

DALCOM BANK

Financial Statements and Independent Auditor's Report

31 December 2007

Dalcom Bank
Financial Statements and Independent Auditor's Report

Contents

Statement of Management Responsibilities

Independent Auditor's Report

Balance Sheet	1
Income Statement	2
Statement of Cash Flows	3
Statement of Changes in Equity	4
Notes to the Financial Statements	
1 Principal Activities	5
2 Operating Environment of the Bank	5
3 Basis of Presentation	5
4 Significant Accounting Policies	8
5 Cash and Cash Equivalents	14
6 Securities	14
7 Due from Banks	15
8 Loans and Advances to Customers	15
9 Balances on Factoring Accounts	19
10 Accrued Interest Income and Other Assets	19
11 Premises and Equipment	20
12 Due to Other Banks	21
13 Customer Accounts	21
14 Other Borrowed Funds	22
15 Accrued Interest Expense and Other Liabilities	23
16 Deferred Tax Liability	23
17 Share Capital	23
18 Accumulated Deficit and Other Reserves	24
19 Interest Income and Expense	24
20 Net Allowance for Impairment Losses on Loans and Factoring Accounts	25
21 Net Fee and Commission Income	25
22 Operating Expenses	25
23 Taxation	26
24 Financial Risk Management	27
25 Contingencies, Commitments and Derivative Financial Instruments	33
26 Related Parties	34
27 Capital Adequacy	39
28 Post Balance Sheet Events	41

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

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



V.N. Abouzyarova,
First Vice President



A.P. Kouleshov,
Chief Accountant

5 May 2008

INDEPENDENT AUDITOR'S REPORT

To the Management and the Board of Directors of Dalcom Bank:

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

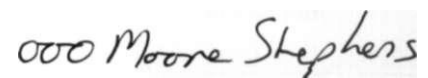
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

Opinion

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



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Vladivostok, 690003
Russian Federation

OOO Moore Stephens

5 May 2008

Dalcom Bank
Balance Sheet as at 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Assets			
Cash and cash equivalents	5	2,308,371	1,662,305
Mandatory cash balances with the CBRF		205,550	207,911
Securities	6	537,817	858,326
Due from banks	7	3,170,550	401,580
Loans and advances to customers	8	9,813,076	8,280,796
Balances on factoring accounts	9	309,007	56,889
Accrued interest income and other assets	10	113,354	87,074
Deferred tax asset	16	-	30,450
Premises and equipment	11	584,087	408,635
Total assets		17,041,812	11,993,966
Liabilities and equity			
Due to other banks	12	931,476	21,042
Customer accounts	13	14,257,483	11,079,111
Promissory notes		33,076	23,066
Other borrowed funds	14	778,760	283,167
Accrued interest expense and other liabilities	15	117,233	99,389
Deferred tax liability	16	55,835	-
Total liabilities		16,173,863	11,505,775
Equity			
Share capital	17	788,207	618,007
Share premium		29,293	27,591
Treasury shares		-	(12,750)
Revaluation reserve		231,368	176,677
Accumulated deficit and other reserves	18	(180,919)	(321,334)
Total equity		867,949	488,191
Total liabilities and equity		17,041,812	11,993,966
Total credit related commitments	25	271,793	261,592

Approved on 5 May 2008



V.N. Abouzyarova, First Vice President



A.P. Kouleshov, Chief Accountant

Dalcom Bank
Income Statement for the Year Ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Interest income	19	1,703,778	1,492,393
Interest expense	19	(778,961)	(582,732)
Net interest income		924,817	909,661
Allowance for impairment on loans and factoring balances	20	(48,398)	(190,987)
Net interest income after allowances for impairment		876,419	718,674
Net fee and commission income	21	469,157	355,743
Gains less losses arising from dealing in foreign currencies		66,937	72,806
Other operating income		19,894	15,167
Gains less losses arising from trading of precious metals		7,045	10,129
Gains less losses arising from securities		31,796	6,384
Net foreign exchange translation loss		(5,397)	(4,322)
Operating income		1,465,851	1,174,581
Operating expenses	22	(1,085,951)	(937,402)
Value transfer on loans at below commercial rates	4(e)	(35,741)	(31,295)
Value transfer on subordinated deposits placed with the Bank at below commercial rates	4(k)	14,078	
Profit before taxation		358,237	205,884
Taxation	23	(138,531)	(66,878)
Net profit for the year		219,706	139,006

Dalcom Bank
Statement of Cash Flows for the Year Ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	2007	2006
Cash flows from operating activities			
Interest received		1,663,666	1,533,591
Interest paid		(778,909)	(531,762)
Net gains arising from dealing in securities		87,827	30,337
Income received from dealing in foreign currencies		66,937	72,793
Income from trading of precious metals		7,045	10,129
Net fees and commissions received		469,157	355,745
Other operating income received		19,894	15,167
Operating expenses paid		(1,002,548)	(868,797)
Income tax paid		(68,941)	(37,750)
Cash flows from operating activities before changes in operating assets and liabilities		464,128	579,453
Net cash increase/(decrease) from changes in operating assets and liabilities			
Net decrease in mandatory balances with CBRF		2,361	7,672
Net decrease / (increase) in securities		314,990	(648,605)
Net increase in due from banks		(2,768,970)	(288,000)
Net increase in loans and factoring balances		(1,890,542)	(1,536,249)
Net increase in due to other banks		910,434	15,582
Net increase in customer accounts		3,688,043	1,687,436
Net increase / (decrease) in Promissory notes		10,009	(10,916)
Net change in other assets and liabilities		(38,327)	(216,958)
Net cash generated by / (used in) operating activities		692,126	(410,585)
Cash flows from investing activities			
Purchase of premises and equipment		(145,820)	(69,627)
Proceeds from sale of fixed assets and investments		2,373	623
Net cash used in investing activities		(143,447)	(69,004)
Cash flows from financing activities			
Issue of shares		171,902	
Net cash inflow from transactions with treasury shares		12,750	8,534
Dividends paid	17	(81,868)	(27,285)
Net cash generated by / (used in) financing activities		102,784	(18,751)
Effect of changes in exchange rate		(5,397)	(4,322)
Net change in cash and cash equivalents		646,066	(502,662)
Cash and cash equivalents, beginning of the year		1,662,305	2,164,967
Cash and cash equivalents, end of the year	5	2,308,371	1,662,305

Dalcom Bank
Statement of Changes in Equity for the Year Ended 31 December 2007
(in thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Revaluation reserve	Accumulated deficit and other reserves	Total equity
1 January 2006	399,731	(21,284)	27,591	147,851	(216,908)	336,981
Transfer of retained earnings to share capital (Note 17)	218,276				(218,276)	
Treasury shares		8,534				8,534
Revaluation (Note 11)				40,730		40,730
Deferred tax on revaluation (Note 16)				(9,775)		(9,775)
Release from revaluation reserve - annual release (Note 4h)				(2,129)	2,129	
Net profit					139,006	139,006
Dividends (Note 17)					<u>(27,285)</u>	<u>(27,285)</u>
	<u>618,007</u>	<u>(12,750)</u>	<u>27,591</u>	<u>176,677</u>	<u>(321,334)</u>	<u>488,191</u>
31 December 2006						
Issue of shares (Note 17)	170,200		1,702			171,902
Treasury shares		12,750				12,750
Revaluation (Note 11)				75,353		75,353
Deferred tax on revaluation (Note 16)				(18,085)		(18,085)
Release from revaluation reserve - annual release (Note 4h)				(2,577)	2,577	
Net profit					219,706	219,706
Dividends (Note 17)					<u>(81,868)</u>	<u>(81,868)</u>
	788,207		29,293	231,368	<u>(180,919)</u>	867,949
31 December 2007						

The availability of the Bank's retained earnings for distribution to shareholders is determined by Russian regulations and by shareholders' decisions and does not correspond to the figures presented above (Note 18).

A reconciliation of equity and net profit per Russian Accounting Standards ("RAS") and IFRS is set out in Note 3(c).

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

1. Principal Activities

Dalcom Bank (the "Bank") is a commercial bank owned by shareholders whose liability is limited. It was granted a licence to conduct banking operations by the Central Bank of the Russian Federation (CBRF) on 25 April 1989. The bank was re-incorporated as an Open Joint Stock Company on 8 February 1999 and obtained a new banking licence on the same date. Its general banking licence was last renewed on 10 November 2002. The Bank also has an agreement with the CBRF allowing it to deal in Government securities and a licence to trade precious metals renewed in November 2002.

At 31 December 2007 the Bank operated a head office and 7 branches located in Khabarovskii Krai, Birobidgan, Tynda, Blagoveschensk, Vladivostok, Yakutsk and Irkutsk. The Bank's registered office is 27 Gogolya Street, Khabarovsk, 680000, Russian Federation.

At 31 December 2007 the Bank had 1,430 employees (2006: 1,332).

In the opinion of Management the Bank had no single controlling party at the balance sheet date. The Bank has no parent company preparing consolidated financial statements. Attention is drawn to Note 28 concerning changes after the balance sheet date.

2. Operating Environment of the Bank

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

3. Basis of Presentation

a) Basis of Presentation

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

b) Functional and Presentation Currency

Accounting records of the Bank are maintained in Russian roubles ("RUB") and the RUB is also considered to be the functional currency for the purpose of IFRS financial statements as Management believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank.

Actual exchange rates applied in translation of transactions and balances initially denominated in other currencies to the RUB are detailed in Note 4(s).

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

3. Basis of Presentation (Continued)

c) Reconciliation of equity and net profit between Russian Accounting Standards ("RAS") and IFRS

	2007		2006	
	Equity	Net profit	Equity	Net profit
RAS	1,091,229	109,805	837,323	136,107
Depreciation and other expenses related to fixed assets	(41,528)	3,758	(44,317)	602
Tax liabilities, including profit tax	159,943	(67,265)	156,280	27,399
Effect of accrued interests	2,417	(14,125)	3,941	(12,028)
Allowance for loans and fair value adjustment	(346,384)	182,758	(415,333)	(72,688)
Effect of securities deals adjustments	(69,614)	(8,361)	(70,892)	2,428
Personnel related expenses and accruals	(12,986)	(2,603)	(9,934)	1,575
Other	84,872	15,739	31,123	55,611
IFRS	867,949	219,706	488,191	139,006

d) Fair value of financial instruments

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their estimated fair values. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arms length transaction between willing parties at year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement. The specific valuation methodologies applied to these instruments are outlined below. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

e) Changes in accounting policies

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

f) Critical accounting estimates and judgements in applying accounting policies

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

Impairment losses on loans to customers

The Bank reviews loans to customers on a quarterly basis for evidence of impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. When an impairment is required to be recognised it is based on Management's estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry arrears statistics by industry and region.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

3. Basis of Presentation (Continued)

f) Critical accounting estimates and judgements in applying accounting policies (Continued)

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

Impairment losses on receivables other than loans

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

Value transfer on loans and subordinated deposits below commercial rates

In assessing the value transferred on loans and subordinated deposits at less than commercial rates Management makes judgements regarding normal market rates. Such transactions are usually made with related parties although they may be undertaken for other commercial reasons. Judgements are generally based on Management's experience and knowledge of the markets in which the Bank operates.

Fair values of securities

The Bank applies market bid prices where these are available. Where they are not available it uses valuation techniques or, as a last resort, estimates.

Non-consolidation

The Bank, directly or via its controlling parties, controls or exerts influence over a small number of other entities, mostly with no direct holding of shares, whose operations are in some way related to the Bank. There are also several related parties which are related to the Bank through joint directors and Management (see Note 26). The level of control exerted varies by entity and is subject to Management judgement of whether the entities' operating policies and activities are being governed by the Bank. Management has considered whether or not IFRS require the Bank to produce consolidated financial statements consolidating the balances and results of any of these entities and has concluded that consolidation is not required. In the light of the above Management has decided not to produce consolidated financial statements. This decision is reviewed on an annual basis.

Valuation of buildings

Management of the Bank uses external experts to estimate the fair value of buildings. The financial effect of this estimation is recognised directly in equity.

Depreciation

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

Financial assets

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

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

3. Basis of Presentation (Continued)

g) Standards, interpretations and amendments that are not yet effective

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

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

Management has considered the issue of interpretations of the standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Bank.

The Bank will adopt these standards when they become effective.

4. Significant Accounting Policies

a) Cash and cash equivalents

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

b) Mandatory balances with CBRF

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

c) Securities

The Bank classifies securities into three categories:

- Securities at fair value through profit and loss
- Securities available for sale
- Securities held to maturity

The Bank classifies securities according to management intentions at the acquisition date.

Because of the inherent settlement risk of the securities market, purchases and sales of securities are recorded on the date when ownership is transferred.

Securities are initially measured at their fair values. For securities which are subsequently re-measured to amortized cost, initial recognition at fair value is made at the transaction date.

In determining market value the securities are valued at the last trade price if quoted on an exchange, or, if traded over-the-counter, at the last bid price. If listed market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined based upon management's estimates of amounts to be realized on settlement, assuming current market conditions.

Interest income received from securities is shown in the income statement as interest income from securities.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

4. Significant Accounting Policies (Continued)

c) Securities (Continued)

Dividends received are reflected as gains less losses on securities in the income statement.

Securities at fair value through profit and loss

This category of securities includes:

- a) securities which upon initial recognition are designated by the Bank as at fair value through profit or loss, but excludes shares which are not quoted on an active market and for which fair value cannot be determined reliably
- b) securities held for trading.

Securities are classified as held for trading if they meet any of the following conditions:

- acquired or accepted principally for the purpose of selling in the short term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivatives (except for those that are designated as and are effective as hedging instruments).

Throughout their ownership securities in this category are measured at their fair value at the reporting date or revaluation date.

Changes in market values are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs.

Held to maturity investments

This category includes investments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity.

After initial recognition such securities are re-measured to amortized cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortized cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the balance sheet value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognized in profit or loss for the period.

Available for sale securities

The Bank classifies securities as available for sale if they are not classified within any of the following categories: - securities held to maturity; loans and debtors; trade securities and represent non-derivative financial assets.

After initial recognition the Bank measures available for sale securities at their fair value.

Gains or losses from changes in the fair value of available for sale securities are reflected in the statement of equity in the period in which the change occurs. On disposal of available for sale securities the relevant accumulated gains or losses are included in the income statement as gains less losses from securities. Impairment and reversal of impairment of available for sale securities are reflected in the income statement.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

4. Significant Accounting Policies (Continued)

d) Loans and advances and allowance for impairment

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

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

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

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

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

e) Discount on loans at below commercial rates

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

f) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments comprising loan commitments, letters of credit and guarantees. These contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates. The potential liability is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed.

g) Factoring transactions

Factoring balances are considered by the Bank to represent another form of lending. Factoring balances which the Bank intends to hold to maturity are stated at amortised cost with the discount against nominal value released to the income statement over the period to maturity. Allowance is made, based on Management's assessment, for balances that are considered uncollectible at the year end. The expense is charged against profit for the year. Management believes that balances presented using this accounting policy approximate to fair value.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

4. Significant Accounting Policies (Continued)

h) Fixed assets

An item of property, plant and equipment is recognized as an asset if:

- a) it is probable that future economic benefits associated with the item will flow to the entity, and
- b) the cost of the item can be measured reliably.

Fixed Assets are initially measured at their cost which includes expenses to acquire the assets and direct costs.

After initial recognition fixed assets are measured as follows:

- Premises are stated at revalued amounts equaling fair values at the revaluation date less accumulated impairment loss and depreciation. Fair value for this class of assets is assessed by management and supported by independent professional valuers.
- Other classes of fixed assets are stated at their historical cost less accumulated depreciation and impairment loss.

Revaluation of fixed assets is carried out for the whole class of assets to which a particular fixed asset relates to. The category "buildings and construction" is revalued at least once a year.

Any surplus on revaluation is taken directly to the "revaluation reserve" and forms part of equity. Any revaluation surplus that reverses an earlier loss recognized through the income statement is taken to the income statement.

Losses arising on downwards revaluations of buildings and construction are recognized as an expense in the income statement. Losses on revaluation that reverse previous surpluses in respect of the same asset are taken directly to the revaluation reserve to reduce the surplus.

The revaluation reserve arising on fixed assets is released to retained earnings on a straight-line basis over the remaining anticipated useful lives of the assets or on disposal if earlier.

Assets under construction are accounted at historical cost. When construction is completed, assets are transferred to fixed assets and shown at their balance sheet value at the date of transfer.

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

i) Depreciation

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

Premises:	3 - 14% per annum;
Office and computer equipment:	5 - 32% per annum;

j) Promissory notes

Promissory notes, more commonly known as "veksels", are instruments issued by the Bank to its customers which carry a fixed date of repayment or mature on demand.

Such financial liabilities are initially measured at fair value and then re-measured at amortised cost using the effective interest method. Where the instruments are issued at rates of interest below the normal commercial rate, they are discounted to fair value based on market rates of interest.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

4. Significant Accounting Policies (Continued)

j) Promissory notes (Continued)

The financial impact of this discount is shown as a separate item on the face of the income statement. Any subsequent amortisation passes through the income statement as interest expense. Such transactions are all entered into with related parties. Interest accrued on the financial instruments is included in other liabilities.

The Bank also purchases Promissory notes from its customers or in the market. These bills are initially recognised at fair value and subsequently re-measured to amortised cost using the effective interest method. Allowance is made, based on Management's assessment, for bills where objective evidence of impairment exists. Purchased Promissory notes are included within the balance sheet in securities or in loans and advances to customers or to banks, depending on their substance.

k) Discount on subordinated deposits at below commercial rates

Where subordinated deposits are placed with the Bank at rates of interest below normal commercial rates, deposits are discounted to fair value based on market rates of interest. The effect of this is shown as a separate item on the face of the income statement. Such deposits are subsequently measured at amortised cost using the effective interest method with such change being treated as interest paid through income statement. Such transactions are largely entered into with related parties although they may also be conducted for other commercial reasons.

l) Operating leases

Payments made under operating leases are charged against income in equal instalments over the period of the lease.

m) Software expenses

Expenses relating to use of software are recognised as expenses when they are incurred. Intangible assets are costs directly connected with identifiable and unique software which is controlled by Bank and when there is high degree of probability that it will provide economic benefits in excess of expenses over a period of more than one year. Direct expenses include costs associated with software developers and a relevant portion of overheads. Expenses on modernisation of intangible assets are capitalised. Intangibles are amortised on a straight-line basis over useful life not exceeding 10 years.

n) Share premium

Share premium represents the excess of contributions made by shareholders over the nominal value of the shares issued.

o) Treasury shares

Shares of the Bank that are owned by the Bank or effectively held on its behalf by other parties are designated as treasury shares. The cost of such shares is shown as a reduction to shareholders' equity. Gains and losses arising on disposal of such shares are shown as adjustments to retained earnings.

p) Dividends

Dividends payable are not accounted for until they have been ratified at the Bank's Annual Shareholders' Meeting. The statutory accounting reports of the Bank are the basis for profit distribution (see Note 18) and other appropriations.

q) Income taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax.

Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

4. Significant Accounting Policies (Continued)

q) Income taxes (Continued)

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

r) Income and expense recognition

Interest income and expense are recognised in the income statement on the accrual basis. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. Fees, commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

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

s) Foreign currency translation

Transactions denominated in currencies other than the RUB ("foreign currencies") are recorded in RUB at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement using the exchange rate ruling on that date. Monetary assets and liabilities denominated in foreign currency are translated into RUB at the official exchange rate of the CBRF at the balance sheet date.

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the income statement as foreign exchange translation gains less losses. As at 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 to RUB 24.5462 (2006: 26.3311).

t) Offsetting

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

u) Pension costs

The Bank contributed to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions amount to 20% of employees' gross salaries, and are expensed as incurred. The contributions are included in staff costs.

v) Comparative information

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

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

5. Cash and Cash Equivalents

	<u>2007</u>	<u>2006</u>
Cash on hand	1,277,240	976,960
Other market placements	6,006	8,647
Balances with the CBRF (other than mandatory reserve and deposits)	389,615	581,842
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	323,429	55,915
Other countries	312,081	38,941
	<u>2,308,371</u>	<u>1,662,305</u>

Geographic and currency analysis, the interest rates and the maturity structure are detailed in Note 24.

6. Securities

	<u>2007</u>	<u>2006</u>
Securities measured at fair value through profit or loss		
Regional government bonds	294,109	225,364
CBRF bonds	220,677	609,435
Corporate shares	23,031	23,527
	<u>537,817</u>	<u>858,326</u>
Available for sale		
Equity investments	170	170
Less: Impairment allowance	(170)	(170)
	<u>537,817</u>	<u>858,326</u>

Regional government bonds are securities issued by regional governments of Russian Federation denominated in RUB.

CBRF bonds represent RUB denominated securities with a maturity date of 17 March 2008. The issuer offered them at a discount of 5% with subsequent repurchase at par value.

Corporate shares are shares of Russian companies traded on the Moscow Interbank Currency Exchange ("MICEX") and the Russian Trading System ("RTS").

The following table provides details of the Bank's securities as at 31 December 2007:

	Maturity		Coupon rate per annum		Yield to maturity	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
Regional government bonds	11 March 2008	17 November 2012	7.60	12.50	1.15	8.31
CBRF discount bonds	17 March 2008	17 March 2008	-	-	5.01	5.01

Geographical and currency analysis, effective interest rates and maturity structure of securities are disclosed in Note 24.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

7. Due from Banks

	2007	2006
Deposits with the CBRF (other than mandatory reserves)	1,028,000	400,000
Interbank loans	765,000	
Term deposits	<u>1,377,550</u>	<u>1,580</u>
	3,170,550	<u>401,580</u>

Included in term deposits are deposits placed with VTB and East-West United Bank. Deposits placed in VTB comprise one EUR deposit at fixed interest rate 4.85% and three RUB deposits with interest rates from 4.25% to 6.00%. Deposits placed with East-West United Bank comprise one USD deposit at a fixed interest rate of 4.90% and two RUB deposits at a fixed interest rate of 5.50%.

Geographic, interest, maturity and currency analysis is given in Note 24.

8. Loans and Advances to Customers

	2007	2006
Current loans	8,560,400	6,695,336
Overdue but not impaired loans	795,940	570,004
Impaired loans not past due	1,234,727	1,759,850
Gross loans and advances to customers	<u>10,591,067</u>	<u>9,025,190</u>
Less: allowance for impairment	(777,991)	(744,394)
Net loans and advances to customers	<u>9,813,076</u>	<u>8,280,796</u>

The estimated value of collateral taken to secure the Bank's loan portfolio amounted to 13,269,401 (2006 10,582,348).

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

	<u>2007</u>	<u>2006</u>
1 January	744,394	554,400
Net movement in allowance for impairment loss (Note 20)	<u>33,597</u>	<u>189,994</u>
	<u>777,991</u>	<u>744,394</u>

Loans and advances to customers being overdue for less than 90 days are not impaired unless there is other objective evidence of impairment.

Interest accrued on loans to legal entities individually assessed for impairment was as follows:

	<u>2007</u>	<u>2006</u>
Impaired loans	905,559	1,506,156
Interest on impaired loans	83,456	44,489

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (Continued)

Loans overdue but for which no impairment allowance was deemed necessary

Loans to legal entities which were overdue but for which no impairment allowance was deemed necessary and estimated value of collateral taken by the Bank to secure such loans as at 31 December 2007 were as follows:

	Overdue but not impaired loans to legal entities		
	Corporate loans	Express loans	Total
Overdue loans with maturity less than 30 days	101,174	20,820	121,994
Estimated value of collateral taken as security	243,484	23,193	266,677

Loans to legal entities which were overdue but for which no impairment allowance was deemed necessary and estimated value of collateral taken by the Bank to secure such loans as at 31 December 2006 were as follows:

	Overdue but not impaired loans to legal entities		
	Corporate loans	Express loans	Total
Overdue loans with maturity less than 30 days	112,134	599	112,733
Estimated value of collateral taken as security	227,636	-	227,636

Loans to individuals which were overdue but for which no impairment allowance was deemed necessary and estimated value of collateral taken by the Bank to secure such loans as at 31 December 2007 were as follows:

	Overdue but not impaired loans to individuals			
	Overdraft	Express loans	Mortgage loans	Total
Overdue loans with maturity less than 30 days	28	498,282	55,447	553,757
Overdue from 31 to 90 days		117,420	2,769	120,189
	28	615,702	58,216	673,946
Estimated value of collateral taken as security		83,228	72,482	155,710

Loans to individuals which were overdue but for which no impairment allowance was deemed necessary and estimated value of collateral taken by the Bank to secure such loans as at 31 December 2006 were as follows:

	Overdue but not impaired loans to individuals		
	Express loans	Mortgage loans	Total
Overdue loans with maturity less than 30 days	368,858	4,545	373,403
Overdue loans from 31 to 90 days	80,963	1,904	82,867
	449,821	6,449	456,270
Estimated value of collateral taken as security	37,077	13,710	50,787

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (Continued)

Loans individually assessed as impaired but not past due

Loans to legal entities individually assessed as impaired but not past due and estimated value of collateral taken by the Bank to secure such loans as at 31 December of 2007 were as follows:

Impaired but not past due loans to legal entities

	Corporate loans	Express loans	Total
Individually assessed for impairment	903,051	2,508	905,559
	903,051	2,508	905,559
Estimated value of collateral taken as security	3,054,648	4,138	3,058,786

Loans to legal entities individually assessed as impaired but not past due and estimated value of collateral taken by the Bank to secure such loans as at 31 December of 2006 were as follows:

Impaired loans to legal entities

	Corporate loans	Express loans	Total
Individually assessed for impairment	1,506,075	81	1,506,156
	1,506,075	81	1,506,156
Estimated value of collateral taken as security	3,238,697		3,238,697

Loans to individuals individually assessed as impaired and estimated value of collateral taken by the Bank to secure loans as at 31 December of 2007 were as follows:

Impaired loans to individuals

	Express loans	Mortgage loans	Total
Individually assessed for impairment	48,891	3,181	52,072
	48,891	3,181	52,072
Estimated value of collateral taken as security		2,124	2,124

Loans to individuals as at 31 December of 2006 were not individually assessed for impairment by the Bank.

During the year ended 31 December 2007 the Bank renegotiated mortgage loans to individuals that would otherwise be past due or impaired of 7,644 (2006: 34,892).

Dalcom Bank
Notes to the Financial Statements • 31 December 2007
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (Continued)

Loans individually assessed as impaired but not past due

Loans to legal entities individually assessed as impaired but not past due and estimated value of collateral taken by the Bank to secure such loans as at 31 December of 2007 were as follows:

Impaired but not past due loans to legal entities			
	Corporate loans	Express loans	Total
Individually assessed for impairment	903,051	2,508	905,559
	903,051	2,508	905,559
Estimated value of collateral taken as security	3,054,648	4,138	3,058,786

Loans to legal entities individually assessed as impaired but not past due and estimated value of collateral taken by the Bank to secure such loans as at 31 December of 2006 were as follows:

Impaired loans to legal entities			
	Corporate loans	Express loans	Total
Individually assessed for impairment	1,506,075	81	1,506,156
	1,506,075	81	1,506,156
Estimated value of collateral taken as security	3,238,697		3,238,697

Loans to individuals individually assessed as impaired and estimated value of collateral taken by the Bank to secure loans as at 31 December of 2007 were as follows:

Impaired loans to individuals			
	Express loans	Mortgage loans	Total
Individually assessed for impairment	48,891	3,181	52,072
	48,891	3,181	52,072
Estimated value of collateral taken as security		<u>2,124</u>	<u>2,124</u>

Loans to individuals as at 31 December of 2006 were not individually assessed for impairment by the Bank.

During the year ended 31 December 2007 the Bank renegotiated mortgage loans to individuals that would otherwise be past due or impaired of 7,644 (2006: 34,892).

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (Continued)

An analysis of the Bank's corporate loan portfolio by exposure to borrower as at 31 December 2007 is set out below:

Loan outstanding balance range	Amount	Number of loans	%
Less than 50	1,931	57	-
From 51 to 100	5,054	66	-
From 101 to 500	115,168	403	2
From 501 to 1,000	195,548	258	3
From 1,001 to 3,000	834,180	429	15
From 3,001 to 5,000	1,079,435	257	19
From 5,001 to 10,000	446,715	59	8
From 10,001 to 50,000	1,410,771	62	25
From 50,001 to 100,000	443,302	7	8
More than 100,000	1,117,318	6	20
	5,649,422	1,604	100

An analysis of the Bank's corporate loan portfolio by exposure to borrower as at 31 December 2006 is set out below:

Loan exposure range	Amount	Number of loans	%
Less than 50	1,398	41	-
From 51 to 100	6,417	84	-
From 101 to 500	117,462	442	2
From 501 to 1,000	183,345	245	3
From 1,001 to 3,000	421,389	230	8
From 3,001 to 5,000	401,251	103	7
From 5,001 to 10,000	340,827	47	7
From 10,001 to 50,000	1,135,495	52	21
From 50,001 to 100,000	579,369	8	11
More than 100,000	2,255,046	12	41
	5,441,999	1,264	100

The Bank had 2 borrowers who accounted for more than 5% (528,160) of the loan portfolio as at 31 December 2007 (2006: 2 borrowers for 478,000). The ten largest borrowers then accounted for 984,114 or 9% in 2007 (2006: 927,812 or 17%).

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

	2007		2006	
	Amount	%	Amount	%
Individuals	4,941,646	47	3,583,191	40
Express loans to legal entities	1,721,761	16	588,998	6
Trade	1,642,751	15	1,354,978	15
Manufacturing	1,124,606	11	1,885,873	21
Communication and transport	291,906	3	616,853	7
Finance and investment	264,401	2	356,998	4
Fishing	78,835	1	164,136	2
Municipal bodies	69,226	1	87,823	1
Energy companies	-	-	4,400	-
Other	455,935	4	381,940	4
	10,591,067	100	9,025,190	100

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (Continued)

The CBRF quantifies loans by reference to a five rating system of credit quality from I to V in descending order of quality. Loans by reference to this system were as follows:

	<u>2007</u>	<u>2006</u>
Category I	6,968,562	3,628,220
Category II	1,733,135	3,390,773
Category III	837,626	740,931
Category IV	246,438	547,117
Category V	805,306	718,149
	<u>10,591,067</u>	<u>9,025,190</u>

Geographic and currency analysis, the interest rates and the maturity structure of the loan portfolio are detailed in Note 24. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 26.

9. Balances on Factoring Accounts

	<u>2007</u>	<u>2006</u>
Factoring accounts without recourse	334,169	63,368
Unamortised discount	-	4,389
	<u>334,169</u>	<u>67,757</u>
Less: Allowance for impairment loss from factoring operations	<u>(25,162)</u>	<u>(10,868)</u>
	<u>309,007</u>	<u>56,889</u>

Besides factoring accounts, the Bank issued loans in the form of cession as rights of demand on mortgage agreements to the amount 301,599 (2006: nil).

Movements in the allowance for impairment loss from factoring operations are as follows:

	<u>2007</u>	<u>2006</u>
1 January	10,868	9,907
Net movement during the year (Note 20)	<u>14,294</u>	<u>961</u>
	<u>25,162</u>	<u>10,868</u>

10. Accrued Interest Income and Other Assets

	<u>2007</u>	<u>2006</u>
Accrued interest income	76,821	65,255
Accrued coupon on securities	-	2,588
Debtors and prepayments	31,149	13,528
Precious metals	5,372	4,772
Other	<u>520</u>	<u>1,366</u>
	<u>113,862</u>	<u>87,509</u>
Less. Allowance for impairment	<u>(508)</u>	<u>(435)</u>
	<u>113,354</u>	<u>87,074</u>

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

10. Accrued Interest Income and Other Assets (Continued)

Movements in the allowance for impairment loss are as follows:

	2007	2006
1 January	435	414
Charge during the year (Note 22)	73	21
	508	435

11. Premises and Equipment

	Premises	Office and computer equipment	Total
Cost or valuation			
At 1 January 2006	263,697	194,639	458,336
Additions	37,260	32,367	69,627
Disposals	(54)	(3,416)	(3,470)
Revaluation	32,895		32,895
At 31 December 2006	333,798	223,590	557,388
Additions	89,328	56,492	145,820
Disposals	(2,273)	(6,051)	(8,324)
Revaluation	64,186		64,186
At 31 December 2007	485,039	274,031	759,070
Accumulated depreciation			
At 1 January 2006	1,674	119,762	121,436
Depreciation charge (Note 22)	8,800	29,196	37,996
Disposals	(7)	(2,839)	(2,846)
Eliminated on revaluation	(7,833)		(7,833)
At 31 December 2006	2,634	146,119	148,753
Depreciation charge (Note 22)	12,306	31,043	43,349
Disposals	(234)	(5,718)	(5,952)
Eliminated on revaluation	(11,167)		(11,167)
At 31 December 2007	3,539	171,444	174,983
Net book values			
31 December 2007	481,500	102,587	584,087
31 December 2006	331,164	77,471	408,635

Fixed assets of the Bank were insured for 352,313 at 31 December 2007 (2006: 298,659) with a Russian insurance company.

Valuations for the buildings have been made on an open market basis by recognised firms of valuers. The carrying amount at which the buildings (including those purchased in 2007) would have been included in the financial statements, had the assets been carried at cost less accumulated depreciation, is 169,655 (2006: 84,857).

Details concerning the lease of fixed assets from related parties are disclosed in Note 26.

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

12. Due to Other Banks

	2007	2006
Loans from:		
Russian banks	559,583	
Foreign banks	<u>250,000</u>	-
	809,583	
Vostro accounts with:		
Russian banks	2,598	3,852
Foreign banks	<u>119,295</u>	<u>17,190</u>
	121,893	21,042
	<u>931,476</u>	<u>21,042</u>

Included in loans from other banks are short-term loans received from MBRD and East-West United Bank. Loans received from MBRD comprise one USD loan at a fixed interest rate of 4.4% and one RUB loan at a fixed interest rate of 5.0%. The loan received from East-West United Bank is denominated in RUB at a fixed interest rate of 6.5%.

Geographic and currency analysis, the interest rates and maturity structure of Due to Other Banks are detailed in Note 24.

13. Customer Accounts

	2007	2006
State and public organisations		
Current/settlement accounts	374,645	452,548
Term deposits	<u>46,490</u>	<u>68,553</u>
	421,135	521,101
Other legal entities		
Current/settlement accounts	3,305,754	1,722,444
Term deposits	<u>669,274</u>	<u>733,526</u>
	3,975,028	2,455,970
Individuals		
Current/demand accounts	2,351,165	1,872,724
Term deposits	<u>7,510,155</u>	<u>6,229,316</u>
	9,861,320	8,102,040
	<u>14,257,483</u>	<u>11,079,111</u>

In the financial statements for 2006 subordinated loans amounting 283,167 were included in term deposits of legal entities, but in these financial statements are disclosed as other borrowed funds in Note 14 which Management believe gives a more accurate presentation. Comparatives for customer accounts were changed for the purposes of these financial statements.

Deposits and current accounts of the Bank's two largest depositors accounted for 683 million or 4.79% of the overall balance as at 31 December 2007 (2006: 270 million or 2.37%).

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

15. Accrued Interest Expense and Other Liabilities

	2007	2006
Accrued interest expense	77,851	62,292
Other accrued expenses	3,364	2,801
Taxes	9,951	17,053
Other	<u>26,067</u>	<u>17,243</u>
	<u>117,233</u>	99,389

16. Deferred Tax Liability

	2007	2006
1 January	30,450	67,962
Deferred tax liability on revaluation of fixed assets	(18,085)	(9,775)
Deferred tax expense recognised during the year (Note 22)	<u>(68,200)</u>	<u>(27,737)</u>
Net movement in deferred tax during the year	<u>(86,285)</u>	<u>(37,512)</u>
31 December	<u>(55,835)</u>	<u>30,450</u>

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

	<u>Temporary differences</u>	Tax Rate, %	<u>Deferred asset/(liability)</u>
Securities	2,430	15%	365
Loan impairment allowance	178,025	24%	42,726
Accrued expenses	26,194	24%	6,287
Premises and"equipment	(346,288)	24%	(83,110)
Other items of working capital	<u>(92,097)</u>	24%	<u>(22,103)</u>
	<u>(231,736)</u>		<u>(55,835)</u>

17. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2007		2006	
	Number of <u>shares</u>	Value	Number of <u>shares</u>	Value
Ordinary shares with nominal value of RUB 1 each, at 1 January	545,692,000	545,692	1,091,384	327,416
Issue of new ordinary shares during the period	170,200,000	170,200		
Decrease in par value of ordinary shares				218,276
Increase on conversion of ordinary shares			544,600,616	
Inflation effect of IAS 29		72,315		<u>72,315</u>
	715,892,000	788,207	545,692,000	<u>618,007</u>

At the balance sheet date, the Bank held no interest in its issued share capital (2006: 3.95%). All shares carry equal voting rights.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

17. Share Capital (Continued)

On 22 June 2007 the CBRF registered an increase in Share Capital of the Bank of RUB 17.2 million through the issue of an additional 170.2 million ordinary shares. The process of issuing the shares was exercised by the Bank as a closed subscription. Two related parties of the Bank, Innoteck and Dalnevostochnye Resources acquired 79.4 million and 90.8 million shares respectively. Contribution by Innoteck has been made in the form of premises with an aggregate revalued amount equalling the value of the shares.

See Note 28 for movements in share capital after the year end.

The Annual Shareholders Meeting of the Bank held on 6 March 2007 approved dividends for 2006 amounting in total to RUB 81,868 (0,15 roubles per share) (2006: RUB 27,285 or 25 roubles per share). See details of dividends for 2007 in Note 28.

18. Accumulated Deficit and Other Reserves

In accordance with Russian Law on banking activity, the Bank must use financial statements prepared under Russian accounting rules as the basis for calculating distributable profits. This may be used to pay dividends or be transferred to reserves. The Bank's reserves under Russian accounting rules as at 31 December 2007 were 342,926 (2006: 227,115).

19. Interest Income and Expense

	<u>2007</u>	<u>2006</u>
Interest income		
Loans and advances to legal entities	833,433	882,109
Loans and advances to individuals	779,616	573,580
Securities	50,461	28,376
Due from other banks	<u>40,268</u>	<u>8,328</u>
	<u>1,703,778</u>	<u>1,492,393</u>
Interest expense		
Term deposits of individuals	(653,769)	(487,908)
Other borrowed funds	(34,961)	(67)
Term deposits of legal entities	(78,280)	(90,045)
Current/settlement accounts	(1,475)	(2,098)
Term deposits of banks	(8,764)	(31)
Bills of exchange	<u>(1,712)</u>	<u>(2,583)</u>
	<u>(778,961)</u>	<u>(582,732)</u>
Net interest income	924,817	<u>909,661</u>

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

20. Net Allowance for Impairment Losses on Loans and Factoring Accounts

	2007	2006
Release of allowance credited to profits during the year	(1,337,378)	(1,621,256)
New allowance charged to profits during the year	1,385,776	1,812,243
Net allowance for impairment losses on loans and factoring accounts	48,398	190,987
Loans written off against the allowance during the year	(507)	(32)
Net movement in allowance during the year	47,891	190,955
Net movement for the year comprises:		
Net movement on loans and advances to customers (Note 8)	33,597	189,994
Net movement on factoring accounts (Note 9)	14,294	961
	47,891	190,955

21. Net Fee and Commission Income

	2007	2006
Fee and commission income		
Commission on settlement and foreign currency exchange transactions	196,627	146,483
Commission on cash transactions	157,284	130,672
Non-periodic loan related commissions	116,663	87,893
Other	25,162	14,906
	495,736	379,954
Fee and commission expense		
Commission-on settlement and foreign currency exchange transactions	21,352	18,779
Other	5,227	5,432
	26,579	24,211
	469,157	355,743

22. Operating Expenses

	2007	2006
Staff costs	562,283	462,155
Depreciation (Note 11)	43,349	37,996
Administrative expenses	244,521	204,240
Taxes other than on income (Note 23)	22,057	17,716
Other expenses related to premises and equipment	197,744	196,074
Advertising and marketing	15,924	19,583
Allowance for impairment of other assets (Note 10)	73	21
Release of allowance for impairment of credit related commitments	-	(383)
	1,085,951	937,402

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

23. **Taxation**

	<u>2007</u>	<u>2006</u>
Current tax charge	67,323	37,614
Under-provision of the previous year	3,008	1,527
Deferred tax movement (Note 16)	68,200	27,737
Income tax charge for the year	138,531	66,878

The income tax rate applicable to the majority of the Bank's income is 24% (2006: 24%).

The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	<u>2007</u>	<u>2006</u>
IFRS profit before tax	358,237	205,884
Adjustments to comply with IFRS:		
Increase in allowance for loan loss	148,535	323,991
Expenses from funds	73,529	42,143
Valuing securities at their market value	6,969	(2,303)
Additional depreciation due to use of higher rates	(907)	(49)
Amortised premium received on subordinated deposits	6,663	-
Net accrued interest	(27,211)	(15,969)
Accrued staff costs	2,603	1,575
Net movement on accrued expenses	(8,757)	(19,152)
Application of IAS 39 on loans issued	35,741	31,295
Effect of reversal adjustments on allowance for loan loss	(321,398)	(349,053)
Other	(90,663)	(82,255)
	<u>(174,896)</u>	<u>(69,777)</u>
Accounting profit under RAS	183,341	136,107
Adjustments for disallowable items	97,171	20,618
Taxable profit	<u>280,512</u>	<u>156,725</u>
Tax liability at 24%	<u>67,323</u>	<u>37,614</u>

Differences between IFRS and Russian taxation legislation give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2006: 24%), except for income on state securities which is taxed at 15%.

Other significant taxes borne by the Bank and included in operating expenses (Note 22) comprise:

	<u>2007</u>	<u>2006</u>
Property tax	11,505	8,658
Irrecoverable VAT	7,056	5,274
Other	<u>3,496</u>	<u>3,784</u>
	<u>22,057</u>	<u>17,716</u>

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

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management

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

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. This also equates to the fair value of the asset unless otherwise stated in the respective note to the financial statements. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Credit risk for internal measuring and reporting purposes is primarily measured by reference to the five category credit rating system required by CBRF. Information concerning the credit quality of the loan book at the balance sheet date is given in Note 8.

The Bank sets out its approach to credit risk through its formal credit policy, which establishes:

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

Credit granting is one of the main Bank's activities and in line with market demand the Bank's priority sectors of crediting are corporate crediting, retail crediting and express crediting.

One of the main methods of assessing and controlling credit risk on an ongoing basis is through the Credit Committee ('CC'). The CC meets at least weekly, and also more regularly when required. CC members comprise representatives from Bank's Management. Their objective is to review credit policy, monitor loan quality on an ongoing basis, assess loan impairment, approve large loans, approve write offs and other credit related activity.

The Bank structures the levels of credit risk it undertakes through established credit approvals, by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, through risk control limits and monitoring procedures. Such risks are monitored on a revolving monthly basis with regularity which is subject to changes in the Bank's capital and financial position of the borrower.

The maximum amount of loan that can be issued to one borrower or group of borrowers is approved by Risk management committee. The Committee members comprise representatives of the Bank's Management, department of Credit and Finance, and Risk, Analysis and Planning department. The Bank, together with the Legal department, prevents the concentration of credit risk by assessment of relations between potential and existing borrowers at the stage of loan approval. Where a relation is revealed, monitoring is conducted on the group of borrowers.

There have been no changes to objectives, policies or processes concerning credit risk in the year except where noted above.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management (Continued)

Currency risk

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

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. However, its real target is more conservative, and that is to reach only 2%. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Transactions on financial markets department and approved by Bank's Management. Any issues noted are escalated to senior Management immediately.

At 31 December 2007, the Bank had the following positions in RUB and other currencies:

	RUB	USD	Other currencies	Total
Assets				
Cash and cash equivalents	1,893,916	289,564	124,891	2,308,371
Mandatory cash balances with CBRF	205,550	-	-	205,550
Securities	537,817	-	-	537,817
Due from banks	2,910,238	242,345	17,967	3,170,550
Loans and advances to customers	9,275,362	498,249	39,465	9,813,076
Balances on factoring accounts	309,007	-	-	309,007
Accrued interest income and other assets	100,774	6,533	6,047	113,354
Fixed assets	584,087	-	-	584,087
Total assets	15,816,751	1,036,691	188,370	17,041,812
Liabilities				
Customer accounts	13,395,774	684,825	176,884	14,257,483
Due to banks	567,353	334,721	29,402	931,476
Other borrowed funds	766,487	12,273	-	778,760
Promissory notes	33,076	-	-	33,076
Accrued interest expense and other liabilities	107,001	9,556	676	117,233
Deferred tax liability	55,835	-	-	55,835
Total liabilities	14,925,526	1,041,375	206,962	16,173,863
Net balance sheet position	891,225	(4,684)	(18,592)	867,949
Credit related commitments	262,027	9,766		271,793

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

	RUB	USD	Other currencies	Total
Net balance sheet position	1,403,848	(839,740)	(75,917)	488,191
Credit related commitments	243,997	17,595	-	261,592

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management (Continued)

Currency risk (Continued)

The following table demonstrates the sensitivity of the Bank's equity to a reasonably possible change in the RUB to US Dollar exchange rate, with all other variables held constant. Analysis has not been provided for other currencies as there are no significant exposures.

	Increase / decrease in USD rate	Effect on equity only
2007	+ 8%	(375)
	- 8%	375
2006	+ 8%	(67,179)
	- 8%	67,179

Interest rate risk

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

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

In practice, the Bank has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. Where the Bank has entered into fixed rate contracts these are generally fixed on a short term basis normally at three month intervals.

The Bank has established a Tariff Committee that reviews and develops prices for services the Bank provides, assesses invested and debt capital. Besides, the Committee monitors tariffs and interest rates offered by other banks in the regions of the Bank's presence and develops recommendations on minimal and applicable interest rates for corporate or retail crediting.

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

	RUB	USD	Other currencies
Assets			
Cash and cash equivalents	0.07%	3.30%	0.74%
Securities	5.54%		
Due from banks	4.44%	4.90%	4.85%
Loans and advances to customers	14.57%	12.50%	13.27%
Liabilities			
Due to banks	5.66%	4.31%	
Customer accounts of individuals	0.10%	0.10%	0.10%
Customer accounts of legal entities	1.92%	1.00%	0.50%
Customer deposits	10.00%	7.03%	7.03%
Promissory notes	1.57%		

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Bank's equity:

	2007	2006
RUB		
100 bp parallel increase	(1,133)	(7,976)
100 bp parallel decrease	1,133	7,976
USD		
50 bp parallel increase	1,787	(4,476)
50 bp parallel decrease	(1,787)	4,476

Liquidity risk

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

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and Management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than 1 month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide a long-term and stable source of funding for the Bank.

The Bank's liquidity position is calculated on a regular basis by the Risk, Analysis and Planning department who prepare a liquidity position report to the Management of the Bank. The Department analyses the correspondence of limits of transactions to liquidity ratios. The Bank performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee. The Bank calculates mandatory liquidity ratios in accordance with the requirements of the CBRF. These ratios include:

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

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management (Continued)**Liquidity risk (Continued)**

The Bank was in compliance with the above ratios during the year ended 31 December 2007, although a CBR inspection revealed instances of non compliance in 2006. The following table represents the mandatory liquidity ratios for the Bank calculated at 31 December 2007 and 31 December 2006:

	Requirement	31 December 2007	31 December 2006
Instant liquidity ratio (N2)	Minimum 15%	40.4%	53.8%
Current liquidity ratio (N3)	Minimum 50%	79.3%	64.4%
Long-term liquidity ratio (N4)	Maximum 120%	102.3%	110.0%

The liquidity position of the Bank as at 31 December 2007 is set out below:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	2,308,371	-	-	-	-	2,308,371
Mandatory cash balances with CBRF	-	-	-	-	205,550	205,550
Securities	537,817	-	-	-	-	537,817
Due from banks	3,170,550	-	-	-	-	3,170,550
Loans and advances to customers	630,772	1,996,563	3,203,892	3,562,923	418,926	9,813,076
Balances-on factoring accounts	1,282	11,865	30,502	257,925	7,433	309,007
Accrued interest income and other assets	102,988	9,710	483	173	-	113,354
Fixed assets	-	-	-	-	584,087	584,087
Total assets	6,751,780	2,018,138	3,234,877	3,821,021	1,215,996	17,041,812
Liabilities						
Customer accounts	7,068,193	2,349,488	1,817,981	3,021,821	-	14,257,483
Due to banks	681,476	-	250,000	-	-	931,476
Other borrowed funds	12,273	-	7,150	759,337	-	778,760
Promissory notes	32,076	-	1,000	-	-	33,076
Accrued interest expense and other liabilities	79,006	28,508	6,606	2,760	353	117,233
Deferred tax liability	-	-	-	-	55,835	55,835
Total liabilities	7,873,024	2,377,996	2,082,737	3,783,918	56,188	16,173,863
Net liquidity gap	(1,121,244)	(359,858)	1,152,140	37,103	1,159,808	867,949
Cumulative liquidity gap						
31 December 2007	(1,121,244)	(1,481,102)	(328,962)	(291,859)	867,949	
December 2006	(1,140,939)	(892,248)	810,763	(399,231)	488,191	

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

24. Financial Risk Management (Continued)

Insurance

Bank's Management uses insurance as an instrument for regulating of bank activity. The use of insurance as a means of regulating liability risk is still relatively undeveloped in Russian Federation as this type of cover is not widely available. Management has therefore not been able to completely utilise this risk management tool. Details of property insurance are set out in Note 11.

Legal risk

Legal risk is the risk of financial loss arising from internal and external legal risk factors.

Internal factors include:

- failure to comply with legal requirements
- non-compliance of documentation with relevant regulations and the Bank's failure to bring its activities and documents into compliance with changes in laws
- failure to fully analyse legal issues associated with new products, transactions and technologies.

External factors include:

- inconsistent application or weaknesses of legal system
- failure by customers and counterparties to perform their contractual obligations

Legal risk management is based on the following key principles:

- standard contracts are created and reviewed and used by all relevant business units of the Bank for the majority of transactions
- the Legal Department review significant non standard contracts
- when assessing collateral consideration is given to assessment of the legal risk in respect of collateral pledged. The borrower is required to provide a full set of documents to confirm its ownership in respect of the property pledged.

25. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

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

Tax legislation

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

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

Capital commitments

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

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(In thousands of Russian Roubles)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

Credit related commitments

Credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, all the Bank's import letters of credit are fully collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments (at their nominal value) as at 31 December 2007 and 31 December 2006 are as follows:

	2007	2006
Undrawn credit lines	248,039	249,375
Letters of credit	2,754	-
Guarantees issued	21,000	12,217
	271,793	261,592

At 31 December 2007, the probability of losses arising in connection with undrawn credit lines is considered remote and accordingly no specific allowances have been established (2006: nil). Management evaluated the likelihood of impairment in respect of other credit related commitments and concluded that no allowance for impairment loss was necessary as at 31 December 2007 (2006: nil). The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives

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

Assets pledged

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

26. Related parties

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

Members of the Board of Directors and their immediate family and senior members of Management including members of the Board of Management, the Chief Accountant, heads of departments and branches of the Bank and their immediate family are considered to be related parties due to their ability to influence the activities of the Bank. A list of such individuals as well as companies considered by Management to be related parties of the Bank due to various reasons as at 31 December 2007 is set out below:

Dalcom Bank
Notes to the Financial Statements • 31 December 2007
(in thousands of Russian Roubles)

26. Related Parties (Continued)

Party	Activity
Significant shareholders	
AFK Systema**	Investments
Shlyakhovoy A.Z.	
Shlaykhovoy O.Z.	
Associates	
DV Leasing Company	Leasing
TV Set'	Mass media
Khabarovskaya Insurance Company**	Insurance
Fincomaudit*	Audit
DV Neftyanaya Company*	Trade
Contact Info*	Consulting
Companies under common control through key management and their shareholdings	
Variant	Realty
Innoteck	Realty
Innoteck Plus	Trade
Standard Leasing	Leasing
Leasing Forward	Leasing
Grand	Investment
Finexpert	Investment
Proxi VostoTc	Fishing
Trianon	Trade
Standard	Services
DV Resources	Mining
Dalzoloto	Mining
MBRD	Banking
East-West United Bank	Banking
Utrennyaya Zvezda	Services
Gubernia	TV Channel
Kitourami	Trade
Neftcapital	Trade
SET	Mass media
PFK Spectr	Services
Beiz	Trade
Dalcominfo	Trade
Serversnya Resheniya	IT Services
Dalinfocenter	Trade
Technika dlay system beznalichnykh platezhei	Trade
Dalinvest leasing	Leasing
Neftoptorg XXI	Trade

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

26. Related parties (Continued)

Companies under common control through key management and their shareholdings (Continued)

Eikin	Intermediary
Autoleasing	Leasing
Vostok*	Air transportation
Dalsvyazstroy*	Construction
Dalif Leasing*	Leasing
Amour Pacific*	Fishing

Key management

Members of the Board of Management

Shlyakhovoy A.Z. (also a shareholder)
 Abouzyarova V.N. (also a shareholder)
 Gemboukh Y.I. (also a shareholder)
 Kouleshov A.P. (also a shareholder)
 Fevraliov V.N. (also a shareholder)
 Ranetskaya L.G. (also a shareholder)
 Eliseeva O.V.*

Members of the Board of Directors

Ganoushkin S.A.
 Gorokhov V.S.
 Im S.C.
 Cruchek O.A.**
 Levintal' A.V.
 Nemchinov V.A.
 Nikishin S.A.
 Romanov V.A.**
 Slobodenuk O.D.
 Shlaykhovoy A.Z. (also a shareholder)
 Fevraliov V.N. (also a shareholder)
 Tkach A.K.*
 Tsedrik V.N.*

Note: * Denotes parties that ceased to be related during the year

** Denotes parties which became related during the year

During the reporting period the Bank entered into transactions with related parties, which included loan and deposit agreements.

Details of transactions and balances with related parties are set out in the tables below (all balances are unsecured unless otherwise stated). Balances and transactions with significant shareholders are included as such below regardless of whether the shareholders concerned also belong to another category of related party. There were some changes in status of related parties and their resultant movements between various categories prescribed by IAS 24 "Related Parties Disclosure".

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

26. Related Parties (Continued)

	31 December 2007						
	<u>Significant share- holders</u>	<u>Key Management</u>	<u>Asso- ciates</u>	<u>Other</u>	<u>Total balances/ transactions with related parties</u>	<u>Parties that ceased to be related during the year</u>	<u>Total for the category</u>
Balances							
Loans to customers		9,753	43,306	165,722	218,781	126,499	10,591,067
Loan loss allowance			22,818	30,670	53,488		777,991
Due from banks				1,322,027	1,322,027		3,170,550
Balances on current accounts and deposits	41,027	23,420	10,599	37,503	112,549	2,963	14,257,483
Other borrowed funds	500,000		14,156	106,210	620,366		778,760
Due to Banks				809,583	809,583		931,476
Undrawn credit lines				9,770	9,770		248,039
Transactions							
Interest income on loans issued (including interbank loans)		537	4,641	32,698	37,876	21,461	1,653,317
Interest expense on term deposits (including interbank and other borrowed funds)	7,841	1,023	1,420	23,629	33,913		778,961
Gains arising on foreign currency transactions			2	836	838	1,146	74,912
Gains arising on foreign currency accounts revaluation				4,944	4,944	1,353	516,179
Loss arising on foreign currency accounts revaluation				8,623	8,623	1,006	521,576
Commission income			23	24,848	24,871	1,064	495,736
Other income			7	1,038	1,045	791	19,794
<u>Rent expenses</u>				110,555	110,555		172,759

Dalcom Bank
Notes to the Financial Statements - 31 December 2007
(in thousands of Russian Roubles)

26. Related Parties (Continued)

	31 December 2006						
	<u>Significant share- holders</u>	<u>Key Management</u>	<u>Asso- ciates</u>	<u>Other</u>	<u>Total balances/ transactions with related parties</u>	<u>Parties that ceased to be related during the year</u>	<u>Total for the category</u>
Balances							
Loans to customers	20,400	2,545	123,978	328,793	475,716	355,901	9,025,190
Loan loss allowance			61,129	1,082	62,211		744,394
Balances on current accounts and deposits	149,730	35,617	16,716	29,284	231,347	56,331	11,362,278
Guarantees issued				9,880	9,880		12,217
Undrawn credit lines				1,254	1,254	2,633	249,375
Transactions							
Interest income on loans issued	2,586	189	11,501	32,302	46,578	39,321	709,172
Interest expense on customer accounts	2,010	3,869	495	204	6,578		179,998
Gains arising on foreign currency transactions	257				409		77,726
Gains arising on foreign currency accounts revaluation				6,495	6,495	45,677	615,511
Loss arising on foreign currency accounts revaluation				10,704	10,704	65,878	619,833
Commission income	106		87	1,817	2,010	2,833	379,954
Other income				1,934	1,934		15,167
<u>Rent expenses</u>	<u>104,112</u>			25,480	129,592		169,204

Total remuneration paid to Management of the Bank (in total 25 individuals) in their capacity amounted to 30,601 (2006: 23,032), all short term employee benefits. There were no long term benefits, post-employment benefits, termination benefits or share based payments.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

26. Related Parties (Continued)

Shares of the Bank held were as follows:

	2007		2006	
	Number of shares	%of ownership	Number of shares	%of ownershi P
DV Resources (controlled by Shlakhovoy family)	-	-	220,006,500	40.32
Dalsvyazstroy	-	-	10,485,000	1.92
Innotek	-	-	101,160,000	18.54
Servernye Resheniya	-	-	19,012,000	3.48
Dalcominfo	-	-	19,389,500	3.55
Dalinfocenter	-	-	14,143,000	2.59
Technika dlya system beznalichnikh platezhei	-	-	21,534,500	3.95
Standard	-	-	6,085,000	1.12
Utrennya Zvezda			2,900,000	0.53
AFK Systema	344,748,538	48.16	-	-
Vostok	-	-	2,083,000	0.38
Shlyakhovoy O.Z.	199,873,690	27.92	47,480,000	8.70
Management and employees of the Bank	159,280,500	22.25	31,673,500	5.80
	703,902,728	98.33	495,952,000	90.88

Leased Fixed Assets

During the year the Bank entered into operating lease agreements with related parties for some property and equipment. Amounts payable to related parties under operating lease terms are represented below.

	2008		
	Office equipment	Premises	Total
Operating lease:			
Payable within one year	10,353	109,463	119,816
Cost of leased fixed assets	13,767	194,768	208,535

The Bank validates its operating lease agreements for a year only to avoid statutory registration procedures required for more lengthy agreements, and renews the agreements on an annual basis hence covering in general a time span of significant length. As such the Bank may have considerable revenue commitments relating to periods longer than one year from the balance sheet date.

27. Capital Adequacy

The Central Bank of the Russian Federation requires banks with equity above 5 million Euro to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian Accounting Legislation. As of 31 December 2007, the Bank's capital adequacy ratio calculated on this basis was 12.1% (2006:11.4%) exceeding the statutory minimum of 10%.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1998, as of 31 December 2007 was 10.12% (2006: 5.45%). This ratio is above the minimum ratio of 8% recommended by Basle Accord.

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

27. Capital Adequacy (Continued)

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

	2007	2006
Tire 1 Capital		
Share capital	788,207	618,007
Share premium	29,293	27,591
Treasury shares	-	(12,750)
Accumulated deficit and other reserves	<u>(180,919)</u>	<u>(321,334)</u>
Total Tier 1 Capital	<u>636,581</u>	<u>311,514</u>
Tier 2 Capital		
Revaluation reserve	231,368	176,677
Subordinated deposits	<u>318,290</u>	-
Total Tier 2 Capital	<u>549,658</u>	<u>176,677</u>
Total Capital	<u>1,186,239</u>	<u>488,191</u>
Risk weighted assets	<u>11,722,722</u>	<u>8,954,925</u>
Capital adequacy ratio	<u>10.12%</u>	<u>5.45%</u>

Capital is calculated as the total of restricted and unrestricted components of equity, using the following risk weightings:

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

The ratios stated by the Basle Committee on Banking Supervision represent recommendations rather than compulsory targets and there is no immediate threat to the going concern status of the Bank resulting from failure to meet the ratios. The Bank meets all compulsory ratios prescribed by the Central Bank of the Russia calculated using Russian statutory accounting figures and its ability to renew its general banking license when necessary is not in doubt. Nonetheless, the Bank is taking action to improve its Basle capital adequacy ratios. In particular it has increased its share capital through an issue of new shares in 2007 (see Note 17 for details) and in 2008 (see Note 28 for details).

Dalcom Bank
Notes to the Financial Statements -31 December 2007
(in thousands of Russian Roubles)

28. Events after the balance sheet date

AFK Systema which held 48.16% of the Banks share capital at the balance sheet date acquired further shares from existing share holders to take its total holding to 98.65% in January 2008. It thus became the Bank's parent and controlling party.

On 30 January 2008 an Extraordinary Shareholders Meeting of the Bank approved a number of new members of the Board of Directors. The following persons were approved:

1. Banashko Mikhail Pavl'ovich
2. Bubnov Sergey Nickolaevich
3. Busarov Igor Gennadievich
4. Zaitsev Sergey Yakovlevich
5. Levintal' Alexandr Borisovich
6. Popov Andrey Victorovich
7. Fevralev Vladimir Nickolaevich
8. Cheremin Sergey Evgenievich
9. Shlyakhovoy Andrey Zakhorovich
10. Shpringel'Victor Kimovich
11. Yatsenko Mikhail Anatolyevich

On 13 March 2008 directors and shareholders of the Bank approved an increase in share capital by 135 million RUB through the issue of an additional 135 million ordinary shares. The process of issuing the shares is currently being exercised by the Bank as a closed subscription. All shares are to be acquired by a related party of the Bank - "Moscow Bank of Reconstruction and Development".