Commercial Bank Rosenergobank (Closed Joint Stock Company)

Financial Statements
for the Year Ended 31 December 2008
together with Independent Auditor's Report

BDO

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Auditors and Consultants

Contents

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Closed joint-stock company

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Commercial Bank Rosenergobank (Closed Joint Stock Company)

We have audited the accompanying financial statements of CB Rosenergobank (CJSC), which comprise the balance sheet as at 31 December 2008, and the statement of income, statement of cash flows and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commercial Bank Rosenergobank (Closed Joint Stock Company) as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the information on risk concentration disclosed in Note 8 to these financial statements.

As at 31 December 2008, the Bank issued loans to 12 borrowers (2007: 10 borrowers) with the total amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 1 998 198 thousand or 56.6% of total loans to customers (2007: RUR 1 603 909 thousand or 54.37% of total loans to customers).

Without qualifying our opinion, we draw attention to Note 24 disclosing the Bank's liquidity position. The Bank has a certain amount of loans to customers that should be gradually repaid. The current situation in financial markets as described in Note 2 affects the Bank's ability to attract new deposits and refinance its existing loans to customers. The above circumstances may have a significant impact on the Bank's financial result. These financial statements do not include any adjustments that might have been determined to be necessary had the above circumstances taken place.

Alexander I. Verenkov
Partner
FCCA

20 April 2009

11/1, 125, Warshavskoye Shosse, Moscow, Russian Federation

BDO Unicon
Auditors and Consultants

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2008

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of Commercial Bank Rosenergobank (Closed Joint Stock Company) (the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Bank's management the financial statements for the year ended 31 December 2008 were authorised for issue on 20 April 2009 by

A.V. Nikolaenko
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

Commercial Bank Rosenergobank

(Closed Joint Stock Company)

Moscow

20 April 2009

(in thousands of Russian Roubles)

	Note	2008	2007
Assets			
Cash and cash equivalents	5	213 835	584 897
Mandatory cash balances with the Central Bank of the Russian Federation		13 068	74 711
Financial assets at fair value through profit or loss	6	55 502	1 013 951
Due from other banks	7	72 271	1 829 869
Loans to customers	8	3 353 146	2 734 335
Financial assets available for sale	9	2 892	19 004
Investments in subsidiaries	10	517	568
Premises and equipment	11	126 178	26 938
Other assets	12	43 338	18 211
Current tax assets		-	1 921
Total assets		**3 880 747**	**6 304 405**
Liabilities			
Due to other banks	13	97 134	1 254 814
Customer accounts	14	1 971 221	3 893 504
Debt securities issued	15	705 220	113 569
Other borrowed funds	16	244 149	234 149
Other liabilities	17	22 719	16 008
Current tax liabilities		5 974	-
Deferred tax liabilities	23	29 165	38 072
Total liabilities		**3 075 582**	**5 550 116**
Equity			
Share capital	18	461 382	461 382
Share premium		392 000	392 000
Revaluation reserve for premises and equipment		38 345	-
Accumulated deficit		(86 562)	(99 093)
Total equity		**805 165**	**754 289**
Total liabilities and equity		**3 880 747**	**6 304 405**

A. V. Nikolaenko

Chairman of the Executive Board

A.G. Volkova

Chief Accountant

20 April 2009

The notes set out on pages 10 to 48 are an integral part of these financial statements.

Commercial Bank Rosenergobank (Closed Joint Stock Company)
Statement of Income for the Year Ended 31 December 2008
(in thousands of Russian Roubles)

	Note	2008	2007
Interest income	20	634 338	414 611
Interest expense	20	(248 812)	(157 104)
Net interest income		**385 526**	**257 507**
Provision for impairment of loans to customers	8	38 801	(22 873)
Net interest income after provision for impairment of loans to customers		**424 327**	**234 634**
Gains less losses arising from financial assets at fair value through profit or loss		(142 553)	26 800
Gains less losses arising from financial assets available for sale		-	(437)
Gains less losses from dealing in foreign currency		44 191	13 991
Gains less losses from revaluation of foreign currency		(31 035)	(3 865)
Fee and commission income	21	131 425	81 486
Fee and commission expense	21	(9 651)	(2 375)
Gain on borrowings at rates below market	16	10 028	11 895
Provision for impairment of investments in subsidiaries, other assets and credit related commitments	10, 12, 26	(9 919)	(318)
Dividends received		-	467
Other operating income		26 366	12 135
Operating income		**443 179**	**374 413**
Operating expenses	22	(417 438)	(264 519)
Profit before taxation		**25 741**	**109 894**
Income tax expense	23	(13 210)	(15 620)
Net profit		**12 531**	**94 274**

A. V. Nikolaenko
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

20 April 2009

(in thousands of Russian Roubles)

	2008	2007
Cash flows from operating activities		
Interest received	623 183	418 846
Interest paid	(217 367)	(137 012)
Gains less losses arising from financial assets at fair value through profit or loss	(107 664)	27 513
Gains less losses from dealing in foreign currency	44 191	13 991
Fees and commissions received	124 964	81 486
Fees and commissions paid	(9 651)	(2 375)
Other operating income	26 372	24 030
Operating expenses	(401 372)	(251 168)
Income tax paid	(23 808)	(15 115)
Cash flows provided from operating activities before changes in operating assets and liabilities	**58 848**	**160 196**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Central Bank of the Russian Federation	61 643	(23 128)
Financial assets at fair value through profit or loss	915 181	(394 679)
Due from other banks	1 752 171	(655 133)
Loans to customers	(547 568)	(791 657)
Other assets	(25 790)	(6 514)
Net increase/(decrease) in operating liabilities		
Due to other banks	(1 157 104)	(96 749)
Customer accounts	(1 977 462)	1 814 622
Debt securities issued	575 156	(273 033)
Other liabilities	6 461	36 524
Net cash flows from operating activities	**(338 464)**	**(229 551)**
Cash flows from investing activities		
Purchase of financial assets available for sale (Note 9)	-	(18 134)
Proceeds from disposal of financial assets available for sale (Note 9)	18 134	-
Purchase of subsidiary	-	(600)
Purchase of premises and equipment (Note 11)	(58 376)	(15 624)
Proceeds from disposal of premises and equipment	6	-
Dividends received	-	467
Net cash flows from investing activities	**(40 236)**	**(33 891)**
Effect of exchange rate changes on cash and cash equivalents	7 638	(6 652)
Net change in cash and cash equivalents	**(371 062)**	**(270 094)**
Cash and cash equivalents at the beginning of the year	584 897	854 991
Cash and cash equivalents at the end of the year (Note 5)	**213 835**	**584 897**

A. V. Nikolaenko
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

20 April 2009

(in thousands of Russian Roubles)

	Share capital	Share premium	Revaluation reserve for premises and equipment	Accumulated deficit	Total equity
Balance as at 1 January 2007	**461 382**	**392 000**	**-**	**(193 367)**	**660 015**
Net profit for the year 2007	-	-	-	94 274	94 274
Balance as at 31 December 2007	**461 382**	**392 000**	**-**	**(99 093)**	**754 289**
Revaluation of premises and equipment (Note 11)	-	-	47 931	-	47 931
Deferred tax related to revaluation of premises and equipment (Note 23)	-	-	(9 586)	-	**(9 586)**
Total income recognised in equity	-	-	**38 345**	-	**38 345**
Net profit for the year 2008	-	-	-	12 531	12 531
Balance as at 31 December 2008	**461 382**	**392 000**	**38 345**	**(86 562)**	**805 165**

A. V. Nikolaenko

Chairman of the Executive Board

A.G. Volkova

Chief Accountant

20 April 2009

(in thousands of Russian Roubles)

1. Principal Activities of the Bank

Commercial Bank Rosenergobank (Closed Joint Stock Company) (the Bank) was founded in 1992 as a closed joint stock company under the laws of the Russian Federation.

In 2008 the Bank operated under the following licenses:

- License of the Central Bank of the Russian Federation (the CBR) No. 2211 of 17 October 2002 for banking operations with funds of individuals in Russian roubles and foreign currency;
- License of the Central Bank of the Russian Federation (the CBR) No. 2211 of 13 May 2004 for banking operations with funds of legal entities and individuals in Russian roubles and foreign currency;
- licenses of the professional securities market participant valid through 21 April 2008:
  - No. 177-08372-100000 of 21 April 2005 for brokerage transactions;
  - No. 177-08374-100000 of 21 April 2005 for dealing transactions;
  - No. 177-08378-100000 of 21 April 2005 for securities management operations;
- licenses of the professional securities market participant with unlimited validity period:
  - No. 177-11119-100000 of 1 April 2008 for brokerage transactions;
  - No. 177-11123-100000 of 1 April 2008 for dealing transactions;
  - No. 177-11127-100000 of 1 April 2008 for securities management.

Principal activities of the Bank are commercial banking services on the territory of the Russian Federation.

The Bank has 6 branches (2007: 6 branches) in the Russian Federation.

The Bank's head office is located at: 11/1 Goncharnaya Str., Moscow, 109240.

Legal and mailing address of the Bank is: 11/1 Goncharnaya Str., Moscow, 109240.

Subsidiary LLC REB Leasing is located at: 14/1 Energeticheskaya Str., Moscow, 111116.

Since September 2005 the Bank has been a member of the obligatory Deposit Insurance System managed by the state corporation Deposit Insurance Agency.

The average annual number of the Bank's employees in 2008 was 392 (2007: 337 employees).

Below is the information about the Bank's main shareholders.

Shareholder	2008 Percentage of ownership (%)	2007 Percentage of ownership (%)
LLC Logos	19.90	19.90
LLC Reliz Privat	19.63	-
LLC Finansgarant	19.51	19.51
LLC Istomin & Co	16.98	16.98
LLC Stroyprima	15.40	14.08
LLC Spetsenergocentr	-	19.96
Shareholders with shareholdings less than 5 % of the Bank's share capital	8.58	9.57
Total:	**100.0**	**100.0**

As at 31 December 2008, 5 583 627 of the Bank's shares or 56.40 % of the Bank's share capital (2007: 7 856 527 shares or 79.35 %) were under control of the Board of Directors and Executive Board.

2. Operating Environment of the Bank

General

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency outside of Russia, relatively high inflation rates and substantial economic growth in the recent years. The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes.

(in thousands of Russian Roubles)

The international financial crisis which commenced in the middle of 2008 led to a substantial reduction in Russia's international reserves, outflow of foreign capital and decline in oil prices. As a result, the sovereign ratings of Fitch, Moody's and Standard & Poor's changed accordingly: Moody's –"Baa1" with "stable" outlook (12 December 2008); Standard&Poor's – "BBB" with "negative" outlook (8 December 2008); Fitch Ratings – "BBB+" with "negative" outlook (10 November 2008), "BBB" with "negative" outlook (4 February 2009).

The large-scale economic crisis made the Russian Government and the CBR step up their efforts to resolve the issues that have been accumulating in the economic, financial and tax systems of the country for a number of years. On 7 November 2008 the Government adopted a package of anti-crisis measures. The plan sets forth 55 tasks covering the main sectors of the economy.

In the second half of 2008, the Government took steps to buy out shares on the equity market and allocated funds to refinance the debts on foreign loans of large Russian enterprises and banks. Support of the real sector includes price preferences granted to Russian companies under state and municipal procurement programs, expanded subsidising of interest rates on loans for technological modernisation of production and the started program of state guarantees for loans to enterprises. These guarantees will be issued in addition to the collateral that the enterprises provide or will provide to the banks. A state program is being developed to help those individuals with mortgage loans who have lost their jobs or a substantial part of income as a result of the crisis.

To increase the liquidity of the banking system the CBR has lowered the mandatory reserve requirements; expanded the range of assets accepted as collateral against CBR loans and issues loans to commercial banks through collateral-free auctions; for interbank market revival the CBR entered into agreement with a number of major Russian banks to compensate part of interbank market losses. On 1 December 2008 the refinancing rate was increased from 12% to 13% p.a.

Since 2003 the obligatory Deposit Insurance System has been functioning in the Russian Federation. According to the deposit insurance legislation, 100% is compensated to the depositor if the deposit amount does not exceed RUR 700 thousand. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the CBR at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

Since 1 January 2009 the corporate income tax rate has been reduced from 24 to 20%. Small businesses using the simplified taxation system will be granted an income tax reduction from 15% to 5% of profits.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2008	13.3%
31 December 2007	11.9%
31 December 2006	9.0%
31 December 2005	10.9%
31 December 2004	11.7%

Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation.

The table below shows exchange rates of RUR relative to USD and EUR:

Date	USD	EUR
31 December 2008	29.3804	41.4411
31 December 2007	24.5462	35.9332
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104

Financial market transactions

The international financial crisis has resulted in, among other things, global liquidity crunch which led to contraction of the international and domestic capital market, lower liquidity levels across the Russian banking sector and very high uncertainty in the domestic and foreign equity markets. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and other countries. Currently, it is impossible to fully assess the influence of the ongoing crisis or avoid its impact.

At present investors are re-evaluating their exposure to risks, which results in reduced or closed limits on transactions conducted in the Russian Federation, which added to volatility. Such circumstances could affect the ability of the Bank to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers and debtors of the Bank may also be affected by the repercussions of the financial crisis, which could in turn impact their ability to meet their financial obligations to the Bank. To the extent that information is available, management has adequately reflected revised estimates of expected future cash flows in their impairment assessments. These financial statements do not include adjustments reflecting the impact of further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets on the financial statements.

3. Basis of Presentation

General principles

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These financial statements are presented in Russian Roubles being the Bank's functional and presentation currency.

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Notes 3 and 4.

Going concern

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The Bank's management cannot predict the impact of the above factors on the financial position of the Bank. The accompanying financial statements do not include the adjustments associated with this risk.

These financial statements were prepared on a going concern assumption. However, the Bank's liquidity position disclosed in Note 24 indicates that the Bank has no sufficient funds to meet its current obligations.

For prompt management of liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Central Bank of Russia and in the interbank lending market. Diversification of liquidity sources allows minimising the Bank's dependence on any source and ensuring full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional fund-raising allow the Bank to continue its operation as a going concern in the long term.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations:

- Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" (effective for annual periods beginning on 1 July 2008);

- IFRIC 12 "Service Concession Agreements" (effective for annual periods beginning on 1 January 2008);

- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on 1 July 2008);

(in thousands of Russian Roubles)

- IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on 1 January 2008);

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on 1 October 2008).

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 1 " Presentation of financial statements" amended in September 2007 (effective for annual periods beginning on 1 January 2009);

- IFRS 8 "Operating Segments" (effective for annual periods beginning on 1 January 2009);

- IAS 23 "Borrowing costs" (revised in March 2007) (effective for annual periods beginning on 1 January 2009);

- IFRS 3 "Business combinations" (effective for annual periods beginning on 1 July 2009);

- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on 1 January 2009);

- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on 1 July 2009);

- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on 1 July 2009).

Subsidiaries

Subsidiaries are those entities in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies.

The Bank's investments in the subsidiaries reflected at cost as at 31 December 2008 and as at 31 December 2007 in these financial statements are presented below:

Subsidiary	Country of registration	Nature of business	Ownership, %	Date of acquisition	Amount of investments
LLC REB Leasing	Russia	Leasing	100%	23 August 2007	600

The Bank prepared the consolidated financial statements which are available at the Bank's address specified in Note 1.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, correspondent and current account balances of the Bank, deposits, acquired promissory notes with maturity up to 3 months and balances on the exchanges' settlement accounts. All other interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances with the Central Bank of the Russian Federation.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- investments held to maturity;
- financial assets available for sale.

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Bank recognises financial assets and financial liabilities on its balance sheet when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset

Fair value measurement

The fair value of financial instruments traded on the active market as at the balance sheet date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the balance sheet is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgement. Judgement is based on the time value of money, credit risk level, volatility, market risk level and other applicable factors.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Reclassification of financial assets

The Bank shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or investments held to maturity depending on the purposes for which these financial assets are held, if the Bank has intention and the ability to hold these financial assets for the foreseeable future or until maturity.

Financial assets available for sale may be reclassified into loans and receivables if the entity has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in equity.

The Bank shall not classify any financial assets as investments held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category except for rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are recognised at fair value. Interest earned on trading securities is reflected as interest income in the statement of income. Dividends are recognised in the statement of income when the Bank's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the statement of income as gains less losses from financial assets at fair value through profit or loss in the period in which they arise.

Recognition and measurement of financial assets designated in this category is in compliance with the accounting policies in respect of trading securities presented above.

Due from other banks

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity.

Loans to customers

Loans to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

The Bank acquires loans from third parties at nominal value. Loans are initially measured at fair value representing the cash advanced to the borrower. Subsequently, the loans are recorded using the above procedures.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included into any of the above three categories.

Financial assets available for sale are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties or determined on the basis of indicative quotations for purchase/sale of each type of securities published by information agencies or provided by professional securities market participants. If there is no active market and it is impossible to determine the fair value of equity financial asset using reliable methods, investments are allowed to be recognised at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised in equity are included in the statement of income as gains less losses arising from financial assets available for sale. Disposals of financial assets available fore sale are recorded on a FIFO basis.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of income as interest income. Dividends received on equity investments available for sale are recorded in the statement of income as other operating income when the Bank's right to receive dividends is established and dividends are likely to be received.

Impairment of financial assets

The Bank assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data about one or more of the following events in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

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

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Bank shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan.

(2) Impairment of financial assets available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant and/or prolonged requires judgement. According to the Bank, a 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline. The Bank also assesses other factors such as volatility of price per share. Cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through the profit and loss accounts, is transferred from equity to the profit and loss accounts.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in equity.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within interest income in the statement of income.

If in the subsequent year the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the profit and loss account.

Financial liabilities

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Bank at its fair value, plus transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued and other borrowed funds.

Due to other banks. Due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.

Debt securities issued. Debt securities issued include promissory notes issued by the Bank. If the Bank purchases its own debt securities issued, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt.

Other borrowed funds. Other borrowed funds include subordinated deposits received by the Bank and are recorded from the moment the funds are advanced to the Bank.

Offsetting of financial instruments

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

Premises and equipment

Premises and equipment are stated at cost or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of income.

The Bank's buildings are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After initial recognition at cost, buildings are carried at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed regularly to avoid significant differences between the fair value of the revalued asset and its carrying amount.

After revaluation of buildings, any accumulated depreciation at the date of the revaluation is eliminated against gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is recorded in the statement of changes in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is credited to the profit and loss account. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for premises and equipment in equity.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of income.

Repairs and maintenance are charged to the statement of income when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Buildings and premises – 40 years;
- Motor vehicles– 5 years;
- Computers and office equipment – 5 years;
- Leasehold improvements – over the lease term.

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

Operating lease - Bank as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses in the statement of income.

Operating lease – the Bank as lessor

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised as other operating income in the statement of income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term.

Share capital

Ordinary shares are classified as share capital. The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is stated at original cost. Non-cash contributions in the share capital are recorded at fair value of contributed assets at the date the contribution is made. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

Share premium

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

Contingent assets and liabilities

Contingent assets are not recognised in the balance sheet but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the balance sheet but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Credit related commitments

The Bank enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments are initially recognised at their fair value. Subsequently, they are analysed at each balance sheet date and adjusted to reflect the current best estimate. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time.

Taxation

The income tax charge comprises current tax and deferred tax and is recorded in the statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded directly in equity.

Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes.

(in thousands of Russian Roubles)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are recorded within operating expenses in the statement of income.

Income and expense recognition

Interest income and expense are recorded in the statement of income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on discounted debt instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

Employee benefits and social insurance contributions

The Bank pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. These expenses are recognised as incurred and are included in staff costs. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

Foreign currency

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CBR exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from translation of transactions in foreign currency are recorded in the statement of income within gains less losses from revaluation of foreign currency. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of CBR in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses from purchase and sale of foreign currency are determined as a difference between the selling price and the carrying value at the date of transaction.

5. Cash and Cash Equivalents

	2008	2007
Cash on hand	48 251	126 180
Balances with the CBR (other than mandatory reserve deposits)	139 211	326 164
Correspondent accounts and "overnight" deposits with banks of		
- Russian Federation	7 733	43 073
- Other countries	18 640	89 480
Total cash and cash equivalents	**213 835**	**584 897**

(in thousands of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the balance sheet as at 31 December 2008 and 31 December 2007 include trading securities.

	2008	2007
Government debt securities		
- Russian Federation bonds (OFZ)	-	1 013 951
Corporate debt securities		
- Corporate bonds	55 502	-
Total financial assets at fair value through profit or loss	**55 502**	**1 013 951**

Russian Federation bonds (OFZ) are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2007, OFZ bonds in the Bank's portfolio have maturity dates from August 2018 to February 2036 and coupon rates ranging from 6.9% to 9.0%, depending on the issue.

Corporate bonds are represented by Rouble-denominated interest-bearing securities issued by OJSC JSCB Soyuz. As at 31 December 2008, these bonds in the Bank's portfolio have maturity date in May 2011 (2007: none) and coupon rates ranging from 10.1% to 16.0% (2007: none).

Below is the credit quality analysis of trading debt securities as at 31 December 2008 in accordance with the ratings of international agencies:

	Moody's	S&P	Amount	Total
Corporate debt securities				
- Corporate bonds	B-	Caa1	55 502	55 502
Total trading debt securities at fair value through profit or loss			**55 502**	**55 502**

Below is the credit quality analysis of trading debt securities as at 31 December 2007 in accordance with the ratings of international agencies:

	Fitch	Moody's	S&P	Amount	Total
Government debt securities					
- Russian Federation bonds (OFZ)	BBB+	Baa2	BBB	1 013 951	**1 013 951**
Total trading debt securities at fair value through profit or loss				1 013 951	**1 013 951**

Financial assets at fair value through profit or loss in the amount of RUR 100 000 thousand as at 31 December 2007 were provided as collateral under agreements with third parties in respect of banks' term deposits. The collateral is provided without the right of further sale.

The credit quality analysis of debt securities as at 31 December 2008 and 31 December 2007 has shown that all the above classes of financial assets measured at fair value through profit or loss in the total amount of RUR 55 502 thousand (2007: RUR 1 730 169 thousand), respectively, are current.

There are no renegotiated balances representing the carrying amount of debt securities that would otherwise be past due whose terms have been renegotiated.

In connection with the grave deterioration of the situation on the world financial markets in December 2008, certain financial assets at fair value through profit or loss were reclassified in accordance with Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" from financial assets at fair value through profit or loss into financial assets available for sale subject to the decision on reclassification. The reclassification was made as at 31 December 2008 at the market value as at 31 December 2008.

(in thousands of Russian Roubles)

7. Due from Other Banks

As at 31 December 2008, due from other banks include loans and deposits with commercial banks of the Russian Federation in the amount of RUR 72 271 thousand (2007: RUR 1 829 869 thousand).

The Bank did not create provisions for impairment of due from other banks in 2008 and 2007.

Loans and deposits with other banks are not collateralised.

The credit quality analysis of due from other banks as at 31 December 2008 and 2007 has shown that all the above classes of due from other banks in the total amount of RUR 72 271 thousand (2007: RUR 1 829 869 thousand) are outstanding.

There are no renegotiated balances representing the carrying amount of due from other banks that would otherwise be past due whose terms have been renegotiated.

There are no overdue amounts due from other banks.

As at 31 December 2008, the Bank had no cash balances above 10% of the Bank capital with counterparty banks (2007: 11 counterparty banks). The aggregate amount of these funds at 31 December 2007 was RUR 1 670 000 thousand or 91.3% of total due from other banks.

8. Loans to Customers

	2008	2007
Corporate loans	2 195 110	1 948 001
Loans to individual entrepreneurs, small and medium business	976 872	674 743
Consumer loans to individuals	326 078	327 071
Mortgage loans to individuals	31 765	-
Less: provision for impairment of loans to customers	(176 679)	(215 480)
Total loans to customers	**3 353 146**	**2 734 335**

As at 31 December 2008, accrued interest income on impaired loans to customers amounted to RUR 11 128 thousand (2006: RUR 3 268 thousand).

Movements in the provision for impairment of loans to customers for 2008 and 2007 are as follows:

	Corporate loans	Loans to individual entrepre-neurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Provision for impairment of loans to customers as at 1 January 2007	**141 489**	**36 733**	**14 385**	**-**	**192 607**
Provision/(recovery of provision) for impairment of loans to customers during 2007	30 139	6 180	(13 446)	-	22 873
Provision for impairment of loans to customers as at 31 December 2007	**171 628**	**42 913**	**939**	**-**	**215 480**
Provision/(recovery of provision) for impairment of loans to customers during 2008	(145 770)	98 007	8 644	318	(38 801)
Provision for impairment of loans to customers as at 31 December 2008	**25 858**	**140 920**	**9 583**	**318**	**176 679**

(in thousands of Russian Roubles)

Economic sector concentrations within the Bank's loan portfolio are as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Trade	1 102 357	31.23	380 376	12.89
Construction	568 754	16.11	194 639	6.60
Trade in construction equipment	369 965	10.48	352 000	11.93
Individuals	357 843	10.14	327 071	11.09
Financial services	232 667	6.59	55 757	1.89
Trade in construction materials	188 000	5.33	805 325	27.30
Trade in food products	180 000	5.10	75 143	2.55
Services	141 475	4.01	203 977	6.92
Manufacturing industry	128 864	3.65	181 998	6.17
Trade in computers and computer parts	56 980	1.61	165 800	5.62
Agriculture	55 287	1.57	-	-
Other	147 633	4.18	207 729	7.04
Total loans to customers (gross)	**3 529 825**	**100.00**	**2 949 815**	**100.00**

As at 31 December 2008, the Bank issued loans to 12 borrowers (2007: 10 borrowers) with the total amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 1 998 198 thousand or 56.6% of total loans to customers (2007: RUR 1 603 909 thousand or 54.37% of total loans to customers).

Below is the information on the collateral held as security as at 31 December 2008:

	Corporate loans	**Loans to individual entrepreneurs, small and medium business**	**Consumer loans to individuals**	**Mortgage loans to individuals**	**Total**
Guarantees	864 930	3 051 069	871 552	109 549	4 897 100
Immovable property	298 473	1 049 823	277 131	60 800	1 686 227
Motor vehicles	60 821	190 806	68 304	257	320 188
Goods for sale	1 200	123 346	45 817	2 104	172 467
Equipment	52 437	77 068	24 724		154 229
Non-marketable securities	-	5 814	-	-	5 814
Marketable securities	-	-	900	-	900
Other assets	-	2 570	254	-	2 824
Total collateral	**1 277 861**	**4 500 496**	**1 288 682**	**172 710**	**7 239 749**

Below is the information on the collateral held as security as at 31 December 2007:

	Corporate loans	**Loans to individual entrepreneurs, small and medium business**	**Consumer loans to individuals**	**Total**
Guarantees	454 366	2 236 159	133 606	2 824 131
Immovable property	224 245	719 015	166 608	1 109 868
Motor vehicles	325 774	138 570	6 538	470 882
Equipment	-	251 452	-	251 452
Own securities	-	6 360	625	6 985
Total collateral	**1 004 385**	**3 351 556**	**307 377**	**4 663 318**

The fair value of collateral may differ from its carrying value.

As at 31 December 2008 loans to customers in the total amount of RUR 2 098 215 thousand are uncollateralized (2007: RUR 1 452 989 thousand).

(in thousands of Russian Roubles)

The credit quality analysis of loans to customers as at 31 December 2008 is shown below:

	Individually impaired	Collectively impaired	Total
Corporate loans	2 195 110	-	2 195 110
Loans to individual entrepreneurs, small and medium business	19 332	957 540	976 872
Consumer loans to individuals	-	326 078	326 078
Mortgage loans to individuals	-	31 765	31 765
Less: provision for impairment of loans to customers	(25 954)	(150 725)	(176 679)
Total loans to customers	**2 188 488**	**1 164 658**	**3 353 146**

The credit quality analysis of loans to customers as at 31 December 2007 is shown below:

	Individually impaired	Collectively impaired	Total
Corporate loans	1 948 001	-	1 948 001
Loans to individual entrepreneurs, small and medium business	86 991	587 752	674 743
Consumer loans to individuals	-	327 071	327 071
Less: provision for impairment of loans to customers	(176 221)	(39 259)	(215 480)
Total loans to customers	**1 858 771**	**875 564**	**2 734 335**

Individually impaired loans include loans, which show certain signs of impairment, are material in value and individually assessed by the Bank.

Collectively impaired loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure collectively assessed by the Bank.

Below is the analysis of impaired loans to customers as at 31 December 2008:

		Past due				
	Current	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Corporate loans	2 195 110	-	-	-	-	2 195 110
Loans to individual entrepreneurs, small and medium business	836 714	28 763	69 723	454	41 218	976 872
Consumer loans to individuals	314 263	7 267	2 816	470	1 262	326 078
Mortgage loans to individuals	31 765	-	-	-	-	31 765
Less: provision for impairment of loans to customers	(86 109)	(1 270)	(45 896)	(924)	(42 480)	(176 679)
Total impaired loans to customers	**3 291 743**	**34 760**	**26 643**	**-**	**-**	**3 353 146**

Below is the analysis of impaired loans to customers as at 31 December 2007:

		Past due				
	Current	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Corporate loans	1 948 001	-	-	-	-	1 948 001
Loans to individual entrepreneurs, small and medium business	664 351	964	9 335	93	-	674 743
Consumer loans to individuals	326 570	-	284	117	100	327 071
Less: provision for impairment of loans to customers	(210 209)	(151)	(4 810)	(210)	(100)	(215 480)
Total impaired loans to customers	**2 728 713**	**813**	**4 809**	**-**	**-**	**2 734 335**

As at 31 December 2008 there are no renegotiated balances, which represent carrying amount of renegotiated loans that would otherwise be past due (2007: RUR 2 481 thousand).

(in thousands of Russian Roubles)

9. Financial Assets Available for Sale

	2008	2007
Corporate equity securities		
- Corporate shares	2 892	-
Corporate debt securities		
- Promissory notes	-	19 004
Total financial assets available for sale	**2 892**	**19 004**

As at 31 December 2008 and 31 December 2007 the Bank did not create provisions for impairment of financial assets available for sale.

Below is the information on equity securities available for sale as at 31 December 2008:

Company	Type of activity	2008
Sberbank of the Russian Federation	Banking activity	2 892
Total		**2 892**

Below is the information on changes in the portfolio of financial assets available for sale:

	Note	2008	2007
Carrying value as at 1 January		**19 004**	**-**
Reclassification		2 892	-
Acquisitions			18 134
Accrued interest income	20	-	870
Received interest income		(870)	-
Sales		(18 134)	-
Carrying value as at 31 December		**2 892**	**19 004**

In connection with the grave deterioration of the situation on the world financial markets in 2008, certain financial assets at fair value through profit or loss were reclassified in accordance with Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" from financial assets at fair value through profit or loss into financial assets available for sale subject to the decision on reclassification. The reclassification was made on 31 December 2008 at the market value as at 31 December 2008.

Expenses from changes in the fair value of reclassified assets in the amount of RUR 7 095 thousand are recorded in the statement of income as gains less losses from financial assets at fair value through profit or loss.

10. Investments in Subsidiaries

Investments in subsidiaries comprise investments in the share capital of LLC REB Leasing in the amount of RUR 600 thousand (2007: RUR 600 thousand) making up 100 % of the subsidiary's share capital.

	2008	2007
Carrying value as at 1 January		
Investments in subsidiaries	600	600
Less: provision for impairment of investments in subsidiaries	(83)	(32)
Carrying value as at 31 December	**517**	**568**

Below is the analysis of movements in the provision for impairment of investments in subsidiaries:

	2008	2007
Provision for impairment of investments in subsidiaries as at 1 January	**32**	**-**
Provision for impairment of investments in subsidiaries during the year	51	32
Provision for impairment of investments in subsidiaries as at 31 December	**83**	**32**

(in thousands of Russian Roubles)

11. Premises and Equipment

	Land	Buildings	Motor vehicles	Office and computer equipment	Furniture	Leasehold improve-ments	Total
Net book value as at 31 December 2007	**-**	**-**	**3 404**	**19 082**	**1 916**	**2 536**	**26 938**
Cost							
Balance as at 1 January 2008	-	-	6 031	29 913	3 083	3 153	42 180
Additions	150	46 510	-	6 181	382	5 153	58 376
Additions under finance lease contracts	-	-	-	2 580	-	-	2 580
Disposals	-	-	(1 171)	-	-	-	(1 171)
Accumulated depreciation eliminated on revaluation	-	(391)	-	-	-	-	(391)
Revaluation	-	47 931	-	-	-	-	47 931
Balance as at 31 December 2008	**150**	**94 050**	**4 860**	**38 674**	**3 465**	**8 306**	**149 505**
Accumulated depreciation							
Balance as at 1 January 2008	-	-	2 627	10 831	1 167	617	15 242
Depreciation charge	-	391	1 089	7 576	487	46	9 589
Disposals	-	-	(1 113)	-	-	-	(1 113)
Accumulated depreciation eliminated on revaluation	-	(391)	-	-	-	-	(391)
Balance as at 31 December 2008	**-**	**-**	**2 603**	**18 407**	**1 654**	**663**	**23 327**
Net book value as at 31 December 2008	**150**	**94 050**	**2 257**	**20 267**	**1 811**	**7 643**	**126 178**

(in thousands of Russian Roubles)

	Motor vehicles	Office and computer equipment	Furniture	Leasehold improve-ments	Total
Net book value as at 31 December 2006	**3 196**	**9 560**	**1 236**	**1 210**	**15 202**
Cost					
Balance as at 1 January 2007	5 140	15 510	2 073	1 453	24 176
Additions	891	12 023	1 010	1 700	15 624
Additions under finance lease contracts	-	2 434	-	-	2 434
Disposals	-	(54)	-	-	(54)
Balance as at 31 December 2007	**6 031**	**29 913**	**3 083**	**3 153**	**42 180**
Accumulated depreciation					
Balance as at 1 January 2007	1 944	5 863	922	243	8 972
Depreciation charge	683	4 978	245	374	6 280
Disposal	-	(10)	-	-	(10)
Balance as at 31 December 2007	**2 627**	**10 831**	**1 167**	**617**	**15 242**
Net book value as at 31 December 2007	**3 404**	**19 082**	**1 916**	**2 536**	**26 938**

As at 31 December 2008, buildings of the Bank were appraised by independent appraisers LLC Expert Centre Yug Company. The appraisal was based on the market value. The net book value of buildings increased by RUR 47 931 thousand (2007: none) representing revaluation surplus of the Bank's buildings.

As at 31 December 2008, total deferred tax liability in the amount of RUR 9 586 thousand (2007: none) was calculated in respect of this revaluation of buildings at fair value and charged to equity in accordance with IAS 16 (Note 23).

If the buildings were measured using the cost model, the balance sheet items would be as follows:

	2008
Cost	46 510
Accumulated depreciation and impairment	(391)
Net book value	**46 119**

Premises and equipment in the Bank's balance sheet include long-term leased assets received by the Bank under finance lease contracts.

The carrying value of premises and equipment received by the Bank under finance lease contracts amounted to:

	Office and computer equipment	
	2008	2007
Net book value as at 31 December 2007	**2 142**	**-**
Recognition of asset leased under finance lease contract in the balance sheet	2 580	2 434
Depreciation	(2 413)	(292)
Net book value as at 31 December 2008	**2 309**	**2 142**

As at 31 December 2008, the carrying value of the lease obligation less accumulated depreciation in the amount of RUR 2 248 thousand totalled RUR 1 172 thousand (as at 31 December 2007: RUR 2 392 thousand). The annual lease payments equal RUR 2 123 thousand (2007: RUR 660 thousand).

(in thousands of Russian Roubles)

12. Other Assets

	2008	2007
Settlements on conversion transactions	30 732	5 606
Amounts receivable	11 023	1 410
Commission for balances on settlement accounts below the required minimum	5 800	-
Advance payments	3 649	9 930
Plastic card settlements	154	1 103
Receivables on transactions in securities	77	80
Other	1 945	372
Less: provision for impairment of other assets	(10 042)	(290)
Total other assets	**43 338**	**18 211**

The analysis of changes in the provision for impairment of other assets during 2008 and 2007 is presented below:

	Amounts receivable	Other	Total
Provision for impairment of other assets as at 1 January 2007	**36**	**30**	**66**
Provision for impairment during 2007	154	70	224
Provision for impairment of other assets as at 31 December 2007	**190**	**100**	**290**
Provision/(recovery of provision) for impairment during 2008	9 852	(100)	9 752
Provision for impairment of other assets as at 31 December 2008	**10 042**	**-**	**10 042**

The credit quality analysis of the financial assets classified as other assets as at 31 December 2008 is as follows:

		Past due		
	Current	From 6 to 12 months	More than 1 year	Total
Receivables on intra-company transactions	981	4 771	5 271	11 023
Less: provision for impairment of other assets	-	(4 771)	(5 271)	(10 042)
Total financial assets classified as other assets	**981**	**-**	**-**	**981**

As at 31 December 2007, financial assets classified as other assets by credit quality are current.

13. Due to Other Banks

As at 31 December 2008 and 31 December 2007 due to other banks include loans and deposits of Russian and foreign banks in the amount of RUR 97 134 thousand (2007: RUR 1 254 814 thousand).

As at 31 December 2008, the Bank had no cash balances with counterparty banks (2007: 6 counterparty banks) over 10% of the Bank's capital. The aggregate amount of funds at 31 December 2007 was RUR 1 135 648 thousand or 90.5% of total due to other banks.

Financial assets at fair value through profit or loss in the amount of RUR 100 000 thousand as at 31 December 2007 were provided as collateral under agreements with third parties in respect of banks' term deposits. The collateral is provided without the right of further sale.

(in thousands of Russian Roubles)

14. Customer Accounts

	2008	2007
State and municipal authorities		
— Current/settlement accounts	31	22
Legal entities		
— Current/settlement accounts	550 779	2 340 429
— Term deposits	99 995	486 786
Individuals		
— Current/demand accounts	98 669	183 780
— Term deposits	1 221 747	882 487
Total customer accounts	**1 971 221**	**3 893 504**

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Individuals	1 320 416	66.98	1 066 267	27.39
Trade	206 949	10.50	1 470 953	37.78
Services, including spa and tourism	126 001	6.39	298 123	7.65
Construction and assembly works including construction of roads	115 016	5.83	330 618	8.49
Financial services	77 423	3.93	101 030	2.59
Scientific-research, software development and distribution	40 632	2.06	196 498	5.05
Advertising activities	436	0.02	85 211	2.19
Other	84 348	4.29	344 804	8.86
Total customer accounts	**1 971 221**	**100.00**	**3 893 504**	**100.00**

As at 31 December 2008, the Bank had cash balances above 10% of its capital of 2 customers (2007: 4 customers). The aggregate amount of these funds was RUR 193 003 thousand or 9.8% of total customer accounts (2007: RUR 538 004 thousand or 13.8 % of total customer accounts).

15. Debt Securities Issued

As at 31 December 2008, debt securities issued by the Bank included discount promissory notes in the amount of RUR 705 220 thousand (2007: RUR 113 569 thousand). The promissory notes mature in the period from January 2009 to August 2011 (2007: from January 2008 to January 2009).

As at 31 December 2008 and 31 December 2007 the Bank had no issued promissory notes above 10% of the Bank's capital.

16. Other Borrowed Funds

As at 31 December 2008, other borrowed funds of the Bank included subordinated loans in the amount of RUR 216 000 thousand (2007: RUR 216 000 thousand). Subordinated loans were raised from private commercial companies with the term more than 5 years and interest rate of 5%. According to the agreements, loans can not be redeemed ahead of schedule, interest is paid at maturity date. Creditors of the Bank that issued subordinated loans are LLC Atlantis-TM (RUR 86 000 thousand), CJSC Geo-Nadir (RUR 80 000 thousand) and LLC Gekata-consulting (RUR 50 000 thousand). Other borrowed funds are carried at amortized cost. As at 31 December 2008, the Bank evaluated the amortized cost of these liabilities at RUR 244 149 thousand (2007: RUR 234 149 thousand).

Under subordinated loan agreements, in case of the Bank's bankruptcy the claims of the creditor that issued the subordinated loan are satisfied after satisfying the claims of all other creditors.

In 2008 the Company recorded a gain in the statement of income in the amount of RUR 10 028 thousand (2007: RUR 11 895 thousand) on initial recognition of other borrowed funds at rates below market.

(in thousands of Russian Roubles)

17. Other Liabilities

	Note	2008	2007
Payables to employees		14 804	7 060
Amounts payable		3 343	648
Finance lease obligations	11	1 172	2 392
Other taxes payable (other than income tax)		970	762
Provision for credit related commitments	26	246	130
Plastic cards payables		-	1 715
Unidentified amounts		-	3 279
Other		2 184	22
Total other liabilities		**22 719**	**16 008**

18. Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

			2008			2007
	Number of shares	Nominal value	Inflation adjusted value	Number of shares	Nominal value	Inflation adjusted value
Ordinary shares	9 900 000	99 000	461 382	9 900 000	99 000	461 382
Total share capital	**9 900 000**	**99 000**	**461 382**	**9 900 000**	**99 000**	**461 382**

The nominal value of each ordinary share is RUR 10. Each share gives the right of one vote.

There were no additional issues as to 2008 and 2007.

19. Retained Earnings according to Russian Accounting Standards

According to the Russian legislation only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed among the shareholders. As at 31 December 2008, the Bank's retained earnings amounted to RUR 129 156 thousand (2007: RUR 87 006 thousand).

The retained earnings reflected in the Bank's statutory records include a reserve fund in the amount of RUR 14 850 thousand (2006: RUR 14 850 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingent liabilities.

20. Interest Income and Expense

	2008	2007
Interest income		
Loans to customers	518 799	336 322
Financial assets at fair value through profit or loss	59 454	11 623
Due from other banks	53 847	58 961
Financial assets available for sale	-	870
Correspondent accounts with other banks	2 238	6 835
Total interest income	**634 338**	**414 611**
Interest expense		
Term deposits of individuals	110 260	52 357
Due to other banks	54 289	66 222
Debt securities issued	36 851	19 195
Term deposits of legal entities	35 942	8 858
Other borrowed funds	9 283	9 336
Current/settlement accounts	1 572	903
Finance lease obligations	615	233
Total interest expense	**248 812**	**157 104**
Net interest income	**385 526**	**257 507**

(in thousands of Russian Roubles)

21. Fee and Commission Income and Expense

	2008	2007
Fee and commission income		
Commission on cash and settlement transactions	74 771	54 399
Commission for operating loan accounts	31 104	4 920
Commission for operations with currency	8 724	8 978
Commission on guarantees issued	5 057	6 576
Commission for operations with plastic cards	3 175	910
Commission for currency control agent's functions	3 147	3 877
Other	5 447	1 826
Total fee and commission income	**131 425**	**81 486**
Fee and commission expense		
Commission on cash and settlement transactions	3 768	1 074
Commission for operations with currency	1 870	326
Commission for operations with plastic cards	1 732	452
Commission on cash collection	808	461
Commission paid to counterparty banks for operations with securities	512	-
Other	961	62
Total fee and commission expense	**9 651**	**2 375**
Net fee and commission income	**121 774**	**79 111**

22. Operating Expenses

	Note	2008	2007
Staff costs		216 641	139 278
Rent expenses		47 294	27 177
Administrative expenses		43 601	23 340
Professional services (security, communications, etc.)		32 716	21 676
Advertising and marketing		27 064	15 889
Taxes other than income tax		25 583	11 486
Depreciation of premises and equipment	11	9 589	6 280
Other		14 950	19 393
Total operating expenses		**417 438**	**264 519**

23. Income Tax

Income tax expense comprises the following:

	2008	2007
Current income tax expense	31 703	9 584
Deferred taxation movement due to origination and reversal of temporary differences	(2 562)	6 036
Effect of change in income tax rate	(6 345)	-
Less: deferred taxation charged directly to equity	(9 586)	-
Income tax expense for the year	**13 210**	**15 620**

The current tax rate applicable to the majority of the Bank's profit is 24% (2007: 24%).

(in thousands of Russian Roubles)

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2008	2007
IFRS profit before taxation	**25 741**	**109 894**
Theoretical tax charge at the applicable statutory rate (2008: 24%; 2007: 24%)	6 178	26 375
Income on government securities taxed at rate of 15%	(3 645)	(1 282)
Effect of change in income tax rate recognised in the statement of income	(6 345)	-
Non-deductible expenses less non-taxable income	17 022	(9 473)
Income tax expense for the year	**13 210**	**15 620**

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank profits tax purposes. On 1 January 2009 the income tax rate in the Russian Federation was set at 20%. Therefore, deferred tax assets (deferred tax liabilities) are recognised at the rate of 20% as at 1 January 2009.

	2008	Movement	Effect of change in income tax rate	2007
Tax effect of deductible temporary differences				
Revaluation of financial assets available for sale	37	37	-	-
Provision for impairment of other assets and credit related commitments	-	(84)	(17)	101
Other	6 784	96	(1 338)	8 026
Gross deferred tax assets	**6 821**	**49**	**(1 355)**	**8 127**
Tax effect of taxable temporary differences				
Provision for impairment of loans to customers	25 618	(12 349)	(7 594)	45 561
Revaluation of premises and equipment	9 586	9 586	-	-
Premises and equipment	-	(487)	(97)	584
Other	782	737	(9)	54
Gross deferred tax liabilities	**35 986**	**(2 513)**	**(7 700)**	**46 199**
Total net deferred tax liability	**(29 165)**	**2 562**	**6 345**	**(38 072)**

	2007	Movement	2006
Tax effect of deductible temporary differences			
Provision for impairment of other assets and credit related commitments	101	85	16
Other	8 026	6 088	1 938
Gross deferred tax assets	**8 127**	**6 173**	**1 954**
Tax effect of taxable temporary differences			
Provision for impairment of loans to customers	45 561	16 245	29 316
Premises and equipment	584	537	47
Other	54	(4 573)	4 627
Gross deferred tax liabilities	**46 199**	**12 209**	**33 990**
Total net deferred tax liability	**(38 072)**	**(6 036)**	**(32 036)**

Net deferred tax liabilities represent income tax amounts payable in future periods in respect of taxable temporary differences.

As at 31 December 2008, the total deferred tax liability in the amount of RUR 9 586 thousand (2007: none) was calculated in respect of positive revaluation of buildings at fair value and recorded within equity in accordance with IAS 16 (Note 11).

24. Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal 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 controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers as well as by industry segments. Such risks are monitored on a regular basis and limits are reviewed at least annually. Limits on the level of credit risk by borrowers are approved by the Board of Directors and Executive Board of the Bank.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed by the Bank by obtaining collateral in the form of property and securities, and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to liabilities as indicated in Note 26.

The Bank performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 7 and 8.

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

The Bank is exposed to early redemption risk as a result of lending at fixed or variable interest rates. The financial result and the Bank's equity for the current year and at the current balance sheet date would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

Market risk. The Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for accepted risk.

The market risk is assessed by the Bank in accordance with the requirements of CBR Regulation No. 313-P of 14 November 2007 "On procedure of market risk calculation by credit institutions".

(in thousands of Russian Roubles)

Geographical risk.

The geographical analysis of the Bank's assets and liabilities as at 31 December 2008 is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	195 195	18 640	-	213 835
Mandatory cash balances with the Central Bank of the Russian Federation	13 068	-	-	13 068
Financial assets at fair value through profit or loss	55 502	-	-	55 502
Due from other banks	72 271	-	-	72 271
Loans to customers	3 338 591	14 555	-	3 353 146
Financial assets available for sale	2 892	-	-	2 892
Investments in subsidiaries	517	-	-	517
Premises and equipment	126 178	-	-	126 178
Other assets	43 338	-	-	43 338
Total assets	**3 847 552**	**33 195**	**-**	**3 880 747**
Liabilities				
Due to other banks	97 134	-	-	97 134
Customer accounts	1 950 787	9 278	11 156	1 971 221
Debt securities issued	705 220	-	-	705 220
Other borrowed funds	244 149	-	-	244 149
Other liabilities	22 719	-	-	22 719
Current tax liabilities	5 974	-	-	5 974
Deferred tax liabilities	29 165	-	-	29 165
Total liabilities	**3 055 148**	**9 278**	**11 156**	**3 075 582**
Net balance sheet position	**792 404**	**23 917**	**(11 156)**	**805 165**
Credit related commitments	**170 315**	**-**	**-**	**170 315**

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

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	495 417	89 480	-	584 897
Mandatory cash balances with the Central Bank of the Russian Federation	74 711	-	-	74 711
Financial assets at fair value through profit or loss	1 013 951	-	-	1 013 951
Due from other banks	1 829 869	-	-	1 829 869
Loans to customers	2 722 123	12 212	-	2 734 335
Financial assets available for sale	19 004	-	-	19 004
Investments in subsidiaries	568	-	-	568
Premises and equipment	26 938	-	-	26 938
Other assets	18 211	-	-	18 211
Current tax assets	1 921	-	-	1 921
Total assets	**6 202 713**	**101 692**	**-**	**6 304 405**
Liabilities				
Due to other banks	1 254 814	-	-	1 254 814
Customer accounts	3 830 325	2 480	60 699	3 893 504
Debt securities issued	113 569	-	-	113 569
Other borrowed funds	234 149	-	-	234 149
Other liabilities	16 008	-	-	16 008
Deferred tax liabilities	38 072	-	-	38 072
Total liabilities	**5 486 937**	**2 480**	**60 699**	**5 550 116**
Net balance sheet position	**715 776**	**99 212**	**(60 699)**	**754 289**
Credit related commitments	**89 984**	**-**	**-**	**89 984**

(in thousands of Russian Roubles)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and sub-limits by branch, and controls them on a daily basis. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by major currency.

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	180 508	13 270	19 176	881	213 835
Mandatory cash balances with the Central Bank of the Russian Federation	13 068	-	-	-	13 068
Financial assets at fair value through profit or loss	55 502	-	-	-	55 502
Due from other banks	72 271	-	-	-	72 271
Loans to customers	3 210 830	136 833	5 483	-	3 353 146
Financial assets available for sale	2 892	-	-	-	2 892
Investments in subsidiaries	517	-	-	-	517
Premises and equipment	126 178	-	-	-	126 178
Other assets	43 338	-	-	-	43 338
Total assets	**3 705 104**	**150 103**	**24 659**	**881**	**3 880 747**
Liabilities					
Due to other banks	97 134	-	-	-	97 134
Customer accounts	1 535 926	256 550	178 737	8	1 971 221
Debt securities issued	556 034	146 698	2 488	-	705 220
Other borrowed funds	244 149	-	-	-	244 149
Other liabilities	22 719	-	-	-	22 719
Current tax liabilities	5 974	-	-	-	5 974
Deferred tax liabilities	29 165	-	-	-	29 165
Total liabilities	**2 491 101**	**403 248**	**181 225**	**8**	**3 075 582**
Net balance sheet position	**1 214 003**	**(253 145)**	**(156 566)**	**873**	**805 165**
Credit related commitments	**167 512**	**2 803**	**-**	**-**	**170 315**

(in thousands of Russian Roubles)

As at 31 December 2007, the Bank had the following positions in currencies:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	441 487	63 625	79 741	44	584 897
Mandatory cash balances with the Central Bank of the Russian Federation	74 711	-	-	-	74 711
Financial assets at fair value through profit or loss	1 013 951	-	-	-	1 013 951
Due from other banks	1 805 282	24 587	-	-	1 829 869
Loans to customers	2 594 588	124 368	15 379	-	2 734 335
Financial assets available for sale	19 004	-	-	-	19 004
Investments in subsidiaries	568	-	-	-	568
Premises and equipment	26 938	-	-	-	26 938
Other assets	18 211	-	-	-	18 211
Current tax assets	1 921	-	-	-	1 921
Total assets	**5 996 661**	**212 580**	**95 120**	**44**	**6 304 405**
Liabilities					
Due to other banks	1 181 115	73 699	-	-	1 254 814
Customer accounts	3 680 312	146 717	66 467	8	3 893 504
Debt securities issued	109 469	-	4 100	-	113 569
Other borrowed funds	234 149	-	-	-	234 149
Other liabilities	14 293	1 715	-	-	16 008
Deferred tax liabilities	38 072	-	-	-	38 072
Total liabilities	**5 257 410**	**222 131**	**70 567**	**8**	**5 550 116**
Net balance sheet position	**739 251**	**(9 551)**	**24 553**	**36**	**754 289**
Credit related commitments	**79 568**	**10 057**	**359**	**-**	**89 984**

The Bank issued loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at the balance sheet date if all other conditions remain unchanged. Reasonably expected changes were projected on the basis of historical exchange rates for December 2008:

	Effect on profit or loss before taxation	Effect on equity
USD appreciation by 7%	(17 720)	(13 467)
USD depreciation by 7%	17 720	13 467
EUR appreciation by 18%	(28 182)	(21 418)
EUR depreciation by 18%	28 182	21 418

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates and prices of precious metals used as at 31 December 2007 if all other conditions remain unchanged.

	Effect on profit or loss before taxation	Effect on equity
USD appreciation by 5%	(478)	(363)
USD depreciation by 5%	478	363
EUR appreciation by 5%	1 433	1 089
EUR depreciation by 5%	(1 433)	(1 089)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled financial instruments. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The liquidity risk is managed by the Treasury Department of the Bank.

(in thousands of Russian Roubles)

The Bank is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Bank is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the balance sheet liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2008, this ratio was 31.3% (2007: 58.4 %).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities on demand maturing within 30 calendar days. As at 31 December 2008, this ratio was 52.3 % (2006: 79.5 %).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2008, this ratio was 74.7 % (2006: 61.5%).

The Treasury Department receives information about financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, bank deposits and other interbank facilities, and regulates the limits on short-term funds committed in loans (within 30 days), to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows the liabilities as at 31 December 2008 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows including the total liabilities. These undiscounted cash flows differ from the amounts recorded in the balance sheet as the balance sheet amounts are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the balance sheet date. Foreign currency payments are translated using the CBR exchange rates effective at the balance sheet date.

The table below shows the maturity analysis of financial liabilities as at 31 December 2008:

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to other banks	70 947	1 266	1 266	31 076	104 555
Customer accounts	769 063	861 163	308 189	99 218	2 037 633
Debt securities issued	125 003	103 519	383 182	183 788	795 492
Other borrowed funds	-	-	-	321 296	321 296
Total potential future payments under financial liabilities	**965 013**	**965 948**	**692 637**	**635 378**	**3 258 976**

The table below shows the maturity analysis of financial liabilities as at 31 December 2007:

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to other banks	1 256 628	-	-	-	1 256 628
Customer accounts	2 818 480	589 118	462 914	105 945	3 976 457
Debt securities issued	49 475	56 838	5 122	6 002	117 437
Other borrowed funds	-	-	-	321 296	321 296
Total potential future payments under financial liabilities	**4 124 583**	**645 956**	**468 036**	**433 243**	**5 671 818**

Customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

(in thousands of Russian Roubles)

The Bank does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Bank monitors the expected maturity limits presented in the table below as at 31 December 2008.

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	213 835	-	-	-	-	213 835
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	13 068	13 068
Financial assets at fair value through profit or loss	55 502	-	-	-	-	55 502
Due from other banks	72 271	-	-	-	-	72 271
Loans to customers	216 440	857 210	1 127 786	1 151 710	-	3 353 146
Financial assets available for sale	-	-	-	-	2 892	2 892
Investments in subsidiaries	-	-	-	-	517	517
Premises and equipment	-	-	-	-	126 178	126 178
Other assets	41 095	664	592	987	-	43 338
Total assets	**599 143**	**857 874**	**1 128 378**	**1 152 697**	**142 655**	**3 880 747**
Liabilities						
Due to other banks	70 073	-	-	27 061	-	97 134
Customer accounts	730 694	858 125	286 687	95 715	-	1 971 221
Debt securities issued	124 987	99 896	337 826	142 511	-	705 220
Other borrowed funds	-	-	-	244 149	-	244 149
Other liabilities	21 763	674	220	62	-	22 719
Current tax liabilities	-	5 974	-	-	-	5 974
Deferred tax liabilities	-	-	-	-	29 165	29 165
Total liabilities	**947 517**	**964 669**	**624 733**	**509 498**	**29 165**	**3 075 582**
Net liquidity gap as at 31 December 2008	**(348 374)**	**(106 795)**	**503 645**	**643 199**	**113 490**	**805 165**
Cumulative liquidity gap as at 31 December 2008	**(348 374)**	**(455 169)**	**48 476**	**691 675**	**805 165**	
Credit related commitments	**2 245**	**7 203**	**15 397**	**145 470**	**-**	**170 315**

As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "on demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis as at 31 December 2007:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	584 897	-	-	-	-	584 897
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	74 711	74 711
Financial assets at fair value through profit or loss	1 013 951	-	-	-	-	1 013 951
Due from other banks	1 829 869	-	-	-	-	1 829 869
Loans to customers	13 710	593 667	1 257 981	868 977	-	2 734 335
Financial assets available for sale	-	-	19 004	-	-	19 004
Investments in subsidiaries	-	-	-	-	568	568
Premises and equipment	-	-	-	-	26 938	26 938
Other assets	18 211	-	-	-	-	18 211
Current tax assets	-	1 921	-	-	-	1 921
Total assets	**3 460 638**	**595 588**	**1 276 985**	**868 977**	**102 217**	**6 304 405**
Liabilities						
Due to other banks	1 254 814	-	-	-	-	1 254 814
Customer accounts	2 807 281	573 325	409 792	103 106	-	3 893 504
Debt securities issued	49 317	53 467	4 832	5 953	-	113 569
Other borrowed funds	-	-	-	234 149	-	234 149
Other liabilities	13 730	570	685	1 023	-	16 008
Deferred tax liabilities	-	-	-	-	38 072	38 072
Total liabilities	**4 125 142**	**627 362**	**415 309**	**344 231**	**38 072**	**5 550 116**
Net liquidity gap as at 31 December 2007	**(664 504)**	**(31 774)**	**861 676**	**524 746**	**64 145**	**754 289**
Cumulative liquidity gap as at 31 December 2007	**(664 504)**	**(696 279)**	**165 398**	**690 144**	**754 289**	
Credit related commitments	**9 220**	**27 845**	**12 263**	**40 656**	**-**	**89 984**

In the opinion of the Bank's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Bank. It is unusual for the 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.

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

Liquidity requirements in respect of guarantees are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions.

The Bank's Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

(in thousands of Russian Roubles)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	20 434	-	-	-	193 401	213 835
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	13 068	13 068
Financial assets at fair value through profit or loss	55 502	-	-	-	-	55 502
Due from other banks	72 271	-	-	-	-	72 271
Loans to customers	216 440	857 210	1 127 786	1 151 710	-	3 353 146
Financial assets available for sale	-	-	-	-	2 892	2 892
Investments in subsidiaries	-	-	-	-	517	517
Premises and equipment	-	-	-	-	126 178	126 178
Other assets	-	-	-	-	43 338	43 338
Total assets	**364 647**	**857 210**	**1 127 786**	**1 151 710**	**379 394**	**3 880 747**
Liabilities						
Due to other banks	70 073	-	-	27 061	-	97 134
Customer accounts	730 694	858 125	286 687	95 715	-	1 971 221
Debt securities issued	125 274	100 055	337 602	142 289	-	705 220
Other borrowed funds	-	-	-	244 149	-	244 149
Other liabilities	-	-	-	1 172	21 547	22 719
Current tax liabilities					5 974	5 974
Deferred tax liabilities	-	-	-	-	29 165	29 165
Total liabilities	**926 041**	**958 180**	**624 289**	**510 386**	**56 686**	**3 075 582**
Net liquidity gap as at 31 December 2008	**(561 394)**	**(100 970)**	**503 497**	**641 324**	**322 708**	**805 165**
Cumulative liquidity gap as at 31 December 2008	**(561 394)**	**(662 364)**	**(158 867)**	**482 457**	**805 165**	

(in thousands of Russian Roubles)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2007.

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	584 897	584 897
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	74 711	74 711
Financial assets at fair value through profit or loss	1 013 951	-	-	-	-	1 013 951
Due from other banks	1 829 869	-	-	-	-	1 829 869
Loans to customers	13 710	593 667	1 257 981	868 977	-	2 734 335
Financial assets available for sale	-	-	19 004	-	-	19 004
Investments in subsidiaries	-	-	-	-	568	568
Premises and equipment	-	-	-	-	26 938	26 938
Other assets	-	-	-	-	18 211	18 211
Current tax assets	-	-	-	-	1 921	1 921
Total assets	**2 857 530**	**593 667**	**1 276 985**	**868 977**	**707 246**	**6 304 405**
Liabilities						
Due to other banks	1 254 814	-	-	-	-	1 254 814
Customer accounts	2 807 281	573 325	409 792	103 106	-	3 893 504
Debt securities issued	49 317	53 467	4 832	5 953	-	113 569
Other borrowed funds	-	-	-	234 149	-	234 149
Other liabilities	-	-	-	2 392	13 616	16 008
Deferred tax liabilities	-	-	-	-	38 072	38 072
Total liabilities	**4 111 412**	**626 792**	**414 624**	**345 600**	**51 688**	**5 550 116**
Net liquidity gap as at 31 December 2007	**(1 253 882)**	**(33 125)**	**862 361**	**523 377**	**655 558**	**754 289**
Cumulative liquidity gap as at 31 December 2007	**(1 253 882)**	**(1 287 007)**	**(424 646)**	**98 731**	**754 289**	

If as at 31 December 2008 the interest rates had been by 50 basis points higher, provided all other conditions remained unchanged, the profit for the year would have been by RUR 12 798 thousand (2007: RUR 6 204 thousand) higher, as a result of a higher increase in interest income on financial assets with variable interest rate than in interest expenses on financial liabilities.

If as at 31 December 2008 the interest rates had been by 50 basis points lower, provided all other conditions remained unchanged, the profit would have been by RUR 12 798 thousand (2007: RUR 6 204 thousand) lower, as a result of higher decrease in interest income on financial assets with variable interest rate than in interest expenses on financial liabilities.

(in thousands of Russian Roubles)

The Bank performs monitoring of financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Bank's key managers as at 31 December 2008 and 31 December 2007:

	2008			2007		
	RUR	**USD**	**EUR**	**RUR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	17.3%	0.0%	1.0%	0.0%	0.0%	0.0%
Financial assets at fair value through profit or loss	10.1%	-	-	8.0%	-	-
Due from other banks	19.7%	-	-	4.8%	6.0%	-
Loans to customers	19.2%	17.7%	16.5%	13.2%	14.2%	14.5%
Financial assets available for sale	0.0%	-	-	10.2%	-	-
Liabilities						
Due to other banks	15.3%	-	-	5.6%	4.9%	-
Customer accounts						
- term deposits	12.2%	9.7%	9.7%	9.6%	9.5%	7.4%
Debt securities issued	8.3%	13.3%	3.8%	2.6%	-	3.8%
Other borrowed funds	5.0%	-	-	5.0%	-	-

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

Concentration of other risks. The management provides monitoring and disclosure of credit risk concentrations on the basis of received reports containing information on borrowers with aggregate amount of issued loans above 10% of the Bank's capital.

25. Capital Management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised on the basis of monthly reports that contain corresponding calculations that are verified and signed by the President and Chief Accountant of the Bank. Other capital management objectives are assessed on a daily basis.

In accordance with the current capital requirements set by the CBR, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level. The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Russian legislation:

	2008	**2007**
Core capital	577 412	572 172
Additional capital	241 414	220 195
Total regulatory capital	**818 826**	**792 367**

During 2008 and 2007 the Bank complied with all capital requirements set by the CBR.

As at 31 December 2008, the Bank's capital adequacy ratio calculated based on capital requirements established by the CBR was 22.0% (2007: 20.9%). The minimum admissible value of H1 is set by the CBR at 10%.

26. Contingent Liabilities

Legal issues. In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. Based on its own estimates and internal and external professional advice, the Bank's management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional or federal authorities. Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

(in thousands of Russian Roubles)

As at 31 December 2008, the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained by controlling bodies.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2008	2007
Less than 1 year	26 519	17 413
From 1 to 5 years	37 537	20 847
Total operating lease commitments	**64 056**	**38 260**

In 2008 the Bank did not sublease the leased immovable property to third parties. Lease expenses recognised by the Bank amounted to RUR 47 294 thousand (2007: RUR 27 177 thousand).

Credit related commitments. The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of guarantees and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. However, as there is a potential risk, a provision for credit related commitments in respect of issued guarantees is made in the balance sheet within other liabilities depending on customer financial position. With respect to undrawn credit lines, the Bank is less exposed to the risk of loss since in the case of impairment of loans issued the Bank will not repay the remaining amounts. Therefore, a provision for these credit related commitments is equal to zero.

Credit related commitments of the Bank are as follows:

	2008	2007
Undrawn credit lines	166 513	62 151
Guarantees issued	4 048	27 963
Less: provision for credit related commitments	(246)	(130)
Total credit related commitments	**170 315**	**89 984**

Movements in the provision for credit related commitments are as follows:

	Note	2008	2007
Provision for credit related commitments as at 1 January		**130**	68
Provision for losses on credit related commitments during the year		116	62
Provision for credit related commitments as at 31 December	17	**246**	**130**

Pledged and restricted assets. As at 31 December 2007, the Bank had the following assets transferred as collateral:

		2007	
	Note	**Pledged assets**	**Related obligation**
Financial assets at fair value through profit or loss	6	100 000	49 111
Total		**100 000**	**49 111**

27. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

(in thousands of Russian Roubles)

Below is the estimated fair value of the Bank's financial instruments as at 31 December 2008 and 31 December 2007:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	213 835	213 835	584 897	584 897
Financial assets at fair value through profit or loss	55 502	55 502	1 013 951	1 013 951
Due from other banks	72 271	72 271	1 829 869	1 829 869
Loans to customers	3 353 146	3 353 146	2 734 335	2 734 335
Financial assets available for sale	2 892	2 892	19 004	19 004
Financial liabilities				
Due to other banks	97 134	97 134	1 254 814	1 254 814
Customer accounts	1 971 221	1 971 221	3 893 504	3 893 504
Debt securities issued	705 220	704 652	113 569	113 569
Other borrowed funds	244 149	244 149	234 149	234 149

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

Financial instruments carried at fair value. Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the balance sheet at their fair value. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank on the basis of results of recent sales of interests in the investees to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation techniques.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is primarily due to their short-term nature and the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

Due to other banks. The fair value of due to other banks maturing in less than 1 month approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 1 month is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Bank believes that fair values of borrowings as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

Customer accounts. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for debts with similar remaining maturity. The Bank believes that fair values of customer accounts as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of fixed interest bearing financial liabilities carried at amortised cost is determined by comparing the market interest rates at initial recognition of these instruments with current market rates on similar financial instruments. The estimated fair value of debt securities issued is based on discounted cash flows using interest rates for debt instruments with similar credit risk and remaining maturity. The fair value of debt securities actively traded on an exchange was based on their market quotations.

Other borrowed funds. The estimated fair value of other borrowed funds with fixed interest rate approximates their carrying value as these instruments do not have market quotations, are attracted on special terms.

(in thousands of Russian Roubles)

28. Reconciliation of Categories of Financial Instruments to Balance Sheet

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

The table below shows reconciliation of categories of financial assets with the above measurement categories as at 31 December 2008:

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	213 835	-	-	213 835
Financial assets at fair value through profit or loss				
- Corporate debt securities	55 502	-	-	55 502
Due from other banks				
- Loans and deposits with other banks	-	72 271	-	72 271
Loans to customers				
-Corporate loans	-	2 169 252	-	2 169 252
- Loans to individual entrepreneurs, small and medium business	-	835 952	-	835 952
- Consumer loans to individuals	-	316 495	-	316 495
- Mortgage loans to individuals	-	31 447	-	31 447
Financial assets available for sale				
- Corporate equity securities	-	-	2 892	2 892
Investments in subsidiaries	-	-	517	517
Other financial assets	-	-	-	-
- Accounts receivable	-	981	-	981
Total financial assets	**269 337**	**3 426 398**	**3 409**	**3 699 144**
Non-financial assets	-	-	-	181 603
Total assets	**-**	**-**	**-**	**3 880 747**

(in thousands of Russian Roubles)

The table below shows reconciliation of categories of financial assets to the balance sheet as at 31 December 2007:

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	584 897	-	-	584 897
Financial assets at fair value through profit or loss				
- Government and municipal debt securities	1 013 951	-	-	1 013 951
Due from other banks				
- Loans and deposits with other banks	-	1 829 869	-	1 829 869
Loans to customers				
-Corporate loans	-	1 776 373	-	1 776 373
- Loans to individual entrepreneurs, small and medium business	-	631 830	-	631 830
- Consumer loans to individuals	-	326 132	-	326 132
Financial assets available for sale				
- Corporate debt securities	-	-	19 004	19 004
Investments in subsidiaries	-	-	568	568
Other financial assets				
- Accounts receivable	-	1 410	-	1 410
Total financial assets	**1 598 848**	**4 565 614**	**19 572**	**6 184 034**
Non-financial assets	-	-	-	120 371
Total assets	**-**	**-**	**-**	**6 304 405**

All financial liabilities of the Bank are carried at amortised cost.

(in thousands of Russian Roubles)

29. Related Party Transactions

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

In the normal course of business the Bank enters into transactions with its major shareholders, directors, and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end and asset transactions with related parties for 2008 and 2007 are as follows:

	Shareholders		Directors and key management personnel		Subsidiaries		Other related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
Loans to customers								
Loans to customers as at 1 January (gross)	131 980	-	37 735	10 084	34 032	-	152 071	3 788
Loans to customers issued during the year	-	267 400	50 108	64 520	151 383	53 404	4 565	154 062
Loans to customers repaid during the year	(131 980)	(135 420)	(66 272)	(36 869)	(53 113)	(19 372)	(150 173)	(5 779)
Loans to customers as at 31 December	**-**	**131 980**	**21 571**	**37 735**	**132 302**	**34 032**	**6 463**	**152 071**
Provision for impairment of loans to customers								
Provision for impairment of loans to customers as at 1 January	-	-	363	818	1 797	-	24 458	327
(Recovery of provision)/ provision for impairment of loans to customers during the year	-	-	11	(455)	(1 797)	1 797	(21 226)	24 131
Provision for impairment of loans to customers as at 31 December	**-**	**-**	**374**	**363**	**-**	**1 797**	**3 232**	**24 458**
Loans to customers as at 1 January (less provision for impairment)	**-**	**-**	**37 372**	**9 266**	**32 235**	**-**	**127 613**	**3 461**
Loans to customers as at 31 December (less provision for impairment)	**-**	**131 980**	**21 197**	**37 372**	**132 302**	**32 235**	**3 231**	**127 613**

The outstanding balances at the year end and liability transactions with related parties for 2008 and 2007 are as follows:

	Shareholders		Directors and key management personnel		Subsidiaries		Other related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
Customer accounts								
Customer accounts as at 1 January	2 012		6 764	2 561	2 730	-	4 529	2 318
Customer accounts received during the year	622 568	1 088 659	417 416	262 675	281 253	82 272	241 323	297 684
Customer accounts repaid during the year	(623 505)	(1 086 647)	(419 448)	(258 472)	(282 840)	(79 542)	(241 689)	(295 473)
Customer accounts as at 31 December	**1 075**	**2 012**	**4 732**	**6 764**	**1 143**	**2 730**	**4 163**	**4 529**

(in thousands of Russian Roubles)

Below are income and expense items with related parties for 2008 and 2007:

	Shareholders		Directors and key management personnel		Subsidiaries		Other related parties	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Interest income	7 761	5 601	15 206	2 469	3 924	1 475	10 843	9 058
Interest expense	-	-	-	-	547	177	387	230
Fee and commission income	-	2	-	11	-	247	158	46
Operating expenses	-	-	-	-	-	1 956	-	-

The information on remuneration paid to key management personnel is as follows:

	2008		2007	
	Expenses	**Accrued liability**	**Expenses**	**Accrued liability**
Short-term payments:				
- Salaries	24 876	-	14 697	525
Total				

Short-term bonuses are paid in full during 12 months after the end of the period in which respective services were provided by the management.

A.V. Nikolaenko

Chairman of the Executive Board

A.G. Volkova

Chief Accountant

20 April 2009