments to the changes of general level of interest rates as the Bank does not have financial instruments with variable interest rates related to the refinance rate of the CBRF, LIBORe, market indexes or any other general economic indicators. In 2007 the Bank operated only with debt securities with fixed interest rates.

The portfolios of state and corporate securities did not include financial instruments denominated in foreign currency, therefore, the Bank did not perform an analyses of sensitivity to changes in exchange rates.

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28. Financial Risk Management (continued)

Geographical Risk

A geographical analysis of Bank's assets and liabilities as at 31 December 2007 is set out below:

	Russia	OECD	Total
Assets			
Cash and cash equivalents	1,172,388	40,177	1,212,565
Mandatory cash balances with the CBRF	78,502	-	78,502
Financial assets at fair value through profit or loss	521,754	-	521,754
Due from financial institutions	44,000	-	44,000
Loans and advances to customers	4,730,390	-	4,730,390
Other assets	48,946	-	48,946
Property, plant and equipment	487,983	-	487,983
Total assets	7,083,963	40,177	7,124,140
Liabilities			
Due to financial institutions	97,683	-	97,683
Customer accounts	5,877,850	-	5,877,850
Debt securities issued	167,845	-	167,845
Subordinated loan	95,000	-	95,000
Deferred tax liability	68,713	-	68,713
Other liabilities	93,845	-	93,845
Total liabilities	6,400,936	-	6,400,936
Net balance sheet position at 31 December 2007	683,027	40,177	723,204
Net balance sheet position at 31 December 2006	353,941	19,905	373,846

Operations of the Bank beyond the Russian Federation are represented predominantly by operations with OECD countries.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in exchange rates. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2007.

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28. Financial Risk Management (continued)

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency in Russian Roubles, dollars of the United States of America, Euro and other currencies.

	<u>RUR</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Assets					
Cash and cash equivalents	1,114,482	78,578	17,856	1,649	1,212,565
Mandatory cash balances with the CBRF	78,502	-	-	-	78,502
Financial assets at fair value through profit or loss	521,754	-	-	-	521,754
Due from financial institutions	41,321	2,679	-	-	44
Loans and advances to customers	4,570,545	154,455	5,390	-	4,730,390
Other assets	48,707	201	38	-	48,946
Property, plant and equipment	487,983	-	-	-	487,983
Total assets	6,863,294	235,913	23,284	1,649	7,124,140
Liabilities					
Due to financial institutions	70,103	26,795	785	-	97,683
Customer accounts	5,759,720	49,640	68,490	-	5,877,850
Debt securities issued	167,845	-	-	-	167,845
Subordinated loan	95,000	-	-	-	95,000
Deferred tax liability	68,713	-	-	-	68,713
Other liabilities	54,850	38,292	703	-	93,845
Total liabilities	6,216,231	114,727	69,978	-	6,400,936
Net balance sheet position at 31 December 2007	647,063	121,186	(46,694)	1,649	723,204
Net balance sheet position at 31 December 2006	291,835	81,945	(579)	645	373,846
Contingent credit commitments as at 31 December 2007	130,875	33,360	-	-	164,235
Contingent credit commitments as at 31 December 2006	238,154	33,628	-	-	271,782

The item 'Other currencies' includes Japanese Yen – the equivalent of RUR 842 thousand, Swiss Francs – the equivalent of RUR 418 thousand, Pound sterling – the equivalent of RUR 387 thousand, and Canadian Dollars – the equivalent of RUR 2 thousand.

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28. Financial Risk Management (continued)

Interest rate risk

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 take place. The Bank is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In absence of hedging instruments, the Bank usually aims to balance the interest rate margins positions.

The table below shows the general analysis of the Bank's interest margin:

	2007				2006			
	Demand and <1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Demand and <1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year
Assets								
Cash and cash equivalents	2.8%	-	-	-	2.6%	-	-	-
Financial assets at fair value through profit or loss	6.7%	11.4%	-	-	9.9%	13.8%	-	-
Due from financial institutions	11.0%	-	-	-	4.3%	-	13.5%	-
Loans and advances to customers	13.2%	14.2%	14.9%	13.9%	14.0%	16.2%	17.5%	14.9%
Liabilities								
Due to financial institutions	-	11.5%	11.5%	11.5%	7.8%	9.0%	11.0%	-
Customer accounts	2.9%	9.4%	10.0%	10.9%	4.2%	9.5%	10.1%	8.4%
Debt securities issued	1.5%	3.6%	5.5%	9.7%	-	5.7%	10.4%	3.9%
Subordinated loan	-	-	-	12.0%	-	-	-	12.1%

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28. Financial Risk Management (continued)

The table below summarises the Bank's exposure to interest rate risks as at as at 31 December 2007. It includes the Bank's interest bearing financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	From 1 to 6 months	From 6 to 1 year	More than 1 year	Total
Assets					
Cash and cash equivalents	350,000	-	-	-	350,000
Financial assets at fair value through profit or loss	202,020	318,298	-	-	520,318
Due from financial institutions	44,000	-	-	-	44,000
Loans and advances to customers	180,893	1,370,666	1,619,128	1,523,692	4,694,379
Total assets	776,913	1,688,964	1,619,128	1,523,692	5,608,697
Liabilities					
Due to financial institutions	-	8,000	20,000	42,000	70,000
Customer accounts	1,396,988	1,176,116	621,087	958,611	4,152,802
Debt securities issued	5,152	76,580	257	49,278	131,267
Subordinated loan	-	-	-	95,000	95,000
Total liabilities	1,402,140	1,260,696	641,344	1,144,889	4,449,069
Liquidity position between interest bearing financial assets and liabilities	(625,227)	428,268	977,784	378,803	1,159,628

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

	Up to 1 month	From 1 to 6 months	From 6 to 1 year	More than 1 year	Total
Assets					
Cash and cash equivalents	400,000	-	-	-	400,000
Financial assets at fair value through profit or loss	175,367	202,333	-	-	377,700
Due from financial institutions	4,950	49,500	-	-	54,450
Loans and advances to customers	104,525	935,658	1,678,598	428,576	3,147,357
Total assets	684,842	1,187,491	1,678,598	428,576	3,979,507
Liabilities					
Due to financial institutions	60,000	50,000	11,250	-	121,250
Customer accounts	1,200,076	1,101,034	413,032	35,415	2,749,557
Debt securities issued	-	103,483	13,894	1,096	118,473
Subordinated loan	-	-	-	35,000	35,000
Total liabilities	1,260,076	1,254,517	438,176	71,511	3,024,280
Liquidity position between interest bearing financial assets and liabilities	(575,234)	(67,026)	1,240,422	357,065	955,227

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28. Financial Risk Management (continued)

The table below shows the average interest rate by major currencies on the assets and liabilities bearing interest. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments in accordance with the agreements valid at the end of the period.

	2007			2006		
	RUR	USD	EURO	RUR	USD	EURO
Assets						
Cash and cash equivalents	2.8%	-	-	2.6%	-	-
Financial assets at fair value through profit or loss	9.5%	-	-	10.6%	-	-
Due from financial institutions	11.0%	-	-	13.3%	-	-
Loans and advances to customers	14.5%	10.7%	10.5%	16.0%	12.0%	13.0%
Liabilities						
Due to financial institutions	11.5%	-	-	9.4%	-	-
Customer accounts	7.9%	6.6%	5.9%	7.8%	7.2%	6.1%
Debt securities issued	5.2%	-	-	8.8%	-	-
Subordinated loan	12.0%	-	-	12.1%	-	-

Liquidity risk

Liquidity risk is defined as the risk that the maturity of assets and liabilities does not match. The Bank is exposed to this risk since it has to use the available cash to make settlements against invoices of customers, when maturity dates of deposits come, granting of loans, making payments on guarantees and derivative financial instruments, that are to be paid in cash. The Bank does not accumulate cash for repayment of all the above mentioned obligations at once as the level of cash to meet such obligations can be predicted adequately enough.

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28. Financial Risk Management (continued)

The liquidity position of the Bank is presented as at 31 December 2007:

	Demand and < 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ non stated maturity	Total
Assets						
Cash and cash equivalents	1,212,565	-	-	-	-	1,212,565
Mandatory cash balances with the CBRF	78,502	-	-	-	-	78,502
Financial assets at fair value through profit or loss	202,020	318,298	-	-	1,436	521,754
Due from financial institutions	44,000	-	-	-	-	44,000
Loans and advances to customers	180,893	1,370,666	1,619,128	1,523,692	36,011	4,730,390
Other assets	27,336	21,564	-	46	-	48,946
Property, plant and equipment	-	-	-	487,983	-	487,983
Total assets	1,745,316	1,710,528	1,619,128	2,011,721	37,447	7,124,140
Liabilities						
Due to financial institutions	27,683	8,000	20,000	42,000	-	97,683
Customer accounts	3,122,036	1,176,116	621,087	958,611	-	5,877,850
Debt securities issued	19,868	84,976	1,217	51,001	10,783	167,845
Subordinated loan	-	-	-	95,000	-	95,000
Deferred tax liability	-	-	-	-	68,713	68,713
Other liabilities	93,845	-	-	-	-	93,845
Total liabilities	3,263,432	1,269,092	642,304	1,146,612	79,496	6,400,936
Net liquidity position	(1,518,116)	441,436	976,824	865,109	(42,049)	723,204
Cumulative liquidity position						
As at 31 Dec. 2007	(1,518,116)	(1,076,680)	(99,856)	765,253	723,204	
As at 31 Dec. 2006	(5,316)	(15,514)	1,183,487	1,540,698	373,846	

The above table shows the outstanding maturity of assets and liabilities as at 31 December 2007 apart from the cases when there is evidence of impairment of some assets and assurance that repayment will take place after the dates mentioned in the related agreements. In these cases, the expected maturity dates are used. Some transactions can be of a long-term nature; as a result of frequent prolongations some short-term loans can have longer maturity dates.

To minimise liquidity risk management performs monitoring of Bank's liquidity position in respect of two components: current payment position and liquidity position of the Bank. On a permanent basis the Bank monitors the liquidity ratios which must be kept in limits under the current regulations of the Central Bank of Russia.

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28. Financial Risk Management (continued)

Other price risk

The Bank is exposed to the risk that fair value of cash flows related to financial instruments will change as a result of changes of market prices (apart from those changes caused by interest rate and currency risks) irrespectively of whether these changes are caused by the factors, specific for a particular security or its issuer, that have impact on all financial instruments operating on the market.

Operating risk

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

The Banks develops special internal regulations and procedures aimed to minimise operating risk. The report on operating risks is considered quarterly by the Management Board and once a year on the meeting of the Board of Directors of the Bank.

Legal risk

Legal risk is defined as the risk of losses occurring as a result of non-observance by the Bank the requirements of statutory acts and agreements, committing errors of law, imperfection of legal system.

In 2007 there were no legal risks in relation to the changes in the existing legislation (as well in banking, tax and customs legislations). The Bank had exceptional losses connected with imperfection of legal system (inconsistency of legislation, absence of legal regulations on particular issues of banking activity). The mentioned losses were minimal in comparison with the amount of equity and did not have material or reputation impact on shareholders and partners of the Bank.

Reputation risk

Last year there were no significant events that could have negative effect on the reputation of OAO Bank "Levoberezhniy", the number of clients and the volumes of services were constantly growing that gave evidence of the Bank's high reputation. The Bank met obligations in respect of terms regulated by legislation on disclosure of information related to the Bank's operating activity. As there were no facts having negative impact on reputation of the Bank and its shareholders, directory and managers, mass media did not publish any negative information about the Bank.

29. Contingencies and Commitments

Legal proceedings

In the normal course of business, the Bank receives claims from customers. Management of the Bank does not consider that legal proceedings might lead to substantial losses therefore there is no need in creating a provision in this respect in the financial statements.

Operating lease obligations

In the normal course of business, the Bank enters into operating lease agreements. Most of these agreements are irrevocable. In the table below the minimum amount of future rent obligations on irrevocable operating lease agreements are presented, where the Bank acts as a lessee:

	<u>2007</u>	<u>2006</u>
Less than 1 year	12,631	11,991
From 1 to 5 years	228	-
More than 5 years	<u>10,793</u>	<u>3,577</u>
Total operating lease obligations	<u>23,652</u>	<u>15,568</u>

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29. Contingencies and Commitments (continued)

Credit related commitments

The purpose of such instruments is granting loans to customers. Guarantees that are defined as irrevocable commitments of the Bank to perform payments in case customers do not meet their obligations in front of third parties bear the same credit risk as loans. Documentary letters of credit defined as commitment letters of the Bank to perform payments of specified amount on behalf of customers are provided by goods or cash deposits; accordingly, their level of risk is less than of direct lending. Commitments on granting of loans with fixed interest rate during fixed terms are recorded as derivative financial instruments, apart from the cases when their terms exceed the standard terms of loan granting.

Credit related commitments included:

	<u>2007</u>	<u>2006</u>
Commitments on loan granting	92,085	203,681
Outstanding credit lines	45,133	56,807
Guarantees issued	<u>27,016</u>	<u>11,294</u>
Total credit related commitments	<u>164,234</u>	<u>271,782</u>

Credit related commitments are defined as outstanding part of loans approved for granting, guarantees and letters of credit. In respect to commitments on lending the Bank is considered to be subject to risk of losses in amount of total outstanding commitments. Nevertheless the possible amount of losses is less than the total amount of outstanding commitments as the most part of commitments on lending are determined by customers' borrowing capacity. The Bank controls outstanding maturity dates as usually long term commitments have a higher level of credit risk than term commitments. Total amount of obligations on guarantees, letters of credit and outstanding credit lines are not always defined as future cash claims are possible due to the expiration of maturity dates or cancellation of mentioned obligations without granting funds to a borrower.

30. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Bank, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment. Although, for estimating the fair value of financial instruments, management uses the most up to date market information, it may not always represent the value that can be realised in current conditions.

Financial instruments held at fair value

Cash and cash equivalents, financial assets and liabilities measured at fair value through profit or loss and financial assets available for sale are recorded in the balance sheet at fair value.

For some available for sale investment securities external market quotes are not available. The fair value of such assets was measured according to the results of recent sale of shares to third parties, analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

(continued)

30. Fair Value of Financial Instruments (continued)

Due from financial institutions

The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity.

Management considers that the fair value of due from financial institutions did not differ much from their book value as at 31 December 2007. This is explained by an existing practise of revising the interest rates to reflect current market conditions, because of what, interest on the majority of balances are accrued under market interest rates.

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Management considers that the fair value of loans and advances to customers did not differ much from their book value as at 31 December 2007. This is explained by an existing practise of revising the interest rates to reflect current market conditions, because of what, interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.

All financial instruments of the Bank are reflected at fair value.

31. Related Party Transactions

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

Members of the Board of Directors of the Bank, key management, including Management Board as well as the Chief Accountant are considered related parties as they can influence the activity of the Bank.

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31. Related Party Transactions (continued)

As at 31 December 2007 the list of such individuals and entities considered by the management as related parties on the basis of different reasons is as follows:

№	Name	Type of activity
I. Shareholders		
1.	Limited liability company "Primorskaya sotsialnaya kompania"	
2.	Limited liability company "Compliance Brock"	
3.	Limited liability company "Forseti-2003"	
4.	Shelestova Irina Anatolievna	
5.	Bulakh Evgeniy Yur'evich	
6.	Ivashchenko Nadezhda Pavlovna	Bank "Levoberezhniy" (OAO), General Director, member of the Board of Directors, Chairman of the Board
7.	Pertsev Vyacheslav Mikhailovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", General Director
8.	Robkanov Mikhail Fyodorovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", honoured President
II. Entities and individuals affiliated through key management personnel and their shares in the shareholders' equity		
1.	JSC "Kemsocinbank"	Banking activity
2.	Closed joint-stock company "Korel"	Attraction of investments and organisation of construction of residential premises and municipally important objects
3.	OJS SCBP "Primsotsbank"	Banking activity
4.	OAO "Vladivostokskiy morskoy trgoviy port"	Shipment, transportation of passengers and luggage; towing of vessels; pilotage, maintenance of material handling equipment, 100% shareholder
5.	Shumilin Oleg Vladimirovich	Limited liability company "Forseti-2003", General Director, 99.9994% shareholder of OOO "Primorskaya sotsialnaya kompania"
6.	Private limited company "BEAU SITE LIMITED"	
7.	Bulatov Alexander Ivanovich	Limited liability company "Compliance Brock", general director; Limited liability company "Primorskaya sotsialnaya kompania", general director
III. Key management personnel		
<i>Members of the Board of Directors</i>		
1.	Ivashchenko Nadezhda Pavlovna	Bank "Levoberezhniy" (OAO), General Director, member of the Board of Directors, Chairman of the Board, shareholder
2.	Pertsev Vyacheslav Mikhailovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", General Director
3.	Robkanov Mikhail Fyodorovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", honoured President
4.	Yarovoy Dmitriy Borisovich	OJS SCBP "Primsotsbank", Chairman of the Board
5.	Shaporenko Vladimir Viktorovich	OJS SCBP "Primsotsbank", Deputy of the Chairman of the Board
6.	Pokrovskiy Evgeniy Nikolaevich	Novosibirsk Regional Board of Deputies, Deputy of the Chairman of the Board
7.	Yurchenko Vasiliy Alekseevich	Administration of Novosibirsk region, the first Deputy of the Governor
8.	Moroz Ivan Grigorievich	Head of State organisation – Department of Pension Fund of Russian Federation in Novosibirsk region
9.	Gibert Korney Korneevich	Scientific Production association "Elsib", General director

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31. Related Party Transactions (continued)

№	Name	Type of activity
<i>Members of the Executive Board</i>		
1.	Ivashchenko Nadezhda Pavlovna	Bank "Levoberezhniy" (OAO), General Director, member of the Board of Directors, Chairman of the Board, shareholder
2.	Lotobaeva Galina Georgievna	Bank "Levoberezhniy" (OAO)
3.	Shatilov Sergey Mikhaylovich	Bank "Levoberezhniy" (OAO)
4.	Glushkova Ludmila Alekseevna	Bank "Levoberezhniy" (OAO)
5.	Kolesnikova Svetlana Valentinovna	Bank "Levoberezhniy" (OAO)

As at 31 December 2006 the list of related parties of the Bank was as follows:

№	Name	Type of activity
I. Shareholders		
1.	State organisation "Khozyaistvennoe upravlenie administratsii Novosibirskoy oblasti"	Provision of proper material and technical conditions for Administration and Regional Council of Novosibirsk region
2.	OOO "Forseti - 2003"	-
3.	Shelestova Irina Anatolievna	-
4.	Makarenko Vitaliy Ivanovich	-
5.	Madison Nina Sergeevna	-
II. Entities and individuals affiliated through key management personnel and their shares in the shareholders' equity		
1.	JSC "Kemsocinbank"	Banking activity
2.	OAO SKBP "Primsotsbank"	Banking activity
3.	OAO "Vladivostokskiy morskoy trgoviy port"	Shipment, transportation of passengers and luggage; towing of vessels; pilotage, maintenance of material handling equipment
4.	Shumilin Oleg Vladimirovich	Limited liability company "Forseti-2003", General Director,
III. Key management personnel		
<i>Members of the Board of Directors</i>		
1.	Ivashchenko Nadezhda Pavlovna	Bank "Levoberezhniy" (OAO), General Director, member of the Board of Directors, Chairman of the Board, shareholder
2.	Pertsev Vyacheslav Mikhailovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", General Director
3.	Robkanov Mikhail Fyodorovich	Open joint-stock company "Vladivostokskiy morskoy trgoviy port", honoured President
4.	Yarovoy Dmitriy Borisovich	OJS SCBP "Primsotsbank" Chairman of the Board
5.	Shaporenko Vladimir Viktorovich	OJS SCBP "Primsotsbank", Deputy of Chairman of the Board
6.	Pokrovskiy Evgeniy Nikolaevich	Novosibirsk Regional Board of Deputies, Deputy of the Chairman
7.	Yurchenko Vasily Alekseevich	Administration of Novosibirsk region, the first Deputy of Governor
8.	Moroz Ivan Grigoryevich	Head of State organisation – Department of Pension Fund of Russian Federation in Novosibirsk region
9.	Gibert Korney Korneevich	Scientific Production association "Elsib", General director
<i>Members of the Executive Board</i>		
1.	Ivashchenko Nadezhda Pavlovna	Bank "Levoberezhniy" (OAO) General Director, member of the Board of Directors, Chairman of the Board
2.	Lotobaeva Galina Georgievna	Bank "Levoberezhniy" (OAO)
3.	Shatilov Sergey Mikhaylovich	Bank "Levoberezhniy" (OAO)
4.	Glushkova Ludmila Alekseevna	Bank "Levoberezhniy" (OAO)
5.	Silantieva Tatiana Ivanovna	Bank "Levoberezhniy" (OAO)

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31. Related Party Transactions (continued)

In the normal course of business, the Bank performs transactions with its participants, directors, associated companies, subsidiaries, with companies which major shares of capital belong to the shareholders of the Bank, and also with other related parties.

These transactions included granting of loans, attracting deposits, granting guarantees, financing of trading operations and operations in foreign currency. These transactions were performed mainly on market and standard terms and conditions.

The volumes of related party transactions, outstanding balances at the year-end and associated expenses and income for the year with the first group of related parties – Shareholders are as follows:

	<u>2007</u>	<u>2006</u>
Loans and advances to customers at the beginning of the year	-	-
Loans issued during the year	1,634	-
Repayment of loans during the year	(329)	-
Loans and advances to customers at the end of the year	1,305	-
Interest income on loans	78	-
Accrued interest income on loans	-	-
Accrual of allowance on loans granted to related parties	-	-
Deposits at the beginning of the year	-	-
Deposits received during the year	25,789	-
Deposits repaid during the year	(22,310)	-
Deposits at the end of the year	3,479	-
Interest expenses on deposits	172	-
Accrued interests on deposits	12	-
Subordinated loans at the beginning of the year	-	-
Loans received during the year	60,000	-
Repayment of loans during the year	-	-
Subordinated loans at the end of the year	60,000	-
Interest expenses on loans	1,408	-

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31. Related Party Transactions (continued)

The volumes of related party transactions, outstanding balances at the year end, and associated expenses and income for the year with the second group of related parties -- Entities and individuals affiliated through key management personnel and their shares in the shareholders' equity are as follows:

	2007	2006 (restated)
Loans and advances to customers at the beginning of the year	65,502	55,300
Loans issued during the year	619,914	177,502
Repayment of loans during the year	<u>(526,483)</u>	<u>(167,300)</u>
Loans and advances to customers at the end of the year	158,933	6,502
Interest income on loans	1,956	11,918
Transfer value of loans given and promissory notes purchased at rates less than commercial	(4,879)	(7,698)
Accrued interest income on loans	119	-
Accrual of allowance on loans granted to related parties	-	-
Loans to credit institutions at the beginning of the year	5,000	-
Loans issued during the year	127,000	15,000
Repayment of loans during the year	<u>(132,000)</u>	<u>(10,000)</u>
Loans to credit institutions at the end of the year	-	5,000
Interest income of loans	1,159	92
Deposits and current accounts at the beginning of the year	-	800
Deposits and current accounts received during the year	846,369	45
Deposits and current accounts repaid during the year	<u>(841,527)</u>	<u>(45,800)</u>
Deposits and current accounts at the end of the year	4,842	-
Interest expenses on deposits	-	69
Subordinated loans at the beginning of the year	35,000	-
Loans received during the year	-	35,000
Repayment of loans during the year	<u>-</u>	<u>-</u>
Subordinated loans at the end of the year	35,000	35,000
Interest expenses on loans	3,955	1,266

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31. Related Party Transactions (continued)

The volumes of related party transactions, outstanding balances at the year-end and associated expenses and income for the year with the third group of related parties – Key management personnel of the Bank are as follows:

	<u>2007</u>	<u>2006</u>
Loans and advances to customers at the beginning of the year	2,787	5,216
Loans issued during the year	343	5,250
Repayment of loans during the year	<u>(2,842)</u>	<u>(7,679)</u>
Loans and advances to customers at the end of the year	288	2,787
Interest income on loans	30	529
Accrued interest income on loans	-	2
Accrual of allowance on loans granted to related parties	-	-
Deposits at the beginning of the year	23,898	74,772
Deposits received during the year	36,634	141,220
Deposits repaid during the year	<u>(53,038)</u>	<u>(192,094)</u>
Deposits at the end of the year	7,494	23,898
Interest expenses on deposits	392	4,758
Accrued interests on deposits	14	121
Guarantees received	-	3,020

Income and expenses for the year with other related parties, which ceased being related in 2006, were as follows:

	<u>2007</u>	<u>2006</u>
Debt securities issued at the beginning of the year	-	16,478
Debt securities issued during the year	-	85,485
Debt securities repaid during the year	<u>-</u>	<u>(101,963)</u>
Debt securities issued at the end of the year	-	-
Interest expenses on debt securities issued	-	2,453

In 2007, the Bank did not recognise any fee or payment to the members of the Board of Directors and to the members of the Revision Committee. Payments to the General Director and management of the Bank were performed in accordance with the terms of their employment agreements. Total amounts of payments compounded RUR 57.2 million.

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32 Capital Risk Management

Among the main objectives of the management of capital are the following: to comply with capital requirements regulated by the Central Bank, to support the Bank in functioning as a constantly operating enterprise; to maintain its capital base on the level required for a capital adequacy ratio of 8% in accordance with the recommendations of the Basle Committee. The compliance with the capital adequacy ratio required by the Central Bank of the Russian Federation is monitored through monthly reports checked and approved by the General Director and the Chief Accountant of the Bank. The following other targets of capital management are daily monitored:

- Participation in the deposit insurance scheme and corresponding to the quality of capital recommended by the Agency of insurance scheme;
- Increasing the amount of active operations of the Bank;
- Controlling the ability to finance long-term investments.

The Central Bank of the Russian Federation requires banks with a capital exceeding 5 million euro to maintain a capital adequacy ratio of at least 10% of its risk-weighted assets. As at 31 December 2007, the Bank's capital adequacy ratio exceeded the necessary minimum calculated according to the Central Bank's regulation.

As at 31 December 2007, the Bank's capital adequacy ratio, based on the figures emerging from the IFRS financial statements was 14.2% (2006: 11.3%), which exceeds the minimum ratio of 8% recommended by the Basle Committee on Banking Supervision (International Convergence of Capital Measurement and Capital Standards - 1998).

	2007	2006
Capital adequacy ratio of the basic capital	9.4%	9.8%
Capital adequacy ratio of the total equity	14.2%	11.3%

The structure of the Bank's capital calculated in accordance with Basle Committee is presented below:

	2007	2006
Tier One capital		
Share capital	349,956	349,956
Funds	(4,727)	(45,464)
Retained earnings	184,091	50,191
Total Tier One capital	529,320	354,683
Tier Two Capital		
Fixed assets revaluation reserve	184,430	19,163
Subordinated deposit	88,000	35,000
Tier Two capital	272,430	54,163
Net assets	5,655,231	3,631,775

In 2007 and 2006 the Bank complied all capital requirements.

Approved on behalf of the Board on 28 March 2008.

Ivashchenko N. P.
General Director

Kolesnikova C. V.
Chief Accountant