RUSSIAN AGRICULTURAL BANK
ANNUAL REPORT

2007

RUSSIAN
AGRICULTURAL
BANK

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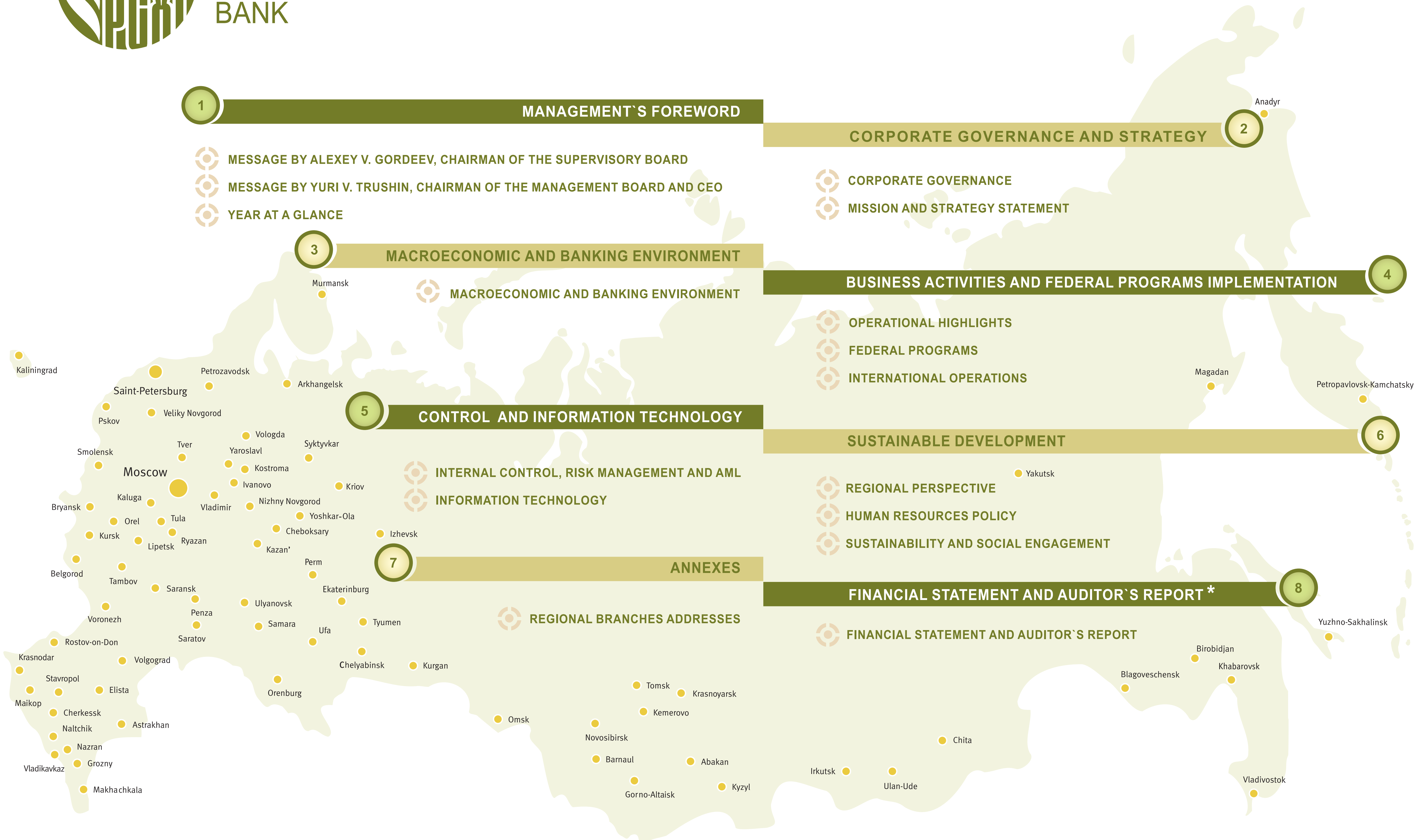


2007 ANNUAL REPORT

* THE FINANCIAL STATEMENT SECTION OF THE PRESENT REPORT HAS BEEN PREPARED ACCORDING TO IFRS

MESSAGE BY ALEKSEY V. GORDEEV, CHAIRMAN OF THE SUPERVISORY BOARD

Alexey V. Gordeev
Chairman of the Supervisory Board
Russian Agricultural Bank,
Minister of Agriculture
of the Russian Federation

Year 2007 brought positive trend to the development of Russian Agribusiness. Sustainable growth was achieved in agribusiness: agricultural output reached 103% compared to the results of the previous year. Farmers have adapted their businesses to the market conditions and obtained good financial results.

In 2007, food and processing enterprises experienced an excellent year and demonstrated impressive growth and diversification of foodstuff production. Altogether agribusiness processing and production output growth reached 6.3%. Strong and sustainable growth in agribusiness production contributed to the reliable supply of the population with foodstuffs of high quality.

In addition to the increased plant production in 2007 the total agricultural output growth was also facilitated by animal breeding. The National Priority Project on Agribusiness Development reinforced accelerated development of animal breeding as one of its main areas of focus. In the light of the National Priority Project on Agribusiness Development meat production showed double-digit growth of 14%, and milk production grew 4.5%.

The economy of agribusiness improved significantly in 2007. The share of profitable enterprises grew from 65% to 73%. Most farmsteads enhanced their financial standing. Year 2007 saw profound transformations in agribusiness policies in Russia and in the attitude of the society to the urgent problems of agribusiness and rural Russia. The Government has recently approved the Federal Program on Agribusiness Development 2008–2012. Farmers have been effectively integrated in the National Priority Project on Agribusiness Development and are ready to pave their way to the next stage of successful evolvement in the framework of the 5-year Federal Program on Agribusiness Development.

Russian agribusiness is fully on track to further increase its efficiency and to solve social problems of the rural population given the current favorable conditions. Financial support of agribusiness has increased substantially during the last several years – the amount of loans extended has tripled and reached RUR 615 billion, including investment loans that, with a 10-fold increase, reached a record high. These funds were allocated for the construction and refurbishment of 2,140 modern cattle breeding farms, procurement of agricultural equipment, introduction of alternative technologies, and the construction of 1.5 million sq. m. of quality housing.

Year 2008 is expected to become challenging for agricultural producers and for agribusiness as a whole. According to the Federal Program on Agribusiness Development, in the next five years agribusiness production is to increase by a quarter compared to the level of 2006. This translates to 4% growth a year. Russian agribusiness has to do a lot to reach this ambitious goal.

The further expansion of agribusiness lending is of crucial importance when facing these strenuous tasks. Agricultural producers inspired by the National Priority Project on Agribusiness Development anticipate additional funding to promote the production growth and the development of rural areas.

In 2007, Russian Agricultural Bank achieved impressive results in lending to agribusiness. RAB provided its clients with effective services and launched a number of new banking products. RAB, having undertaken the demanding task of lending to farmers and individual household plot owners – the most numerous class of borrowers, - successfully coped with this role that was far from simple. RAB's leading position among Russian banks in lending to agribusiness demonstrates its high efficiency. Its market share in the financing of agribusiness exceeds 50%.

Agribusiness companies and the rural population in general express their gratitude to RAB's personnel for its efforts and for the far-reaching financial service. They are entitled to count upon its continued growth in achieving the goals set by the Federal Program on Agribusiness Development 2008-2012.

MESSAGE BY YURI V. TRUSHIN, CHAIRMAN OF THE MANAGEMENT BOARD AND CEO

Yuri V. Trushin
Chairman of the Management Board and CEO
Russian Agricultural Bank

In 2007, Russian Agricultural Bank made a significant breakthrough in providing lending products and services to agribusiness and to the rural population. 2007 results reflect a strong and successful growth of the Bank's business for seven and a half consecutive years since its establishment. Demand for RAB's support was evidently expressed by the borrowers during the implementation of the National Priority Project on Agribusiness Development.

A major step forward was made in 2007. RAB's staff was fully mobilized to win a greater market share, develop new products and streamline its organization. RAB has further strengthened its authority among clients as a modern competitive financial institution, and once again proved its standing of a reliable partner for Russian and foreign banks.

In 2007, Russian Agricultural Bank contributed a lot to the further development of national agribusiness. Financial support to commodity producers was doubled and reached RUR 293 billion. Moreover, medium and long-term loans extended for renovation and modernization of agribusiness make over 60% of the Bank's loan portfolio. RAB also contributed substantially to the development of small and medium-size enterprises.

Lending to the rural population and especially to household plot owners and farmers was initiated in 2006. In 2007, over 180,000 clients in rural areas received such loans. Financial support to the rural population is an invaluable contribution to carrying out the tasks set by the Government concerning the social development of Russian rural areas and improving the living standards of the population. RAB is proud of its major contribution to the implementation of the National Priority Project on Agribusiness Development – it has extended 80% of loans to rural population in the framework of the Project. RAB remained the Bank of choice for those involved in agribusiness. Sustainable growth and lending facilitation were ensured by comprehensive organizational measures and a whole range of rural consumer-oriented lending programs.

Loan portfolio growth and smooth lending process of the last year were driven by the consistent and effective policy on funding base expansion. Sustainable client-oriented policy, broadening of products and services offering and improvement of their quality resulted in a two-fold increase of the Bank's client base and client deposits. Russian Agricultural Bank actively cooperated with numerous Russian and foreign financial institutions in the money market to raise funds.

In 2007, RAB started several large-scale projects to further develop the national agribusiness, create solid infrastructure of the agrarian market and establish a land mortgage system. All these strategies are implemented in the framework of Russian Agricultural Bank Development Concept governing its main activities until 2015. RAB has the means and the will to plan far ahead into the future.

The growth of the loan portfolio remains a matter of special focus. Russian Agricultural Bank's loan portfolio doubled during the reporting year. RAB's business success was driven by the introduction of ten new loan products and the upgrading of the whole product range to improve quality and availability of loans for agricultural producers and the rural population.

Another focus was on enhancement of the lending support to the development of agribusiness market infrastructure. RAB embarked on a wide-ranging lending program for the construction of municipal agricultural marketplaces and furnishing them with the necessary equipment.

RAB has demonstrated an excellent performance in land-mortgage lending. The Bank will apply its efforts to elaborate in the near future terms and conditions of establishing a land-mortgage agency to support creation of the market of land-mortgage backed securities for reinvesting.

Year 2007 was marked by a strong growth of branch network – RAB has almost completed the implementation of the network development plan. Today the Bank's separate structural units operate in 77 regions of the country. RAB launched additional offices in municipalities. In 2007, the number of additional offices exceeded 1,200. Therefore the Bank has virtually reached its main strategic objective – to deliver its services and products directly to its clients: agribusiness producers and the rural population. RAB has strengthened its leading position – second in the Russian banking system – in terms of its geographical coverage.

In 2007, RAB continued to expand its international activities. Today RAB has a wide and well-structured correspondent and business relations network and occupies a solid position among Russian and foreign banks. The leading international rating agencies have repeatedly confirmed RAB's investment grade.

In 2008 the 5-year Federal Program on Agribusiness Development will expand the scope and subsequently substitute the National Priority Project on Agribusiness Development. This challenge will demand utmost efforts, dedication and responsibility from the Bank's personnel.

Russian Agricultural Bank is well positioned for further growth resulting from its business broadly diversified by asset class, by region and by client type. RAB will play a major role in driving the national agribusiness and social development of the Russian countryside forward.

YEAR AT A GLANCE

JANUARY	Russian Agricultural Bank - number 7 by own capital and number 8 by assets among 200 first-rated Russian banks according to the Profile magazine.
FEBRUAY	Issue of 03-series non-convertible interest-bearing bonds worth RUR 10 billion maturing in 2017.
MARCH	Launch of the debut Senior CHF Eurobond. The size of the issue is CHF 375 million with 3.583% coupon and the final maturity in 2010. The transaction is rated A3 by Moody's and BBB+ by Fitch.
APRIL	Raising of $520 million Syndicated Term Loan Facility.
MAY	Opening of the 73rd regional branch in Ekaterinburg. Issue of $1.25 billion 6.299% loan participation notes maturing May 2017. Fitch Ratings assigned to the LPNs a final long-term rating of BBB+, Moody's – A3.
JUNE	Upgrade by Moody's of the outlook on RAB's E+ the BFSR, A3 local currency deposit rating, A3 senior unsecured debt rating and Baa1 subordinated debt rating to positive from stable. Opening of the 74th regional branch in Komi Republic. Best financial borrower 2007 in the Central and Eastern Europe in judgment of the Euromoney magazine. Funding of $200 million subordinated loan to RAB in the 10-year non-call five format. RAB received the approval of the Bank of Russia to include the loan into regulatory capital. This is the first loan of the kind to be successfully funded and approved in Russia.
JULY	Number 6 among 200 largest Russian banks, according to the Profile magazine. Number 472 in Top 1000 World Banks listing and number 12 in Russia according to the July 2007 issue of the Banker magazine. Approval of the Federal Program on Agribusiness Development 2008-2012 by the Government of the Russian Federation. The main purpose of the Program is the financial stability of the agricultural producers. Russian Agricultural Bank, as the only agricultural State owned bank, is expected to play a considerable role in the implementation of the Federal Program. For this purpose its authorized capital will be increased by RUR 9.7 billion during 2008-2010. Opening of the 1000th additional office in Kursk region.
AUGUST	RAB – number 2 by growth rate of assets in 1H2007 among 100 first-rated Russian banks according to Interfax.
SEPTEMBER	Participation and General Sponsorship of Russian Agricultural Outlook Forum. RAB – number 6 in terms of shareholder equity and net assets among 200 largest Russian banks according to the Dengi magazine bank ranking. RAB – number 6 in terms of total volume of loans extended and number 8 in terms of consumer lending among 30 largest Russian banks.
OCTOBER	Commendation by the President of the Russian Federation to Chairman of the Board and CEO of Russian Agricultural Bank Yuri V. Trushin for the energetic and productive implementation of the National Priority Project on Agribusiness Development. Successful placement of RUR 10 billion 4th bonds issue maturing 2017. Opening of 75th regional branch in Khabarovsk.
NOVEMBER	Affirmation by Fitch Ratings of Russian Agricultural Bank's ratings at Long-term Issuer Default (IDR) – BBB+, National Long - term - AAA(rus), Short-term IDR - F2, Individual - D, Support - 2 and Support Rating Floor - BBB+. The Outlooks for the Long-term IDR and National Long-term rating - Stable.
DECEMBER	Increase by the Government of the Russian Federation of the Bank's authorized capital by RUR 6.9 billion. After the increase RAB's capital reached RUR 27.7 billion. Opening of the 76th regional branch in Perm. Bestowal with the National Banking Premium established by the Association of Russian Banks and the National Banking magazine in the nomination "Active Participation in the National Programs Implementation - Lending to Agribusiness". RAB was awarded the special prize "For Information Transparency" established by "Rossiyskaya Gazeta".

Russian Agricultural Bank

is a main Agent of the Russian Government for the development of agribusiness lending

The management of Russian Agricultural Bank supports the highest standards of corporate governance and is committed to business integrity, high ethical values and professionalism across the whole spectrum of all RAB's activities.

In 2007, RAB took further comprehensive measures to improve the system of corporate governance, side by side with the continuous business evolution and regional expansion of the Bank. The organizational and functional structure has been streamlined to facilitate the coordination between units.

The highest level of management and the ultimate decision making body of RAB is the General Shareholders' Meeting. The Supervisory Board is responsible for the laying down of the general guidelines for the structure and operations of RAB. It carries out the mission of coordination aimed at meeting the objectives and realizing regional and business projects of the strategic development plan. The Supervisory Board appoints Chairman of the Management Board who is the sole executive body of RAB. It also elects members of the Management Board, the collective executive body. Chairman of the Management Board represents the Bank towards third parties, convenes and chairs the meetings of the Management Board and together with the latter is responsible for the day-to-day operations of RAB.

The Management Board is accountable to the sole shareholder for the creation and delivery of strong, sustainable financial performance and long-term business achievements according to the main guidelines of RAB's strategic development.

SUPERVISORY BOARD

Alexei V. Gordeev	Chairman of the Supervisory Board, Minister of Agriculture
Vladimir S. Belov	Department Director, Ministry of Finance
Alexander A. Bikasov	Deputy Head, Federal Agency on Federal Property Management
Elena V. Fastova	Department Director, Ministry of Agriculture
Yuri M. Medvedev	First Deputy Chairman, Federal Agency on Federal Property Management
Vitaly V. Morozov	Department Director, Ministry of Agriculture
Anna V. Popova	Deputy Minister, Ministry of Economy Development and Trade
Alexei L. Savatugin	Department Director, Ministry of Finance
Yuri V. Trushin	Chairman of the Management Board and CEO, Russian Agricultural Bank

MISSION OF RUSSIAN AGRICULTURAL BANK

- Provide accessible, innovative and effective bank products and services for agricultural commodity producers and rural population of the Russian Federation;
- Implement governmental socio-economic and credit policy in agribusiness and rural areas in Russia;
- Facilitate domestic and foreign investments and innovations in the agribusiness sector of Russian economy;
- Provide sustainable development of agribusiness and rural territories of the Russian Federation.

Representing the cutting-edge agribusiness financing Russian Agricultural Bank has the following strategic objectives:

- Expand access to finance for agribusiness and the rural population;
- Increase participation in agribusiness sector as one of the key sectors of Russian economy;
- Develop new opportunities for the growth of agribusiness;
- Ensure sustainability.

The results for 2007 reflect RAB's intrinsic power as the largest provider of financial services to agribusiness sector. This strength is characterized by two core principles: proximity and diversity. Through its regional branches and additional offices RAB has one of the widest financial distribution networks in Russia and offers a highly varied range of financial services and products. Such a position nearby its broad customer base coupled with the diversity of its activities enables RAB to achieve stable results now and in the future, and in doing so continue to respond to the changing needs of its clients.

As RAB moves forward, it needs to keep a balance among the different development priorities. One of the priorities is to meet the needs of people living in rural areas.

RAB has outlined an ambitious growth strategy for the coming years that will be quite challenging for its entire staff. It is grounded on the belief that RAB has grown into an institution with a unique position in the market, fostering sustainable development of agrarian sector.

RAB's strong operating results give grounds for an optimistic outlook for the coming years. It is within the policy of the Bank to innovate and advance, while refining traditional products and services and cultivating the kind of careful, tailor-made approach to its clients.

Management Board

Alexander S. Belyakov	Deputy Chairman of the Board
Sergey A. Smirnov	Member of the Board, Moscow Regional Branch Director
Oleg V. Nikonov	Member of the Board, Chief Accountant
Valentin L. Kondyurin	Deputy Chairman of the Board
Gennady M. Antonov	Deputy Chairman of the Board
Yuri V. Trushin	Chairman of the Board and CEO
Stanislav C. Baranov	Deputy Chairman of the Board
Arkady G. Kulik	Deputy Chairman of the Board
Igor N. Baginsky	Deputy Chairman of the Board
Oleg U. Avis	Member of the Board, Department Director

CORPORATE GOVERNANCE

The following Committees are established in the Bank:

ALCO COMMITTEE

ALCO Committee is composed of Chairman of the Management Board, who serves as Chairman of ALCO Committee, two Deputy Chairmen of the Management Board, Director of Treasury, Director of Economic Planning Department, Director of Legal Department, Director of Risk Assessment and Control Department, Director of Finance and Taxation Department, Chief Accountant, Director of International Operations and Director of Capital Markets Department. ALCO Committee typically meets once a week. ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on such matters as implementation of the Bank's limits policy, adoption of internal procedures for regulating financial risk management, approval of the terms on which new funding is provided to RAB and use of such funding. Within the scope of its responsibilities delegated by the Management Board, ALCO Committee also performs other functions, including setting limits for branches.

CREDIT COMMITTEE

Credit Committee of RAB's head office is composed of Deputy Chairman of the Management Board, who serves as Chairman, Deputy Chief Accountant, Director of Risk Assessment and Control Department, Director of International Operations, Director of Methodology and Credit Management Department, Director of Human Resources Department, Director of Security Department, Head of Resources and Limits Division of Treasury, Director of Legal Department and Director of Finance and Taxation Department. Credit Committee meets as often as three times a week. This Committee is responsible for approving the terms of individual credit transactions and preparation of proposals for refining the Bank's credit policy. This includes, inter alia, establishment and modification of criteria used by RAB in the analysis of asset quality and asset classification by risk category, development of procedures for the creation and use of reserves, establishment of minimum interest rates for the Bank's loans and review of the results of inspections of RAB by external auditors, regulatory bodies and Internal Control Service.

In addition to Credit Committee, RAB has credit committees at the regional branch level and credit committees at the additional office level which approve the terms of individual credit transactions for regional branches and additional offices, respectively. Credit committees of regional branches also approve credit transactions of additional offices in excess of the established credit limits.

TECHNOLOGICAL COMMITTEE

Technological Committee is headed by Deputy Chairman of the Management Board, who serves as Chairman, and consists of representatives of Economic Planning Department, Accounting and Financial Reporting Department, Operations Department, Information Technology Department, Methodology and Credit Management Department, Technological Development Department, Finance and Taxation Department, Retail Lending Department and Security Department. Technological Committee meets twice a month. The activity of Technological Committee is aimed at determining RAB's IT development strategy, updating the existing and developing new banking technologies, procuring, designing and introducing new soft- and hardware with a view to streamlining the technologies for the administration of the Bank.

BRANCH NETWORK COMMITTEE

Branch Network Committee is headed by Deputy Chairman of the Management Board, who serves as Chairman, and consists of representatives of Branch Network Development Department, Finance and Taxation Department, Cash Operations Department, Corporate Lending Department, Economic Planning Department, Retail Lending Department, Accounting and Financial Reporting Department. The activity of Branch Network Committee is aimed at implementation of RAB's branch network development policy, preparation of proposals on its modernization, perfecting the system of efficient branch network management.

IFRS COMMITTEE

IFRS Committee is headed by Director of Accounting and Financial Reporting Department and consists of representatives of Information Technology Department, Capital Markets Department, Cash Operations Department, Finance and Taxation Department, Economic Planning Department, Accounting and Financial Reporting Department, International Operations, Methodology and Credit Management Department, Retail Lending Department and Treasury.

The activity of IFRS Committee is aimed at ensuring the coordination of the Bank's units work on financial reporting based on IFRS, operational control over financial statements preparation and contacting external auditor.

NPL COMMITTEE

NPL Committee is headed by Director of Legal Department and consists of representatives of Corporate Lending, Risk Assessment and Control Department, Methodology and Credit Management Department, Retail Lending Department, Security Department, Finance and Taxation Department. The activity of NPL Committee is aimed at ensuring efficiency of the Bank's work with NPLs and reducing the share of NPLs in the Bank's loan portfolio.

COMMITTEE ON IMPLEMENTATION OF THE NATIONAL PRIORITY PROJECT ON AGRIBUSINESS DEVELOPMENT

Committee on Implementation of the National Priority Project on Agribusiness Development was established to coordinate and organize the activity of the Bank's divisions and regional branches to implement the National Priority Project. The Committee is headed by Chairman of the Board and includes Deputy Chairmen, representatives of Accounting and Financial Reporting Department, Information Technology Department, Branch Network Development Department, Legal Department, Internal Control Service, Retail Lending Department, Treasury, Finance and Taxation Department.

CORPORATE DEVELOPMENT COMMITTEE

Corporate Development Committee is headed by Chairman of the Management Board and includes Deputy Chairmen, representatives of Finance and Taxation Department, Accounting and Financial Reporting Department, Economic Planning Department, Corporate Lending Department, Legal Department, Internal Control Service. The activity of Corporate Development Committee is aimed at reviewing RAB's development projects and the Bank's corporate development, creating and restructuring the Bank's units, developing RAB's IT strategy, development of the Bank's by-laws and updating the existing and adopting new banking technologies.

CORPORATE ETHICS COMMITTEE

Corporate Ethics Committee is headed by Deputy Director of Economic Planning Department and includes representatives of Finance and Taxation Department, Cash Operations Department, Corporate Lending Department, Internal Control Service, Human Resources Department, Branch Network Development Department. The activity of Corporate Ethics Committee is aimed at promotion of corporate culture, control of compliance with principles and rules of corporate ethics.

NOMINATION COMMISSION

Nomination Commission is headed by Deputy Chairman of the Management Board, who serves as Chairman, and consists of representatives of Finance and Taxation Department, Methodology and Credit Management Department, Branch Network Development Department, Economic Planning Department, Legal Department, Human Resources Department. The activity of Nomination Commission is aimed at creation of candidates pool for executive positions in the head office and regional branches, appraisal of candidates, preparation of nomination proposals for the Management Board.

Russian Agricultural Bank

is ranked number five in terms of net assets among the largest Russian banks

In 2007, practically all macroeconomic indices showed upward dynamics; moreover it was typical for the majority of segments of the Russian economy.

RUSSIAN FEDERATION: MAIN ECONOMIC INDICATORS

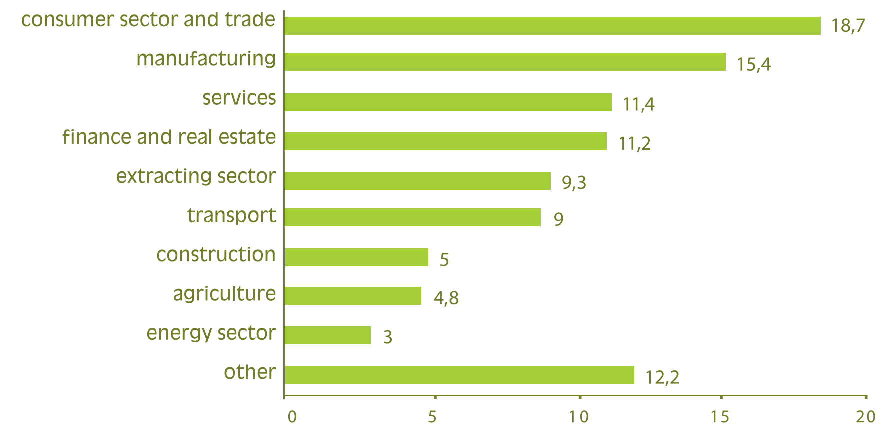
Economic indicator	2005	2006	2007	2008f
GDP, $ billion	764.9	990.2	1,295.4	1,642.2
GDP growth, % yoy	6.4	6.7	8.1	7.6
Industrial production index, % yoy	4.0	3.9	6.3	5.0
Capital stock investment growth, %	10.5	13.7	21.1	17.8
Consumer prices, % yoy	10,9	9.0	11.9	10.0
Central Bank policy rate, %	12.0	11.0	10.0	9.0
Budget balance, % of GDP	7.7	7.4	5.4	2.6
Trade balance, $ billion	118.4	139.2	128.7	93.9
Current account, $ billion	84.4	96.1	76.5	41.9
Forex reserves (- gold), $ billion	175.9	295.6	476.4	580.5
Foreign debt / GDP, %	31.0	31.3	36.3	29.8

Source: Statistics Service of the Russian Federation, Central Bank of Russia, Ministry of Economic Development and Trade of the Russian Federation

The economic growth of the Russian Federation accelerated to a record 8.1% in 2007 and the positive trends characterizing the economy are likely to remain going forward. The fact that real GDP growth increased by such a wide margin (from 6.7% in 2006) in spite of the dramatic tightening of international credit markets in 2H2007 and a slowdown in the external sector, suggests that the domestic environment will remain, to an extent, protected from the current global economic slowdown.

In terms of GDP volume in 2007 Russia was globally ranked number 10. In 2007, GDP growth turned out to be record since 2000, when Russia's economy grew by 10%. In terms of calculating GDP based on purchasing-power parity Russia's economy was ranked number 7 in 2007, leaving behind Italy, Brasilia and France. According to the long-term strategy of Russia's development, the country's economy should become fifth largest in the world by 2020.

GDP SPLIT BY SECTORS, %



Source: Statistics Service of the Russian Federation

The strong economic growth in 2007 was supported by the expansion of domestic demand (increase of 13%) and robust growth of capital stock investment: in 2006 – 13.7%, in 2007 – 21.1%. In 2007, $120.9 billion were invested in Russia's economy from abroad – 2.2 times more than in 2006.

Russian foreign exchange reserves grew by a staggering 57.1% to reach $476.4 billion by the year end and in 2008 they will remain a significant source of macroeconomic stability.

The year under review saw the decline in the growth rate of real disposable incomes of population (13.3% and 10.4%, respectively) and inflation rate growth (eop 11.9%, ave 9.0%). Rapid economic expansion and money supply growth, which are tied to increased fiscal spending and rapid foreign capital inflows, were the core factors underpinning the inflationary environment. The foreign trade turnover growth rate declined a little in 2007 compared to the previous year - 22.1% and 26.6%, respectively.

In 2007, Russia was the leader in terms of industrial production growth rate among G8 countries. Industrial production growth rate reached 6.3% in 2007 (3.9% in 2006).

OECD upgraded Russia's creditworthiness rating - Country Risk classification - from the fourth to third group of risk. Russia now joins India, Israel and South Africa in terms of how its credit risks are viewed. This up-grade is important for Russia's image and general investment climate.

In 2005-2006, Moody's and Fitch rating agencies upgraded Russia's sovereign debt rating up to Baa2 / BBB+, respectively. Investors are now anticipating a jump to A-level rankings.

MACROECONOMIC AND BANKING ENVIRONMENT

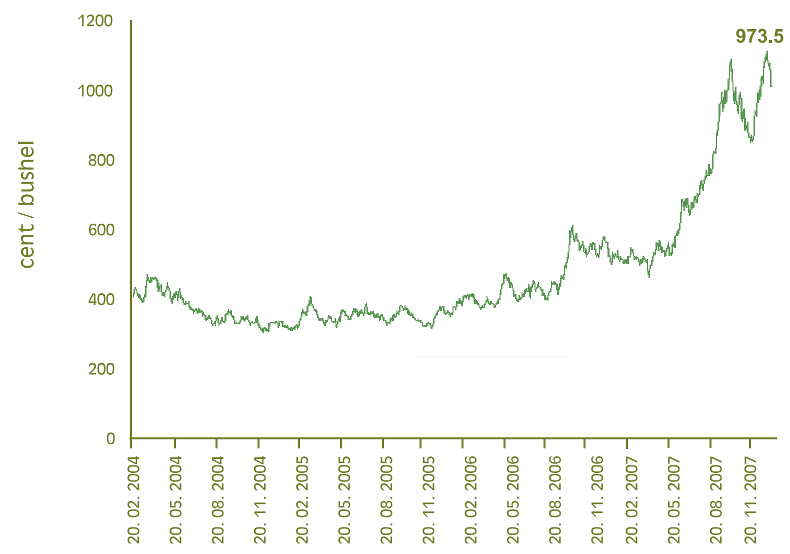
According to the survey, conducted by Merrill Lynch among international funds managers in 2007, 59% of respondents considered Russia to be the most preferable market for investments (during the previous survey - 32%), Brasilia – 23% (55%), China and India – 9% each (14% and 0%, respectively). While the overall economic growth is predicted to slow somewhat, it will remain robust at above 5% through to 2012 as growth drivers shift to the non-energy sector, especially consumer demand, infrastructure and services. The same factors that will drive this shift will also underpin expansion of the banking sector.

Year 2007 was an important stage for Russian agribusiness growth. Firstly, the National Priority Project on Agribusiness Development was completed after two years of successful implementation. Secondly, Federal Law "On Agribusiness Development" and the Federal Program on Agribusiness Development 2008-2012 were adopted. Thirdly, significant changes in the agribusiness sector performance took place in the year under review influenced by internal and external factors.

In 2007, the world market saw sudden upward change of foodstuffs prices, as futures contracts for delivery of grain hit new maximum heights. Nowadays growth rates of world prices for agricultural products are the highest during the last 25 years and the peak of their growth will be in 2008.

Russian agribusiness has a long-range growth potential in the light of the worldwide trends, such as obvious agribusiness production deficit – consumption exceeds production of food products most in demand, high population growth, increasing prices of agribusiness production – wheat reached ca. $400 per ton at the year end 2007.

WHEAT FUTURES PRICE ON CHICAGO BOARD OF TRADE



Source: Reuters

Russian agriculture has grown steadily since 2000. It contributes 4.8% of the GDP and employs 10.8% of the working population.

In 2007, the positive trends in agribusiness development continued. Gross agricultural production reached RUR 20,172 billion (about $82 billion). It grew by 3.3% as compared to 2006, including plant production, which grew by 2.0%, and animal breeding – by 4.8%. The total grain yield amounted to ca. 82 million ton - the largest yield during the last five years.

Animal breeding sector developed rather dynamically. Livestock and poultry production in all categories of agricultural households amounted to 8.6 million ton, i.e. 8.6% more than in 2006. Year 2007 saw continued expansion of poultry and pork production volumes (by 16.5% and 10%, respectively).

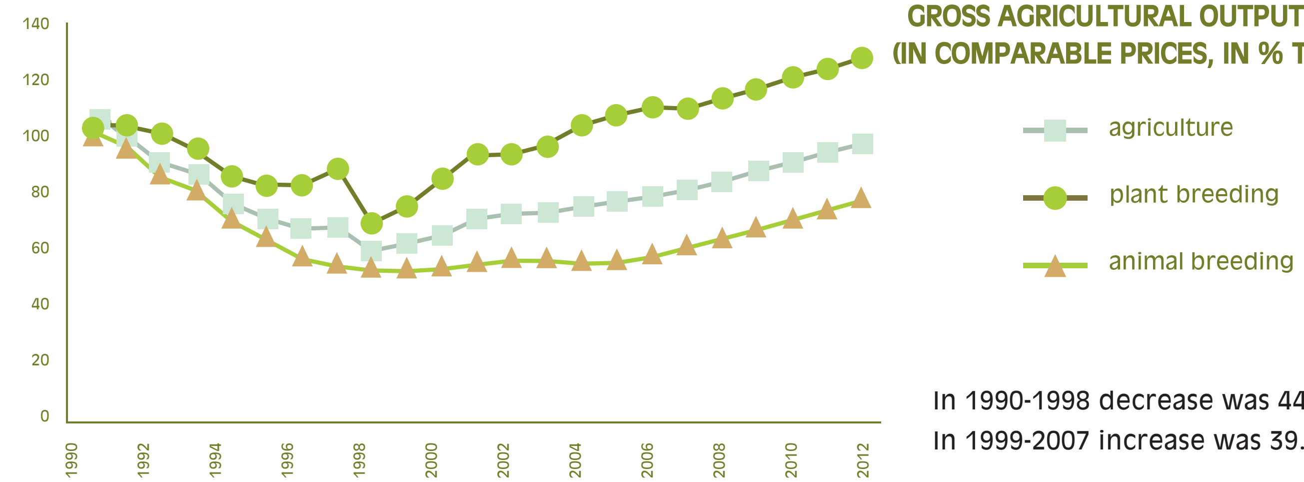
32.2 million ton of milk were produced in 2007 - 2.3% more than in 2006. Average milk yield per cow grew by 4.8%.

Financial results of agricultural enterprises have significantly improved during the last year. The total profitability level of agricultural production reached 17.3% (as compared to 9.9% in 2006). The share of profitable enterprises increased from 65% to 77%.

The competitiveness of the national agribusiness is rising and thus improves the situation on the foodstuffs market.

The priorities of Russian agribusiness development for 2008 and the coming five years are sustainable development of rural territories, higher employment and better living standards of the rural population, increasing the competitiveness of national agricultural products.

GROSS AGRICULTURAL OUTPUT INDEX (IN COMPARABLE PRICES, IN % TO 1990)



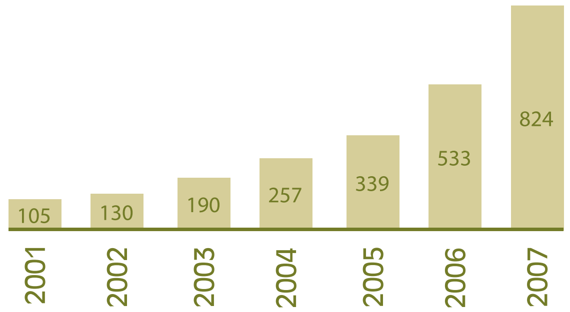
In 1990-1998 decrease was 44%
In 1999-2007 increase was 39.3%

Source: Ministry of Agriculture of the Russian Federation

Main periods of gross agricultural output growth during last 50 years:
1952-1956 – 5 years, 1966-1968 – 3 years, 1958-1962 – 5 years,
1976-1978 – 3 years, 1999-2007 – 9 years.

The Russian banking sector assets continued to grow in 2007 and reached 61% of GDP by the year end. According to the Central Bank of Russia, total banking assets in 2007 grew by 44.1% and reached RUR 20.2 trillion (in 2006 the growth rate was the same, total assets amounted to RUR 14.1 trillion). Own funds of the Russian banking sector showed impressing upward dynamics of 57.8% to reach RUR 2.7 trillion, in 2006 they grew by 36.3% to RUR 1.7 trillion.
The ranking of Top 10 largest Russian banks in terms of net assets remained unchanged. State–owned banks are the largest. It is worth mentioning that RAB showed a significant growth and moved 2 positions up, thanks to its highest growth rate of assets among the leading banks (by 101.3% to RUR 477.1 billion).

BANKING SECTOR ASSETS, $ BILLION



Source: Central Bank of Russia

The growth of corporate and retail bank deposits by 36% and 53%, respectively, contributed to strong expansion of internal resource base of the Russian banking system and its financial stability. At year-end 2007, the growth of banking loans to corporates and individuals amounted to RUR 4 trillion or 12% of GDP. Total earnings of 30 largest banks of Russia in 2007 grew by 40.7% to reach RUR 393.6 billion.
The Russian banking sector is expected to remain a strong growth story over the long term, with rising household wealth and corporate expansion initiatives underpinning solid asset expansion.
It is important to add that the domestic banking sector's exposure to

global capital markets is relatively limited, with banks' borrowing in foreign wholesale markets making up a lesser part of total operations. As a matter of fact, interbank loans in foreign currency amounted to 47.7% of total loans to banks in 2007. While this figure is not so small as to eliminate the effects of a sustained tightening of international credit markets, it does mean that the likelihood of a major bank failure or a significant decline in the stability of the system as a whole is limited. This is especially the case when considering that the outlook for the rouble remains strong, with depreciation looking unlikely.

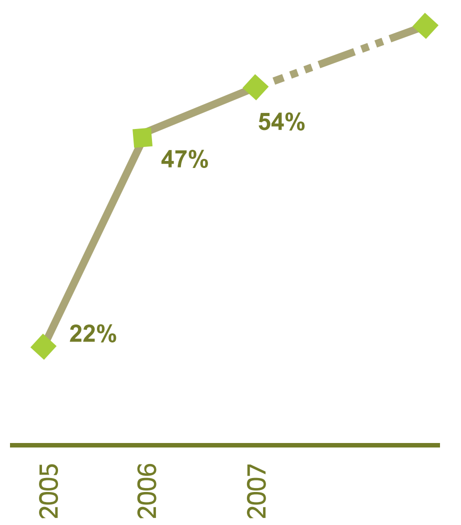
The past year was an important milestone for RAB in expanding its credit support of agribusiness and rural population. It achieved impressive results of its banking activity, ensured the rapid growth of its key banking ratios and significant increase of its role in supporting large-scale agribusiness programs. The share of RAB in the total volumes of agribusiness lending now exceeds 50%. Today RAB is ranked among 10 leading banks of the Russian Federation.

- RAB is ranked number five in terms of net assets among the largest Russian banks according to the Profile magazine banking rating.
- RAB has the second largest branch network (Russian Business Consulting data).
- RAB is the best depository bank working with roubles and number four depository bank working with Euros in 2007 according to Russian Business Consulting. The ranking is based on banks' net assets, amount of customer funds raised, interest rate and amount of deposits.
- According to the data of the Banker magazine, RAB is ranked 472 among world's 1000 largest banks in terms of capital and 12 among the Russian banks included in the ranking.
- Russian Agricultural Bank is "The Best Financial Borrower 2007 in the Central and Eastern Europe" in the judgment of the Euromoney magazine.
- RAB was awarded National Banking Premium established by the Association of Russian Banks and the National Banking magazine in the nomination "Active Participation in the National Programs Implementation - Lending to Agribusiness".

Russian Agricultural Bank

is a key financial institution in the implementation of the Federal Program on Agribusiness Development 2008-2012

RAB'S SHARE IN AGRIBUSINESS LENDING PORTFOLIO IN RUSSIA



CAPITAL INCREASES

Date	New capital, RUR million
Jun-00 start-up	375
Mar-01	430
Jul-01	2,000
Dec-02	994
Jun-03	850
Sep-05	6,121
Feb-06	493
May-06	3,700
Dec-06	5,902
Dec-07	6,857
Total	27,728

KEY PERFORMANCE INDICATORS

- Total Assets – RUR 471 billion;
- Authorized Capital – RUR 27.728 billion;
- Own Capital – RUR 48 billion (ca. $2 billion);
- Loan Portfolio – RUR 292.6 billion;
- Balance-Sheet Profit – RUR 5.7 billion (RUR 2.6 billion according to the new accounting standards);
- Personnel – 18.7 thousand employees;
- Clients – 800 thousand retail clients and 110 thousand corporate clients.

GROWING SCALE OF BUSINESS

- Over 50% market share in agricultural lending in Russia;
- Second largest branch network in Russia[1], 76 regional branches and 1262 additional offices;
- Number five largest bank in Russia by net assets[2];
- Best depository bank working with roubles[3];
- Number four depository bank working with Euros[4].

Russian Agricultural Bank has now achieved five years of significant annual increases of its profit.

RAB is well placed for further growth with broadly diversified businesses by asset class, by region and by client type. However, RAB still needs to improve in certain areas and it will continue to focus on them and invest for the future, most particularly by adding to its talented group of people in what it is a highly competitive marketplace, and in continuing to upgrade information technology and operations infrastructure.

Long term RAB sees significant further opportunities to grow organically in institutional, retail and high net worth channels, supplemented by branch network development which strengthens business.

RAB continually reviews ways of improving the product offering, investing in people and increasing the operational efficiency.

CAPITAL

In 2007, RAB's capital continued to grow both from federal and market sources.

In July 2007, RAB raised $200 million of subordinated upper Tier II debt that is included into regulatory capital of RAB under the authorization of the Bank of Russia.

[1] Russian Business Consulting
[2] Dengi magazine and Profile magazine
[3] Russian Business Consulting
[4] Russian Business Consulting

In December 2007 RAB's capital increased by RUR 6.857 billion and amounted to RUR 27.728 billion; its own capital amounted to RUR 48 billion (ca. $2 billion).

The Government of the Russian Federation is committed to funding further capital increases of RUR 9.7 billion to support the lending activity under the Federal Program on Agribusiness Development 2008–2012.

FINANCIAL HIGHLIGHTS

In 2007, RAB showed substantial financial results. Its balance-sheet total reached RUR 824 billion, own capital increased 1.5 times and reached RUR 48 billion. Working assets increased to RUR 451 billion.

Corporate loans represent the major assets application with a steady share, above 60%, of the total working assets. Interbank loans volume grew 28% due to the increase in SWAP transactions hedging risks arising from capital market borrowings. The share of cash and cash equivalents, securities and fixed assets remained relatively stable.

LIABILITIES STRUCTURE

Dominant positions in liabilities structure are kept by:

- Interbank loans – 42%;
- Securities - 29%;
- Deposits and other raised funds – 19%.

Own capital increased by RUR 15.6 billion and reached RUR 48 billion. Additional capital increased due to the growth of supplementary sources of proprietary funds, mainly due to subordinated debt.

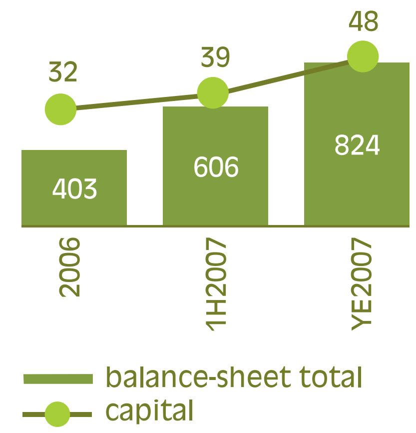
Profit increased 2.11 times and reached RUR 5.7 million. RAB obtained substantial profit increase due to the growth of:

- Net interest income 2.12 times;
- Net commission income 2.06 times.

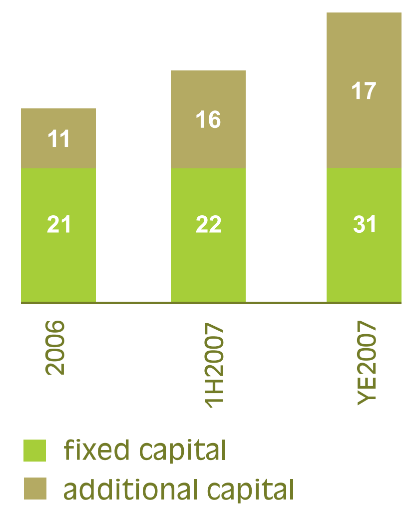
Income structure remained unchanged through the period. Interest income from loans extended to corporate and retail customers and interbank loans are the main income sources.

In 2007, RAB strived to increase operating efficiency. The share of the office maintenance expenses and expenses due to operations with securities decreased. The interest from interbank loans increased slightly, other expenses remained unchanged.

BALANCE-SHEET TOTAL AND CAPITAL, RUR BILLION

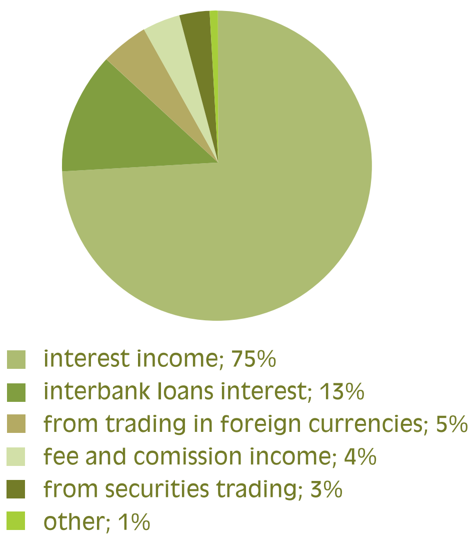


TOTAL CAPITAL STRUCTURE, RUR BILLION



OPERATIONAL HIGHLIGHTS

INCOME STRUCTURE



LENDING BUSINESS

Russian Agricultural Bank is the only State owned bank in Russia exclusively focused on providing services to agribusiness and rural population that makes up 25% of the total population of the Russian Federation.

RAB's credit policy stipulates that at least 70% of the loan portfolio is devoted to agribusiness. RAB is the acknowledged leader in lending to agribusiness in the Russian Federation.

The bank strengthened its market position by increasing lending to those sub-sectors of the Russian agribusiness and regions in which the demand for banking products remains largely unsatisfied, through its network of regional branches and additional offices, as well as by improving the quality of its banking services and broadening the range of products and benefits provided to its customers.

In addition to strengthening its marketing and distribution capabilities in 2007, the lending business benefited from a diversified product range.

AGRIBUSINESS FOCUS OF RAB LENDING PROVIDES HIGHLY DIVERSIFIED AREAS FOR EXTENDING LOANS

Crops and perennial plants	Potato	Timber
Growing cereal	Vegetable growing	Fuel
Edible oils	Rice growing	Biofuel and bioethanol
Rapeseed	Poultry	Fertilizers
Wheat	Fur-bearing animals	Shipbuilding
Soy bean	Livestock	Port reconstruction
Corn	Horses breeding	Road construction
Sunflower	Pig breeding	Gasification
Buckwheat	Sheep	Trade
Sugar beet	Machinery	Agricultural producers
Feed crops	Equipment	(food production)

CORPORATE LENDING

In 2007, the corporate loan portfolio grew from RUR 135.6 billion to RUR 248.3 billion, i.e. is 183.1% over the last year. Number of executed corporate loan agreements increased to 31,600 from 21,800 a year earlier, or by 41.5%. The number of borrowers increased 38% and amounted to 17.4 thousand.

77.4% of the corporate portfolio is allocated to agribusiness. Major categories of corporate borrowers are:

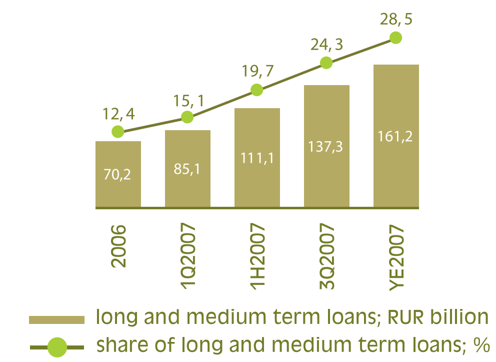
- Agribusiness producers, including animal breeding enterprises – 53.3%;
- Food and processing enterprises - 17.8%;
- Wholesale and retail traders – 11.9%.

RAB's internal policy is aimed at the delegation of lending authorities to regional branches. In 2007, 97.5% of corporate loan portfolio were extended by regional branches.

The share of long and medium-term loans is increasing. Loans over 1.5 year reached 64.9%.

Successful lending program elaborated by RAB envisages the financing of the procurement of agricultural machinery and/or equipment. Under this program loans are secured by the collateral of these same machinery and/or equipment. In 2007, the number of loan agreements under this program and their total amount more than doubled to 10,000 and RUR 40 billion, respectively. Such impressive results were achieved due to the significant expansion of the list of machinery and equipment included in the program. In 2007 Russian Agricultural Bank offered to agricultural producers additional lending programs for purchasing grain-drying, feeding, milk and meat processing equipment, as well as second-hand self-propelled harvesting, road-building, municipal and sprinkling machinery. RAB also provided short-term lending programs for traders of machinery and equipment.

SHARE OF LONG- AND MEDIUM-TERM LOANS



COOPERATIVES DEVELOPMENT

RAB assists credit consumer cooperatives development as an important part of rural areas economic and financial stabilization.

In 2007, the number of cooperatives reached ca. 1,500, the number of members exceeded 143,500, and the loan portfolio - RUR 5,7 billion.

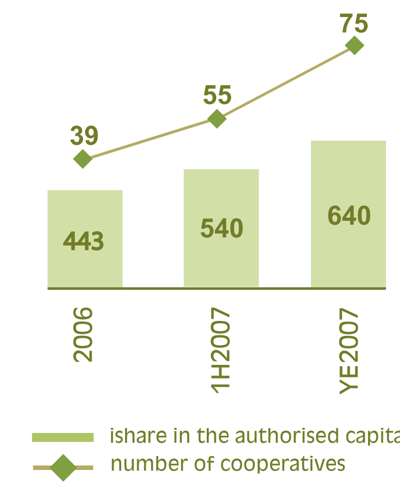
RAB is a member of 75 cooperatives with the total share of RUR 640.2 billion. The average amount of investment is RUR 8.5 million. RAB's total participation in cooperatives is about RUR 1 billion.

RAB's activity as an associate member allows it to:

- Increase capitalization of cooperatives and their loan portfolio;
- Supervise the appropriate use of monetary funds together with other cooperative members;
- Develop SMEs in agribusiness;
- Receive fixed dividends;
- Minimize risks of micro-level financing.

RAB also provides information support to agricultural cooperatives, including legal and financial consulting services, through its network of regional branches and additional offices.

RAB'S SHARE IN COOPERATIVES



OPERATIONAL HIGHLIGHTS

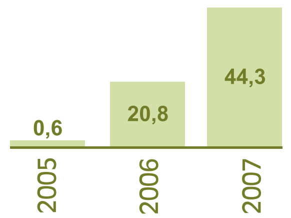
INSURANCE

RAB also implements a special policy with respect to insurance of collateral provided by its borrowers in connection with its lending operations. It requires that insurance coverage of posted collateral covers as many risks as are reasonably practicable. RAB also requires that collateral such as livestock, future crop harvests and vehicles and equipment be insured.

Additionally, RAB typically requires borrowers to obtain insurance for pledged assets in favor of RAB with an insurer approved by RAB.

RETAIL SECTOR

LENDING TO INDIVIDUAL CUSTOMERS, RUR BILLION



RAB offers a full range of lending services and products, together with professional advice and effective management. These services are available through multiple distribution channels, including regional branches, additional offices and operating cash desks.

In 2007, RAB's retail lending continued its high growth. The number of loans extended amounted to 418 thousand to the total amount of RUR 55.5 billion, including lending to individual customers of RUR 44.3 billion. Lending to individual customers increased 113% over the last year and grew from 13.3% to 15.1% in the total loan portfolio.

LENDING TO INDIVIDUALS INVOLVED IN PRODUCING AGRICULTURAL PRODUCTS ON HOUSEHOLD LAND PLOTS

Lending to personal household plots owners and farmers is one of the most popular RAB's retail programs. In 2007, 180 thousand loan agreements to the amount of RUR 24 billion were executed. The total number of such agreements exceeded 301 thousand; their amount was RUR 40.9 billion. The average loan amount was RUR 143 thousand and average term – 4 years.

Lending to individuals involved in producing agricultural products on household land plots involves providing fixed interest rate loans of up to five years. The aim of these loans is the development of the production, processing and sale of agricultural products.

Loans of up to two years in duration are granted for purchases of livestock, fodder, seeds, the making of payments for leased land and to fund other expenses incurred in connection with personal farm production operations.

Loans of up to five years are granted for the purchases of machinery, livestock, land plots and the construction and reconstruction of premises used in production or processing operations, as well as for other types of capital expenditures.

CONSUMER LENDING

In 2007, 70 thousand loan agreements to the amount of RUR 7.7 billion were executed. The total number of such agreements excedeed 120 thousand and their amount was RUR 12.5 billion.

Consumer lending to individuals is represented by four types of loans that bear fixed interest rates:

- Consumer loans with maturity of up to five years for, inter alia, purchases of household appliances;
- Loans with maturity of up to five years for purchases of machinery and equipment by individuals;
- Loans with maturity of up to five years for construction and related activities other than construction of residential buildings;
- Loans with maturity of up to five years for gasification and related activities;
- Loans with maturity of up to five years for the installation of utilities and related activities;
- Consumer loans with maturity of up to ten years for educational payments.

Most demanded directions are gasification – 3,147 loans, RUR 164.8 billion; utilities - 100 loans, RUR 10.9 million; educational loans – 42 loans, RUR 2.3 million.

RESIDENTIAL MORTGAGE LENDING

With over 142 million people and 25% of them residing in the rural areas Russia is potentially a great market for mortgage finance. Developing this market could raise living standards. With its wide geographical coverage of rural areas RAB has a good chance to become a leading financial institution providing mortgage lending to rural population.

Mortgage lending is relatively new phenomenon, but has become already a demanded business line of RAB. In 2007, RAB extended 1,251 mortgage loans to the amount of RUR 627.8 million. In the aggregate RAB extended 1,668 loans to the amount of RUR 940 million.

Lending to individuals to fund purchases of residential buildings secured by their mortgage consists in providing long-term loans with a maturity of up to 25 years that bear a fixed interest rate.

AHML RESIDENTIAL MORTGAGE LENDING PROGRAM

In addition to the residential mortgage lending under ''Sel'skoye Podvorie'' program, RAB also originates loans under the standard documentation of AHML (Agency for Home Mortgage Loans). AHML is a State owned legal entity, with 100% of its shares held by the Russian Federation. The principal objectives of AHML are to refinance mortgage loans and thereby enhance the liquidity of the mortgage lending market in the Russian Federation as well as to ensure the affordability of mortgage lending products to Russian citizens, in particular those in the rural areas.

In 2007, RAB extended 181 AHML residential mortgage loan to the amount of RUR 136.3 million.

The residential mortgage loans are issued for the purpose of purchasing residential premises such as apartments, houses or townhouses. These residential mortgage loans have a tenor of up to 30 years, are denominated in roubles, Euros and U.S. Dollars and are limited to a maximum of the equivalent of RUR 3 million. The loans have a fixed interest rate and require a downpayment of 10 to 50% of the purchase price of residential premises being financed.

AHML residential mortgage loans are originated by RAB and then sold to AHML or its regional operators after a certain period of time (up to six months from the origination date on the average). RAB receives additional fees and commission income in the form of origination fees and loan remittance fees from the AHML Residential Mortgage Lending Program.

LOAN PORTFOLIO QUALITY

Corporate loans are classified by 5 risk categories, in accordance with the Bank of Russia's regulations. 95% of RAB's loan portfolio is of categories I and II: i.e. they carry minimal credit risk.

Overdue corporate loans represent less than 1% from the corporate loan portfolio.

RAB maintains the highest quality of retail portfolio. Overdue loans represent only 0.56% from the retail portfolio.

Growing retail portfolio is strengthened by RAB extensive branch network that allows covering almost all rural population.

CLIENTS

In 2007, RAB pressed ahead with its client-focus strategy by extending and strengthening its client business and by broadening and deepening its client base.

RAB's stability and reliability as a government-owned institution together with competitive products and services are of high attractiveness for rural population.

RAB's clients can be broken down in five major segments:

- Agricultural commodity producers, including farmers and personal household plot owners;
- Agricultural commodities storage and processing entities, including agricultural consumer cooperatives;
- Traders involved in domestic and export-import transactions of agribusiness production;
- Enterprises and organizations providing technical support for agribusiness production;
- Rural population.

Having a very strong regional presence RAB provides banking services for individual clients, farmers, corporate customers and local authorities. Regional branches provide a full range of banking and financial products and services including corporate lending and retail lending, particularly mortgage loans and consumer finance, access to payments systems, maintenance of accounts and deposit taking, etc. These services are available through the local branch network and a range of supplementary channels – additional offices and operating cash desks.

CORPORATE CLIENTS

In 2007, RAB significantly developed its base of more than 110 thousand active corporate clients. Compared to the previous year the number of corporate clients increased 57%. Corporate deposits increased 174% over the previous year and amounted to RUR 32.6 billion.

RETAIL

Year 2007 showed impressive growth of the clients base. The number of retail clients reached 799 thousand; this is 128% above the previous year result of 351 thousand clients.

Retail deposits amounted to RUR 22.62 billion, 166% year on year.

CLIENT SERVICE DEVELOPMENT STRATEGY

- Expansion of the products and services range;
- Business-processes optimization;
- Client relationship service development;
- Further cooperation with municipal, regional and federal authorities on the elaboration and implementation of agribusiness development programs;
- Reasonable growth;
- Further IT development to provide broad client database.

The agribusiness market experience of RAB and its subsidiaries makes its possible to attract rural population deposits and savings.

CORPORATE DEPOSITS, RUR BILLION

RETAIL DEPOSITS, RUR BILLION

FEDERAL PROGRAMS

Russian Agricultural Bank assists the Russian Government in implementing federal policy in the agricultural sector.

SUBSIDIZED LENDING

RAB is a key participant in the federal and regional programs under which agricultural producers receive compensation in the form of a subsidy from federal and/or regional budgets for a portion of their interest costs.
For a borrower to receive the compensation from the relevant budget, a loan must be granted for the purchase of agricultural machinery or equipment, seeds, fodder, livestock or other similar purposes. The borrower must also have a good credit history and be in good financial condition.

Borrowers are eligible for the interest subsidies amounting to:
Corporate entities:

- Federal subsidies of 2/3rds of the Central Bank of Russia's refinancing rate;
- Regional subsidies of 1/3rd of refinancing rate.

Individuals and farmers:

- Federal subsidies at 95% of the refinancing rate;
- Remaining 5% compensated by regional budgets.

Subsidy calculation is based on the Bank of Russia's refinancing rate which is set at 10,5%, as of May 1, 2008.
Depending on the purpose of the loan and the category of the borrower, loans subject to subsidies may have maturities of up to eight years.
Subsidized lending allows RAB to improve the quality of its loan portfolio, as punctual payments on subsidized loans are a condition to the compensation of the borrower's interest expenses by the State.

NATIONAL PRIORITY PROJECT ON AGRIBUSINESS DEVELOPMENT

The National Priority Project on Agribusiness Development was launched at the end of 2005. The major targets of the Project initiated by the President of the Russian Federation and supervised by the first Vice Prime Minister were to:

- Accelerate the development of livestock breeding and fishing industries;
- Enhance SME development;
- Provide accessible housing to young specialists in the rural areas;
- Extend loans to agricultural consumer and credit cooperatives;
- Provide lending secured by mortgages in agricultural land.

Russian Agricultural Bank has played a key role in the National Priority Project on Agribusiness Development extending ca. 318 thousand loans to the total amount over RUR 152 billion.
The split of loans extended by RAB in the framework of the National Priority Project demonstrates that 55% were granted for accelerated development of animal breeding, 27% – to personal household plots owners, 10% – to farms (peasant farmsteads) owners, the rest – to agricultural cooperatives and for the land mortgage.

Almost a quarter of all agricultural machinery purchases as well as the purchase of 50,000 of pedigree livestock were financed by loans extended by RAB.
The Bank provided financing for cattle breeding projects aiming at the refurbishment and modernization of facilities for over 500,000 cattle stock, almost 4,000,000 pigs and 92,000,000 birds. According to the expected capacity, which will be achieved by 2010, the share of those facilities in the total production of meat will be over 15% and in production of milk – about 8%.

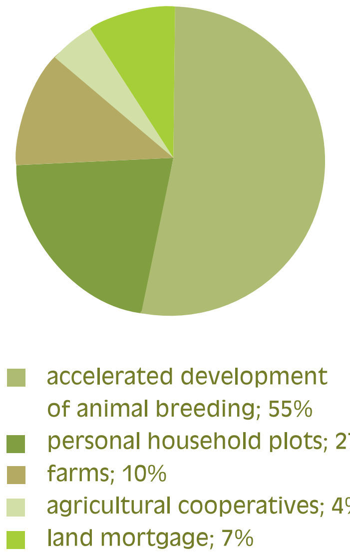
The National Priority Project on Agribusiness Development was aimed at substantial improvement of Russia's food supply and brought positive results:

- 14.4% growth in livestock and poultry production;
- 4.5% growth in milk production;
- RUR 70.8 billion long-term and RUR 171.3 billion short-term loans were extended, this is 144.5% and 140.4%, respectively, to the scheduled amounts;
- In 2006-2007, 3,722 agricultural consumer cooperatives were established, which represents 145.9% of the expected number.

5-YEAR FEDERAL PROGRAM ON AGRIBUSINESS DEVELOPMENT

In July 2007, the Russian Government introduced a Federal Program on Agribusiness Development 2008–2012 in line with the Federal Law "On Agribusiness Development" adopted in December 2006. The 5-year Federal Program on Agribusiness Development will expand the scope and subsequently substitute the National Priority Project on Agribusiness Development. Agribusiness development remains a priority in the Government's social and

SPLIT OF LOANS EXTENDED IN THE FRAMEWORK OF THE NATIONAL PRIORITY PROJECT ON AGRIBUSINESS DEVELOPMENT



FEDERAL PROGRAMS

economic policy. This is the first federal program on agriculture adopted in Russia during more than 25 years.
RAB will be a key financial institution in the implementation of the 5-year Federal Program on Agribusiness Development starting from 2008.

Objectives of the new Federal Program are:

- Steady development of rural areas, improvement of working and living standards of rural population;
- Improved competitiveness of domestic agriculture, backed by financial incentives;
- Accelerated development of key agribusiness sub-industries;
- Reclamation, protection and continued use of crop lands.

The Russian Government has allocated budgetary funds of RUR 551 billion ($22 billion) to support the execution of the Program in 2008-2012. Additional RUR 855 billion ($34 billion) will come through budgetary institutions and external sources.

PARTICIPATION IN SOCIAL AND SUSTAINABLE LENDING AS A STATE AGENT

RAB takes part in sustainability programs focused on the social aspects and initiated by the Government. The aims of these programs are to provide affordable financing to companies in agribusiness, to improve their financial performance so that rural population may benefit from them.

RAB is engaged in:

- Program "Sel'skoe podvorie" for financial support of the social and economic development of the rural areas. This program involves lending to individuals residing in small towns and rural areas who are involved in agricultural production.

- Recovering of loans extended from 1992 to 2000 from the Russian federal budget and extra-budgetary sources to legal entities engaged in agribusiness. In 2007, RAB recovered RUR 1,207.4 million. The total amount of loans recovered in the framework of the program reached RUR 4,739.2 million.

- Implementation of the Federal Law ''On Financial Rehabilitation of Agricultural Enterprises''. RAB monitors financial standing of the enterprises participating in the rehabilitation. 10,387 restructuring agreements are executed with RAB's participation. Income from the implementation of the program amounted to RUR 66.4 billion.

- Financing of grain purchase and commodity interventions - part of the price stabilization program of the State. For the purpose of the program implementation RAB received RUR 4.5 billion low-cost resources in 2005. With this amount RAB purchased for safe storage 1.5 million ton of grain.

In the framework of the recovery of old loans from agribusiness enterprises and from price interventions and sales of grain from Federal Intervention Fund in 2007 the Government of the Russian Federation increased RAB's authorized capital by RUR 743 million.
The goal of participation in these programs is to promote sustainable and comprehensive development of the agribusiness sector.

Year 2007 proved to be very successful for Russian Agricultural Bank in expanding its international businesses. RAB made significant commercial breakthroughs in most of its international business-lines, due to the efforts aimed at strengthening its relations with foreign financial institutions, investors, correspondent banks, export credit agencies and foreign agribusiness producers.

2007 HIGHLIGHTS

- RAB is number 472 in Top 1000 World Banks listing and number 12 in Russia according to the publication in the July 2007 issue of the Banker magazine;
- RAB is the "Best financial borrower 2007 in the Central and Eastern Europe" in judgment of the Euromoney magazine. RAB became the first financial institution in CIS countries to receive this award.

CORRESPONDENT RELATIONS

Correspondent banks network continued to strengthen and increase its operational efficiency in 2007. RAB's correspondent network comprises 85 banks world-wide. In 2007 RAB opened CHF correspondent account in VTB Bank (Deutschland) AG, Frankfurt-am- Main and Euro correspondent account in J.P. Morgan AG, Frankfurt-am- Main.

RAB signed ISDA agreements with Goldman Sachs Int., HSBC, Royal Bank of Scotland PLCB and Dresdner Bank AG, funds raising agreements with 7 international top-ranking banks and 4 SWAP agreements/confirmations on cross-currency deposits exchange.

RAB signed agreements concerning its entry into International Payment Systems Visa and MasterCard, on dollar and Euro-denominated traveler cheques collection and on commercial operations with banknotes.

RATINGS

Year 2007 brought positive changes to RAB's ratings. In June 2007 Moody's Investors Service upgraded the outlook on Russian Agricultural Bank's E+ Bank Financial Strength Rating, A3 local currency deposit rating, A3 senior unsecured debt rating and Baa1 subordinated debt rating to positive from stable.

The outlook change by Moody's opinion reflected RAB's growing franchise value: its belonging to the first ten largest banks in the country in terms of total assets, its being the second largest in Russia as far as its branch network is concerned comprising 76 regional branches and 1262 outlets, its dominant position in servicing Russian agriculture and its increasing penetration of the retail segment.

The Bank's other ratings remain unchanged.

Fitch

Long-term issuer default rating	BBB+, stable
Short-term issuer default rating	F2
Individual	D
Support rating	2
Support rating floor	BBB+
National long-term rating	AAA(rus), stable
Senior unsecured debt rating	BBB+

Moody's

Long-term foreign currency deposit rating	Baa2, stable
Short-term foreign currency deposit rating	Prime-2, stable
Financial strength rating	E+, positive
National scale long-term rating	Aaa.ru
National scale short-term rating	RUS-1
Senior unsecured debt rating	A3, positive

TRADE AND STRUCTURED FINANCE

Trade finance operations developed successfully in 2007, backed up by the Bank's international cooperation network. RAB started its trade finance operations expansion to CIS countries from Belarus.

In foreign trade finance RAB's customers in particular expect financing arrangements together with professional advice and effective management. The segment's full-range service capability represents a clear differentiating edge over the competition. By combining classical trade products with professional individual approach to the customers RAB is deliberately moving from a simple lending relationship towards the goal of offering structured solutions.

RAB offers a wide range of trade related services. The product range includes:

Import L/C	Guarantee Operations
Export L/C	Import Documentary Collection
Deferred payment	Export Documentary Collection
Reimbursement Authorization	Clean Collection
Reimbursement Undertaking	Post-Finance

RAB intensified its activity in the area of export-import financing and cooperated on an ongoing basis with leading export credit agencies (ECAs) worldwide to cover risks. ECAs provide government-backed loans, guarantees and insurance covering both commercial and political risk. At present RAB is accredited and maintains relations with 19 export credit agencies:

ASHRA	Israel	Ex-Im Bank	USA
ATRADIUS	Netherlands	Euler Hermes	Germany
CESCE	Spain	FINNVERA	Finland
COFACE	France	KUKE	Poland
ECGD	UK	OeKB	Austria
EDC	Canada	ONDE	Belgium
EGAP	Czech Republic	NEXI	Japan
EKF	Denmark	SACE	Italy
EKN	Sweden	SERV	Switzerland
ERG	Switzerland	Sinosure	China

In 2007, RAB focused on making its trade finance operations more effective and achieved substantial results in these endeavors.
Structured finance operations amounted to RUR 822.3 million.
40 trade finance agreements were signed. LC operations doubled in number and increased more than 3 times up to $259.6 million by the total amount.

€3,662,658.33 Mosselprom Poultry production unit construction	€5,783,039.27 EcoNiva Technique Foreign agricultural machinery purchase	RUR 648,000,000.00 Kievo-Juraki APK Pig complex construction	€1,904,000.00 DENEB Soft drinks filling line	€713,706.00 KFH Artemida Cattle breeding equipment purchase
€3,280,263.59 Zagorsky broiler (Group Assortment) Poultry slaughter equipment purchase	€4,999,835.50 Orelselprom (Mosselprom) Pig complex construction	$35,000,000.00 Magma Crude oil purchasing for further refining	€1,300,128.00 Optifood-Center (Group Optifood) Poultry production unit construction	$903,131.60 Absolut-Agro Pedigree pigs purchase
€24,731,596.00 Confectionary plant Krasnaya Zarya Confectionary plant reconstruction	€14,402,584.00 Krasnaya Gorka (Group EuroService) Poultry complex and slaugh- ter facility construction	€10,233,867.22 Olkhovatsky sugar mill (Group Prodimex) Sugar-mill reconstruction	$1,800,905.00 Olkhovatsky sugar mill (Group Prodimex) Agricultural machinery and equipment purchase	€5,804,386.00 Poultry farm Akashevskaya Poultry equipment purchase
RUR 150,000,000.00 Belagroprombank Financing of wheat supply	$1,419,590.00 Company Ajax-Agro Agricultural equipment purchase	€3,655,000.00 OJSC Buinsky Elevator Seed production equipment	€504,664.79 Vladzernoprodukt Poultry equipment purchase	$2,784,124.63 OJSC DSU-13 Agricultural equipment purchase
€3,590,144.00 ZAO Evropeyskaya Agrotekhnika Agricultural equipment	€775,038.75 SPK Krasny Oktyabr Pedigree livestock purchase	€4,280,351.24 SPK Mashkino Pig complex reconstruction	€801,507.90 Agricultural company Safonovskoe Pig complex equipment purchase	€5,193,032.50 OJSC Tsentarion Construction project
€11,530,609.00 OAO Zhelezobeton Production equipment purchase	€11,895,937.00 Firma LVT Glass and can production equipment purchase	€352,158.00 Murmanskaya Poultry equipment purchase	€4,485,000.00 Sibirskie Fermy Dairy unit equipment purchase	€483,705.00 OJSC Cherepovetsky milk plant Milk processing equipment purchase
€1,049,600.00 ZAO Kalmytskaya agricultural company Agricultural equipment purchase	€297,500.00 ZAO Lyubinskaya poultry farm Poultry equipment purchase	€1,850,450.00 Nalchinskaya macaroni mill Pasta production equipment purchase	$3,000,000.00 Simbirskryboprodukt Purchase of frozen fish for processing	RUR 865,648,000.00 Yugptitseprom Poultry complex construction
$3,151,299.67 OJSC Komplekt Can production equipment purchase	€440,000.00 Lemonade factory "Maykopskaya" Bottling equipment purchase	$7,480,955.33 Pig Complex Ozersky Pedigree livestock and equipment purchase	$1,362,252.60 Urozhay Agricultural equipment purchase	$2,888,916.78 Yupiter-9 Agricultural equipment purchase

CAPITAL AND MONEY MARKETS

Debt Capital Markets business line offers a comprehensive range of debt instruments for both reducing risks by placing funds in the market and raising additional funds, including REPO operations, ruble bonds, loan participation notes and trading in the Russian Government and municipal debt securities, corporate debt securities, promissory notes and equities.

Interbank operations are carried out for the purposes of maintaining solvency, hedging liquidity, currency and other types of risks. In 2007, the following operations were executed:

- Interbank funds raised amounted to RUR 365.7 billion;
- Funds placement amounted to RUR 1,166.8 billion;
- In the framework of transactions with large international financial institutions to hedge risks the total amount of interbank deposits reached $3.45 billion, CHF 375 million and RUR 96.3 billion.

RAB envisages developing its asset management business using its wide regional branch network. In 2007, it purchased 20% of Agro Standard Asset Management Company for investment, equities and pension funds management.

Apart from traditional refinancing via interbank borrowings, RAB raises liquidity by way of issuing paper in the main financial markets.

FUNDS RAISING

RAB's funding policy is to meet funding requirements of the regional branches and the head office at an acceptable cost. The policy is characterized by the diversification of funding sources, flexibility of funding instruments and active investor relations.

In 2007 RAB was an active player on both international and domestic capital markets and arranged several successful borrowings, an important achievement, especially if the tight situation ("the credit crunch") in the world financial markets is taken into account.

DOMESTIC MARKET

RAB has become a recognized player on both international and domestic capital markets and is stepping up its fund raising operations.

In February 2007 Russian Agricultural Bank placed its third documentary interest-bearing bond payable on demand worth RUR 10 billion and maturing in 2017. During the auction 77 investors placed orders to the total amount of RUR 16.11 billion. Ninety percent of the issue was placed among foreign investors.

In October 2007 Russian Agricultural Bank placed RUR 10 billion 4th series certificated interest-bearing bond issue, maturing in 2017 that was brought to the market at MICEX. The auction attracted 62 high quality accounts and the total orders amounted to RUR 13.21 billion. The coupon was fixed as 8.20% per annum.

Successful placements were backed by the representative composition of the placement syndicates, excellent credit quality of RAB, high demand from foreign investors and the favorable market situation. Funds raised from the placements were used for the financing of the Russian agribusiness sector development.

CAPITAL MARKET

In March 2007 Russian Agricultural Bank issued its debut Senior CHF Eurobond - the first CHF public Eurobond by a Russian borrower in the last 80 years. The size of the issue is CHF 375 million with coupon 3.583% and the final maturity in 2010. The transaction is rated A3 by Moody's and BBB+ by Fitch.

Following European road show, the issue achieved strong participation in Switzerland. In terms of investor type distribution 36% was taken by Asset Managers, by Banks (36%), Insurance companies (16%), Pension Funds (7%) and Corporates (5%).

The loan currency – Swiss franc – was selected in order to expand the investor base and the scope of instruments issued by Russian Agricultural Bank diversified by types of currencies, and to decrease the cost of funding.

In April 2007 Russian Agricultural Bank raised $520 million Syndicated Term Loan Facility. The loan has two tranches of 18 and 36 months with rates at LIBOR+0,3% and LIBOR+0,4%, respectively. The facility, which was heavily oversubscribed following successful senior and general syndication phases, was increased from $300 million to $520 million and represents RAB's debut foreign currency syndicated loan.

In May 2007 Russian Agricultural Bank issued $1.25 billion 6.299% loan participation notes due May 2017. The transaction is rated A3 by Moody's and BBB+ by Fitch. The notes were issued under the loan participation notes program dated May 5, 2006.

Eurobonds were placed among 115 investors. In terms of investor country distribution 74% were taken by investors from USA, 10% - from United kindom, 9% - from Asia and 7% from other countries. Facilities were made available for general corporate purposes including, but not

limited to, providing select customers of RAB with trade-related finance.
The success of RAB's issues was underpinned by the bank's unique position in Russian banking sector, clearly defined business strategy, high level of commitment from the State to develop RAB and positive market conditions.
RAB raised $200 million subordinated loan in the 10-year non-call five format. On June 27, 2007 RAB received the approval of the Bank of Russia to include the loan into regulatory capital. This is the first loan of this kind to be successfully funded and approved in Russia by the CBR. In the international debt capital markets the subordinated loan has similar characteristics to Upper Tier 2 subordinated debt, as defined by BASEL rules. Until then Russian banks had been permitted to raise subordinated debt that was limited to 50 per cent. of their Tier 1 capital. BASEL guidelines classified those loans as Lower Tier 2 subordinated debt.
RAB worked closely with ABN AMRO to structure this instrument in a very short time frame and ensure that it would qualify as regulatory capital.

SUMMARY OF RAB'S INTERNATIONAL CAPITAL MARKETS ISSUES

Maturity	March 2010	November 2010		May 2013	September 2016	May 2017
Volume	CHF 375 million	$250 million	$100 million	$700 million	$500 million*	$1.250 billion
Coupon rate	3.583%	6.875%		7.175%	6.970%	6.299%
Rating	A3 (Moody's)/ BBB+ (Fitch)	Baa1 (Moody's) / BBB+ (Fitch)		A3 (Moody's) / BBB+ (Fitch)	Baa1 (Moody's) / BBB (Fitch)	A3 (Moody's) / BBB+ (Fitch)
Date of issue	March 2007	November 2005	February 2006	May 2006	September 2006	May 2007
Issuer	RSHB Capital S.A.					

*subordinated issue of LPN

Type of borrowing	Syndicated loan	
Amount	$270 million	$250 million
Maturity	October 2008	April 2010
Interest rate	LIBOR+0.30%	LIBOR+0.40%
Date of borrowing	April 2007	

OTHER BORROWINGS ON INTERNATIONAL CAPITAL MARKETS

Investors took a keen interest in the loan participation notes that offer secure returns and the prospect of an attractive bonus.
For debt instruments such as bonds and REPO and for hedging products such as interest rate, currency and commodity derivatives, RAB will continue to expand its product range and strengthen its distribution capabilities.

COVENANTS

RAB ensures strict compliance with its obligations under domestic and international agreements and contracts to which it is a Party. In particular, the Bank abides by all the mandatory financial ratios, as well as covenants and other requirements under debt financing agreements:

- State share in RAB's capital continues to exceed by far the minimal threshold of 50% + 1 share;
- Capital Adequacy Ratio (in accordance with the IFRS) is constantly above 8%;
- Capital Adequacy (per CBR) is equal to or exceeds the minimum required by the Russian law;
- Other economic ratios and requirements, including current, short- and long-term and total liquidity ratios conform to the values prescribed by the Russian law;
- Long-term, unsecured, unsubordinated debt obligations ratings are either equal to or exceed Baa3 by Moody's and BBB - by Fitch;
- No overdue taxes are allowed to exist, other than those the Bank would be contesting in good faith in the framework of appropriate proceedings and in respect of which adequate reserves would be established;
- RAB does not enter into transactions to sell, lease, transfer or otherwise dispose of any asset the book value of which exceeds 10 per cent of the Bank's Total Assets, and it ensures that none of its material subsidiaries do so;
- The Bank discloses all the information required by its contractual obligations.

Neither the Bank nor any of its subsidiaries are in default on any of their contractual obligations.

INVESTOR RELATIONS

Reliable relationships with lenders are essential for broadening access to the international capital market. In 2007, contacts with international investors were intensified.

RAB's is realizing an accurate, timely, clear and interactive communication with investors on the Bank's business performance, financial position, strategic plan, corporate governance and development prospects based on the policy of regulated and sufficient disclosure of information, on the principles of honesty, fairness and two-way communication, so as to maintain the transparency of corporate governance and the fair market value of the Bank's stock, protect investors' legitimate rights and interests.
During the reporting period RAB successfully presented to global investors its leading market position and achievements holding due diligence and one-to-one meetings, replying to investors queries, maintaining the website with a section devoted to investor relations and establishing facilities for enquiry by e-mail. Along these lines RAB put in place the best practices as followed by internationally listed corporations to develop investor relations and established investor data base with a view to enhancing its level of investor services.
To perfect investors' service in 2008 RAB will further improve the methods of communication with investors and enhance investors' understanding of the Bank.

INTERNATIONAL BUSINESS COUNCILS MEMBERSHIP

RAB is an active member of the Russian-Chinese Business Council, US-Russia Business Council and the International Confederation of Agricultural Credit (CICA) that adds to the Bank's potential to further develop its business and international cooperation in the sphere of lending to agribusiness.
Being a member of the Russian-Chinese Business Council RAB actively develops its business relationships with Chinese financial institutions. In November 2007 Russian Agricultural Bank signed the Memorandum of Understanding on Mutual Cooperation with Agricultural Development Bank of China. Signing of the Memorandum of Understanding is of high importance for the further development of cooperation between Russian Agricultural Bank and Agricultural Development Bank of China in order to support sustainable development of agribusiness by enhancing financial service efficiency for rural areas in China and Russia, respectively.
In furtherance of the common interest, banks will actively develop cooperation in the fields of international account settlement, trade finance, share their business experiences, as well as information in the area of banking business development and operational practices.

INTERNATIONAL EVENTS

In April 2007 a meeting of the Central Committee of the International Confederation of Agricultural Credit (CICA) was held in Moscow. RAB as a member of CICA arranged the meeting.
The meeting was headed by President of CICA, President of Credit Agricole S.A. Rene Carron. The main topics on the agenda were credit and financial support of agribusiness sector and development perspectives of agribusiness holdings and international food companies in Russia. Minister of Agriculture Alexei Gordeev, Deputy Chairman of the Federal Council Alexander Torshin, Chairman of Agriculture Committee of the State Duma Gennady Kulik, First Deputy Chairman of the Bank of Russia Georgy Luntovsky, Chairman of the Board and CEO of Russian Agricultural Bank Yuri Trushin and the leaders of about 50 world top-ranked agricultural banks participated in the discussion panel.

In September 2007 Russian Agricultural Bank took part in and became one of the initiators and a General Sponsor of Russian Agricultural Outlook Forum. Leading representatives of Russian agricultural and food business, top officials of ministries, agencies and associations and analysts of the Russian and international markets made their presentations at the Forum.
The Forum was held in Moscow in the framework of the 16th International Exhibition of food products and drinks World Food Moscow. More than 1,300 companies from 53 countries participated in the exhibition. The international participation reached 40%.
Thirty-two countries were represented by national pavilions, including Philippines, Chile, Cyprus, Hungary, Argentina, Belgium, USA, Italy, Brazil, Germany, Norway and Denmark.

In December 2007 Yuri V. Trushin, Chairman of the Board and CEO of Russian Agricultural Bank, visited Mongolia and participated in the Mongolian-Russian Business Forum as a member of the delegation headed by Minister of Agriculture of the Russian Federation Alexei V. Gordeev.

2007 ANNUAL REPORT

CONTROL AND INFORMATION TECHNOLOGY

Russian Agricultural Bank

employs modern banking and information technologies to improve efficiency and render high quality services, maintains unified high standards throughout the whole branch network

Internal control is an integral part of the corporate life of the Bank, carried out in all segments based on documented processes, aiming to ensure the strict compliance with legal requirements to ensure better risk management, greater operational security and higher commercial performance.

Compliance within the Bank is to be understood as a set of rules and initiatives to ensure the conformity with:

- Specific laws and regulations that apply to banking and financial operations;
- Professional and ethical standards and practices;
- Instructions, corporate code of conduct and internal procedures of the Bank.

Internal Control Service monitors and assesses compliance with internal procedures at all levels of RAB management on a daily basis. Internal Control Service reports to the Supervisory Board semi-annually and formulates recommendations concerning the efficiency of risk management procedures.

RISK MANAGEMENT

Effective risk management is essential to RAB development. RAB strives to make sure that all risks are properly assessed, that risks are commensurate with the earning capacity and capital resources and that income from various lines of businesses is proportionate to the risks incurred.

The principal categories of risk inherent in the business are credit risk, market risks, including foreign currency risk, interest rate risk, securities portfolio risk, and liquidity risk.

RAB's strategy is to incorporate risk management considerations at all levels of the decision-making process. In line with this strategy the management of the head office and regional branches participate actively in risk management by way of the implementation of standardized systems and procedures.

Risk management regulations and procedures are revised and updated on a regular basis.

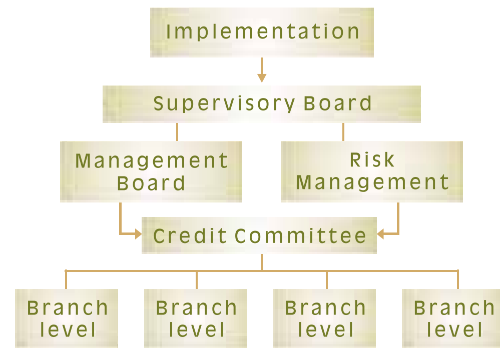
The main stages of the risk management process include the following:

- Risk identification;
- Qualitative and, if necessary, quantitative assessment of a particular risk;
- Determination of an acceptable level of risk both for RAB in general and in respect of various types of instruments and, if need be, the assigning of limits to such risks;
- Acceptance of risk, risk limitation or risk transfer;
- Creation of a system of controls to monitor compliance with established limits and restrictions.

RAB main tools of risk management are liquidity gap analysis, value-at-risk (VAR) analysis, elements of stress testing, scenario analyses and the existence of various authority limits on certain operations.

Risk assessment is carried out at several stages following formalized procedures. All staff receives regular training in this area, including refresher courses.

RISK MANAGEMENT POLICY AND PROCEDURES



As implemented by (1) Treasury; (2) Risk Management; (3) Internal Audit

As approved by the Supervisory Board which also approves annual control plan for the Internal Audit

Authorize loans that exceed Management Board limit of approx. $160 million

Geography-specific limits are set for the aggregate amount of loans issued at branch levels and types of loans in place

Loan portfolio size of any branch cannot exceed 15% of RAB's total loan portfolio

Individual borrower limits at branch level are set at $1-15 million

87% of all loans are approved at the branch level

DECISION MAKING

Decision making powers are allocated between RAB management bodies to ensure appropriate risk management.

Supervisory Board

The Supervisory Board approves RAB's general risk management policy and the annual control plan. It also reviews reports prepared by Internal Control Service. It is entitled to approve lending transactions that exceed the limits prescribed for the Management Board. The Supervisory Board sets limits on interbank and securities market transactions based on business units and Risk Management Committee proposals.

Management Board

The Management Board approves policies on provisioning, financial risk management and credit risk management relating to transactions with affiliated parties, lending transactions that exceed the limits of authority of the Credit Committee or the limits of authority of the regional branches, up to RUR 1 billion.

ALCO Committee

ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on limits policy implementation, internal procedures for financial risk regulation, and the funds allocation. ALCO Committee sets limits for branches, within the scope of its responsibilities delegated by the Management Board.

Credit Committee

Credit Committee approves terms of individual lending transactions in excess of the established limits for regional branches, up to RUR 300 million, prepares proposals for the development of the credit policy.

It establishes and modifies criteria for asset quality evaluation and asset classification by risk category, the policy concerning loan loss provisioning and the minimum interest rates. It also reviews the results of inspections made by external auditors, regulatory bodies and Internal Control Service.

Credit committees are established at the regional branch level and at the additional office level. Credit committees of regional branches approve lending transactions of additional offices in excess of their established credit limits.

The implementation of RAB's risk management policies is ensured by Treasury, Risk Management Department, Corporate Lending Department, Methodology and Lending Management Department and Internal Control Service.

In 2007 Risk Management Departments were organised in regional branches. Risk hedging instruments list was enriched and lending risk assessment procedure was elaborated.

AML

The measures to combat money laundering and financing of terrorism have been considerably perfected over the past few years across the various divisions of the Bank. This includes measures aimed at ensuring that RAB does not enter into any relationship with a client whose activities are suspect, as well as detecting and preventing any suspect transactions. Sufficient technical possibilities supported by effective risk management processes and optimized security systems enable RAB to identify, analyze, and access potential threats, and to take appropriate measures to avoid or minimize such risks.

INTERNAL CONTROL, RISK MANAGEMENT AND AML

RAB reviews payments transactions on an ongoing basis with the help of the corresponding software, national and international lists to identify the transfer of money and assets for money laundering and terrorist purposes. The core objective in this project is to raise the awareness among the officials and to train employees, and at the same time step up the prevention measures both at the sales units and at the centralized money laundering prevention unit at the head office. All regional branches take part in such preventive measures.

Further initiatives in 2007 included the elaboration of new supervisory tools, regular procedural reviews, the awareness and training programs for all staff throughout the branch network and in the head office.

INFORMATION TECHNOLOGY

Russian Agricultural Bank employs modern banking and information technologies to improve efficiency and render high quality services, develop and upgrade professionalism of the personnel and maintain unified high standards of performance throughout the whole branch network.

The Bank restructured its core application systems to address the needs of its business lines and reduced the operation risk following the data centralization, thereby enabling the provision of modern banking services and securing significant reduction in operating cost. The pillars of the information system continued to be upgraded. Accounting, loans, deposits, payment systems, client relationships, securities, processing for international operations are some of the areas that were redesigned as new clients were brought in and new products added.

Today RAB's IT platform has capacity and capability to handle the increased volume of transactions and number of clients and maintain safe and steady operation.

Current IT system of RAB meets the requirements of the rapidly changing business environment:

- Unified information technology system ABS-Biscuit offers an integrated solution for the head office, as well as regional branches and additional offices, that allows RAB to conduct real-time operations;
- Diasoft systems for accounting and handling of securities operations;
- ''Bank-Client'' system for remote client service;
- Reserve servers for back-up records of each operational day.

In 2007, a special Technological Development Department was set up in RAB to manage IT issues. The activity of the Department is focused on:

- Elaborating directions of the Bank's strategic development;
- Acting as system architect;
- Managing technological development projects;
- Contacting external consultants and suppliers;
- Holding tenders and preparing contracts on IT development issues;
- Testing business processes and preparing proposals on banking activity optimization;
- Developing intrabank performance quality standards for existing and new banking technologies.

RAB focuses on a consistent and large-scale application of up-to-date management and banking technologies, used in international banking practice. The process of technological modernization is rather complicated and lengthy, as it requires a number of significant transformations, involving all lines of the Bank's activity. In 2007, to ensure the efficient IT support to business and managerial processes RAB developed IT Strategy, which defines its targeted IT-architecture and the programs for its development. The adopted IT Strategy is based on the analysis performed by consulting company IBS. The strategic plan on IT development includes over 50 interrelated projects, total value of which exceeds $100 million.

The implementation of these projects will allow RAB to improve the quality of services provided to the clients, introduce new banking products, increase the efficiency of the resources used, enable further reduction of operating risks and ensure the transition to new methods of capital adequacy assessment according to BASEL II.

Russian Agricultural Bank

provides financial support to socially oriented projects that present new business opportunities for the rural population

REGIONAL PERSPECTIVE

Russian Agricultural Bank has nowadays reached the level of a specialized financial institution and agricultural mainstay enabled to provide financing and lending to the Russian agribusiness with an emphasis on expanding access to banking products for the rural population, which makes up 25% of the total population of Russia. The increased availability of credit resources not only for large and medium scale producers, but also for small farms was one of the priority activities of the Bank in 2007.

In 2007 the expansion and optimization of RAB's regional branch network were aimed at:

- Enhancing the quality of client services;
- Enlarging the accessibility of banking services for clients;
- Increasing operational efficiency;
- Facilitating Bank's cooperation with clients.

RAB has the second largest branch network in the banking system of the Russian Federation.

As of January 1, 2008 Russian Agricultural Bank possessed 76 regional branches, 1,262 additional offices and operational cash desks in municipal entities and a subsidiary bank. RAB opened 505 new divisions, including 5 regional branches and 500 additional offices. New branches and offices were opened to take advantage of business opportunities in regions with a high potential.

The year under review was characterized by the highest rate of branch network expansion at the regional level.

DYNAMICS OF BRANCH NETWORK DEVELOPMENT

Year	Number of branches	Number of additional offices
2001	14	15
2002	47	82
2003	59	118
2004	61	155
2005	62	190
2006	66	316
2007	71	762
2008	76	1,262

About 160 structural divisions are scheduled for opening in 2008; as a result their total number will reach ca. 1,500 by 2009.

RAB also initiated the process of expanding the powers of regional branches and additional offices in order to enhance the quality of client services and operational efficiency of the decision-making process on the delivery of banking products. The expansion risks are well managed – RAB provides training programs for staff at all levels, employees of the head office conduct trainings at the branches.

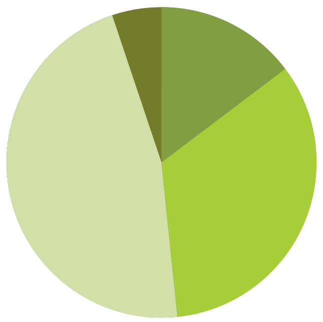
RAB pursues a strategy of sustainable, profitable growth by means of a unified approach to structuring the relations between the head office, regional branches and additional offices.

A special focus is given to the development of official relations with regional and local administrations. Office openings are strongly supported by the administrations as they enhance the implementation of the Federal Program on Agribusiness Development. A series of cooperation agreements was signed between RAB and administrations of the constituent republics, regions and districts of the Russian Federation. Through its wide-spread branch network RAB participates in the financing of various regional programs aimed at economic and social development of the constituencies of the Russian Federation. Broad branch network allowed RAB to cover 54% of market share of agribusiness lending in Russia.

RAB's regional branch network will receive further development along the following lines:

- Establishment of regional branches and additional offices in each rural district of the Russian Federation;
- Opening of operational cash-desks in small settlements;
- Supporting the development of agricultural credit consumer cooperatives in accordance with the legislation (consulting, refunding, etc.);
- Supporting the creation of land mortgage agencies and rural infrastructure.

RAB STAFF SPLIT BY AGE



High professionalism of the Bank's employees, systematic and efficient human resources policy are among the key components of RAB's strong business results. The Bank's HR policy serves the realization of short- and long-term objectives and tasks and is aimed at unveiling the potential of the human capital.

In the view of RAB, good working conditions, terms of employment and enhancement of employee qualifications are essential factors in the pursuit of its strategy. The advancement of staff-members, their professional development, further training and maintaining working conditions that satisfy employees' needs lay the foundation stones for corporate success and are key goals of the corporate personnel policy.

The main task of RAB's human resources policy in 2007 was to increase its business efficiency by means of streamlining organizational structure and to continue building a team of qualified professionals.

HR policy objectives are to:

- Streamline organizational structure;
- Promote professional development;
- Improve remuneration and motivation system;
- Develop and promote corporate culture.

The steady expansion of the regional branch network and the introduction of new banking services have resulted in the appearance of a large number of new Bank's clients and consequently brought about the need for new qualified specialists and higher professional level of the staff already employed.

As of January 1, 2008 RAB was staffed with 18.7 thousand employees, including head office, regional branches and additional offices.

NUMBER OF RUSSIAN AGRICULTURAL BANK STAFF

	as of 01.01.2007	as of 01.01.2008
Head office	757	1,032
Regional branches	9,968	17,642
including additional offices	5,580	11,454
Total	10,725	18,674

RAB maintains high standards of recruitment and recognizes human resources as its most valuable asset. Hiring is done on a competitive basis. RAB sees the fair treatment of staff and the concern for their development as important pillars of a sustainable and staff-friendly human resources policy. The high professional level of the Bank's employees is ensured by their further training and appraisal procedures.

RAB enjoys the benefit of employing an exceptionally dedicated and qualified professional staff. 66% of the Bank's employees are university graduates and 49% of all staff members are people aged under 35 years.

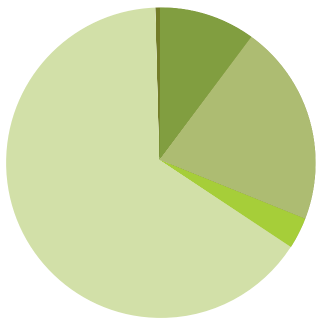
RAB has a strong, well-educated and experienced management team. The Bank puts the emphasis on hiring to managerial positions persons who possess a profound expertise and substantial banking experience.

RAB has an orientation program for welcoming newcomers on board with special integration training. The purpose of this program is to help new employees to understand the working environment and corporate culture that awaits them. Further training is provided through seminars and special programs. RAB has developed an employee succession plan to ensure continuous development and expansion of the Bank.

For the purpose of attracting gifted students RAB extends special scholarships to 68 students and 34 post graduates of agricultural universities. Such relationship between RAB and universities offers a straightforward access to highly qualified human resources.

As one of the most dynamically developing financial institution in Russia RAB implements on-going training programs for its employees on the basis of leading educational institutions, both regional and in Moscow. Various training initiatives have been launched to introduce staff to new products or to enhance or acquire new skills. RAB employees take part in training programs abroad within the framework of cooperation with foreign credit institutions that enables the transfer of the best practices. The corporate training system of the Bank comprises the training of regional branches and additional offices management.

RAB STAFF SPLIT BY EDUCATION



In 2007 key focuses of RAB's human resources management were as follows:

- Unified standards and procedures of human resources work;
- Optimization of staff quantity and quality;
- Efficient staff motivation system;
- Training system development;
- Professional development and career management;
- Development and promotion of corporate culture.

Given the intensive development of the Bank's activity and the increase in the number of staff, special emphasis is put on the work to promote corporate culture that unites the Bank's staff and strengthens its team spirit. In the framework of the corporate culture development and promotion and optimization of staff motivation system the Bank introduced in 2007 the Code of corporate ethics that outlines the rules of good conduct that staff members are expected to abide by.

The development of RAB's corporate culture, as well as the solution of other above–mentioned tasks of HR policy will contribute to the professional advancement of each employee based on his or her competence, loyalty and commitment to the Bank.

Russian Agricultural Bank's overall strategic approach to sustainability is determined by its mission and envisages the following goals:

- Provide accessible, innovative and effective bank products and services for agricultural producers and rural population;
- Implement governmental socio-economic and lending policy in agribusiness and rural areas in Russia;
- Facilitate domestic and foreign investments and innovation in the agribusiness sector of the Russian economy;
- Provide sustainable development of agribusiness and rural territories of the Russian Federation.

Sustainability plays an important role in advising on business plans and realignments.

RAB provides financial support to socially oriented projects that present new business opportunities for the rural population.

By developing and supporting agribusiness RAB contributes to food security of the Russian Federation.

RAB provides loans designed to promote the implementation of modern environment friendly technologies like biofuel production, drop irrigation, sewage treatment, etc. in agribusiness production and processing with a special emphasis on livestock breeding and fishing industries development. RAB has elaborated special lending programs oriented at development of indigenous handicrafts and local agricultural particularities.

Since August 2003 Russian Agricultural Bank has been participating in the implementation of the federal program "Social Development of Rural Areas up to 2010" insofar as it concerns the construction of dwelling houses, roads and ensuring the access of the rural areas to gas supply. RAB provides affordable housing to young specialists in rural areas, extends student loans to rural youth wishing to obtain their education in specialized colleges and universities that prepare specialist for agriculture. RAB plans to give every encouragement to such loan programs and to facilitate financial support of the most underfinanced industry and population resulting in agribusiness development and improvement of rural living standards.

Working for the future, RAB invests in the human capital, i.e. in gifted students and post-graduates.

Sponsoring and supporting social, cultural and sporting activities is an integral part of a broader strategy of communication with the society. Regional branches provide support and sponsorship to various regional social, sports and charity programs.

Russian Agricultural Bank

has the second largest branch network in the banking system of the Russian Federation with 1338 points of sale

ADDRESSES OF REGIONAL BRANCHES

Adygea Regional Branch
Reg. Number: 3349/12 of 27.09.2000
385000, Maikop, 24 Krasnooktyabrskaya St.
Tel/Fax: +7 (8772) 52-30-24
E-mail:rshbadg@mailru.com,
rshbadg@radnet.ru

Altay Regional Branch
Reg. Number: 3349/18 of 18.12.2000
656015, Altai Territory, Barnaul,
80B Lenin Ave.
Tel/Fax: +7 (3852) 35-69-39
E-mail: afrshb@alt.ru

Amur Regional Branch
Reg. Number: 3349/23 of 18.12.2000
675000, Blagoveshchensk,
211 Zeyskaya St.
Tel: +7 (4162) 53-35-71,
Fax: +7 (4162) 52-58-15
E-mail: rshb@tsl.ru

Arkhangelsk Regional Branch
Reg. Number: 3349/48 of 04.10.2001
163000, Arkhangelsk,
34 Karl Libchnecht St.
Tel: +7 (8182) 65-38-42
E-mail: vadim@rshb.arh.ru

Astrakhan Regional Branch
Reg. Number: 3349/17 of 18.12.2000
414000, Astrakhan, 34 Sverdlov St.
Tel: +7 (8512) 63-28-02,
Fax: +7 (8512) 63-28-00
E-mail: rshb@astranet.ru

Bashkir Regional Branch
Reg. Number: 3349/62 of 26.04.2004
450077, Ufa, 70 Lenin St.
Tel/Fax: +7 (3472) 73-54-88
E-mail: bashrf@ufacom.ru

Belgorod Regional Branch
Reg. Number: 3349/30 Of 10.04.2001
308800, Belgorod, 24 Popov St.
Tel/Fax: +7 (4722) 32-80-29
E-mail: belgrshb@belgtts.ru

Bryansk Regional Branch
Reg. Number: 3349/69 of 14.09.2006
241007, Bryansk, 1/5 Begitskaya St.
Tel: +7 (4832) 68-19-22,
Fax: +7 (4832) 68-19-65

Buryatia Regional Branch
Reg. Number: 3349/59 of 01.08.2002
670034, Ulan-Ude, 4A Khakhalov St.
Tel/Fax: +7 (3012) 44-20-64
E-mail: rshb@buryatia.ru

Chechen Regional Branch
Reg. Number: 3349/34 of 10.04.2001
364051, Grozny, 10/77 Revolution Ave.
Tel: +7 (495) 228-14-40,
Fax: +7 (8712) 22-28-01
E-mail: admin_chech@rshb.ru

Chita Regional Branch
Reg. Number: 3349/47 of 04.10.2001
672039, Chita,
Ingodninsky Administrative District,
21 Alexandro-Zavodskaya St.
Tel: +7 (3022) 36-99-10,
Fax: +7 (3022) 36-99-85
E-mail: rshb@mail.chita.ru

Chuvash Regional Branch
Reg. Number: 3349/11 of 27.09.2000
428032, Cheboksary,
31 President's Blvd.
Tel: +7 (8352) 66-24-64,
Fax: +7 (8352) 42-37-48
E-mail: rshb@cbx.ru

Dagestan Regional Branch
Reg. Number: 3349/4 of 27.09.2000
367000, Makhachkala,
26 Danialov St.
Tel: +7 (8722) 67-82-59,
Fax: +7 (8722) 67-57-20
E-mail: rsb@dinet.ru

Gorno-Altaisk Regional Branch
Reg. Number: 3349/70 of 06.10.2006
649000, Republic Altay, Gorno-Altaisk,
103 Kommunistichesky Ave.
Tel: +7 (38822) 6-41-21

Jewish Regional Branch
Reg. Number: 3349/29 of 22.03.2001
679000, Birobidjan, 1 Chapayev St.
Tel: +7 (42622) 4-14-01,
Fax: +7 (8722) 4-02-84
E-mail: rshbbir@on-line.jar.ru

Ivanovo Regional Branch
Reg. Number: 3349/38 of 29.05.2001
153012, Ivanovo, 44 Suvorov St.
Tel: +7 (4932) 32-54-17,
Fax: +7 (4932) 30-47-93
E-mail: office@ivrshb.stv-info.ru

Irkutsk Regional Branch
Reg. Number: 3349/66 of 13.10.2005
664040, Irkutsk,
180 Rosy Luxembourg St.
Tel/Fax: +7 (3952) 44-42-75
E-mail: rshb@irk.ru

Ingush Regional Branch
Reg. Number: 3349/42 of 21.06.2001
386102, Nazran, 31A Moskovskaya St.
Tel: +7 (8732) 22-64-96,
Fax: +7 (8732) 22-53-12
E-mail: ingrf@list.ru

Kabardino-Balkaria Regional Branch
Reg. Number: 3349/44 of 26.06.2001
360030, Nalchik, 10A Kouliev Ave.
Tel: +7 (8662) 47-77-94,
Fax: +7 (8662) 40-00-13
E-mail: kbrsb@kbrnet.ru

Kaliningrad Regional Branch
Reg. Number: 3349/55 of 06.03.2002
236008, Kaliningrad,
51V Alexander Nevsky St.
Tel/Fax: +7 (4112) 55-62-71
E-mail: krf@balnet.ru

Kalmyk Regional Branch
Reg. Number: 3349/36 of 20.04.2001
358003, Elista,Y. 87 Klykov St.
Tel: +7 (84722) 5-47-05,
Fax: +7 (84722) 2-46-16
E-mail: rshb@elista.ru

Kaluga Regional Branch
Reg. Number: 3349/27 of 13.02.2001
248001, Kaluga, 9 Kirov St.
Tel: +7 (0842) 57-50-03,
Fax: +7 (0842) 57-11-68
E-mail: rsb@kaluga.ru

Kamchatka Regional Branch
Reg. Number: 3349/53 of 08.02.2002
683023, Petropavlovsk-Kamchatsky,
63 Pobedy Ave.
Tel: +7 (4152) 46-78-00,
Fax: +7 (4152) 46-79-46
E-mail: rshb@mail.kamchatka.ru

Karachay-Cherkessia Regional Branch
Reg. Number: 3349/31 of 10.04.2001
369000, Cherkessk, 19 Kavkazskaya St.
Tel/Fax: +7 (87822) 6-03-32
E-mail: rschb@mail.svkchr.ru

ADDRESSES OF REGIONAL BRANCHES

Karelia Regional Branch
Reg. Number: 3349/21 of 18.12.2000
185610, Petrozavodsk,
50 Pervomaisky Ave.
Tel/Fax: +7 (8142) 70-34-57
E-mail: krlrshb@karelia.ru

Kemerovo Regional Branch
Reg. Number: 3349/56 of 06.03.2002
650025, Kemerovo,
109 Kommunisticheskaya St.
Tel: +7 (3842) 25-45-97,
Fax: +7 (3842) 25-45-89
E-mail: rshbkem@kemtel.ru

Khabarovsk Regional Branch
Reg. Number: 3349/75 of 01.10.2007
680000, Khabarovsk,
22 Shevchenko St.
Tel/Fax: +7 (4212) 31-66-52,
+7 (4212) 32-56-58

Khakasia Regional Branch
Reg. Number: 3349/37 of 20.04.2001
655017, Abakan, 115 Pushkin St.
Tel/Fax: +7 (3902) 25-44-60
E-mail: rshb@khakasnet.ru

Kirov Regional Branch
Reg. Number: 3349/22 of 18.12.2000
610017, Kirov, 5 Gorki St.
Tel: +7 (8332) 57-96-45,
Fax: +7 (8332) 54-16-99
E-mail: kirrshb@ezmail.ru

Komi Regional Branch
Reg. Number: 3349/74 of 05.06.2007
167000, Komi Republic,
Syktyvkar,
112/1 Pervomayskaya St.
Tel/Fax: +7 (8212) 44-83-79

Kostroma Regional Branch
Reg. Number: 3349/51 of 11.01.2002
156602, Kostroma, 37 Marshal Novikov St.
Tel/Fax: +7 (4942) 37-35-20
E-mail: kosrshb@kmtn.ru

Krasnodar Regional Branch
Reg. Number: 3349/3 of 27.09.2000
350038, Krasnodar, Central District, 2 Korolenko St.
Tel: +7 (861) 253-66-15, Fax: +7 (861) 253-66-25
E-mail: rshb@ugtel.ru

Krasnoyarsk Regional Branch
Reg. Number: 3349/49 of 13.12.2001
660017, Krasnoyarsk, 91 Mira Ave.
Tel/Fax: +7 (3912) 77-90-91
E-mail: rshb@krsn.ru

Kurgan Regional Branch
Reg. Number: 3349/45 of 27.07.2001
640000, Kurgan, 11 Gogol St.
Tel/Fax: +7 (3522) 41-20-19
E-mail: rshb@kurgan.isp.ru

Kursk Regional Branch
Reg. Number: 3349/32 of 10.04.2001
305000, Kursk, 7 Alexander Nevsky St.
Tel/Fax: +7 (4712) 51-38-71
E-mail: rshb@kursknet.ru

Lipetsk Regional Branch
Reg. Number: 3349/24 of 18.12.2000
398600, Lipetsk, 2 Skorokhodov St.
Tel/Fax: +7 (4742) 72-24-87
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685000, Magadan, 70 Yakoutskaya St.
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E-mail: rshb@online.magadan.su

Mari El Regional Branch
Reg. Number: 3349/16 of 29.09.2000
424000, Yoshkar-Ola, 41 Krasnoarmeyskaya St.
Tel/Fax: +7 (8362) 45-23-55
E-mail: rshb@mari-el.ru

Mordovia Regional Branch
Reg. Number: 3349/20 of 18.12.2000
430000, Saransk, 47A Sovetskaya St.
Tel/Fax: +7 (8342) 29-23-00
E-mail: rshb@moris.ru

Moscow Regional Branch
Reg. Number: 3349/63 of 28.01.2005
127550, Moscow, 2D Listvennichnaya Alley
Tel: +7 (495) 644-02-25, Fax: +7 (495) 64402-30
E-mail: office@rshb.ru

Murmansk Regional Branch
Reg. Number: 3349/33 of 10.04.2001
183032, Murmansk, 11 Pavlov St.
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E-mail: murmrshb@online.ru

Nizhny Novgorod Regional Branch
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603146, Nizhniy Novgorod, 19 Eltonskaya St.
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E-mail: nnrshb@kis.ru

North Ossetia Regional Branch
Reg. Number: 3349/26 of 09.02.2001
362007, Vladikavkaz, 2 Kantemirov St.
Tel/Fax: +7 (8672) 53-44-30
E-mail: rshb@osetia.ru

Novgorod Regional Branch
Reg. Number: 3349/8 of 27.09.2000
173610, Veliky Novgorod, 8/33 Fedorovsky Rouchey St.
Tel: +7 (8162) 63-22-21, Fax: +7 (8162) 63-50-39
E-mail: rshbngd@novgorod.net

Novosibirsk Regional Branch
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630007, Novosibirsk, 13 Fabrichnaya St.
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E-mail: dir@rshb.nsk.su

Omsk Regional Branch
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644099, Omsk, 3 Krasny Pout St.
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E-mail: post@rshb.com.ru

Orenburg Regional Branch
Reg. Number: 3349/5 of 27.09.00
460000, Orenburg, 59 Leninskaya St.
Tel/Fax: +7 (3532) 77-02-95
E-mail: rshborn@mail.esoo.ru

Orel Regional Branch
Reg. Number: 3349/10 of 27.09.2000
302030, Orel, 60 Dubrovinskiy Emb.
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E-mail: orshb@mail.ru

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440018, Penza, 39 Bekeshskaya St.
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Fax: +7 (8412) 42-18-45
E-mail: prf_rshb@tf.ru

Perm Regional Branch
Reg. Number: 3349/76 of 14.12.2007
618740, Perm Territory, Dobryanka, 15 Lenin St.
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Primorsky Regional Branch
Reg. Number: 3349/54 of 08.02.2002
690091, Vladivostok, 26-1 Okeansky Ave.
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ADDRESSES OF REGIONAL BRANCHES

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Rostov Regional Branch
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344038, Rostov-on-Don,
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Ryazan Regional Branch
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390046, Ryazan,
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E-mail: bank@rshb.ryazan.ru

Samara Regional Branch
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443011, Samara,
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Saint-Petersburg Regional Branch
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188305 Leningrad Region,
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E-mail: office@rshb.spb.ru

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410012, Saratov,
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E-mail: rshb@overta.ru

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Reg. Number: 3349/72 of 19.04.2007
693020, Sakhalin Region,
Yuzhno-Sakhalinsk, 107 Mira Ave.
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Smolensk Regional Branch
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E-mail: rshb@sci.smolensk.ru

Stavropol Regional Branch
Reg. Number: 3349/6 of 27.09.2000
355037, Stavropol Territory, Stavropol,
107A Shpakovskaya St.
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E-mail: rshb@stavropol.net

Sverdlovsk Regional Branch
Reg. Number: 3349/73 of 18.05.2007
620151, Sverdlovsk Region,
Ekaterinburg, 2A Pushkin St.
Tel: +7 (343) 371-41-65,
Fax: +7 (343) 371-01-64

Tambov Regional Branch
Reg. Number: 3349/2 of 27.09.2000
392000, Tambov, 130 Sovetskaya St.
Tel: + 7 (4752) 72-36-88, Fax: +7 (4752) 71-27-29
E-mail: rsb@tmb.ru

Tatarstan Regional Branch
Reg. Number: 3349/67 of 16.03.2006
420022, Kazan, 1/5 Kayum Nasyri St.
Tel/Fax: +7 (843) 570-53-20

Tomsk Regional Branch
Reg. Number: 3349/64 of 11.05.2005
634050, Tomsk, 8B Moskovsky Trakt
Tel/Fax: +7 (3822) 42-60-69

Tver Regional Branch
Reg. Number: 3349/19 of 18.12.2000
170043, Tver, 144/4 Gorky St.
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E-mail: rshb@tvcom.ru

Tyva Regional Branch
Reg. Number: 3349/57 of 06.03.2002
667000, Tyva Republic, Kyzyl,
23 Tyvinskie Dobrovoltsy St.
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E-mail: rshb@tuva.ru

Tula Regional Branch
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300045, Tula, 114A Oboronnaya St.
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E-mail: rsxb@klax.tula.ru

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Reg. Number: 3349/71 of 29.12.2006
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Udmurt Regional Branch
Reg. Number: 3349/28 of 26.02.2001
426057, Izhevsk, 112 Sivkov St.
Tel: +7 (3412) 91-14-80, Fax: +7 (3412) 50-16-76
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432063, Ulyanovsk, 15 Minayev St.
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Vladimir Regional Branch
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Volgograd Regional Branch
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400050, Volgograd, 57B Parkhomenko St.
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Vologda Regional Branch
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Voronezh Regional Branch
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Yakutsk Regional Branch
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677000, Yakutsk, 28/1 Kourashov St.
Tel/Fax: +7 (4112) 34-37-73
E-mail: office@yarshb.sakhanet.ru

Yaroslavl Regional Branch
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Chelyabkomzembank (subsidiary)
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2007 ANNUAL REPORT

FINANCIAL STATEMENT AND AUDITOR'S REPORT

2007 Results

reflect a strong and successful growth of Russian Agricultural Bank business and high quality of assets

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
30 April 2008

FINANCIAL STATEMENT AND AUDITOR'S REPORT

In thousands of Russian Roubles	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	33 990 183	13 615 695
Mandatory cash balances with the Central Bank of the Russian Federation		2 441 967	1 717 423
Trading securities	8	12 056 055	6 733 224
Repurchase receivable	8	98 326	152 573
Derivative financial instruments	32	276 806	170 404
Securities available for sale	9	1 156 720	-
Securities held to maturity	10	5 495 475	-
Due from other banks	11	1 627 975	2 864 625
Loans and advances to customers	12	291 583 137	155 865 243
Deferred income tax asset	27	5 815	184 758
Intangible assets	13	347 353	170 097
Premises and equipment	13	6 924 308	2 419 370
Current income tax prepayment	27	51 518	303 052
Other assets	14	404 563	384 163
TOTAL ASSETS		**356 460 201**	**184 580 627**
LIABILITIES			
Derivative financial instruments	32	3 559 959	641 254
Due to other banks	15	61 302 829	35 357 186
Customer accounts	16	95 957 714	34 462 791
Promissory notes issued	17	32 361 154	38 235 757
Other borrowed funds	18	95 288 645	37 700 589
Syndicated loans	19	15 572 209	2 615 630
Current income tax liability	27	-	3 190
Deferred tax liability	27	692 694	-
Other liabilities	20	580 923	297 386
Subordinated debts	21	17 320 463	13 337 088
TOTAL LIABILITIES		**322 636 590**	**162 650 871**
EQUITY			
Share capital	22	28 477 833	21 620 833
Revaluation reserve for premises and equipment	23	911 151	-
Revaluation reserve for available for sale securities	23	(1 658)	-
Retained earnings		4 435 587	308 366
Net assets attributable to the Bank's equity holders		**33 822 913**	**21 929 199**
Minority interest		**698**	**557**
TOTAL EQUITY		**33 823 611**	**21 929 756**
TOTAL LIABILITES AND EQUITY		**356 460 201**	**184 580 627**

Approved for issue and signed on behalf of the Management Board on 30 April 2008.

S.G. Baranov
Deputy Chairman of the Executive Board

I.E. Galperin
Deputy Chief Accountant

Открытое акционерное общество «Российский Сельскохозяйственный банк» ОАО «Россельхозбанк» Москва

In thousands of Russian Roubles	Note	2007	2006
Interest income	24	32 603 226	14 953 028
Interest expense	24	(15 573 943)	(6 705 353)
Net interest income		17 029 283	8 247 675
Provision for loan impairment	11, 12	(3 112 996)	(2 631 382)
Net interest income after provision for loan impairment		13 916 287	5 616 293
Losses net of gains/gains less losses from trading securities		(189 242)	99 299
Gains less losses from trading in foreign currencies		63 268	6 768
Foreign exchange translation gains less losses		5 660 275	1 720 323
Losses, net of gains from derivative financial instruments		(4 156 845)	(1 541 277)
Fee and commission income	25	1 136 187	613 543
Fee and commission expense	25	(102 003)	(43 054)
Provision for other assets	14	(7 981)	(2 826)
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project		8 468	127 118
Other operating income		107 715	60 475
Administrative and other operating expenses	26	(10 593 349)	(5 480 576)
Profit before tax		5 842 780	1 176 086
Income tax expense	27	(1 488 953)	(322 909)
Profit for the year		4 353 827	853 177
Profit attributable to:			
Equity holders of the Bank		4 353 671	853 045
Minority interest		156	132
Profit for the year		4 353 827	853 177
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted	35	208	63

FINANCIAL STATEMENT AND AUDITOR'S REPORT

		Attributable to the equity holders of the Bank						
In thousands of Russian Roubles	Notes	Share capital	Revaluation reserve for premises and equipment	Revaluation reserve for available for sale securities	Accumulated deficit/ Retained earnings	TOTAL	Minority interest	Total equity
Balance at 31 December 2005		11 519 833	-	-	(488 568)	11 031 265	437	11 031 702
Profit for the year		-	-	-	853 045	853 045	132	853 177
Share issue	22	10 101 000	-	-	-	10 101 000	-	10 101 000
Dividends declared		-	-	-	(56 111)	(56 111)	(12)	(56 123)
Balance at 31 December 2006		21 620 833	-	-	308 366	21 929 199	557	21 929 756
Revaluation of premises and equipment, net of deferred tax	13, 23	-	911 151	-	-	911 151	-	911 151
Revaluation of available for sale securities, net of deferred tax	9,23	-	-	(1 658)	-	(1 658)		(1 658)
Net income recognised directly in equity		-	911 151	(1 658)	-	909 493	-	909 493
Profit for the year		-	-	-	4 353 671	4 353 671	156	4 353 827
Total recognised income for 2007		-	911 151	(1 658)	4 353 671	5 263 164	156	5 263 320
Share issue	22	6 857 000	-	-	-	6 857 000	-	6 857 000
Dividends declared	28	-	-	-	(226 450)	(226 450)	(15)	(226 465)
Balance at 31 December 2007		28 477 833	911 151	(1 658)	4 435 587	33 822 913	698	33 823 611

In thousands of Russian Roubles	Note	2007	2006
Cash flows from operating activities			
Interest received		32 341 424	14 710 148
Interest paid		(13 713 088)	(5 693 979)
Income/expenses received/paid from trading in trading securities		(51 779)	75 473
Income received from trading in foreign currencies		63 271	6 783
Realised losses on derivative financial instruments		(1 344 542)	(1 073 007)
Fees and commissions received		1 132 712	613 543
Fees and commissions paid		(94 830)	(43 054)
Income received from the Ministry of Agriculture of the Russian Federation		8 468	127 118
Other operating income received		95 778	63 012
Staff costs paid		(6 669 645)	(3 311 452)
Administrative and other operating expenses paid		(3 327 393)	(1 877 599)
Income tax paid		(656 180)	(622 393)
Cash flows from operating activities before changes in operating assets and liabilities		7 784 196	2 974 593
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(724 544)	(1 232 709)
Net increase in trading securities		(5 454 581)	(2 387 122)
Net decrease/(increase) in due from other banks		1 196 089	(1 400 994)
Net increase in loans and advances to customers		(138 835 282)	(114 132 212)
Net decrease/(increase) in other assets		8 787	(263 231)
Net increase in due to other banks		26 926 176	31 093 899
Net increase in customer accounts		61 301 304	19 708 919

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In thousands of Russian Roubles	Note	2007	2006
Net (decrease)/increase in promissory notes issued		(6 601 790)	23 740 943
Net (decrease)/increase in other liabilities		(999)	49 055
Net cash used in operating activities		(54 400 644)	(41 848 859)
Cash flows from investing activities			
Acquisition of premises and equipment	13	(3 585 545)	(1 232 648)
Proceeds from disposal of premises and equipment		3 961	3 997
Dividend income received		900	1 409
Acquisition of intangible assets	13	(238 992)	(133 328)
Acquisition of securities held to maturity		(5 477 725)	-
Acquisition of investment securities available for sale	9	(1 156 725)	-
Net cash used in investing activities		(10 454 126)	(1 360 570)
Cash flows from financing activities			
Issue of ordinary shares	22	6 857 000	9 608 000
Receipt of other borrowed funds	18	60 371 412	29 001 174
Receipt of syndicated loans	19	13 430 872	2 534 873
Repayment of syndicated loans	19	-	(2 100 000)
Receipt of subordinated debts	21	5 180 200	13 398 700
Repayment of subordinated debts	21	-	(165 000)
Dividends paid	28	(226 465)	(56 123)
Net cash from financing activities		85 613 019	52 221 624
Effect of exchange rate changes on cash and cash equivalents		(383 761)	(189 188)
Net increase in cash and cash equivalents		20 374 488	8 823 007
Cash and cash equivalents at the beginning of the year		13 615 695	4 792 688
Cash and cash equivalents at the end of the year	7	33 990 183	13 615 695

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2007 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiary, Closed Joint-Stock Company Chelyabinsky Commercial Land Bank (together referred to as the "Group").The Group also consolidates a special purpose entity RSHB Capital S.A., a company incorporated in Luxembourg in 2005 and governed through its foundation documents under the laws of the Netherlands. RSHB Capital S.A. has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to Notes 18 and 21). Refer to Note 37 for information about the subsidiary and special purpose entity.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers;
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 76 (2006: 71) branches in the Russian Federation. The Bank's registered address is: 119034 Russia, Moscow, Gagarinsky lane, 3.

The number of the Group's employees at 31 December 2007 was 19 025 (31 December 2006: 10 986).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

These consolidated financial statements are presented in the currency of the Russian Federation, thousands of Russian Roubles ("RR thousands").

2. OPERATING ENVIRONMENT OF THE GROUP

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB under the historical cost convention, as modified by the revaluation of premises and equipment, available-for-sale securities and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivable and derivative financial instruments).The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

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

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

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

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

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

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

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

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

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

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

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in their value. Cash and cash equivalents include interbank loans, deposits and reverse repo agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

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

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

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

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

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

Securities held to maturity. This category includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Securities held to maturity are carried at amortised cost.

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and on the basis of the historical information on impairment of assets with similar credit risk characteristics. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

When impaired financial assets are renegotiated, the new asset is recognised at the present value of cash flows discounted using the original effective interest rate, which was applicable prior to the renegotiation.

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

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

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

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

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivable and measured at fair value. The corresponding liability is presented within amounts due to other banks or customer accounts and measured at amortized cost. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of repo agreements using the effective interest method.

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

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

Investments in agricultural cooperatives. Investments in agricultural cooperatives are made by the Bank as part of its participation in the National Project "Development of the Agro-Industrial Sector". These investments represent term contributions to cooperatives and bear fixed annual dividend income on amount of contributions made, which is included in interest income in the consolidated income statement. Investments in agricultural cooperatives are included in loans and advances to customers. Investments in agricultural cooperatives are carried at amortised cost.

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

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

Premises owned by the Group were for the first time revalued as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Revaluation recognized by method of proportion changes in cost and accumulated depreciation of revalued premises. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

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

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Premises owned by the Group and leasehold (premises) improvements	2.5%;
Office and computer equipment	5%-20%.

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

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Promissory notes issued. Promissory notes issued by the Group include promissory notes denominated in Russian Roubles, US Dollars and Euro. They are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost.

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Syndicated loans. Syndicated loans include the amounts attracted in US Dollars and Euro by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains/losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

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

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

Commission on agency services are recognised based on the applicable service contracts. Income received from the Ministry of Agriculture and expenses incurred related to the Bank's participation in the national project "Development of Agro-Industrial Sector" are recognised by reference to the stage of completion of the services.

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

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

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 (2006: USD 1 = RR 26.3311), EUR 1 = RR 35.9332 (2006: EUR 1 = RR 34.6965).

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

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

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan).

These payments are included in the staff costs in the consolidated income statement.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in accounting policies. The accounting policies applied in the preparation of these consolidated financial statements are consistent with the accounting policies applied in the preparation of consolidated financial statements of the Group for the year ended 31 December 2006, except as detailed below and also application of new standards described in Note 5, which became effective from 1 January 2007.

The Group changed its accounting policy for a class of fixed assets: premises owned by the Group. The Group revalued the premises of the Group as at 31 December 2007. In the subsequent periods the above class of fixed assets shall be subject to regular revaluation in accordance with IAS 16 *Property, Plant and Equipment*. Refer to Note 13.

The Group changed its accounting policy for cash and cash equivalents and starting from 1 January 2007 also considers interbank loans, deposits and reverse repo agreements with other banks with original maturity of less than one month as part of cash equivalents.

Where necessary, corresponding figures have been adjusted to conform to the changes in accounting policies.

The effect of changes in the accounting policies on the consolidated balance sheet is as follows:

In thousands of Russian Roubles	31 December 2006
Increase in	
Cash and cash equivalents	299 916
Decrease in	
Due from other banks	299 916

The effect of changes in the accounting policies on the consolidated cash flow statement is as follows:

In thousands of Russian Roubles	2006
Increase in	
Cash and cash equivalents at the end of the year	299 916
Net decrease/(increase) in due from other banks	435 902
Decrease in	
Effect of exchange rate changes on cash and cash equivalents	135 986

Changes in presentation. The Group made voluntary changes in presentation as it believes that it will result in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the Group's financial position and financial performance.

The effect of the reclassifications on the consolidated balance sheet is as follows:

In thousands of Russian Roubles	31 December 2006
Increase in	
Derivative financial instruments (asset)	170 404
Derivative financial instruments (liability)	641 254
Syndicated loans	2 615 630
Decrease in	
Other assets	170 404
Other liabilities	641 254
Due to other banks	2 615 630

The effect of reclassifications on the consolidated income statement is as follows:

In thousands of Russian Roubles	2006
Increase in	
Foreign exchange translation gain less losses	43 415
Decrease in	
Gain from early retirement of debt	43 415

The effect of reclassifications on the consolidated cash flow statement is as follows:

In thousands of Russian Roubles	2006
Increase in	
Receipt of syndicated loans	2 534 873
Decrease in	
Net (decrease)/increase in due to other banks	434 873
Repayment of syndicated loans	2 100 000

Any further changes to these consolidated financial statements require approval of the Bank's Management Board who authorised these consolidated financial statements for issue.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any objective data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in borrowers' financial situation (assessed on the basis of internal rating system) or an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed probability of default within pools of the total loans and advances to customers differs by +/- one percent, the provision would be approximately RR 26 687 thousand (2006: RR 35 056 thousand) higher or RR 26 687 thousand (2006: RR 36 954 thousand) lower. To the extent that the assessed loss identification period for 3% of loans collectively assessed for impairment differs by +/- 1 month, the provision would be approximately RR 25 031 thousand (2006: RR 71 837 thousand) higher or RR 24 739 thousand (2006: RR 70 999 thousand) lower.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the whole category of held-to maturity financial assets is reclassified, their carrying amount will not essentially change. Refer to Note 33.

Leasehold (premises) improvements' depreciation. The Group estimates useful lives of leasehold (premises) equipment taking into consideration repeated extension of lease contracts, implementation of the policy of gradual purchase of the earlier leased buildings into the Group's ownership as well as "substance over form" principle.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Fair value of derivative financial instruments. The fair values of financial derivative financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g., models). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

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In the absence of direct and clear evidence on difference between contractual prices on derivative financial instruments and observable market prices for similar instruments on the most favourable open market accessible for the Group the fair value of derivative financial instruments at the date of initial recognition is considered to be the amount of net investment (or nil in case of no initial net investment). For currency swaps, in which the Group agreed to pay roubles and receive US dollars, Euro or Swiss Francs (Note 32), this is achieved by shifting rouble yield curve used to discount future cashflows in order to reflect the Group's credit risk.

This credit spread is subsequently adjusted only if there are observable market data about the Group's credit spread for similar contracts. To the extent that the shift of rouble yield curve used to discount future cashflows in order to reflect the Group's credit risk is averaged for currency swaps with similar conditions (currencies, original maturities, other terms), the fair value of currency swaps would be approximately RR 2 512 thousand less (2006: RR 2 125 thousand higher).

Related party transactions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in identification of related parties to be disclosed in the consolidated financial statements. Refer to Note 36.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

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

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);

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

The new IFRIC interpretations 7 to 10 did not significantly affect the Group's financial statements. As a result of adoption of IFRS 7, the Group made certain changes in presentation. The effect of reclassifications was not significant.

6. NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

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

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

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

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

7. CASH AND CASH EQUIVALENTS

In thousands of Russian Roubles	2007	2006
Cash on hand	2 991 048	1 249 651
Cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	11 663 404
Correspondent accounts and deposits with maturity less than one months with other banks:		
Russian Federation	8 008 658	441 644
Other countries	2 279 030	59 006
Settlement accounts with MICEX and RTS	102 358	2 189
Reverse repo agreements	923 610	199 801
Total cash and cash equivalents	33 990 183	13 615 695

At 31 December 2007 cash equivalents of RR 923 610 thousand (2006: RR 199 801 thousand) are effectively collateralised by securities purchased under reverse repo agreements at a fair value of RR 1 029 897 thousand (2006: RR 213 332 thousand), all of which the Group is entitled to sell or repledge.

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

8. TRADING SECURITIES AND REPURCHASE RECEIVABLE

In thousands of Russian Roubles	2007	2006
Trading securities		
Corporate bonds	3 525 374	1 670 004
Federal loan bonds (OFZ)	3 080 494	1 069 928
Corporate Eurobonds	2 875 834	692 358
Promissory notes	1 454 768	2 447 538
Municipal bonds	1 007 708	765 238
Corporate shares	111 877	88 158
Total trading securities	12 056 055	6 733 224
Repurchase receivable		
Municipal bonds	98 326	-
Corporate bonds	-	152 573
Total repurchase receivable	98 326	152 573

As the securities are carried at their fair values based on quoted market prices, the Group does not analyse or monitor impairment indicators on individual basis. Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)	Securities internationally rated lower than BB- (S&P)	Internationally unrated securities	Total
Corporate bonds	2 272 711	-	1 252 663	3 525 374
Federal loan bonds (OFZ)	3 080 494	-		3 080 494
Corporate Eurobonds	1 533 652	1 342 182	-	2 875 834
Promissory notes	796 674	184 471	473 623	1 454 768
Municipal bonds	1 007 708	-	-	1 007 708
Total debt trading securities	8 691 239	1 526 653	1 726 286	11 944 178
Repurchase receivable				
Municipal bonds	98 326	-	-	98 326

If a security's rating is unavailable the issuer's rating is used.

Analysis by credit quality of debt securities outstanding at 31 December 2006 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)	Securities internationally rated lower than BB- (S&P)	Internationally unrated securities	Total
Corporate bonds	1 254 560	285 728	129 716	1 670 004
Federal loan bonds (OFZ)	1 069 928	-	-	1 069 928
Corporate Eurobonds	401 429	278 159	12 770	692 358
Promissory notes	1 507 145	940 393	-	2 447 538
Municipal bonds	765 238	-	-	765 238
Total debt trading securities	4 998 300	1 504 280	142 486	6 645 066
Repurchase receivable				
Corporate bonds	-	10 686	141 887	152 573

If a security's rating is unavailable the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from April 2008 to March 2017 (2006: from January 2007 to February 2016), coupon rate from 6.7% to 13.5% p.a. (2006: from 7.1% to 10.7% p.a.) and yield to maturity or to next repricing date from 6.8% to 16.0% p.a. (2006: from 6.6% to 11.1% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from May 2010 to February 2036 (2006: from July 2010 to August 2018), coupon rate from 6.1% to 10.0% p.a. (2006: from 8.5% to 10.0% p.a.) and yield to maturity from 6.1% to 6.8% p.a. (2006: from 6.1% to 6.5% p.a.) depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2007 these bonds have maturity dates from March 2009 to June 2022 (2006: from June 2007 to October 2016), coupon rate from 6.7% to 10.9% p.a. (2006: from 7.5% to 9.8% p.a.) and yield to maturity from 6.6% to 12.2% p.a. (2006: from 5.4% to 9.6% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to June 2008 (2006: from January to December 2007). As at 31 December 2007 yield to maturity ranges from 7.5% to 10.0% p.a. (2006: from 8.7% to 17.3% p.a.).

Municipal bonds are represented by bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2007 these bonds have maturity dates from May 2008 to June 2015 (2006: from November 2007 to June 2015), coupon rate from 6.8% to 10.0% p.a. (2006: 6.8% to 13.3% p.a.) and yield to maturity from 6.0% to 7.8% p.a. (2006: from 6.0% to 9.0% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

Corporate shares are shares of Russian companies.

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

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

9. SECURITIES AVAILABLE FOR SALE

In thousands of Russian Roubles	2007	2006
Municipal Eurobonds	1 001 500	-
Corporate Eurobonds	155 220	-
Total securities available for sale	1 156 720	-

As the securities available for sale are carried at their fair values based on quoted market prices, the Group does not analyse or monitor individually impairment indicators. At 31 December 2007 securities available for sale are internationally rated not lower than BB- by S&P.
Municipal Eurobonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities through the vehicle companies. As at 31 December 2007 these bonds have maturity date in December 2012, semi-annual coupon rate 9.0% p.a. and yield to maturity from 9.0% p.a.

Corporate Eurobonds are bonds denominated in USD, issued by major Russian companies. At 31 December 2007 these bonds have maturity dates from April 2014 to August 2037, coupon rate from 7.3% to 9.3% p.a. and yield to maturity from 7.3% to 8.0% p.a. (2006: nil), depending on the type of the bond issue, the issuer and the market conditions.

The movement in securities available for sale is in the table below:

In thousands of Russian Roubles	Note	2007	2006
Balance at 1 January		-	-
Purchase		1 156 725	-
Gains less losses from fair valuation	23	(2 182)	-
Interest income	24	1 635	-
Foreign exchange translation gains less losses on securities		542	-
Balance at 31 December		1 156 720	-

Geographical and interest rate analyses of securities available for sale are disclosed in Note 30. The information on securities available for sale issued by related parties is disclosed in Note 36.

10. SECURITIES HELD TO MATURITY

In thousands of Russian Roubles	2007	2006
Promissory notes	5 495 475	-
Total securities held to maturity	5 495 475	-

Analysis by credit quality of debt securities held to maturity at 31 December 2007 (2006: nil) is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)	Securities internationally rated lower than BB- (S&P)	Internationally unrated securities	Total current amounts
Promissory notes	981 079	3 334 127	1 180 269	5 495 475

If a security's rating is unavailable the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have impaired debt securities held to maturity, no provisions for impairment of these securities was established.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to December 2008. As at 31 December 2007 yield to maturity ranges from 7.0% to 11.1% p.a. (2006: nil).

For the estimated fair value of securities held to maturity refer to Note 33.

Geographical and interest rate analyses of securities available for sale are disclosed in Note 30.

11. DUE FROM OTHER BANKS

In thousands of Russian Roubles	2007	2006
Current term placements with other banks	1 627 975	2 864 625
Total due from other banks	1 627 975	2 864 625

In 2007 no provision for impairment of due from other banks was created (2006: nil).

Analysis by credit quality of amounts due from other banks is as follows:

In thousands of Russian Roubles	2007	2006
Current and not impaired		
Top 30 Russian banks (by net assets)	150 596	-
Other Russian banks	958 859	2 864 625
OECD banks and their subsidiary banks	173 413	-
Other non-resident banks	345 107	-
Total current and not impaired	1 627 975	

Analysis of amounts due from other banks by collateral is as follows:

In thousands of Russian Roubles	2007	2006
Unsecured interbank loans	1 151 398	2 703 630
Interbank loans collateralised by:		
- securities	173 413	160 995
- other assets	303 164	-
Total due from other banks	1 627 975	2 864 625

As at 31 December 2007 the Group has placements with three Russian banks with aggregated balances of RR 901 845 thousand, or 55% of total due from other banks (2006: two banks with aggregated amount of RR 1 853 779 thousand, or 65% of total due from other banks), which mature from February to June 2008.

For the estimated fair value of due from other banks refer to Note 33.

Geographical and interest rate analyses of due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

12. LOANS AND ADVANCES TO CUSTOMERS

In thousands of Russian Roubles	2007	2006
Loans to legal entities		
- Loans to corporates	247 233 851	132 944 166
- Lending for food interventions	3 189 928	4 490 331
- Reverse repo agreements	2 466 091	797 386
- Investments in agricultural cooperatives	663 912	396 935
Loans to individuals	45 130 912	21 293 941
Total loans and advances to customers (before impairment)	298 684 694	159 922 759
Less: Provision for loan impairment	(7 101 557)	(4 057 516)
Total loans and advances to customers	291 583 137	155 865 243

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate from 1/2 to 2/3 of the rate of refinancing of the Bank of Russia of the contributions made. The Group's management has an intention to make cooperative member contributions for the period of 5 to 8 years and at the end of which to withdraw its contributions.

At 31 December 2007, loans and advances to customers of RR 2 466 091 thousand (2006: RR 797 386 thousand) are effectively collateralised by securities purchased under reverse repo agreements with a fair value of RR 2 832 727 thousand (2006: RR 886 818 thousand) which the Group has the right to sell or repledge securities in full.

Analysis of the movements in the provision for loan impairment is as follows:

In thousands of Russian Roubles	2007			2006		
	Loans to corporates	Loans to individuals	Total	Loans to corporates	Loans to individuals	Total
Provision for loan impairment at 1 January	3 861 793	195 723	4 057 516	1 447 995	-	1 447 995
Provision for loan impairment during the year	2 732 234	380 762	3 112 996	2 435 659	195 723	2 631 382
Loans and advances to customers written off during the year as uncollectible	(68 955)	-	(68 955)	(21 861)	-	(21 861)
Provision for loan impairment at 31 December	6 525 072	576 485	7 101 557	3 861 793	195 723	4 057 516

In 2007 no provision for "Lending for food interventions", "Reverse repo agreements", "Investments in agricultural cooperatives" was created (2006: nil).

The economic sector structure of the credit portfolio is as follows:

In thousands of Russian Roubles	2007		2006	
	Amount	%	Amount	%
Agriculture	178 741 880	60	96 584 691	60
Individuals	45 130 912	15	21 293 941	13
Manufacturing	39 079 200	13	20 011 369	13

Trading	20 449 398	7	14 270 484	9
Construction	6 177 875	2	3 439 537	2
Other	9 105 429	3	4 322 737	3
Total loans and advances to customers (before impairment)	298 684 694	100	159 922 759	100

As at 31 December 2007 included in gross amount of loans are loans in the amount of RR 193 523 446 thousand (2006: RR 101 532 425 thousand), where borrowers are eligible for interest subsidies from Federal and regional budgets. Subsidies are paid directly to the borrowers at two thirds of the CBRF refinancing rate.

As at 31 December 2007, the aggregate amount of loans to individuals included loans in the amount of RR 35 300 549 thousand issued to individuals - sole farmers (2006: RR 16 945 011 thousand).

For the estimated fair value of loans and advances to customers refer to the Note 33.

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of the borrower's activities taking into account its financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the effective Methodology of financial assets impairment evaluation the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment*".

As a *loss event* the Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- for loans issued to legal entities (including individual entrepreneurs – sole farmers):
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the Methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principle or interest overdue by more than 5 days;
- for loans issued to individuals:
  - significant financial difficulty of the borrower – changes in the scorring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principle or interest overdue by more than 30 days.

As a *default* of a borrower/debtor the Group recognises objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- for legal entities (including individual entrepreneurs – sole farmers):
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - loans overdue by over 365 days;
- for individuals:
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

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Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-		2 466 091	663 912	-	3 130 003
- loans whose terms were renegotiated	-	3 189 928			-	3 189 928
Total current and not impaired	-	3 189 928	2 466 091	663 912	-	6 319 931
2. Collectively assessed for impairment						
Current						
- good financial position	122 981 259	-	-	-	-	122 981 259
- average financial position	77 135 145	-	-	-	-	77 135 145
- included in portfolios of simular risk loans	25 783 619	-	-	-	43 407 967	69 191 586
- loans whose terms were renegotiated	15 454 805	-	-	-	1 148 212	16 603 017
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	493 930	-	-	-	99 531	593 461
Total collectively assessed for impairment	241 848 758	-			44 655 710	286 504 468
3. Individually assessed for impairment						
- poor financial position	1 458 730	-	-	-	-	1 458 730
- 6 to 30 days overdue	176 845	-	-	-	-	176 845
- 31 to 90 days overdue	1 053 547	-	-	-	147 758	1 201 305
- 91 to 180 days overdue	1 135 315	-	-	-	164 710	1 300 025
- 181 to 365 days overdue	732 473	-	-	-	95 965	828 438
- over 365 days overdue	828 183	-	-	-	66 769	894 952
Total individually assessed for impairment	5 385 093	-	-	-	475 202	5 860 295
Total loans and advances to customers (before impairment)	247 233 851	3 189 928	2 466 091	663 912	45 130 912	298 684 694
Provision for loan impairment	(6 525 072)	-	-	-	(576 485)	(7 101 557)
Total loans and advances to customers	240 708 779	3 189 928	2 466 091	663 912	44 554 427	291 583 137

Analysis of loans by credit quality at 31 December 2006 is as follows:

In thousands of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	4 490 331	797 386	396 935	-	5 684 652
Total current and not impaired	-	4 490 331	797 386	396 935	-	5 684 652
2. Collectively assessed for impairment						
Current						
- good financial position	63 374 919	-	-	-	-	63 374 919
- average financial position	47 608 594	-	-	-	-	47 608 594
- included in portfolios of simular risk loans	14 682 761	-	-	-	19 938 737	34 621 498

- loans whose terms were renegotiated	4 297 573	-	-	-	1 130 012	5 427 585
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	198 660	-	-	-	155 771	354 431
Total collectively assessed for impairment	130 162 507	-	-	-	21 224 520	151 387 027
3. Individually assessed for impairment						
- poor financial position	1 177 836	-	-	-	-	1 177 836
- 6 to 30 days overdue	146 129	-	-	-	-	146 129
- 31 to 90 days overdue	224 312	-	-	-	51 626	275 938
- 91 to 180 days overdue	363 725	-	-	-	8 501	372 226
- 181 to 365 days overdue	264 447	-	-	-	2 702	267 149
- over 365 days overdue	605 210	-	-	-	6 592	611 802
Total individually assessed for impairment	2 781 659	-	-	-	69 421	2 851 080
Total loans and advances to customers (before impairment)	132 944 166	4 490 331	797 386	396 935	21 293 941	159 922 759
Provision for loan impairment	(3 861 793)	-	-	-	(195 723)	(4 057 516)
TOTAL loans and advances to customers	129 082 373	4 490 331	797 386	396 935	21 098 218	155 865 243

In thousands of Russian Roubles	2007	2006
Current loans	273 896 723	152 467 499
Loans whose terms were renegotiated	19 792 945	5 427 585
Overdue loans	4 995 026	2 027 675
Provision for loan impairment	(7 101 557)	(4 057 516)
Total	291 583 137	155 865 243

Overdue loans represent not only past due payments but also outstanding balance of such loans.

LOANS COLLATERAL

The Group uses various types of collateral, including mortgage, warranty, banking guarantee, government guarantees of a Russian Federation and municipal guarantees.

The Group accepts different types of collateral, such as inventories (finished products, raw materials, goods in turnover); equipment, including agricultural machinery; motor vehicles; real estate, land plots, construction in progress, sea and other vessels; farm animals; future crop; property acquired in the future; property rights.

Banking guarantee, warranty and other means provided for by the contract or the law may be used as additional collateral.

Under the terms and conditions of certain lending programs (e.g., "Reliable Customer") these additional means securing fulfilment of obligations can be used as primary collateral.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights perfection by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management;
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) relates to the following types: real estate – 32% (2006: 26%), equipment 24% (2006: 24%) and motor vehicles – 16% (2006: 16%).

According to the Group's internal policy documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts and loans issued to reliable borrowers under Unsecured Credit program for the period of up to 2 months and in the amount not in excess of RR 10 000 thousand;
- for individuals within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans"; "Loans to the sole farmers", "Reliable Customer".

The Group has developed internal methodology, on the basis of which fair value of collateral should be determined. The value of collateral presented below was calculated based on this methodology:

In thousands of Russian Roubles	2007	2006
Collateral in respect of loans to corporate customers individually assessed for impairment		
- equipment	2 189 122	1 145 165
- real estate	2 102 964	1 545 046
- motor vehicles	963 083	403 689
- goods in turnover	818 389	405 124
- farm animals, poultry	454 832	296 263
- future crop	233 272	68 175
- other assets	99 310	5 410
Total value of collateral in respect of loans to corporate customers individually assessed for impairment	6 860 972	3 868 872

Loans to individuals individually assessed for impairment are secured with various types of collateral with value determined based on the Group's internal methodology of RR 248 835 thousand (2006: RR 62 153 thousand) as well as by guarantees of third parties with nominal value of RR 667 353 thousand (2006: RR 157 297 thousand).

Actual realization cost of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed above.

Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

13. PREMISES AND EQUIPMENT

In thousands of Russian Roubles	Note	Premises	Lease-hold (premises) improve-ments	Office and computer equipment	Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2006		821 480	179 730	474 034	-	1 475 244	155 798	1 631 042
Accumulated depreciation		(3 180)	(9 977)	(148 554)	-	(161 711)	(88 155)	(249 866)
Carrying amount at 1 January 2006		818 300	169 753	325 480	-	1 313 533	67 643	1 381 176
Additions		228 430	394 398	609 119	701	1 232 648	133 328	1 365 976
Disposals		-	(1 459)	(4 141)	-	(5 600)	-	(5 600)
Depreciation charge	26	(15 890)	(4 980)	(100 341)	-	(121 211)	(30 874)	(152 085)
Carrying amount at 31 December 2006		1 030 840	557 712	830 117	701	2 419 370	170 097	2 589 467
Cost at 31 December 2006		1 049 910	572 513	1 068 849	701	2 691 973	287 177	2 979 150
Accumulated depreciation		(19 070)	(14 801)	(238 732)	-	(272 603)	(117 080)	(389 683)
Carrying amount at 31 December 2006		1 030 840	557 712	830 117	701	2 419 370	170 097	2 589 467
Additions		1 832 282	588 327	965 703	199 233	3 585 545	238 992	3 824 537
Disposals		-	(4 109)	(3 514)	-	(7 623)	-	(7 623)
Depreciation charge	26	(36 594)	(15 500)	(219 773)	-	(271 867)	(61 736)	(333 603)
Changes in value resulting from revaluation		1 270 012	-	-	-	1 270 012	-	1 270 012
Changes in depreciation resulting from revaluation		(71 129)	-	-	-	(71 129)	-	(71 129)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661
Cost at 31 December 2007		4 152 204	1 156 311	2 016 772	199 934	7 525 221	526 169	8 051 390
Accumulated depreciation		(126 793)	(29 881)	(444 239)	-	(600 913)	(178 816)	(779 729)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661

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Intangible assets mainly include capitalised computer software.

Carrying amount of premises without revaluation at 31 December 2007 is RR 2 826 528 thousand, including cost in amount of RR 2 882 192 thousand and accumulated depreciation RR 55 664 thousand.

Premises were independently valued as at 31 December 2007. The valuation was carried out by an independent firm of valuers, OOO Institute of Valuation of Property and Financial Activity, who hold a relevant professional qualification and who has recent experience in valuation of assets of similar location and category.

14. OTHER ASSETS

In thousands of Russian Roubles	2007	2006
Non-financial assets		
Prepayment for construction in progress and services	276 796	267 352
Rent prepayment	42 707	24 667
Prepaid taxes	7 194	1 063
Financial assets		
Settlements on funds transfer operations	47 560	79 034

Other	46 400	20 160
Provision for impairment of other financial assets	(16 094)	(8 113)
Total other assets	404 563	384 163

Movements in the provision for impairment of other financial assets are as follows:

In thousands of Russian Roubles	2007	2006
Provision for impairment of other financial assets at 1 January	8 113	5 872
Provision for impairment of other financial assets during the year	7 981	2 826
Other financial assets written off during the year as uncollectible	-	(585)
Provision for impairment of other financial assets at 31 December	16 094	8 113

For the estimated fair value of other financial assets refer to the Note 33.

Geographical analysis of other assets is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

15. DUE TO OTHER BANKS

In thousands of Russian Roubles	2007	2006
Term borrowings from other banks	61 150 114	35 207 712
Correspondent accounts and overnight placements of other banks	66 687	17 453
Repo agreements	86 028	132 021
Total due to other banks	61 302 829	35 357 186

As at 31 December 2007 the Group had balances due to four foreign banks with aggregated amount of RR 42 381 414 thousand, or 69% of total due to other banks (2006: due to three banks with aggregated amount of RR 26 824 889 thousand, or 76% of total due to other banks).

For the estimated fair value of due to other banks refer to the Note 33.

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

16. CUSTOMER ACCOUNTS

In thousands of Russian Roubles	2007	2006
State and public organisations		
- Current/settlement accounts	5 944 482	1 208 315
- Term deposits	612 574	156 825
Other legal entities		
- Current/settlement accounts	28 712 038	10 675 414
- Term deposits	34 339 386	11 914 634
- Sale and repurchase agreements with securities	-	38 907
Individuals		
- Current/demand accounts	4 101 043	2 069 174
- Term deposits	22 248 191	8 399 522
Total customer accounts	95 957 714	34 462 791

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	2007		2006	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	26 349 234	27	10 468 696	30
Manufacturing	19 159 207	20	4 612 042	14
Construction	11 825 755	12	1 524 980	4
Insurance	9 180 334	10	6 028 030	18
Agriculture	8 327 735	9	4 317 408	13
State and public organisations	6 557 056	7	1 365 140	4
Financial services and pension security	4 715 363	5	396 298	1
Trading	4 303 028	5	1 544 364	4
Leasing	3 295 912	3	2 996 332	9
Real estate	257 026	-	116 443	-
Other	1 987 064	2	1 093 058	3
Total customer accounts	95 957 714	100	34 462 791	100

As at 31 December 2007, the Group had one customer with balances above RR 3 400 000 thousand (2006: three customers with balances above RR 2 200 000 thousand). The aggregate balance of this customer was RR 13 552 721 thousand, or 18% of total customer accounts (2006: RR 8 259 047 thousand, or 24% of total customer accounts).

For the estimated fair value of customer accounts refer to Note 33.

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

17. PROMISSORY NOTES ISSUED

In thousands of Russian Roubles	2007	2006
Promissory notes issued	32 361 154	38 235 757
Total promissory notes issued	32 361 154	38 235 757

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 10% p.a. and maturity dates from January 2008 to September 2014 (2006: promissory notes denominated Russian roubles and US Dollars with effective interest rate from 0% p.a. (for promissory notes on demand) up to 9% p.a. and maturity dates from January 2007 to November 2011).

At 31 December 2007, promissory notes issued, which were initially purchased by four counterparties, amounted RR 30 938 318 thousand or 96% of total promissory notes issued by the Group (2006: four counterparties purchased promissory notes of RR 36 020 979 thousand or 94% of total promissory notes issued).

For the estimated fair value of promissory notes issued refer to Note 33.

Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Noste 30.

18. OTHER BORROWED FUNDS

In thousands of Russian Roubles	2007	2006
Eurobonds issued	64 994 398	27 682 740
Bonds issued on domestic market	30 294 247	10 017 849
Total other borrowed funds	95 288 645	37 700 589

At 31 December 2007, the Group's other borrowed funds included Eurobonds denominated in US dollars and Swiss francs that are issued by the Group through its special purpose entity, RHSB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Eurobonds with nominal value of USD 350 000 thousand (2006: USD 350 000 thousand) have maturity on 29 November 2010 and semi-annual payment of coupon income. As at 31 December 2007, coupon rate was 6.875% p.a. (2006: 6.875% p.a.) and yield to maturity 6.2% p.a. (2006: 6.0% p.a.).

Eurobonds with nominal value of USD 700 000 thousand (2006: USD 700 000 thousand) have maturity on 16 May 2013 and semi-annual payment of coupon income. As at 31 December 2007, coupon income was 7.175% p.a. (2006: 7.175% p.a.) and yield to maturity 6.6% p.a. (2006: 6.1% p.a.).

In March 2007, the Group issued Eurobonds denominated in Swiss Francs in the total amount of CHF 375 000 thousand. These borrowings mature on 29 March 2010 and have a coupon rate payable annually. As at 31 December 2007, these bonds had coupon rate 3.583% p.a. and yield to maturity 4.1% p.a.

In May 2007, the Group issued Eurobonds denominated in US Dollars in the total amount of USD 1 250 000 thousand with maturity on 15 May 2017 and semi-annual payment of coupon income. As at 31 December 2007, these bonds had coupon rate 6.299% p.a. and yield to maturity 7.0% p.a.

In December 2004, the Group placed own bonds denominated in Russian Roubles in the amount of RR 3 000 000 thousand maturing in June 2008 with the quarterly payment of coupon income. As at 31 December 2007, coupon rate was 7.2% p.a. (2006: 7.2% p.a.) and yield to maturity 8.1% p.a. (2006: 7.0% p.a.).

In February 2006, the Group placed own bonds denominated in Russian Roubles in the amount of RR 7 000 000 thousand maturing in February 2011 with the quarterly payment of coupon income. As at 31 December 2007, coupon rate was 7.85% p.a. (2006: 7.85% p.a.) and yield to maturity 8.1% p.a. (2006: 7.3% p.a.).

In February 2007, the Group placed own bonds denominated in Russian Roubles in the amount of RR 10 000 000 thousand maturing in February 2017 with an early redemption option in February 2010 and the semi-annual payment of coupon income. As at 31 December 2007, coupon income was 7.34% p.a. and yield to the next repricing date (in February 2010) of 8.0% p.a.

In October 2007, the Group placed own bonds denominated in Russian Roubles in the amount of RR 10 000 000 thousand maturing in September 2017 with an early redemption option in October 2008 and the semi-annual payment of coupon income. As at 31 December 2007, coupon rate was 8.2% p.a. and yield to the next repricing date (in October 2008) of 8.5% p.a.

For the estimated fair value of other borrowed funds refer to Note 33.

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

19. SYNDICATED LOANS

At 31 December 2007, syndicated loans attracted by the Group totalled RR 15 572 209 thousand (2006: RR 2 615 630 thousand).

In October 2006 the Group attracted a syndicated loan in Euro from ten OECD banks with the total amount of Euro 75 000 thousand with maturity in October 2009 and current effective interest rate 6.2% p.a.

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 000 thousand, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B).

For the estimated fair value of syndicated loans refer to Note 33.

Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 30.

20. OTHER LIABILITIES

In thousands of Russian Roubles	2007	2006
Accrued staff costs	409 708	207 175
Taxes other than on income payable	66 559	57 511
Other	104 656	32 700
Total other non-financial liabilities	580 923	297 386

Geographical analysis of other liabilities is disclosed in Note 30.

21. SUBORDINATED DEBTS

At 31 December 2007, the Group's subordinated debts totalled RR 17 320 463 thousand (2006: RR 13 337 088 thousand).

In September 2006, the Group attracted a subordinated debt totalling USD 500 000 thousand in Eurobonds issued by the Group through its special purpose entity, RHSB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2006: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 7.4% p.a. (2006: 6.2% p.a.). The Group has an option to terminate this subordinated debt in September 2011.

In June 2007, the Group attracted a subordinated debt totalling USD 200 000 thousand maturing in June 2017. The Group has an option to terminate in advance subordinated debt in next five years since attraction date.

For the estimated fair value of subordinated debts refer to Note 33.

Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

22. SHARE CAPITAL

The Group's share capital issued and fully paid comprises:

In thousands of Russian Roubles	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2006	10 770	10 770 000	11 519 833
New ordinary shares issued	10 101	10 101 000	10 101 000
At 31 December 2006	20 871	20 871 000	21 620 833
New ordinary shares issued	6 857	6 857 000	6 857 000
At 31 December 2007	27 728	27 728 000	28 477 833

The Group's issued and fully paid authorised share capital comprises 27 728 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each share carries one vote.

In 2007, the Bank increased its share capital by issuing 6 857 ordinary shares with the total nominal amount of RR 6 857 000 thousand. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

23. OTHER RESERVES

In thousands of Russian Roubles	Note	Revaluation reserves		Total other reserves
		Premises and equipment	Securities available for sale	
At 31 December 2006		-	-	-
Revaluation	9, 13	1 198 883	(2 182)	1 196 701
Income tax effects	27	(287 732)	524	(287 208)
At 31 December 2007		911 151	(1 658)	909 493

24. INTEREST INCOME AND EXPENSE

In thousands of Russian Roubles	2007	2006
Interest income		
Loans and advances to customers	31 143 506	14 191 712
Trading securities	926 393	443 773
Cash equivalents	372 651	165 954
Due from other banks	141 291	151 589
Securities held to maturity	17 750	-
Securities available for sale	1 635	-
Total interest income	32 603 226	14 953 028
Interest expense		
Other borrowed funds	(4 980 493)	(2 190 617)
Term deposits of other banks	(3 193 049)	(1 232 973)
Promissory notes issued	(3 122 920)	(1 780 380)
Term deposits of individuals	(1 335 437)	(581 312)
Term deposits of legal entities	(1 136 670)	(520 919)
Subordinated debts	(1 089 398)	(257 423)
Syndicated loans	(697 654)	(131 359)
Current/settlement accounts	(17 840)	(10 368)
Other	(482)	(2)
Total interest expense	(15 573 943)	(6 705 353)
Net interest income	17 029 283	8 247 675

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in amount of RR 565 857 thousand (2006: RR 266 685 thousand).

25. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of Russian Roubles	2007	2006
Fee and commission income		
Commission on cash transactions	738 069	373 837
Commission on settlement transactions	289 529	172 823
Agency fees for debt collection and currency control	98 757	64 013
Other	9 832	2 870
Total fee and commission income	1 136 187	613 543
Fee and commission expense		
Commission on cash collection	(59 639)	(26 795)
Commission on settlement transactions	(39 389)	(15 651)
Other	(2 975)	(608)
Total fee and commission expense	(102 003)	(43 054)
Net fee and commission income	1 034 184	570 489

26. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of Russian Roubles	Note	2007	2006
Staff costs		6 961 850	3 556 721
Rental expenses		796 816	375 266
Other costs of premises and equipment		566 386	309 617
Taxes other than on income		388 532	215 983
Security		299 151	144 595
Depreciation of premises and equipment	13	271 867	121 211
Supplies and other materials		237 993	150 544
Communications		207 332	94 121
Advertising and marketing		157 849	70 647
Depreciation of intangible assets	13	61 736	30 874
Expenses relating to participation in the national project		7 301	94 937
Other		636 536	316 060
Total administrative and other operating expenses		10 593 349	5 480 576

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Expenses relating to participation in the national project represent expenses incurred by the Group relating to information and marketing support of the national project "Development of Agro-Industrial Sector" and mainly include advertising and marketing. The Group received also income in the amount of RR 8 468 thousand (2006: RR 127 118 thousand) from the Ministry of Agriculture of the Russian Federation under the state contract concluded with the Ministry of Agriculture included in the consolidated income statement in connection with the above project.

Included in staff costs are statutory social security and pension contributions of RR 1 001 796 thousand (2006: RR 523 394 thousand), and also contributions to a non-state pension fund in the amount of RR 62 056 thousand (2006: RR 35 909 thousand).

27. INCOME TAXES

Income tax expense comprises the following:

In thousands of Russian Roubles	2007	2006
Current tax	904 524	400 589
Deferred tax	584 429	(77 680)
Income tax expense for the year	1 488 953	322 909

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

In thousands of Russian Roubles	2007	2006
IFRS profit before tax	5 842 780	1 176 086
Theoretical tax charge at statutory rate (2007:24%; 2006: 24%)	1 402 267	282 261
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible staff costs	28 448	22 211
- Non deductible charity costs	22 522	9 005
- Other non deductible expenses	54 765	21 791
- Other non-temporary differences	1 202	409
- Income on government securities taxed at different rates	(20 251)	(12 768)
Income tax expense for the year	1 488 953	322 909

The Group has not recorded a deferred tax liability in respect of temporary differences of RR 20 379 thousand (2006: RR 7 272 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and for calculation of profit tax.

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The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%), except for income on state securities that is taxed at 15% (2006: 15%).

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

In thousands of Russian Roubles	2006	(Charged)/ credited to profit or loss	Charged directly to equity	2007
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(83 643)	(647 199)	-	(730 842)
Premises and equipment	(78 647)	(91 072)	(287 732)	(457 451)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(76 082)	(89 207)	-	(165 289)
Intangible assets	(8 961)	(25 116)	-	(34 077)
Accruals on due to other banks	(29 420)	(906)	-	(30 326)
Promissory notes issued	(9 470)	4 303	-	(5 167)
Provision for loan impairment	343 879	3 196	-	347 075
Accruals on loans	58 869	109 894	-	168 763
Accrued staff costs	48 543	45 426	-	93 969
Fair valuation of securities	5 855	81 722	524	88 101
Other	13 835	24 530	-	38 365
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)
Recognised deferred income tax asset	184 758	(178 943)	-	5 815
Recognised deferred income tax liability	-	(405 486)	(287 208)	(692 694)
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)

In thousands of Russian Roubles	2005	(Charged)/credited to profit or loss	2006
Tax effect of deductible/(taxable) temporary differences			
Fair valuation of derivative financial instruments	-	(83 643)	(83 643)
Premises and equipment	(49 934)	(28 713)	(78 647)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(22 027)	(54 055)	(76 082)
Intangible assets	(23)	(8 938)	(8 961)
Accruals on due to other banks	(2 907)	(26 513)	(29 420)
Promissory notes issued	74 210	(83 680)	(9 470)
Provision for loan impairment	97 996	245 883	343 879
Accruals on loans	17 838	41 031	58 869
Accrued staff costs	512	48 031	48 543
Fair valuation of securities	(6 053)	11 908	5 855
Other	(2 534)	16 369	13 835
Net deferred income tax asset	107 078	77 680	184 758

28. DIVIDENDS

In thousands of Russian Roubles	Note	2007 Ordinary shares	2006 Ordinary shares
Dividends payable at 1 January		-	-
Dividends declared during the year		226 450	56 111
Dividends paid during the year		(226 450)	(56 111)
Dividends payable at 31 December		-	-
Dividends per share declared during the year	22	10,8	3,7

29. SEGMENT ANALYSIS

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

Business Segments. The Group is organised on the basis of two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, operations on capital markets, foreign currency and derivative products, transactions with securities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

In thousands of Russian Roubles	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	28 865 212	4 990 384	-	33 855 596
Total revenues	28 865 212	4 990 384	-	33 855 596
Total revenues comprise:				
- Interest income	27 760 364	4 842 862	-	32 603 226

- Fee and commission income	989 246	146 941	-	1 136 187
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	8 468	-	-	8 468
- Other operating income	107 134	581	-	107 715
Total revenues	28 865 212	4 990 384	-	33 855 596

In thousands of Russian Roubles	Commercial banking	Retail banking	Unallocated funds	Total
Total expenses comprise:				
- Interest expense	(14 238 506)	(1 335 437)	-	(15 573 943)
- Fee and commission expense	(102 003)	-	-	(102 003)
- Other administrative and operating expenses	(9 860 266)	(733 083)	-	(10 593 349)
- Provisions	(2 740 215)	(380 762)	-	(3 120 977)
Total expenses	(26 940 990)	(2 449 282)	-	(29 390 272)
Intrasegment results	1 059 729	(1 059 729)	-	-
Total expense	(25 881 261)	(3 509 011)	-	(29 390 272)
Segment result	2 983 951	1 481 373	-	4 465 324
Unallocated net gains				1 377 456
Income tax expense				(1 488 953)
Profit for the year				4 353 827
Segment assets	311 342 054	45 053 620	-	356 395 674
Current and deferred tax assets	-	-	64 527	64 527
Total assets	311 342 054	45 053 620	64 527	356 460 201
Segment liabilities	295 528 103	26 349 234		321 877 337
Current and deferred tax liabilities	-	-	759 253	759 253
Total liabilities	295 528 103	26 349 234	759 253	322 636 590
Other segment items				
Capital expenditure	(3 421 813)	(402 724)	-	(3 824 537)
Depreciation	(298 475)	(35 128)	-	(333 603)

The Group changed the methodology of calculation of intrasegment results. The change was applied retrospectively from 1 January 2006. Management believes that the revised definition of intrasegment results better reflects objectives of reporting segment information. Due to this change revenues in the commercial banking segment increased (revenues in retail banking segment decreased) by RR 540 402 thousand in 2006.

The Group changed methodology for allocation of other administrative and operating expenses and commission income between segments. Due to this change revenues in the commercial banking segment decreased (revenues in the retail banking segment increased) by RR 61 787 thousand, expenses in the commercial banking segment increased (in the retailed banking segment decreased) by RR 98 877 thousand in 2006.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2006 is set out below:

In thousands of Russian Roubles	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	14 421 066	1 333 098	-	15 754 164
Total revenues	14 421 066	1 333 098	-	15 754 164
Total revenues comprise:				
- Interest income	13 693 738	1 259 290	-	14 953 028
- Fee and commission income	540 010	73 533	-	613 543
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	127 118	-	-	127 118
- Other operating income	60 200	275	-	60 475
Total revenues	14 421 066	1 333 098	-	15 754 164
Total expenses comprise:				
-Interest expense	(6 124 041)	(581 312)	-	(6 705 353)
- Fee and commission expense	(43 054)	-	-	(43 054)
- Other administrative and operating expenses	(5 152 646)	(327 930)	-	(5 480 576)
- Provisions	(2 438 485)	(195 723)	-	(2 634 208)
Total expenses	(13 758 226)	(1 104 965)	-	(14 863 191)
Intrasegment results	540 402	(540 402)	-	-
Total expense	(13 217 824)	(1 645 367)	-	(14 863 191)
Segment result	1 203 242	(312 269)	-	890 973
Unallocated net gains				285 113
Income tax expense				(322 909)
Profit for the year				853 177
Segment assets	162 587 474	21 504 280	-	184 091 754
Current and deferred tax assets	-	-	488 873	488 873
Total assets	162 587 474	21 504 280	488 873	184 580 627

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Segment liabilities	152 121 474	10 468 696		162 590 170
Current and deferred tax liabilities	-	-	60 701	60 701
Total liabilities	152 121 474	10 468 696	60 701	162 650 871
Other segment items				
Capital expenditure	(1 240 033)	(125 943)	-	(1 365 976)
Depreciation	(138 063)	(14 022)	-	(152 085)

Geographical segments. The Group operates only in the Russian Federation. Substantially all revenues of the Group were received from contracting parties operating in the Russian Federation.

30. FINANCIAL RISK MANAGEMENT

The purpose of the Group risk management policy is maintaining of acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, also by separate structural divisions and executives on the basis of their competence.

The responsibility for risk monitoring and evaluation rests with the Department for Risks Evaluation and Monitoring (hereinafter, the DREM) which performs its functions independently from business units and reports directly to the Chairman of Bank's Management Board Chairman. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The risks of ZAO Chelyabcomzembank, a subsidiary, are managed in a similar way.

Credit risk. The Group takes on exposure to credit risk, which is the risk that the Group incurs losses as a result of the default, overdue or partial default of the Group's borrowers. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees, letters of credit and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

The Bank applies a centralised system for managing credit risk. The credit risk approval competencies are determined as follows:

- The Supervisory Board approves decisions on loans in excess of RR 4 000 000 thousand (2006: RR 1 000 000 thousand) per one borrower or a group of related borrowers.
- The Bank's Management Board has the authority of determine credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 000 thousand (2006: RR 1 000 000 thousand) inclusive.
- The Credit Committee makes credit authorization decisions within the limits provided by the Management Board, including credit operations of up to RR 600 000 thousand (2006: RR 300 000 thousand) inclusive (limits on short-term and long-term (medium-term) loans are considered independently).
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk eveluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review no less than once a year credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration in one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

When selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;

- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in highly effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements.

In evaluating the Group's market risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's market risk are carried out on the basis of regulatory documents applicable to the Group.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes), developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board and the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, assigning credit ratings by international rating agencies and regulators rests with the Department for Evaluation and Monitoring of Liquidity and Market Risks (hereinafter, "the DEMLMR"). The DEMLMR is a divison of DREM.

The DEMLMR's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operational Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DEMLMR, jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DEMLMR monitors limits and reports information on compliance with the set limits to the Bank's management. The DEMLMR also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DEMLMR reviews the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures);
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the Russian Accounting Rules ("RAR") with the assumption of stability of the structure of the Bank's assets and liabilities.

In evaluating the Group's interest risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's interest risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarises the Group's exposure to interest rate risk at 31 December 2007 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	37 494 369	36 076 191	46 830 534	65 403 808	148 634 377	115 892 893	450 332 172
Total interest bearing financial liabilities*	20 583 774	63 740 523	47 762 291	53 810 837	116 903 036	101 824 839	404 625 300
Sensitivity gap on balance sheet items	16 910 595	(27 664 332)	(931 757)	11 592 971	31 731 341	14 068 054	45 706 872

* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarises the Group's exposure to interest rate risks at 31 December 2006. Included in the table are the Group's interest bearing assets and liabilities categorised by the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing assets*	16 860 575	18 726 090	30 901 842	44 076 998	52 866 665	64 014 752	227 446 922
Total interest bearing liabilities*	5 265 926	11 192 592	18 649 883	42 724 684	53 964 698	70 305 578	202 103 361
Sensitivity gap on balance sheet items	11 594 649	7 533 498	12 251 959	1 352 314	(1 098 033)	(6 290 826)	25 343 561

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand higher (2006: RR 283 655 thousand lower).

At 31 December 2007, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand lower (2006: RR 283 655 thousand higher).

The Bank's Management Board monitors the level of interest rates on assets and liabilities.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

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In % p.a.	2007				2006			
	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents								
- cash balances with the Central Bank of the Russian Federation and settlement accounts with MICEX and RTS	0	-	-	-	0	-	-	-
- correspondent accounts and deposits with other banks with a maturity of less than one month	4	5	0	0	3	5	0	0
Mandatory cash balances with the Central Bank of the Russian Federation	0	-	-	-	0	-	-	-
Trading securities	8	8	-	-	9	8	-	-
Securities available for sale	9	7	-	-	-	-	-	-
Securities held to maturity	9	-	-	-	-	-	-	-
Due from other banks	9	11	4	-	7	10	4	-
Loans and advances to customers	14	9	9	6	14	10	10	-
Liabilities								
Due to other banks	8	7	5	-	8	7	5	-
Customer accounts*	9	6	6	-	9	4	6	-
Promissory notes issued	9	8	4	-	8	8	4	-
Other borrowed funds	8	7	-	4	8	7	-	-
Syndicated loans	-	6	6	-	-	-	5	-
Subordinated debts	-	7	-	-	-	7	-	-

* - disclosed rates on term deposits

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

CURRENCY AND EQUITY RISK MANAGEMENT

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time.

Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DEMLMR to the Bank's management and heads of interested units in compliance with the acting internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

VaR is calculated by three methods (delta-normal, parametrical and historical) and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis. VaR calculations are made together with stress-testing of the results with the assumption of normal distribution on the basis of a simulation model (Monte-Carlo method).

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR;
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk.

In the table below VAR shows the absolute amount of losses for both long and short positions.

In thousands of Russian Roubles		2007	2006
At the end of the year	(short)/ long position	(776 833)	(519 957)
	VAR	2 012	902
Average	(short)/ long position	(1 536 002)	(1 027 576)
	VAR	3 336	3443
Minimum	(short)/ long position	149 071	(855 011)
	VAR	161	504
Maximum	(short)/ long position	(3 151 355)	(1 915 597)
	VAR	9 789	6 667

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The Bank's currency risk as at the reporting date does not reflect typical risks during the year due to a decrease in the open currency position. Currency risk has slightly increased as compared to 2006, but this increase has not affected the Bank's exposure to currency risk, as open currency positions increased together with other assets and capital of the Bank. The above table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, assessed on the basis of VAR.

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions. The table below shows equity risk analysis at 31 December 2007 and 31 December 2006. In evaluating the shares, the Bank does not consider instruments acquired in initial public offering due to the absence of historical quotes required for evaluation. As at 31 December 2007 the Group did not have investments in such instruments (2006: RR 53 660 thousands).

In the table below VAR shows the absolute amount of losses for both long and short positions. The information is provided only for days with open position.

In thousands of Russian Roubles		2007	2006
At the end of the year	(short)/ long position	111 877	34 520
	VAR	2 811	1 466
Average	(short)/ long position	49 884	18 423
	VAR	1 424	719
Minimum	(short)/ long position	2 910	4 472
	VAR	85	131
Maximum	(short)/ long position	199 708	39 619
	VAR	5 068	1 641

At 31 December 2007 the major part of the position is hedged by the derivative financial instrument on the underlying asset. The table includes information on absolute risk exposure without hedging effect. Refer to Note 32.

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

In thousands of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	31 711 153	2 279 030	-	33 990 183
Mandatory cash balances with the Central Bank of the Russian Federation	2 441 967	-	-	2 441 967
Trading securities	12 056 055	-	-	12 056 055
Repurchase receivable	98 326	-	-	98 326
Derivative financial instruments	10	276 796	-	276 806
Securities available for sale	1 156 720	-	-	1 156 720
Securities held to maturity	5 495 475	-	-	5 495 475
Due from other banks	1 282 868	-	345 107	1 627 975
Loans and advances to customers	291 583 137	-	-	291 583 137
Deferred income tax asset	5 815	-	-	5 815
Intangible assets	347 353	-	-	347 353
Premises and equipment	6 924 308	-	-	6 924 308
Current income tax prepayment	51 518	-	-	51 518
Other assets	404 563	-	-	404 563
Total assets	353 559 268	2 555 826	345 107	356 460 201
Liabilities				
Derivative financial instruments	14 451	3 545 508		3 559 959
Due to other banks	7 330 943	53 897 119	74 767	61 302 829
Customer accounts	93 877 986	2 079 728	-	95 957 714
Promissory notes issued	32 361 154	-	-	32 361 154
Other borrowed funds	30 294 247	64 994 398	-	95 288 645
Syndicated loans	-	15 572 209	-	15 572 209
Current income tax liability	-	-	-	-
Deferred tax liability	692 694	-		692 694
Other liabilities	580 172	751	-	580 923
Subordinated debts	-	17 320 463	-	17 320 463
Total liabilities	165 151 647	157 410 176	74 767	322 636 590
Net balance sheet position	188 407 621	(154 854 350)	270 340	33 823 611
Credit related commitments	2 196 408	-	-	2 196 408

*OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located.Cash and premises and equipment have been classified according to the country in which they are physically held.

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

In thousands of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	13 556 688	59 007	-	13 615 695
Mandatory cash balances with the Central Bank of the Russian Federation	1 717 423	-	-	1 717 423
Trading securities	6 733 224	-	-	6 733 224
Repurchase receivable	152 573	-	-	152 573
Derivative financial instruments	227	170 177	-	170 404

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Securities available for sale	-	-	-	-
Securities held to maturity	-	-	-	-
Due from other banks	2 864 625	-	-	2 864 625
Loans and advances to customers	155 865 243	-	-	155 865 243
Deferred income tax asset	184 758	-	-	184 758
Intangible assets	170 097	-	-	170 097
Premises and equipment	2 419 370	-	-	2 419 370
Current income tax prepayment	303 052	-	-	303 052
Other assets	382 249	1 894	20	384 163
Total assets	184 349 529	231 078	20	184 580 627
Liabilities				
Derivative financial instruments	2 866	638 388		641 254
Due to other banks	2 303 608	30 385 735	2 667 843	35 357 186
Customer accounts	34 402 830	59 961	-	34 462 791
Promissory notes issued	38 235 757	-	-	38 235 757
Other borrowed funds	10 017 849	27 682 740	-	37 700 589
Syndicated loans	-	2 615 630	-	2 615 630
Current income tax liability	3 190	-	-	3 190
Deferred tax liability	-			
Other liabilities	297 386	-	-	297 386
Subordinated debts	-	13 337 088	-	13 337 088
Total liabilities	85 263 486	74 719 542	2 667 843	162 650 871
Net balance sheet position	99 086 043	(74 488 464)	(2 667 823)	21 929 756
Credit related commitments	1 441 169	-	-	1 441 169

*OECD – Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Group's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system;
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury within their compenetce. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the monetary market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each reporting date.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position;
- reviewing the actual values and changes in mandatory liquidity ratios;
- forecasting the impact of transactions on mandatory liquidity ratios;
- setting limits on asset-side transactions by types of investments depending on the sources of funding;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in roubles and currencies, issuing promissory notes, increasing the volume of deposits (including interbank deposits) and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Bank's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's balance sheet financial liabilities and off-balance credit related committments. Such undiscounted cash flows differ from the amount included in the balance sheet, since the balance sheet amount is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

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

Overdue liabilities, including term deposits undrawn by the Bank's customers are categorised as demand and less than 30 days. The date of maturity of certain assets, for which there is no contractual maturity date is the expected date of disposal.

The maturity analysis of undiscounted financial liabilities at 31 December 2007 is as follows:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(265 422)	(20 982 075)	(16 431 222)	(66 087 099)	(34 381 160)	(138 146 978)
- outflow	355 034	22 754 967	17 274 870	72 023 912	37 828 144	150 236 927
Net settled derivative financial instruments (liabilities)	3 939	-	-	-	-	3 939
Due to other banks	4 876 422	3 798 535	3 209 941	37 816 895	23 632 124	73 333 917
Customer accounts	44 404 677	32 653 007	18 513 778	2 182 481	423 592	98 177 535
Promissory notes issued	6 131 952	15 545 407	11 749 626	50 663	55 048	33 532 696
Other borrowed funds	-	6 327 419	12 926 971	37 053 412	70 646 754	126 954 556
Syndicated loans	40 849	395 471	7 049 042	9 494 211	-	16 979 573
Subordinated debts	-	607 655	608 643	2 432 597	18 579 564	22 228 459
Off-balance sheet financial liabilities						
Letters of credit	128 112	680 437	494 451	672 522	83 828	2 059 350
Other credit related commitments	24 300 132	-	-	-	-	24 300 132
Total potential future payments for financial obligations	79 975 695	61 780 823	55 396 100	95 639 594	116 867 894	409 660 106

The maturity analysis of undiscounted financial liabilities at 31 December 2006 is as follows:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(276 551)	(25 313 750)	(887 281)	(13 632 766)	(20 597 618)	(60 707 966)
- outflow	348 584	25 640 088	1 084 401	14 901 469	21 295 178	63 269 720
Net settled derivative financial instruments (liabilities)	2 866	-	-	-	-	2 866
Due to other banks	852 809	5 484 155	1 348 607	29 403 546	4 864 080	41 953 197
Customer accounts	15 134 455	9 622 047	9 289 322	1 368 324	-	35 414 148
Promissory notes issued	3 429 363	2 895 809	23 044 324	11 123 181	14 200	40 506 877
Other borrowed funds	-	1 359 716	1 359 716	8 115 763	40 594 875	51 430 070
Syndicated loans	30 943	30 271	61 550	2 848 101	-	2 970 865
Subordinated debts	-	458 819	458 819	1 835 278	15 000 828	17 753 744
Off-balance sheet financial liabilities						
Letters of credit	330 697	593 255	329 354	83 859	11 517	1 348 682
Other credit related commitments	13 392 321	-	-	-	-	13 392 321
Total potential future payments for financial obligations	33 245 487	20 770 410	36 088 812	56 046 755	61 183 060	207 334 524

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 31.

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

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The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

In evaluating the Group's liquidity risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's liquidity risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarizes analysis of liquidity risk at 31 December 2007:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	58 536 653	28 024 090	47 157 959	65 339 821	148 587 510	122 106 326	2 371 103	472 123 462
Total financial liabilities*	53 027 707	35 807 731	37 398 918	61 742 114	131 139 123	126 949 084	-	446 064 677
Net liquidity gap	5 508 946	(7 783 641)	9 759 041	3 597 707	17 448 387	(4 842 758)	2 371 103	26 058 785
Cumulative liquidity gap	5 508 946	(2 274 695)	7 484 346	11 082 053	28 530 440	23 687 682	26 058 785	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2006:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	24 159 412	18 976 577	30 386 362	44 084 099	52 812 620	63 277 134	993 169	234 689 373
Total financial liabilities*	18 161 028	12 012 512	19 070 523	43 104 519	54 129 566	70 883 715	-	217 361 863
Net liquidity gap	5 998 384	6 964 065	11 315 839	979 580	(1 316 946)	(7 606 581)	993 169	17 327 510
Cumulative liquidity gap	5 998 384	12 962 449	24 278 288	25 257 868	23 940 922	16 334 341	17 327 510	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

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

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

31. CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. Based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

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

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

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

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.
The Management of the Group believes that its interpretation of the relevant legislation is reliable and the Group's tax, currency and customs positions will be confirmed. Therefore, as at 31 December 2007 the Management has not created any provision for potential tax liabilities (2006: nil).

Capital expenditure commitments. At 31 December 2007, the Group had contractual capital expenditure commitments of RR 627 270 thousand (2006: RR 363 453 thousand).

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

In thousands of Russian Roubles	2007	2006
Less than 1 year	770 439	354 309
Due between 1 and 5 years	1 803 476	576 604
Later than 5 years	1 436 458	358 519
Total operating lease commitments	4 010 373	1 289 432

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

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

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

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	2007	2006
Undrawn credit lines	30 000	72 718
Letters of credit	2 059 350	1 348 682
Guarantees issued	107 058	19 769
Total credit related commitments	2 196 408	1 441 169

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

Undrawn credit lines shown in the table above do not include cancellable commitments of RR 24 270 132 thousand (2006: RR 13 319 603 thousand), which are dependent on borrowers' compliance with certain creditworthiness criteria.

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

In thousands of Russian Roubles	2007	2006
Provision for losses on credit related commitments at 1 January	-	801
Provision for losses on credit related commitments during the year	-	-
Use of provision for losses on credit related commitments during the year	-	(801)
Provision for losses on credit related commitments at 31 December	-	-

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	2007	2006
Russian Roubles	129 964	285 153
US Dollars	250 960	212 379
Euros	1 577 387	943 637
Other currencies	238 097	-
Total	2 196 408	1 441 169

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

In thousands of Russian Roubles	2007	2006
Promissory notes issued by the Bank	805 587	626 751
Promissory notes and securities of Russian companies held with the Bank	149 947	331 007
OVGVZ held with Vnesheconombank	39 274	-
Corporate shares held with the National Depository Centre	550	550
Shares and bonds of companies held with other depositories	60	-
OVGVZ held in the Bank's depository	-	42 130

Assets pledged and restricted. At 31 December 2007, the Group had municipal bonds pledged under repo agreements with fair value of RR 98 326 thousand (2006: corporate bonds with fair value of RR 152 573 thousand). Refer to Note 8. In addition, mandatory cash balances with the CBRF of RR 2 441 967 thousand (2006: RR 1 717 423 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

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32. DERIVATIVE FINANCIAL INSTRUMENTS

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

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury through establishing limits on derivatives trading.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros and Swiss Francs to six OECD banks with maturities from June 2008 to July 2013 and deposits in Russian Roubles received from the same six banks with similar maturities ("back to back loans"). These transactions were aimed at hedging the currency exposure of the Group. These foreign exchange swaps are valued using the model assuming nil fair value at inception of the respective contracts. Currently, the Russian long-term swap market is not active, and market participants often have substandard credit ratings. Based on the above considerations, the management believes that standard market yield curves for respective swap currencies should be adjusted to account for the credit risk and other implied factors in initial pricing of the Group as a Russian counterparty.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2007 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	15 600 874	99 763 440	115 364 314
RR payable on settlement (-)	(15 446 384)	(103 226 020)	(118 672 404)
Euros receivable on settlement (+)	2 731 247	-	2 731 247
RR payable on settlement (-)	(2 608 941)	-	(2 608 941)
CHF receivable on settlement (+)	-	8 516 779	8 516 779
RR payable on settlement (-)	-	(8 599 707)	(8 599 707)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	355 989	355 989
Euros payable on settlement (-)	-	(359 928)	(359 928)
Futures on shares: fair value at the balance sheet date, of			
RR receivable on settlement (+)	3 480	79 708	83 188
Short position in shares (-)	(3 470)	(90 220)	(93 690)
Total net fair value	276 806	(3 559 959)	(3 283 153)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2006 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of	-	-	-
USD receivable on settlement (+)	39 685 147	12 177 331	51 862 478
RR payable on settlement (-)	(39 558 592)	(12 815 719)	(52 374 311)
Euros receivable on settlement (+)	2 670 741	-	2 670 741
RR payable on settlement (-)	(2 627 119)	-	(2 627 119)
Foreign exchange forward deals with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	1 579 866	1 579 866
RR payable on settlement (-)	-	(1 581 890)	(1 581 890)
Foreign exchange forward deals with settlement dates up to 2 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	763 602	763 602
RR payable on settlement (-)	-	(764 444)	(764 444)
RR receivable on settlement (+)	131 883	-	131 883
USD payable on settlement (-)	(131 656)	-	(131 656)
Total net fair value	170 404	(641 254)	(470 850)

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial instruments carried at fair value. Trading securities, securities available for sale, securities categorised as "repurchase receivable", and derivative financial instruments are carried on the consolidated balance sheet at their fair value.

Refer to Note 32 for the description of the methodology of valuation of foreign exchange swaps. The fair value of other financial instruments is based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2007	2006
Due from other banks		
Short-term placements with other banks with original maturity more than 1 month	4% -12%	4%-10%
Loans and advances to customers		
Corporate loans	8%-17%	8%-17%
Loans to individuals	10%-19%	10%-19%
Securities held to maturity	7%-11%	-
Due to other banks	3% -9%	3%-8%
Customer accounts		
- Term deposits of legal entities	2%-8%	2%-8%
- Term deposits of individuals	3%-11%	3%-11%
Promissory notes issued	4% - 10%	4%-9%
Syndicated loans	5%-6%	5%
Subordinated debts	7%	7%

Fair values of financial instruments are as follows:

	2007		2006	
In thousands of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- cash on hand	2 991 048	2 991 048	1 249 651	1 249 651
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	19 685 479	11 663 404	11 663 404
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656	11 313 656	702 640	702 640
Due from other banks	1 627 975	1 627 975	2 864 625	2 864 625
Securities held to maturity	5 495 475	5 495 475	-	-
Loans and advances to customers				
- Loans to corporates	240 708 779	240 644 789	129 082 373	129 082 373
- Lending for food interventions	3 189 928	3 189 928	4 490 331	4 490 331
- Reverse repo agreements	2 466 091	2 466 091	797 386	797 386
- Investments in agricultural cooperatives	663 912	663 912	396 935	396 935
- Loans to individuals	44 554 427	44 554 427	21 098 218	21 098 218
Other financial assets carried at amortised cost	77 866	77 866	91 081	91 081
FINANCIAL ASSETS CARRIED AT FAIR VALUE	13 587 907	13 587 907	7 056 201	7 056 201
TOTAL FINANCIAL ASSETS	346 362 543	346 298 553	179 492 845	179 492 845
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
-Term borrowings from other banks	61 150 114	61 150 114	35 207 712	35 207 712
- Correspondent accounts and overnight placements of other banks	66 687	66 687	17 453	17 453
- Repo agreements	86 028	86 028	132 021	132 021
Customer accounts				
- State and public organisations	6 557 056	6 557 056	1 365 140	1 365 140
- Other legal entities	63 051 424	63 051 424	22 628 955	22 628 955
- Individuals	26 349 234	26 349 234	10 468 696	10 468 696
Promissory notes issued	32 361 154	32 361 154	38 235 757	38 235 757
Other borrowed funds				
- Issued Eurobonds	64 994 398	64 370 774	27 682 740	29 178 036
- Bonds issued on domestic market	30 294 247	30 487 190	10 017 849	10 214 720

Syndicated loans	15 572 209	15 572 209	2 615 630	2 615 630
Subordinated debts	17 320 463	17 260 332	13 337 088	13 845 781
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	3 559 959	3 559 959	641 254	641 254
TOTAL FINANCIAL LIABILITIES	321 362 973	320 872 161	162 350 295	164 551 155

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

34. RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007.

In thousands of Russian Roubles	Loans and receivables	Available for sale assets	Held-to-maturity assets	Financial assets at fair value through profit and loss	Total
Financial assets					
Cash and cash equivalents					
- cash on hand	2 991 048				2 991 048
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479				19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656				11 313 656
Trading securities					
- Debt securities	-	-	-	11 944 178	11 944 178
- Shares	-	-	-	111 877	111 877
Repurchase receivable	-	-	-	98 326	98 326
Derivative financial instruments	-	-	-	276 806	276 806
Securities available for sale	-	1 156 720	-	-	1 156 720
Securities held to maturity	-	-	5 495 475	-	5 495 475
Due from other banks	1 627 975	-	-	-	1 627 975
Loans and advances to customers					
- Loans to corporates	240 708 779	-	-	-	240 708 779
- Lending for food interventions	3 189 928	-	-	-	3 189 928
- Reverse repo agreements	2 466 091	-	-	-	2 466 091
- Investments in agricultural cooperatives	663 912	-	-	-	663 912
- Loans to individuals	44 554 427	-	-	-	44 554 427
Other financial assets	77 866	-	-	-	77 866
TOTAL financial assets	327 279 161	1 156 720	5 495 475	12 431 187	346 362 543
Non-financial assets					10 097 658
TOTAL ASSETS	327 279 161	1 156 720	5 495 475	12 431 187	356 460 201

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2006.

In thousands of Russian Roubles	Loans and advances to customers	Financial assets at fair value through profit and loss	Total
Financial assets			
Cash and cash equivalents			
- cash on hand	1 249 651	-	1 249 651
- cash balances with the CBRF (other than mandatory reserve deposits)	11 663 404	-	11 663 404
- correspondent accounts and deposits with maturity less than one month in banks	702 640	-	702 640
Trading securities			
- Debt securities	-	6 645 066	6 645 066
- Shares	-	88 158	88 158
Repurchase receivable	-	152 573	152 573
Derivative financial instruments	-	170 404	170 404
Due from other banks	2 864 625		2 864 625
Loans and advances to customers			
- Loans to corporates	129 082 373	-	129 082 373
- Lending for food interventions	4 490 331	-	4 490 331
- Reverse repo agreements	797 386	-	797 386
- Investments in agricultural cooperatives	396 935	-	396 935
- Loans to individuals	21 098 218	-	21 098 218
Other financial assets	91 081	-	91 081
TOTAL FINANCIAL ASSETS	172 436 644	7 056 201	179 492 845

NON-FINANCIAL ASSETS			5 087 782
TOTAL ASSETS	172 436 644	7 056 201	184 580 627

35. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Russian Roubles	2007	2006
Profit attributable to ordinary shareholders	4 353 671	853 045
Profit for the year (all allocated to ordinary shareholders)	4 353 671	853 045
Weighted average number of ordinary shares in issue	20 946	13 453
Basic and diluted earnings per ordinary share	208	63

36. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note1).
The outstanding balances with related parties were as follows:

In thousands of Russian Roubles	2007	2006
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	11 663 404
Mandatory cash balances with the Central Bank of the Russian Federation	2 441 967	1 717 423
Nostro accounts and placements with state-controlled banks with original maturities of less than one months (contractual interest rate: 2%-11% p.a. (2006: 1%-9% p.a.))	3 875 712	206 952
Trading securities and repurchase receivable (contractual interest rate: 6%-10% p.a. (2006: 6%-17% p.a.))		
Federal loan bonds (OFZ)	3 080 494	1 069 928
Municipal bonds	1 106 034	765 238
Corporate Eurobonds	2 981 346	408 812
Corporate shares	111 877	85 173
Promissory notes of the state-controlled banks	-	18 765
Securities available for sale (contractual interest rate: 7%-9% p.a.)		
Municipal Eurobonds	1 001 500	-
Corporate Eurobonds	102 115	-
Loans and advances to customers		
State-controlled companies (contractual interest rate: 7%-18% p.a. (2006: 7%-22% p.a.))	9 507 102	8 701 696
Key management and their family members (contractual interest rate: 5% p.a. (2006: 5%-11% p.a.))	5 876	5 993
Provision for loan impairment at the year end		
State-controlled companies	(93 414)	(92 563)

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In thousands of Russian Roubles	2007	2006
Current income tax prepayment	51 518	303 052
Due to other banks		
Current term placements (contractual interest rate: 1%-9% p.a. (2006: 1%-11% p.a.))	3 009 247	714 194
Term deposits and current/settlement accounts		
State-controlled companies (contractual interest rate for term deposits: 5%-9% p.a. for both years)	11 235 285	4 525 505
Key management and their family members (contractual interest rate for term deposits: for term deposits 3%-11% p.a. for both years)	184 299	106 173
Current income tax liability	-	3 190
Revaluation reserve for available for sale securities	(1 275)	-
Credit related commitments		
Guarantees issued	37 096	11 270
Letters of credit	-	99 571
Undrawn credit lines (without commitments to extend credit, which are contingent upon customer's maintaining specific credit standards)	30 000	72 718

The income and expense items with related parties were as follows:

In thousands of Russian Roubles	2007	2006
Interest income on cash and cash equivalents		
The Central Bank of the Russian Federation	49 877	7 631
Transactions with state-controlled banks, including placements with original maturities of less than one months	75 441	26 600
Interest income on trading securities		
Government securities	225 038	145 403

State-controlled companies	120 176	44 893
Results from operations with trading securities		
Government securities	(41 880)	(19 999)
Securities of state-controlled companies	(17 703)	14 215
Interest income on available for sale securities		
Government securities	1 000	-
State-controlled companies	407	-
Interest income on loans and advances to customers		
State-controlled companies	944 859	706 786
Key management and their family members	329	357
Provision for loan impairment on loans and advances to customers		
State-controlled companies	(851)	(29 519)

In thousands of Russian Roubles	2007	2006
Interest expense on due to other banks		
The Central Bank of the Russian Federation	-	(2 619)
Transactions with other state-controlled banks	(65 479)	(45 572)
Interest expense on subordinated debts		
State-controlled companies	-	(1 757)
Interest expense on customer accounts		
State-controlled companies	(202 430)	(108 374)
Key management and their family members	(13 556)	(6 997)
Agency commission income from the Ministry of Finance of the Russian Federation for debt collection services	17 797	25 424
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project "Development of the Agro-Industrial Sector"	8 468	127 118
Expenses relating to participation in the project "Development of the Agro-Industrial Sector" net of taxes and staff costs	(7 301)	(94 937)
Other income (on guarantees and letters of credit issued)	1 538	384
Current income tax expense	(904 524)	(400 589)

Aggregate amounts lent to and repaid by related parties during 2007 were:

In thousands of Russian Roubles	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 826 662 019	1 818 639 944
Nostro accounts and placements with state-controlled banks with original maturities less than one months	243 361 620	239 692 860
Mandatory cash balances with the Central Bank of the Russian Federation	1 933 427	1 208 883
Trading securities and repurchase receivable		
Government securities	29 912 003	27 560 641
State-controlled companies	12 730 441	10 149 968
Securities available for sale		
Government securities	1 001 500	-
State-controlled companies	102 115	-
Loans and advances to customers		
State-controlled companies	7 099 927	6 294 521
Key management and their family members	3 868	3 985
Due to other banks		
Current term placements from state-controlled banks	64 260 934	61 965 881
Current placements from CBRF	36 112	36 112
Customer accounts		
State-controlled companies	108 854 662	102 144 882
Key management and their family members	367 028	288 902

Aggregate amounts lent to and repaid by related parties during 2006 were:

In thousands of Russian Roubles	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 072 313 259	1 063 339 161
Nostro accounts and placements with state-controlled banks with original maturity less than one months	141 273 233	141 075 766
Mandatory cash balances with the Central Bank of the Russian Federation	1 309 024	76 315
Trading securities and repurchase receivable		
Government securities	11 840 249	11 327 185
State-controlled companies	4 435 242	4 168 776
Due from other banks		
Current term placements with state-controlled banks	100 000	100 000

Loans and advances to customers		
State-controlled companies	8 760 938	4 768 423
Key management and their family members	808	1 535
Due to other banks		
Current term placements from state-controlled banks	62 106 751	62 328 032
Current term placements from the CBRF	67 051	67 051
Customer accounts		
State-controlled companies	58 413 952	56 241 678
Key management and their family members	182 521	109 613

In 2007, the total remuneration of the members of the Management Board was RR 168 715 thousand (2006: RR 96 220 thousand).

In thousands of Russian Roubles	2007		2006	
	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	152 629	9 218	85 513	6 671
Post-employment benefits:				
- Defined contribution retirement scheme	6 300	-	3 520	-
- State pension costs	568	-	516	-
Total	159 497	9 218	89 549	6 671

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

37. PRINCIPAL CONSOLIDATED SUBSIDIARY AND SPECIAL PURPOSE ENTITY

As at 31 December 2007, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership	Country of incorporation
Subsidiary				
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99,47%	99,47%	Russia
Special purpose entity				
RSHB Capital S.A.	Eurobond issue	-	-	Luxembourg

RSHB Capital S.A. was registered in Luxembourg in 2005. The Company is owned by the foundations established under the laws of the Netherlands and has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to the Note 18 and 21).

38. MANAGEMENT OF CAPITAL

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to ensure the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Group's report prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	2007	2006
Net assets under Russian legislation	31 179 151	22 160 537
Revaluation reserve	2 009 546	-
Subordinated debts	17 182 340	10 679 589
Other	(181 843)	(5 000)
Total regulatory capital	50 189 194	32 835 126

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel I. The composition of the Group's capital calculated in accordance with Basle Accord is as follows:

In thousands of Russian Roubles	2007	2006
Share capital	28 477 833	21 620 833
Retained earnings	4 435 587	308 366
Total tier 1 capital	32 913 420	21 929 199
Revaluation reserves	909 493	-
Subordinated loan	16 456 710	10 964 600
Total tier 2 capital	17 366 203	10 964 600
Total capital	50 279 623	32 893 799

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Bank of Russia and loan covenants.

39. SUBSEQUENT EVENTS

In February 2008, the Bank issued domestic bonds denominated in Russian Roubles in the amount of RR 5 000 000 thousand, maturing in February 2018 with semi-annual payment of coupon income at 8.75% p.a. In April 2008, the Group issued Eurobonds denominated in Swiss Francs in the total amount of CHF 150 000 thousand. These borrowings mature in 4 years and have coupon rate of 6,263% p.a. payable annually. In April 2008 the Group's share capital was increased in amount of RR 2 000 000 thousand.

Name in Russian:
Открытое акционерное общество «Российский Сельскохозяйственный банк»
Name in English:
Russian Agricultural Bank
Date of Registration: April 24, 2000
Registration Authority: Central Bank of the Russian Federation
Registered Address of Head Office: 3 Gagarinsky Pereulok, 119034 Moscow, Russia
Tel/Fax: + 7 495 363 06 53
SWIFT: RUAGRUMM
Telex: 485493 RSB RU
Internet website: www.rusagrobank.com
E-mail: fininst@rshb.ru, ir_rusagrobank@rshb.ru

LICENSES:
General Banking License number 3349 of 25.07.2007
License number 077-08455-100000 of 19.05.2005 of the professional security market player to fulfill brokerage activity
License number 077-08456-010000 of 19.05.2005 of the professional security market player to fulfill dealer activity
License number 077-08461-000100 of 19.05.2005 of the professional security market player to fulfill depositary activity

Appointed Auditor
ZAO PricewaterhouseCoopers Audit
Address: 52, bld. 5 Kosmodamianskaya Nab., 115054 Moscow, Russia

NOSTRO CORRESPONDENT ACCOUNTS OF RUSSIAN AGRICULTURAL BANK

Correspondent	Currency	Account No.	SWIFT
JPMorgan Chase Bank, NY	USD	400-807408	CHAS US 33
Commerzbank AG, Frankfurt am Main	EUR	400886853100EUR	COBA DE FF
DZ Bank AG, Frankfurt am Main	EUR USD	EUR 0000140450 USD 0001140450	GENO DE FF
VTB Bank (Deutschland) AG, Frankfurt am Main	EUR USD GBP NOK CFH	0104678396 0104678412 0104678420 0104678438 0104678446	OWHB DE FF
Belagroprombank, Minsk	BYB	1702080840014	BAPBBY 2X