Commercial Bank
“Agropromcredit”
(Limited Liability Company)
Financial Statements
For the year ended 31 December 2008

Contents

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Independent Auditors' Report

To the Board of Directors
Commercial Bank "Agropromcredit" (LLC)

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
21 May 2009

	Notes	2008 RUR'000	2007 RUR'000
Interest income	4	2,978,621	2,214,215
Interest expense	4	(1,075,009)	(894,490)
Net interest income		**1,903,612**	**1,319,725**
Loan impairment allowance	10	(504 019)	(205,477)
Net interest income after provision for loan impairment		**1,399,593**	**1,114,248**
Fee and commission income	5	774,501	718,580
Fee and commission expense	6	(38,225)	(35,423)
Net fee and commission income		**736,276**	**683,157**
Net gain on financial instruments at fair value through profit or loss	7	135,872	304,054
Net foreign exchange gain	8	75,780	31,869
Recovery of impairment allowance other than loan impairment	10	8,353	5,539
Other income	9	232,226	118,525
Operating income		**2,588,100**	**2,257,392**
Loss on disposal of loans	16	(77,847)	-
General administrative expenses	11	(1,746,783)	(1,349,622)
Income before taxes		**763,470**	**907,770**
Income tax expense	12	(185,469)	(213,517)
Net income		**578,001**	**694,253**

The financial statements as set out on pages 4 to 55 were approved by the Board of Directors on 21 May 2009.

Kornev Vasiliy Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Notes	2008 RUR'000	2007 RUR'000
ASSETS			
Cash and cash equivalents	33	10,368,915	2,565,478
Due from the Central Bank of the Russian Federation	13	27,525	238,924
Placements with banks and other financial institutions	14	450,121	634,235
Financial instruments at fair value through profit or loss	15	1,082,532	4,375,216
Loans to customers	16	13,183,668	13,307,582
Available-for-sale assets	17	-	-
Held-to-maturity investments	18	1,742,792	-
Property and equipment	19	1,031,435	380,524
Other assets	20	228,926	83,411
Total assets		**28,115,914**	**21,585,370**
LIABILITIES AND EQUITY			
Financial instruments at fair value through profit or loss	15	-	1,942
Deposits and balances from banks and other financial institutions	21	2,072,228	92,827
Current accounts and deposits from customers	22	20,444,067	15,555,046
Certificates of deposit and promissory notes	23	1,584,019	2,765,572
Other borrowed funds	24	773,066	417,285
Income tax payables		6,275	80,447
Other liabilities	25	36,291	39,866
Deferred tax liability	12	39,557	49,975
Total liabilities		**24,955,503**	**19,002,960**
Equity			
Charter capital	26	1,000,000	1,000,000
Retained earnings		2,160,411	1,582,410
Total equity		**3,160,411**	**2,582,410**
Total liabilities and equity		**28,115,914**	**21,585,370**
Commitments and contingencies	29-31		

The balance sheet is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Notes	2008 RUR'000	2007 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,778,934	2,429,765
Interest payments		(956,133)	(1,073,944)
Net receipts from financial instruments at fair value through profit or loss		75,908	171,313
Net receipts from foreign exchange		68,953	11,454
Fees and commissions receipts		774,501	725,027
Fees and commissions payments		(38,225)	(38,508)
Other income		232,226	118,525
General administrative expenses		(1,745,697)	(1,289,066)
(Increase)/decrease in operating assets			
Due from the Central Bank of the Russian Federation (excluding cash and cash equivalents)		211,399	(3,275)
Placements with banks and other financial institutions (excluding cash and cash equivalents)		179,354	830,898
Financial instruments at fair value through profit or loss		1,861,083	(519,811)
Loans to customers		(202,752)	(3,162,792)
Held-to-maturity investments		(281,442)	-
Other assets		(137,162)	(26,647)
Increase/(decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		(1,942)	-
Deposits and balances from banks and other financial institutions		1,967,825	(6,388)
Current accounts and deposits from customers		4,860,693	4,229,676
Certificates of deposit and promissory notes		(1,306,722)	(1,681,125)
Other liabilities		(22,519)	23,301
Net cash provided from operating activities before taxes paid		**8,318,282**	**738,403**
Taxes paid		(270,059)	(30,278)
Cash flows from operations		**8,048,223**	**708,125**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment		(710,897)	(52,404)
Cash flows used in investing activities		**(710,897)**	**(52,404)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of other borrowed funds		-	(94,890)
Cash flows used in financing activities		**-**	**(94,890)**
Net increase in cash and cash equivalents		**7,337,326**	**560,831**
Effect of changes in exchange rates on cash and cash equivalents		466,111	(5,353)
Cash and cash equivalents as at the beginning of the year		2,565,478	2,010,000
Cash and cash equivalents as at the end of the year	33	**10,368,915**	**2,565,478**

The statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Charter Capital RUR'000	**Retained earnings RUR'000**	**Total RUR'000**
Balance at 31 December 2006	**1,000,000**	**888,157**	**1,888,157**
Net income for the period	-	694,253	694,253
Balance at 31 December 2007	**1,000,000**	**1,582,410**	**2,582,410**
Net income for the period	-	578,001	578,001
Balance at 31 December 2008	**1,000,000**	**2,160,411**	**3,160,411**

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

1 Background

Principal activities

Commercial Bank “Agropromcredit” (LLC) (“the Bank”) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 of 7 July 1993) as a limited liability partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 of 8 October 1998) the name and the legal structure of the Bank was changed. The Bank conducts its business on the basis of general banking license No. 2880 issued by the Central Bank of the Russian Federation (“the CBRF”). The activities of the Bank are regulated by the CBRF. The Bank was accepted into the Russian Federation state deposit insurance system for individuals in September 2005.

The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2008 the Bank had 14 branches and 29 representative offices in the Russian Federation. The branch network of the Bank is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of the Bank’s employees during 2008 was 338 - in the head office, 1 310 - in total (2007: 324 - in the head office, 1 229 - in total).

The majority of the Bank’s assets and liabilities are located in the Russian Federation.

The registered address of the Bank: 140061, Moscow region, Lytkarino, Housing complex 5, Block 2, Building 13.

Charter capital

The Bank’s charter capital consists of the following contributions:

	2008		**2007**	
Name	**Amount RUR’000**	**Participation %**	**Amount RUR’000**	**Participation %**
LLC “Blaucent”	200,000	20.0%	200,000	20.0%
LLC “Denciborg”	200,000	20.0%	200,000	20.0%
LLC “Kinlaut”	200,000	20.0%	200,000	20.0%
LLC “Roleten”	200,000	20.0%	200,000	20.0%
LLC “Avtotransbureau”	200,000	20.0%	200,000	20.0%
Charter capital	**1,000,000**	**100.0%**	**1,000,000**	**100.0%**

Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgments

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

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

3 Significant accounting policies

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

Foreign currency transactions

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

As at 31 December 2008 the official rate of exchange used for translating foreign currency balances was USD 1 = RUR 29.3804 and Euro 1 = RUR 41.4411 (2007: USD 1 = RUR 24.5462 and Euro 1 = RUR 35.9332). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a freely convertible currency outside of the Russian Federation.

Accounting for the effects of hyperinflation

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

Cash and cash equivalents

The Bank considers cash, correspondent accounts and overnight placements with other banks and financial institutions and nostro accounts with the CBRF to be cash and cash equivalents. The minimum reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,

- upon initial recognition, designated by the Bank as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- the Bank intends to sell immediately or in the near term;

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank upon initial recognition designates as available-for-sale; or

- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank designates as available-for-sale; or

- meet the definition of loans and receivables.

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

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;

- held-to-maturity investments which are measured at amortized cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement;

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

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

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

Repurchase agreements and reverse repurchase agreements

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

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

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

Offsetting

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

Property and equipment

Owned assets

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

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

Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

Depreciation

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

Depreciation of assets under construction is charged from the time these assets are completed and ready for use.

Depreciation is using the following rates.

	Depreciation rate
Buildings	2%
Vehicles	25%
Computers	20%-25%
Office equipment	10%-20%
Other equipment	20%
Intangible assets	25%-30%
Leasehold improvements	10%-25%

Expenses related to repairs and renewals are charged to the income statement when incurred and included in the income statement as other administrative and operating expenses unless they qualify for capitalization.

Impairment

Financial assets carried at amortized cost

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

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

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

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

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

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

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

Financial assets carried at cost

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

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

Operating leases

Where the Bank is the lessee, the total lease payments are charged to the income statement on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to lesser as a penalty is charged to the income statement of the period in which the operating lease is cancelled.

Borrowings

Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the income statement over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the income statement as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the income statement using the effective yield method.

Debt securities issued

Debt securities issued are promissory notes and certificates of deposit issued by the Bank.

Debt securities issued are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the income statement over the period of the security issue, using the effective yield method.

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 gains arising from early retirement of debt.

Equity

Each participant in a Russian limited liability company has the unilateral right to withdraw his capital from the company and receive his share of the company's net assets within six months after the end of the year of the withdrawal. Based on the early adopted amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* and IAS 32 *Financial instruments: Disclosure*, the Bank recorded charter capital and retained earnings attributable to participants as equity.

Distributions to participants

Distributions to participants are recorded in the income statement in the period in which they are declared. The Bank distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Taxation

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

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

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

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

Income and expense recognition

Interest income and expense are recognised in the income statement using the effective interest method.

Net gain on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

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

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

Dividend income is recognised in the income statement on the date that the dividend is declared.

Fiduciary assets

Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from such business are shown in fee and commission income within the income statement.

Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year.

Changes in accounting policies

As at 1 January 2007, the Bank early adopted the amendment to International Financial Reporting Standard IAS 1 *Presentation of Financial Statements – Capital Disclosures* and IAS 32 *Financial instruments: Disclosures* before the scheduled time. In accordance with this the Bank can define net assets attributable to participants as equity only on the basis of the fulfillment of a number of conditions. As at 31 December 2008 and 31 December 2007, net assets attributable to participants meet such conditions and were recorded in the financial statement as the Bank's equity.

In October 2008 the IASB issued "Reclassification of Financial Assets" (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*).

The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, would have met the definition of loans and receivables at initial recognition, and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment also permits an entity to transfer a non-derivative financial asset from the available-for-sale category to the loans and receivables category provided the non-derivative financial asset would have met the definition of loans and receivables and the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Bank reclassified certain non-derivative financial assets out of trading assets into held-to-maturity investments. For details on the impact of these reclassifications refer to Note 15 of the financial statements.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt this pronouncement when it becomes effective. The Bank has not yet analysed the likely impact of this new standard on its financial statements.

- Revised IAS 1 *Presentation of Financial Statements* (2007) which becomes mandatory for the Bank's 2009 financial statements is expected to have a significant impact on the presentation of the financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

4 Interest income and interest expense

	2008 RUR'000	2007 RUR'000
Interest income		
Loans to customers	2,537,268	1,931,546
Financial instruments at fair value through profit or loss	238,827	216,901
Held-to-maturity investments	129,845	-
Placements with banks and other financial institutions	72,681	65,768
	2,978,621	**2,214,215**
Interest expense		
Current accounts and deposits from customers	(710,854)	(487,137)
Certificates of deposit and promissory notes	(247,667)	(294,487)
Deposits and balances from banks and other financial institutions	(54,039)	(16,918)
Other borrowed funds	(62,449)	(95,948)
	(1,075,009)	**(894,490)**

5 Fee and commission income

	2008 RUR'000	2007 RUR'000
Commission on settlement transactions	560,267	540,721
Commission on cash transactions	100,770	106,457
Commission on guarantees	68,602	37,416
Commission on cash collections	17,845	5,636
Other	27,017	28,350
	774,501	**718,580**

6 Fee and commission expense

	2008 RUR'000	2007 RUR'000
Commission on settlement transactions	18,643	11,116
Commission on cash transactions	9,438	1,381
Commission on cash collection	7,037	6,633
Commission for intermediary services on bonds issuance	49	4,428
Commission on guarantees	-	11,750
Other	3,058	115
	38,225	**35,423**

7 Net gain on financial instruments at fair value through profit or loss

	2008 RUR'000	2007 RUR'000
Equity instruments	409,929	116,168
Debt instruments	(322,328)	180,016
Other	48,271	7,870
	135,872	**304,054**

8 Net foreign exchange gain

	2008 RUR'000	2007 RUR'000
Gain on spot transactions and derivatives	68,953	11,454
Gain from revaluation of financial assets and liabilities	6,827	20,415
	75,780	**31,869**

9 Other income

	2008 RUR'000	2007 RUR'000
Penalties and charges received	205,914	31,482
Income from rent	4,072	1,492
Income on sale of loans	-	60,758
Income for intermediary services on bonds issue	-	23,727
Other	22 240	1,066
	232,226	**118,525**

10 Impairment allowance

	2008 RUR'000	2007 RUR'000
(Impairment allowance)/recovery of impairment allowance		
Loans and advances to customers (Note 16)	(504,019)	(205,477)
Other assets (Note 20)	8,353	5,539
	(495,666)	**(199,938)**

11 General administrative expenses

	2008 RUR'000	2007 RUR'000
Employee compensation	(1,188,195)	(818,472)
Occupancy	(134,437)	(114,645)
Taxes other than on income	(70,006)	(85,081)
Advertising and marketing	(64,534)	(45,582)
Depreciation and amortization	(59,987)	(60,555)
Communications and information services	(53,499)	(46,202)
Repairs and maintenance	(38,732)	(50,832)
Security	(37,564)	(36,092)
Insurance	(37,394)	(25,369)
Travel expenses	(9,908)	(12,551)
Other expenses related to administrative personnel	(7,389)	(8,031)
Office supplies	(6,936)	(2,149)
Professional services	(6,046)	(3,864)
Other	(32,156)	(40,197)
	(1,746,783)	**(1,349,622)**

12 Income tax expense

Income tax expense comprises the following:

	2008 RUR'000	2007 RUR'000
Current income tax expense	195,887	110,725
Deferred taxation movement due to origination and reversal of temporary differences	(10,418)	102,792
Income tax expense for the year	**185,469**	**213,517**

The Bank's applicable tax rate for current and deferred tax is 24% and 20% respectively (2007: 24%).

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

	2008 RUR'000	2007 RUR'000
Income before tax	**763,470**	**907,770**
Theoretical tax charge at the applicable statutory rate (2008: 24%; 2007: 24%)	183,233	217,865
Tax effect of items which are not deductible or assessable for taxation purposes, and other permanent differences	8,713	13,604
Income on government securities taxed at different rates	(10,540)	(17,952)
Effect of change in tax rate	4,063	-
Income tax expense for the year	**185,469**	**213,517**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. In accordance with Russian tax legislation, adopted in November 2008, starting from 1 January 2009 the income tax rate is reduced from 24% to 20%. Accordingly deferred tax has been calculated at a tax rate of 20% as at 31 December 2008. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2007: 24%), except for income on government securities that is taxed at 15% (2007: 15%).

	Assets		Liabilities		Net	
RUR'000	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Financial instruments at fair value through profit or loss	4,698	42,756	-	-	4,698	42,756
Loans to customers	-	-	(33,687)	(96,140)	(33,687)	(96,140)
Held-to-maturity investments	14,275	-	-	-	14,275	-
Property and equipment	-	1,347	(20,076)	-	(20,076)	1,347
Other assets	-	-	(29,667)	(35,981)	(29,667)	(35,981)
Current accounts and deposits from customers	2,196	14,206	-	-	2,196	14,206
Certificates of deposit and promissory notes	15,904	24,937	-	-	15,904	24,937
Other liabilities	6,800	-	-	(1,100)	6,800	(1,100)
Recognized net deferred tax assets/ (liabilities)	**43,873**	**83,246**	**(83,430)**	**(133,221)**	**(39,557)**	**(49,975)**

Movement in temporary differences during the year ended 31 December 2008

RUR'000	**Balance 1 January 2008**	**Recognised in income**	**Balance 31 December 2008**
Financial instruments at fair value through profit or loss	42,756	(38,058)	4,698
Loans to customers	(96,140)	62,453	(33,687)
Held-to-maturity investments	-	14,275	14,275
Property and equipment	1,347	(21,423)	(20,076)
Other assets	(35,981)	6,314	(29,667)
Current accounts and deposits from customers	14,206	(12,010)	2,196
Certificates of deposit and promissory notes	24,937	(9,033)	15,904
Other liabilities	(1,100)	7,900	6,800
	(49,975)	**10,418**	**(39,557)**

13 Due from the Central Bank of the Russian Federation

	2008 RUR'000	**2007 RUR'000**
Minimum reserve deposit	27,525	238,924
	27,525	**238,924**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

14 Placements with banks and other financial institutions

	2008 RUR'000	2007 RUR'000
Not impaired or past due		
Loans and deposits		
Rated from AA- to AA+	-	125,827
Rated BBB	-	450,776
Rated from BB- to BB+	450,000	-
Rated B+ and below B+	121	57,632
Total loans and deposits	**450,121**	**634,235**

Concentration of placements with banks and other financial institutions

As at 31 December 2008 and 2007 the Bank had one and two counterparties, respectively, whose balances individually exceeded 10% of total placements with banks and other financial institutions. The gross values of these balances as of 31 December 2008 and 2007 were RUR 450,000 thousand and RUR 576,604 thousand, respectively.

15 Financial instruments at fair value through profit or loss

	2008 RUR'000	2007 RUR'000
Assets		
Held by the Bank		
Debt and other fixed-income instruments		
- Russian Government Federal Bonds (OFZ)		
Russian Government Federal bonds (OFZ)	-	1,921,701
- Corporate bonds		
Rated AAA	-	1,075,972
Rated from BB- to BB+	-	106,991
Rated B+	18,794	-
Total bonds	**18,794**	**3,104,664**
- Promissory notes		
Rated from BBB- to BBB+	1,037,812	1,239,050
Rated from BB- to BB+	-	31,502
Rated B-	20,000	-
Total promissory notes	**1,057,812**	**1,270,552**
Equity investments		
Rated BBB-	5,926	-
Total equity instruments	**5,926**	**-**
	1,082,532	**4,375,216**

	2008 RUR'000	2007 RUR'000
Liabilities		
Derivative financial instruments		
- Foreign currency contracts	-	(1,942)
	-	**(1,942)**

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2007 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts have been recognised in the income statement and in financial instruments held for trading, as appropriate.

	Fair Value		Notional amount		Weighted average contracted exchange rates	
	2008 RUR'000	2007 RUR'000	2008 RUR'000	2007 RUR'000	2008 RUR'000	2007 RUR'000
Buy USD sell RUR						
Less than three months	-	1,942	-	554,147	-	24.628
Total	**-**	**1,942**	**-**	**554,147**	**-**	**24.628**

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2008 RUR'000	2007 RUR'000
Moscow Interbank Currency Exchange	-	554,147
	-	**554,147**

Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3), the Bank reclassified certain quoted securities out of the fair value through profit or loss category to held-to-maturity investments. The Bank identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the fair value through profit or loss category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 August 2008 at fair value at that date. The table below sets out the quoted securities reclassified and their carrying and fair values:

RUR'000	1 August 2008		31 December 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Quoted securities reclassified to held-to-maturity investments	1,718,508	1,718,508	1,742,792	1,528,828
	1,718,508	**1,718,508**	**1,742,792**	**1,528,828**

The table below sets out the amounts actually recognised in profit or loss and equity during 2008 in respect of quoted securities reclassified out of financial assets at fair value through profit or loss:

RUR'000	Profit or loss	Equity
Period before reclassification		
Quoted securities reclassified to held-to-maturity investments:		
Net loss on financial instruments at fair value through profit or loss	(62,657)	-
	(62,657)	**-**
Period after reclassification		
Quoted securities reclassified to held-to-maturity investments:		
Interest income	24,284	-
	24,284	**-**

Net income for 2008 included net loss of RUR 38,373 thousand on quoted securities reclassified to held-to-maturity investments.

The table below sets out the amounts that would have been recognised in the period following reclassification during 2008 if the reclassifications had not been made:

RUR'000	Profit or loss
Quoted securities reclassified to held-to-maturity investments:	
Net loss on financial instruments at fair value through profit or loss	(213,964)
Interest income	24,284
	(189,680)

At 1 August 2008 the effective interest rates on quoted securities reclassified to held-to-maturity investments ranged from 5.35% to 9.59% with expected recoverable cash flows of RUR 2,431,202 thousand.

16 Loans to customers

	2008 RUR'000	2007 RUR'000
Commercial loans		
Loans to large corporates	2,435,887	2,110,623
Loans to small and medium size companies	5,070,842	5,124,406
Total commercial loans	**7,506,729**	**7,235,029**
Loans to individuals		
Auto loans	3,218,440	3,743,348
Consumer loans with collateral	1,453,510	671,853
Loans to entrepreneurs	817,405	243,871
Consumer loans without collateral	684,164	561,005
Mortgage loans	671,042	1,529,203
Overdrafts	26,750	23,591
Other loans to individuals	208 416	199,144
Total loans to individuals	**7,079,727**	**6,972,015**
Gross loans to customers	**14,586,456**	**14,207,044**
Impairment allowance	(1,402,788)	(899,462)
Net loans to customers	**13,183,668**	**13,307,582**

Movements in the loan impairment allowance for the year ended 31 December 2008 are as follows:

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	(899,462)	(702,280)
Net charge for the year	(504,019)	(205,477)
Write-offs	693	8,295
Balance at the end of the year	**(1,402,788)**	**(899,462)**

As at 31 December 2008, gross interest accrued on impaired loans amounted to RUR 110,612 thousand (31 December 2007: RUR 58,922 thousand).

Credit quality of commercial loans portfolio

The following table provides information on the credit quality of the commercial loans portfolio as at 31 December 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	**RUR'000**	**RUR'000**	**%**
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	1,987,990	(93,821)	1,894,169	4.71%
- watch list loans	441,039	(18,550)	422,489	4.20%
Total loans for which no impairment has been identified	2,429,029	(112,371)	2,316,658	4.62%
Impaired loans:				
- overdue more than 1 year	6,858	(6,858)	-	100.00%
Total impaired loans	6,858	(6,858)	-	100.00%
Total loans to large corporates	**2,435,887**	**(119,229)**	**2,316,658**	**4,89%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	4,680,849	(255,371)	4,425,478	5.45%
- watch list loans	333,326	(21,969)	311,357	6.59%
Total loans for which no impairment has been identified	5,014,175	(277,340)	4,736,835	5.53%
Impaired loans:				
- overdue less than 90 days	9,526	(9,526)	-	100.00%
- overdue more than 1 year	47,141	(47,141)	-	100.00%
Total impaired loans	56,667	(56,667)	-	100.00%
Total loans to small and medium size companies	**5,070,842**	**(334,007)**	**4,736,835**	**6.58%**
Total commercial loans	**7,506,729**	**(453,236)**	**7,053,493**	**6.03%**

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

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	**RUR'000**	**RUR'000**	**%**
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	2,110,623	(67,383)	2,043,240	3.19%
Total loans for which no impairment has been identified	2,110,623	(67,383)	2,043,240	3.19%
Total loans to large corporates	**2,110,623**	**(67,383)**	**2,043,240**	**3.19%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	5,034,116	(236,870)	4,797,246	4.71%
Total loans for which no impairment has been identified	5,034,116	(236,870)	4,797,246	4.71%
Impaired loans:				
- overdue less than 90 days	41,946	(41,946)	-	100.00%
- overdue more than 90 days and less than 1 year	23,797	(23,797)	-	100.00%
- overdue more than 1 year	24,547	(24,547)	-	100.00%
Total impaired loans	90,290	(90,290)	-	100.00%
Total loans to small and medium size companies	**5,124,406**	**(327,160)**	**4,797,246**	**6.38%**
Total commercial loans	**7,235,029**	**(394,543)**	**6,840,486**	**5.45%**

The Bank has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

During the years ended 31 December 2008 and 31 December 2007 the Bank had no renegotiated commercial loans.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on commercial loans as of 31 December 2008 would be RUR 70,535 thousand lower/higher (31 December 2007: RUR 68,405 thousand).

During the year the Bank changed its policy for classification of loans to corporates. This has resulted in a reclassification in the comparative information for 2007 from loans to large corporates to loans to small and medium size companies of RUR 2,930,916 thousand.

Analysis of collateral

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

During the years ended 31 December 2008 and 31 December 2007 the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2008 are as follows:

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total
Loan impairment allowance as at 1 January	(67,383)	(327,160)	(394,543)
Loan impairment losses during the year	(51,846)	(7,540)	(59,386)
Loans written off during the year as uncollectible	-	693	693
Loan impairment allowance as at 31 December	**(119,229)**	**(334,007)**	**(453,236)**

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

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total
Loan impairment allowance as at 1 January	(96,856)	(201,626)	(298,482)
Loan impairment recovery/(losses) during the year	29,473	(133,829)	(104,356)
Loans written off during the year as uncollectible	-	8,295	8,295
Loan impairment allowance as at 31 December	**(67,383)**	**(327,160)**	**(394,543)**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2008:

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Auto loans				
- Not past due	2,587,954	-	2,587,954	0.00%
- Overdue less than 30 days	114,886	(3)	114,883	0.00%
- Overdue 31-60 days	81,485	(119)	81,366	0.14%
- Overdue 61-90 days	16,685	(1,139)	15,546	6.82%
- Overdue more than 90 days	417,430	(417,430)	-	100.00%
Total auto loans	**3,218,440**	**(418,691)**	**2,799,749**	**13.00%**
Consumer loans with collateral				
- Not past due	1,080,101	(1)	1,080,100	0.00%
- Overdue less than 30 days	32,683	(6)	32,677	0.02%
- Overdue 31-60 days	16,471	(72)	16,399	0.44%
- Overdue 61-90 days	12,294	(821)	11,473	6.68%
- Overdue more than 90 days	311,961	(311,961)	-	100.00%
Total consumer loans with collateral	**1,453,510**	**(312,861)**	**1,140,649**	**21.52%**

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to entrepreneurs				
- Not past due	748,883	(7)	748,876	0.00%
- Overdue less than 30 days	35,852	(91)	35,761	0.25%
- Overdue 31-60 days	9,427	(163)	9,264	1.72%
- Overdue 61-90 days	7,095	(1,154)	5,941	16.26%
- Overdue more than 90 days	16,148	(16,148)	-	100.00%
Total loans to entrepreneurs	**817,405**	**(17,563)**	**799,842**	**2.14%**
Consumer loans without collateral				
- Not past due	512,242	-	512,242	0.00%
- Overdue less than 30 days	16,682	(1)	16,681	0.00%
- Overdue 31-60 days	6,750	(19)	6,731	0.28%
- Overdue 61-90 days	2,728	(354)	2,374	12.97%
- Overdue more than 90 days	145,762	(145,762)	-	100.00%
Total consumer loans without collateral	**684,164**	**(146,136)**	**538,028**	**21.35%**
Mortgage loans				
- Not past due	586,761	(1)	586,760	0.00%
- Overdue less than 30 days	57,451	(14)	57,437	0.02%
- Overdue 31-60 days	11,479	(142)	11,337	1.23%
- Overdue 61-90 days	3,597	(609)	2,988	16.93%
- Overdue more than 90 days	11,754	(11,754)	-	100.00%
Total mortgage loans	**671,042**	**(12,520)**	**658,522**	**1.86%**
Overdrafts				
- Not past due	19,524	-	19,524	0.00%
- Overdue less than 30 days	1,060	(1)	1,059	0.09%
- Overdue 31-60 days	125	(3)	122	2.40%
- Overdue 61-90 days	109	(27)	82	24.77%
- Overdue more than 90 days	5,932	(5,932)	-	100.00%
Total overdrafts	**26,750**	**(5,963)**	**20,787**	**22.29%**
Other loans to individuals				
- Not past due	150,993	(2)	150,991	0.00%
- Overdue less than 30 days	21,654	(47)	21,607	0.21%
- Overdue more than 90 days	35,769	(35,769)	-	100.00%
Total other loans to individuals	**208,416**	**(35,818)**	**172,598**	**17.18%**
Total loans to individuals	**7,079,727**	**(949,552)**	**6,130,175**	**13.41%**

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

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Auto loans				
- Not past due	3,355,166	-	3,355,166	0.00%
- Overdue less than 30 days	109,469	-	109,469	0.00%
- Overdue 31-60 days	34,511	(78)	34,433	0.22%
- Overdue 61-90 days	18,544	(2,144)	16,400	11.56%
- Overdue more than 90 days	225,658	(225,658)	-	100.00%
Total auto loans	**3,743,348**	**(227,880)**	**3,515,468**	**6.08%**
Mortgage loans				
- Not past due	1,515,495	-	1,515,495	0.00%
- Overdue less than 30 days	7,658	(1)	7,657	0.01%
- Overdue 31-60 days	4,028	(75)	3,953	1.86%
- Overdue 61-90 days	1,142	(145)	997	12.69%
- Overdue more than 90 days	880	(880)	-	100.00%
Total mortgage loans	**1,529,203**	**(1,101)**	**1,528,102**	**0.07%**
Consumer loans with collateral				
- Not past due	475,224	-	475,224	0.00%
- Overdue less than 30 days	17,966	-	17,966	0.00%
- Overdue 31-60 days	7,836	(14)	7,822	0.17%
- Overdue 61-90 days	2,421	(81)	2,340	3.34%
- Overdue more than 90 days	168,406	(168,406)	-	100.00%
Total consumer loans with collateral	**671,853**	**(168,501)**	**503,352**	**25.08%**
Consumer loans without collateral				
- Not past due	451,813	-	451,813	0.00%
- Overdue less than 30 days	14,095	(1)	14,094	0.00%
- Overdue 31-60 days	5,270	(41)	5,229	0.77%
- Overdue 61-90 days	3,422	(469)	2,953	13.70%
- Overdue more than 90 days	86,405	(86,405)	-	100.00%
Total consumer loans without collateral	**561,005**	**(86,916)**	**474,089**	**15.49%**
Loans to entrepreneurs				
- Not past due	243,871	-	243,871	0.00%
Total loans to entrepreneurs	**243,871**	**-**	**243,871**	**0.00%**

	Gross loans RUR'000	Impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Other loans to individuals				
- Not past due	180,845	-	180,845	0.00%
- Overdue more than 90 days	18,299	(18,299)	-	100.00%
Total other loans to individuals	**199,144**	**(18,299)**	**180,845**	**9.18%**
Overdrafts				
- Not past due	20,707	-	20,707	0.00%
- Overdue less than 30 days	538	-	538	0.00%
- Overdue 31-60 days	105	(1)	104	0.95%
- Overdue 61-90 days	24	(4)	20	16.67%
- Overdue more than 90 days	2,217	(2,217)	-	100.00%
Total overdrafts	**23,591**	**(2,222)**	**21,369**	**9.42%**
Total loans to individuals	**6,972,015**	**(504,919)**	**6,467,096**	**7.24%**

The Bank estimates loan impairment based on its past historical loss experience on relevant types of loans adjusted for current economic environment.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on loans to individuals as of 31 December 2008 would be RUR 183,905 thousand lower/higher (31 December 2007: RUR 194,013 thousand).

During the year the Bank changed its policy for classification of loans to individuals. This has resulted in a reclassification in the comparative information for 2007 of loans from other portfolios to the entrepreneurs portfolio of RUR 243,871 thousand.

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Credit card overdrafts and all other types of retail loans are not secured.

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

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

RUR'000	**Auto loans**	**Consumer loans with collateral**	**Loans to entrepre-neurs**	**Consumer loans without collateral**	**Mortgage loans**	**Over-drafts**	**Other loans to indivi-duals**	**Total**
Loan impairment allowance as at 1 January	(227,880)	(168,501)	-	(86,916)	(1,101)	(2,222)	(18,299)	(504,919)
Loan impairment (losses)/recovery during the year	(190,811)	(144,360)	(17,563)	(59,220)	(11,419)	(3,741)	(17,519)	(444,633)
Loan impairment allowance as at 31 December	**(418,691)**	**(312,861)**	**(17,563)**	**(146,136)**	**(12,520)**	**(5,963)**	**(35, 818)**	**(949,552)**

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

RUR'000	**Auto loans**	**Consumer loans with collateral**	**Loans to entrepre-neurs**	**Consumer loans without collateral**	**Mortgage loans**	**Over-drafts**	**Other loans to indivi-duals**	**Total**
Loan impairment allowance as at 1 January	(183,484)	(155,950)	-	(52,083)	(1,013)	-	(11,268)	(403,798)
Loan impairment (losses)/recovery during the year	(44,396)	(12,551)	-	(34,833)	(88)	(2,222)	(7,031)	(101,121)
Loan impairment allowance as at 31 December	**(227,880)**	**(168,501)**	**-**	**(86,916)**	**(1,101)**	**(2,222)**	**(18,299)**	**(504,919)**

Industry and geographical analysis of the loan portfolio

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

	2008 RUR'000	**2007 RUR'000**
Trade	2,486,251	2,060,742
Energy, mining and metallurgy	1,834,620	1,102,729
Construction	825,834	544,334
Investment and financial companies	651,457	1,605,914
Manufacturing	575,785	-
Rent	289,772	907,268
Food industry	175,142	171,795
Marketing	-	142,623
Other	214,632	305,081
Loans to individuals	6,130,175	6,467,096
	13,183,668	**13,307,582**

Significant credit exposures

As at 31 December 2008 and 2007 the Bank had no borrowers or groups of related borrowers whose loan balances individually exceeded 10% of total loans to customers.

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the commercial loans issued by the Bank, it is likely that these loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Disposal of loans

In December 2008 the Bank sold a pool of bad and overdue loans to a collection agency for RUR 1,045 thousand. The value of disposed loans, including principal amounts, interest and penalties equals to RUR 78,890 thousand. Net loss of RUR 77,845 thousand on disposal of these loans was recognised in the income statement of the Bank.

17 Available-for-sale assets

	2008 RUR'000	2007 RUR'000
Equity investments		
Corporate shares		
CJSC Bureau of Credit History "National Credit Bureau"	4,410	4,410
Less: Impairment allowance	(4,410)	(4,410)
Total available-for-sale assets	**-**	**-**

Analysis of movements in the impairment allowance

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	(4,410)	(4,410)
Net charge for the year	-	-
Balance at the end of the year	**(4,410)**	**(4,410)**

18 Held-to-maturity investments

	2008 RUR'000	2007 RUR'000
Assets		
Held by the Bank		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1,441,519	-
Other regional authorities and municipal bonds	95,519	-
Total government and municipal bonds	**1,537,038**	**-**
- Corporate bonds		
Rated B+	112,072	
Rated BBB	93,682	-
Total corporate bonds	**205,754**	**-**
	1,742,792	**-**

19 Property and equipment

RUR'000	Buildings	Vehicles	Computers	Office equip-ment	Intangible assets	Other equip-ment	Assets under construction	Leasehold improve-ments	Total
Cost									
At 1 January 2008	207,397	24,162	97,263	83,679	4,584	64,270	16,911	71,074	569,340
Additions	-	17,044	5,190	20,424	31,817	14,386	618,676	3,361	710,898
Disposals	-	(4,773)	(3,493)	(5,657)	(10,850)	(257)	-	-	(25,030)
At 31 December 2008	**207,397**	**36,433**	**98,960**	**98,446**	**25,551**	**78,399**	**635,587**	**74,435**	**1,255,208**
Depreciation									
At 1 January 2008	13,163	17,022	72,216	19,679	171	49,808	-	16,757	188,816
Depreciation charge	3,940	6,351	5,574	10,982	12,596	15,392	-	5,152	59,987
Disposals	-	(4,773)	(3,493)	(5,657)	(10,850)	(257)	-	-	(25,030)
At 31 December 2008	**17,103**	**18,600**	**74,297**	**25,004**	**1,917**	**64,943**	**-**	**21,909**	**223,773**
Carrying value									
At 31 December 2008	**190,294**	**17,833**	**24,663**	**73,442**	**23,634**	**13,456**	**635,587**	**52,526**	**1,031,435**
At 31 December 2007	194,234	7,140	25,047	64,000	4,413	14,462	16,911	54,317	380,524

RUR'000	Buildings	Vehicles	Computers	Office equip-ment	Intangible assets	Other equip-ment	Assets under construction	Leasehold improve-ments	Total
Cost									
At 1 January 2007	199,121	25,498	89,181	70,178	6,621	61,595	74,593	-	526,787
Additions	8,691	832	14,305	16,704	3,678	2,927	13,392	-	60,529
Disposals	(415)	(2,168)	(6,223)	(3,203)	(5,715)	(252)	-	-	(17,976)
Transfers	-	-	-	-	-	-	(71,074)	71,074	-
At 31 December 2007	**207,397**	**24,162**	**97,263**	**83,679**	**4,584**	**64,270**	**16,911**	**71,074**	**569,340**
Depreciation									
At 1 January 2007	9,190	13,898	62,118	13,005	462	39,438	-	-	138,111
Depreciation charge	4,015	4,530	16,843	7,431	388	10,591	-	16,757	60,555
Disposals	(42)	(1,406)	(6,745)	(757)	(679)	(221)	-	-	(9,850)
At 31 December 2007	**13,163**	**17,022**	**72,216**	**19,679**	**171**	**49,808**	**-**	**16,757**	**188,816**
Carrying value									
At 31 December 2007	**194,234**	**7,140**	**25,047**	**64,000**	**4,413**	**14,462**	**16,911**	**54,317**	**380,524**
At 31 December 2006	189,931	11,600	27,063	57,173	6,159	22,157	74,593	-	388,676

As at 31 December 2008 and 2007 the Bank had on its balance sheet fully depreciated fixed assets which were still in use. The gross values of these balances as of 31 December 2008 and 2007 were RUR 55 894 thousand and RUR 13,368 thousand, respectively.

20 Other assets

	2008 RUR'000	2007 RUR'000
Trade debtors and prepayments	185,063	80,519
Materials and supplies	43,863	11,245
Impairment allowance	-	(8,353)
	228,926	**83,411**

Analysis of movements in the impairment allowance

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	(8,353)	(13,892)
Net recovery/(charge) for the year	8,353	5,539
Balance at the end of the year	**-**	**(8,353)**

21 Deposits and balances from banks and other financial institutions

	2008 RUR'000	2007 RUR'000
Vostro accounts	11	2,527
Term deposits	60,641	90,300
Due to the Central Bank of the Russian Federation	2,011,576	-
	2,072,228	**92,827**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2008 and 2007 the Bank had one and one counterparty, respectively, whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross values of these balances as of 31 December 2008 and 2007 were RUR 2,011,576 thousand and RUR 90,300 thousand, respectively.

22 Current accounts and deposits from customers

	2008 RUR'000	2007 RUR'000
Current accounts and demand deposits		
- Retail	1,057,065	1,252,790
- Corporate	7,376,190	6,394,809
Term deposits		
- Retail	4,707,511	3,956,506
- Corporate	7,303,301	3,950,941
	20,444,067	**15,555,046**

23 Certificates of deposit and promissory notes

	2008 RUR'000	2007 RUR'000
Promissory notes	1,584,019	2,760,282
Certificates of deposit	-	5,290
	1,584,019	**2,765,572**

24 Other borrowed funds

	2008 RUR’000	2007 RUR’000
Subordinated borrowings	773,066	417,285
	773,066	**417,285**

As at 31 December 2008 and 2007 subordinated borrowings comprise loans received from a third party maturing in 2020 year, which carry an annual interest rate of 8.9%. In case of bankruptcy, the repayment of the subordinated borrowings shall be made after repayment in full of all other liabilities of the Bank.

25 Other liabilities

	2008 RUR’000	2007 RUR’000
Prepayments	17,780	20,129
Unused vacation	8,270	-
Other taxes payable	5,333	15,954
Audit expenses	3,023	1,827
Other	1,885	1,956
	36,291	**39,866**

26 Charter Capital

Charter capital represents contributions made by the participants of the Bank. The participants of the Bank are entitled to vote at annual and general meetings of the Bank’s participants proportionately to their contributions.

The Bank’s charter capital consists of registered units with a total value of RUR 1,000,000 thousand.

Under the Russian legislation, each participant in a Russian limited liability company has the unilateral right to withdraw from the company, in which case the company would be obliged to pay such withdrawing participant's share of the net assets no later than six months after the end of the year of withdrawal.

27 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President of the Bank and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALMCO). In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate movements scenarios.

Interest rate risk

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

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Bank's projected net income for the year and equity to cash flow interest rate risk based on a simplified scenario of a 500 basis points (bp) and a 100 basis points (bp) symmetrical rise or fall in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2008 and 31 December 2007 is as follows:

	2008	
	Net income RUR'000	**Equity RUR'000**
500 bp parallel rise	(50,964)	(50,964)
500 bp parallel fall	50,964	50,964

	2007	
	Net income RUR'000	**Equity RUR'000**
100 bp parallel rise	(20,605)	(20,605)
100 bp parallel fall	20,605	20,605

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value though profit or loss due to changes in the interest rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 500 basis points (bp) and a 100 basis points (bp) symmetrical fall or rise in all yield curves is as follows:

	2008	
	Net income RUR'000	**Equity RUR'000**
500 bp parallel rise	(200)	(200)
500 bp parallel fall	200	200

	2007	
	Net income RUR'000	**Equity RUR'000**
100 bp parallel rise	(11,078)	(11,078)
100 bp parallel fall	8,494	8,494

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Notes 15 and 37.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 20% and a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2008	
	Net income RUR'000	**Equity RUR'000**
20% appreciation of USD against RUR	(5,029)	(5,029)
20% depreciation of USD against RUR	5,029	5,029
20% appreciation of EUR against RUR	(375)	(375)
20% depreciation of EUR against RUR	375	375

	2007	
	Net income RUR'000	**Equity RUR'000**
5% appreciation of USD against RUR	2,539	2,539
5% depreciation of USD against RUR	(2,539)	(2,539)
5% appreciation of EUR against RUR	(531)	(531)
5% depreciation of EUR against RUR	531	531

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of Credit Committees, which actively monitor the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

The Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual borrower analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

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

The liquidity management policy of the Bank requires:

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

The Financial Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Financial Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, 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 Financial Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Financial Committee and implemented by the Financial Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2007 and 31 December 2008.

The following tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognized credit related commitments on the basis of their earliest possible contractual maturity. The total gross amounts (inflow)/outflow disclosed in the tables are the contractual, undiscounted cash flows on the financial liabilities or commitments. The Bank's expected cash flows on these financial liabilities and unrecognized credit related commitments may vary significantly from this analysis.

The position of the Bank as at 31 December 2008 was as follows:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	2,023,874	30,660	5,579	30,753	2,090,866	2,072,228
Current accounts and deposits from customers	9,135,925	3,108,659	2,231,871	7,601,442	22,077,897	20,444,067
Certificates of deposit and promissory notes	43,373	825,838	718,067	144,158	1,731,436	1,584,019
Other borrowed funds	5,699	28,494	34,193	1,525,312	1,593,698	773,066
Income tax payables	-	6,275	-	-	6,275	6,275
Other liabilities	14,064	11,858	1,506	8,863	36,291	36,291
Total	**11,222,935**	**4,011,784**	**2,991,216**	**9,310,528**	**27,536,463**	**24,915,946**
Credit related commitments	**313,586**	**1,504,270**	**589,491**	**1,652,932**	**4,060,279**	**4,060,279**

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	12	31,489	59,188	6,499	97,188	92,827
Current accounts and deposits from customers	8,871,403	2,524,344	2,170,978	2,893,746	16,460,471	15,555,046
Certificates of deposit and promissory notes	337,724	416,416	1,189,881	1,110,463	3,054,484	2,765,572
Other borrowed funds	-	15,022	15,022	777,820	807,864	417,285
Income tax payables	-	80,447	-	-	80,447	80,447
Other liabilities	33,799	4,332	19	1,716	39,866	39,866
Derivative liabilities						
- Inflow	-	(552,205)	-	-	(552,205)	-
- Outflow	-	554,147	-	-	554,147	1,942
Total	**9,242,938**	**3,073,992**	**3,435,088**	**4,790,244**	**20,542,262**	**18,952,985**
Credit related commitments	**203,187**	**1,330,917**	**767,810**	**456,220**	**2,758,134**	**2,758,134**

For further information on the Bank's exposure to liquidity risk at year end refer to Note 36.

28 Capital management

The CBRF sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2008, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 31 December 2008.

29 Commitments

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

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

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

	2008 RUR’000	2007 RUR’000
Contracted amount		
Unused loans and overdrafts	1,492,353	1,604,948
Guarantees issued	2,567,926	1,143,178
Letters of credit	-	10,008
Total credit related commitments	**4,060,279**	**2,758,134**

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

30 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2008 RUR’000	2007 RUR’000
Less than 1 year	122,244	66,323
Between 1 and 5 years	209,647	175,111
More than 5 years	27,675	37,075
	359,566	**278,509**

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

During the current year RUR 134,437 thousand was recognised as an expense in the income statement in respect of operating leases (2007: RUR 114,645 thousand).

31 Contingencies

Insurance

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

Litigation

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 conditions of the results of future operations of the Bank.

Taxation contingencies

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

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

32 Related party transactions

Control relationships

Banking transactions are entered into in the normal course of business with the participants of the Bank, members of the Board of Directors and the Management Board, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank's participants, members of the Board of Directors and the Management Board of the Bank. These transactions include settlements, loans and deposits taking. The outstanding balances and average interest rates as of 31 December 2008 as well as income and expenses on operations with the related parties are as follows:

	2008 RUR'000				2007 RUR'000			
	Members of the Board of Directors and the Management Board	**Average interest rate**	**Other**	**Average interest rate**	**Members of the Board of Directors and the Management Board**	**Average interest rate**	**Other**	**Average interest rate**
Balance sheet								
Loans and advances to customers								
Loans and advances	108	20.0%	19,488	16.0%	11,409	10.0%	1,059,358	13.5%
Customer accounts								
Current accounts	6,961	0.0%	8,491	0.0%	-	-	207,185	0.0%
Term deposits	333,465	9.8%	-	-	196,202	10.4%	27,578	10.5%
Income statement								
Interest income for the year	12		7,093		1,384		105,783	
Interest expense for the year	22,370		81		36,122		2,896	

In 2008 the total remuneration of members of the Board of Directors and the Management Board of the Bank amounted to RUR 324,448 thousand (2007: RUR 194,414 thousand).

33 Cash and cash equivalents

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

	2008 RUR'000	**2007 RUR'000**
Cash	1,058,520	896,305
Cash in Visa International	49,359	29,701
Due from the CBRF – nostro accounts	7,846,320	1,506,473
Correspondent accounts and overnight placements with other banks and financial institutions		
Rated A- to A+	6,466	7,072
Rated BBB	74,087	8,129
Rated B+ and below B+	26,867	66,886
Not rated	1,307,296	50,912
	10,368,915	**2,565,478**

34 Fair value of financial instruments

The estimated fair values of the Bank's financial assets and liabilities, as required to be disclosed by IFRS 7 *Financial Instruments: Disclosures*, are as follows:

The estimated fair values of financial instruments at fair value through profit or loss are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

Except as disclosed below, management believes that the fair values of all financial instruments do not differ significantly from their carrying values.

RUR'000	**31 December 2008**		**31 December 2007**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans to customers	13,183,668	10,346, 474	13,307,582	13,307,582
Held-to-maturity investments	1,742,792	1,528,828	-	-
Current accounts and deposits from customers	20,444,067	15,707,823	15,555,046	15,555,046

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

35 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR'000	2008 Average effective interest rate	Value RUR'000	2007 Average effective interest rate
Interest bearing assets				
Placements with banks and other financial institutions				
Loans and deposits				
- RUR	450,101	10.5%	450,877	10.5%
- USD	10	-	10	-
- other currencies	10	-	183,348	4.3%
Financial instruments at fair value through profit or loss (excluding equity investments)				
- RUR	138,127	11.6%	3,299,244	7.4%
- USD	-	-	1,075,972	4.7%
- other currencies	938,479	5,3%	-	-
Loans to customers				
- RUR	13,118,473	15.8%	13,038,381	14.6%
- USD	55,638	14.1%	225,622	14.9%
- other currencies	9,557	16.3%	43,579	16.0%
Held-to-maturity investments				
- RUR	1,742,792	7.3%	-	-
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
- RUR	2,072,228	12.0%	92,827	10.9%
Customer accounts (excluding non-interest current accounts)				
- RUR	6,188,152	12.5%	5,169,920	9.9%
- USD	3,038,169	10.6%	2,441,199	8.5%
- other currencies	2,784,491	9.9%	296,328	7.6%
Certificates of deposit and promissory notes				
- RUR	461,228	12.0%	2,714,820	11,8%
- USD	503,248	6.9%	50,752	7.1%
- other currencies	619,543	9.5%	-	-

	Value RUR'000	2008 Average effective interest rate	Value RUR'000	2007 Average effective interest rate
Other borrowed funds				
- RUR	773,066	8.9%	-	-
- USD	-	-	417,285	8.9%

36 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2008:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	10,368,915	-	-	-	-	10,368,915
Due from the Central Bank of the Russian Federation	-	-	-	-	27,525	27,525
Placements with banks and other financial institutions	121	450,000	-	-	-	450,121
Financial instruments at fair value through profit or loss	1,082,532	-	-	-	-	1,082,532
Loans to customers	1,069,279	2,831,740	3,538,991	5,612,499	131,159	13,183,668
Held-to-maturity investments	-	-	-	1,742,792	-	1,742,792
Property and equipment	-	-	-	-	1,031,435	1,031,435
Other assets	188,639	8,817	29,797	1,673	-	228,926
Total assets	**12,709,486**	**3,290,557**	**3,568,788**	**7,356,964**	**1,190,119**	**28,115,914**
LIABILITIES						
Deposits and balances from banks and other financial institutions	2,011,576	28,400	3,900	28,341	11	2,072,228
Current accounts and deposits from customers	9,038,312	2,670,460	1,766,141	6,969,154	-	20,044,067
Certificates of deposit and promissory notes	33,266	755,019	661,632	134,102	-	1,584,019
Other borrowed funds	-	-	-	773,066	-	773,066
Income tax payables	-	6,275	-	-	-	6,275
Other liabilities	14,064	11,858	1,506	8,863	-	36,291
Deferred tax liability	-	-	-	-	39,557	39,557
Total liabilities	**11,097,218**	**3,472,012**	**2,433,179**	**7,913,526**	**39,568**	**24,955,503**
Net position as at 31 December 2008	**1,612,268**	**(181,455)**	**1,135,609**	**(556,562)**	**1,150,551**	**3,160,411**
Net position as at 31 December 2007	(1,299,601)	292,886	229,296	2,805,306	554,523	2,582,410

Financial instruments at fair value through profit or loss are classified within demand and less than one month as these financial instruments are of a trading nature and the management believes this is a fairer portrayal of the Bank's liquidity position.

The following table shows financial assets at fair value through profit or loss of the Bank by their remaining contractual maturity as of 31 December 2008 and 31 December 2007.

	December 31, 2008	December 31, 2007
On demand and less than 1 month	979,222	11,943
1 to 6 months	-	1,085,504
6 to 12 months	78,590	173,105
More than 1 year	18,794	3,104,664
No stated maturity	5,926	-
Financial instruments at fair value through profit or loss	**1,082,532**	**4,375,216**

37 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2008:

	RUR	USD	EUR	Other currencies	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
ASSETS					
Cash and cash equivalents	4,393,800	3,493,479	2,481,580	56	10,368,915
Due from the Central Bank of the Russian Federation	27,525	-	-	-	27,525
Placements with banks and other financial institutions	450,101	10	10	-	450,121
Financial instruments at fair value through profit or loss	144,053	-	938,479	-	1,082,532
Loans to customers	13,118,473	55,638	9,557	-	13,183,668
Held-to-maturity investments	1,742,792	-	-	-	1,742,792
Property and equipment	1,031,435	-	-	-	1,031,435
Other assets	225,604	2,369	953	-	228,926
Total assets	**21,133,783**	**3,551,496**	**3,430,579**	**56**	**28,115,914**
LIABILITIES					
Deposits and balances from banks and other financial institutions	2,072,228	-	-	-	2,072,228
Current accounts and deposits from customers	14,548,287	3,081,269	2,813,497	1,014	20,444,067
Certificates of deposit and promissory notes	461,228	503,248	619,543	-	1,584,019
Other borrowed funds	773,066	-	-	-	773,066
Income tax payables	6,275	-	-	-	6,275
Other liabilities	36,219	65	7	-	36,291
Deferred tax liability	39,557	-	-	-	39,557
Total liabilities	**17,936,860**	**3,584,582**	**3,433,047**	**1,014**	**24,955,503**
Net position as of 31 December 2008	**3,196,923**	**(33,086)**	**(2,468)**	**(958)**	**3,160,411**
Net position as of 31 December 2007	2,537,668	66,808	(13,971)	(8,095)	2,582,410