BANK FORSHTADT
Financial Statements
and Independent Auditor’s Report

31 December 2008

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

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

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Z.Muzyka
Chairman of Management Board

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I. Chikrizova
Chief Accountant

………May 2009

INDEPENDENT AUDITOR'S REPORT

To the Management and Board of Directors of JSCB "FORSHTADT" CJSC ('the Bank'):

Report on the financial statements

We have audited the accompanying financial statements of 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.

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 115054

………. May 2009

BANK FORSHTADT
Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Assets			
Cash and cash equivalents	**5**	1,126,644	1,280,683
Mandatory balances with the CBRF		8,193	79,485
Financial assets at fair value through profit or loss	**6**	5,397	657,555
Securities available-for-sale	**7**	141,225	61,363
Securities held-to-maturity	**8**	89,997	-
Due from banks	**9**	817,628	658,166
Loans and advances to customers	**10**	5,988,196	5,182,891
Accrued interest and other assets	**11**	93,296	62,980
Tax receivables		33,561	6,137
Property, plant and equipment	**12**	158,708	163,384
Intangible assets	**13**	10,538	9,108
Total assets		**8,473,383**	**8,161,752**
Liabilities			
Due to banks	**14**	652,131	896,166
Customer accounts	**15**	4,267,425	4,036,735
Debt securities issued	**16**	1,328,474	1,064,654
Accrued interest and other liabilities	**17**	26,290	32,133
Deferred tax liability	**20**	31,583	23,539
Total liabilities		**6,305,903**	**6,053,227**
Equity			
Share capital	**21**	1,578,277	1,578,277
Revaluation reserve for securities AFS		(55,024)	2,025
Retained earnings		644,227	528,223
Total equity		**2,167,480**	**2,108,525**
Total liabilities and equity		**8,473,383**	**8,161,752**
Credit related commitments	**22**	**792,801**	**741,604**

Signed and authorised for release on behalf of the Board of Directors

Z. Muzyka
Chairman of Management Board

I. Chikrizova
Chief Accountant

………. May 2009

BANK FORSHTADT
Statement of Income for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Interest income			
Loans and advances to customers		973,459	658,088
Securities		49,723	80,158
Due from banks		24,248	45,384
Nostro accounts		39,082	40,682
		1,086,512	**824,312**
Interest expense			
Term deposits of individuals		(116,637)	(111,861)
Term deposits of legal entities		(69,299)	(51,845)
Debt securities issued		(125,975)	(102,337)
Term deposits of banks		(57,881)	(53,211)
Current or settlement accounts		(3,654)	(1,494)
Finance leases		(676)	(676)
		(374,122)	**(321,424)**
Net interest income		**712,390**	**502,888**
Movement in allowance for impairment	**23**	(410,304)	(45,233)
Net interest income after allowance for losses		**302,086**	**457,655**
Losses less gains from financial assets at FVPL		(683)	(23,713)
Gains less losses from securities AFS		2,810	25,752
Gains less losses from foreign currencies		12,492	14,490
Gains less losses from foreign exchange translation		8,449	647
Fee and commission income	**18**	186,429	91,575
Fee and commission expense	**18**	(12,518)	(1,948)
(Charge)/reversal for impairment of other assets		950	(15,963)
Other operating income		16,100	13,997
Net operating income		**516,115**	**562,492**
Staff costs	**19**	(161,595)	(152,429)
Depreciation and amortisation	**19**	(31,798)	(27,054)
Other administration costs	**19**	(154,736)	(98,915)
Administrative expenses		**(348,129)**	**(278,398)**
Profit before tax		**167,986**	**284,094**
Profit tax charge	**20**	(51,982)	(81,715)
Profit for the period		**116,004**	**202,379**

BANK FORSHTADT
Statement of Cash Flows for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Cash flows from operating activities			
Interest received		1,083,264	857,352
Interest paid		(313,934)	(331,952)
Income from securities		63,322	24,344
Net income from operations with foreign currencies		12,492	14,490
Fees and commissions received		186,373	91,505
Fees and commissions paid		(12,518)	(2,119)
Other operating income received		15,742	13,997
Other operating expenses paid		(327,811)	(252,151)
Income tax paid		(87,620)	(64,749)
Cash flows from operating activities before changes in operating assets and liabilities		**619,310**	**350,717**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		71,292	(15,946)
Financial assets at FVPL		668,600	(348,512)
Due from banks		(242,012)	312,849
Loans and advances to customers		(1,207,245)	(2,118,942)
Other assets		(6,035)	(45,026)
Net increase /(decrease) in operating liabilities			
Amounts due to credit institutions		(244,035)	54,759
Amounts due to customers		230,690	1,229,423
Debt securities issued		231,056	79,927
Other liabilities		(10,099)	569
Net cash (used in) operating activities		**111,522**	**(500,182)**
Cash flows from investing activities			
Purchases of AFS assets		(191,823)	(23,342)
Proceeds from disposals of securities AFS		52,284	126,128
Purchases of HTM securities		(98,276)	-
Purchases of fixed assets		(22,008)	(78,657)
Disposals of fixed assets		2,711	6,861
Net cash from / (used in) investing activities		**(257,112)**	**30,990**
Cash flows from financing activities			
Proceeds of share issue		-	750,000
Net cash from financial activities		**-**	**750,000**
Effect of exchange rate changes		**(8,449)**	**(1,087)**
Net increase / (decrease) in cash and cash equivalents		**(154,039)**	**279,721**
Cash and cash equivalents at the beginning of the year	**5**	**1,280,683**	**1,000,962**
Cash and cash equivalents at the end of the year	**5**	**1,126,644**	**1,280,683**

(in thousands of Russian Roubles)

	Notes	Share capital	Retained earnings	Revaluation reserve for securities AFS	Total equity
31 December 2006		**828,277**	**325,844**	**1,414**	**1,155,535**
Net profit for the year		-	202,379	-	**202,379**
Revaluation of securities AFS, net of tax		-	-	(985)	**(985)**
Gain on disposal of securities AFS, net of tax		-	-	1,596	**1,596**
Issue of shares		750,000	-	-	**750,000**
31 December 2007		**1,578,277**	**528,223**	**2,025**	**2,108,525**
Net profit for the year		-	116,004	-	**116,004**
Revaluation of securities AFS, net of tax		-	-	(54,385)	**(54,385)**
Eliminated on disposal securities , net of tax		-	-	(2,664)	**(2,664)**
31 December 2008		**1,578,277**	**644,227**	**(55,024)**	**2,167,480**

In accordance with Russian law on banking activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for an accounting period. This may be used to pay dividends or transferred to reserves.

Under Russian accounting standards as at 31 December 2008 the Bank had 669,124 (2007: 626,651) in respect of distributable reserves.

1. Principal Activities

Joint-Stock Commercial Bank “FORSHTADT” Closed Joint-Stock Company (“the Bank”) was registered as a commercial bank with the Central Bank of the Russian Federation (“CBRF”) under the name “KOROBANK” in December 1992 with the number 2208. In April 1997 the Bank was renamed “FORSHTADT”.

The Bank conducts banking operations in Russian Roubles (“RUR”) and in foreign currencies. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, cash and settlement operations and operations with securities and foreign exchange.

The main shareholder of the Bank is OOO “Energoinvest”, which holds 98.9% of common shares of the Bank. OOO “Energoinvest” is a limited liability company domiciled in Russia and its address is 2, Vostochnaya St., Prigorodniy, Orenburg region.

In the opinion of Management, the ultimate controlling party of the Bank is Mr. Sergey Levin, General Director of OOO “Energoinvest”.

In 2008 the average number of employees was 421 (2007: 355).

The Bank’s registered place of business is 35/1, Chkalova St., Orenburg, Russian Federation, 460001. As at 31 December 2008 the Bank had two regional branches, in Samara and Ufa.

2. Operating Environment of the Bank

The Bank’s operating environment can be summarised in one word and that is ‘Crisis’. Whilst there are many different opinions about when and how it started the beginnings of problems in the US sub-prime market were becoming apparent as far back as early 2007. Since then the global economic landscape has changed beyond recognition. Initially problems were felt in western banking markets where inter-bank liquidity dried up especially regarding banks with high sub-prime exposure. Since then the effects have expanded including banking and other corporate collapses, and impacted the stock market, property market, commodity and foreign exchange markets and into the real economy. Many countries have now entered recession and periods of negative growth in their economies as a result.

Russia in 2008 and CBRF response

Russia was initially insulated from these effects but in 2008 was also seriously affected, a situation made worse by the drop in oil price, capital outflows and sharply depreciating exchange rate. Stock market indices were the worst performing in the world, at times dropping 18% in one day and being suspended for days at a time eventually finishing the year some 75% down. The impact on the banking sector was severe, especially on those banks with heavy securities exposure. CIT Finance, one of the major banks defaulted on repo obligations in September. The interbank market all but disappeared in October and at this time there were heavy withdrawals by individuals from the system. A number of larger banks have sought partners and mergers in order to avoid liquidity issues. Many small banks have had their licences withdrawn by CBRF, in situations directly or indirectly due to the crisis.

In response to this the CBRF (and Russian Governmental bodies also) took a number of steps to lessen the impact of the crisis in Russia. Vnesheconombank (‘VEB’) was provided with funds from the National Wealth Fund to lend to larger banks in order to provide liquidity to the overall banking system, although there were later criticisms that this did not occur. The CBRF continued its policy of managing exchange rates in order to have a managed decline, and also open market operations, including those in order to support securities prices, have been conducted. In addition mandatory reserve ratios were substantially reduced in order to provide banks with ability to use liquidity that they were already holding on their balance sheets. To increase the confidence of customers the limits of coverage of deposit insurance were also increased, and requirements of Banks entry to the system were made stricter. Many banks, at least large ones, also have access to borrow CBRF funds if they are able to pledge satisfactory securities collateral.

2. Operating Environment of the Bank (continued)

2009

The macroeconomic picture remains weak, Russia's economy contracted 8.8% in January and industrial production fell 16% in the year to January, although within sectors there were variations for example between a 17% decline in construction and a 2.4% rise in retail trade. Arrears of business' payments to each other and on loans have risen sharply. Liquidity remains very short in the banking system and defaults on loans are expected to rise substantially throughout the year. In the beginning of 2009 however the exchange rate has stabilised and the stock market is one of the best performing in the world But it Is not clear how this small recovery will progress.

The Bank's Management believes a proper understanding of this operating environment is essential to appreciate the context of the Bank's IFRS financial statements. In their opinion the situation so far in 2009 has neither substantially improved nor worsened and Management remain acutely aware of the difficult situation. The future situation is dependent on global macroeconomic issues and also on events within Russia and the response of governmental bodies to these events. They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) General

The accompanying financial statements have been prepared in order to present the financial position and the results of operations of the Bank in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect.

These financial statements are presented and rounded to thousands of RUR unless otherwise indicated. The RUR is utilised as the majority of the Bank's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies are treated as transactions in foreign currencies.

b) Use of estimates

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

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

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

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

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

Fair values
For assets and liabilities carried at fair value the Bank applies market bid prices where these are available. Where they are not available it uses valuation techniques or as a last resort estimates.

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

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

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

During the reporting year no new standards became effective; and the following Interpretations have come into force:

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

IFRIC 11	IFRS 2—Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalties Programmes
IFRIC 14	IAS 19 — "The Limit on a Defined Benefit, Asset, Minimum Funding Requirements and Their Interaction"

International Financial Reporting Standards

The following standards, amendments to standards and interpretations were issued, but their application was not mandatory for the period:

IFRS 8	Operating Segments (from 1 January 2009)
IAS 1 (amended)	Presentation of Financial Statements (effective from 1 January 2009)
IAS 23 (amended)	Borrowing Costs (effective from 1 January 2009)
IAS 27 (amended)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
IFRS 3 (amended)	Business Combinations (effective from 1 July 2009)

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

IFRS 2 (amended)	Vesting Conditions and Cancellations (effective from 1 January 2009)
IAS 32 & IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009)
IFRS 1 & IAS 27 (amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 (amended)	Eligible Hedge Items (effective from 1 July 2009)
IAS 39 & IFRS 7 (amended)	Reclassification of Financial Assets (effective from July 2008)
IFRS 1 (amended)	First-time Adoption of Financial Reporting Standards (effective from 1 July 2009)
IFRIC 13	Customer Loyalty Programmes (effective from 1 July 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)

In general the accounting policies applied in the Bank in these financial statements are consistent with those applied by the Bank in the year ended 31 December 2007, except for the amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' issued on 13 October 2008 and effective from 1 July 2008, and subsequent clarifications in November 2008.

The amendments to IAS 39 permit the following:

Reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the trading category if they are no longer held for the purpose of selling or repurchasing them on the near term to either the held to maturity, loans and receivables or available for sale categories.

Reclassifications of financial assets from the available for sale category to the loans and receivables category in particular rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur to the near term.

Any reclassified instruments should subsequently be reviewed for impairment using IAS 39 impairment rules for the categories into which they are classified. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39.

The effect of application of amendment to IAS 39 by the Bank is as follows:

- The Bank has reclassified certain trading securities into available-for-sale securities effective from 24 December 2008; as the Bank no longer holds these securities for the purpose of selling or repurchasing them in the near term. From the reclassification date, the securities are revalued at fair value directly in equity through the revaluation of securities available-for-sale. Assessment for impairment is performed for these securities in accordance with IAS 39 requirements for available-for-sale financial assets.
- The Bank has reclassified some trading securities into Held to Maturity investments.

3. Basis of Presentation (continued)

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

d) Inflation accounting

In the opinion of management, effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies", and therefore, the Bank ceased applying IAS 29 to current periods and only recognised the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations as of and for the years ended 31 December 2003 and all subsequent years are reported at actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

4. Significant Accounting Policies

a) Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is 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.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

c) Mandatory Balances with the Central Bank of the Russian Federation ("CBRF")

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

d) Amounts Due from Credit Institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

4. Significant Accounting Policies (continued)

e) Securities Measured at Fair Value Through Profit or Loss ("FVPL")

FVPL securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists.

FVPL securities are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices at the reporting date. All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the income statement for the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income on securities.

All purchases and sales of FVPL securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

f) Securities Available for Sale ("AFS")

AFS securities are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Securities available for sale are initially recognised at cost (which includes transaction costs). Securities AFS are subsequently valued at market value with gains and losses taken through the statement of changes in equity except for losses arising from impairment.

When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

In exceptional cases when market value is not available they are carried at fair value as assessed by management. All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

g) Securities held to maturity ('HTM')

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

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

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

h) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo agreement using the effective yield method.

4. Significant Accounting Policies (continued)

i) Promissory Notes Purchased

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

j) Loans and Advances to Customers

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

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

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

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

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

k) Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of other financial assets on the same basis as that used for loans to customers as described in note 4j.

l) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4j. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

4. Significant Accounting Policies (continued)

m) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Premises	30-70
Safes	10-20
Computer Equipment	3-5
Motor Vehicles	3-7
Furniture, fixtures and other equipment	5-20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

n) Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

o) Leases

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

Leases of fixed assets where the Bank obtains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligation, net of finance charges, is included in payables. The interest element is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining lease liability. Fixed assets acquired under finance lease are depreciated similar to assets owned by the Bank.

4. Significant Accounting Policies (continued)

p) Amounts Due to Credit Institutions and to Customers

Amounts due to credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

q) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

r) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

s) Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

t) Share Capital

Share capital, additional paid-in capital and treasury stock are recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

u) Dividends

Dividends are recognised as a reduction in shareholders' equity in the period in which they are declared. Dividends declared after the balance sheet dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

v) Taxation

The income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

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

w) Income and Expense Recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Interest continues to be accrued on potential bad debts, including those showing objective and actual impairment. Objective evidence includes objective factors such as the loan being overdue in terms of capital and/ or interest. Actual impairment considers the overall cash recovery position of the

(in thousands of Russian Roubles)

4. Significant Accounting Policies (continued)

loan including charging of late payment fees and penalty interest. Any such impairment is then recognised in full through the allowance for impairment on the relevant asset and included in the sums in disclosure Note 23. Commissions and other income are recognised when the related transactions are completed. Non-interest expenses are recognised at the time the transaction occurs.

x) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian RUR at the official CBRF exchange rates ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2008 and 31 December 2007 were 29.3804 and 24.5462 RUR to 1 USD, respectively, 41.4411 and 35.9332 RUR to 1 EUR respectively, 42.6163 and 46.4850 RUR to 1 GBP respectively.

5. Cash and Cash Equivalents

	2008	**2007**
Cash balances with the CBRF (other than mandatory reserves)	298,147	216,226
Cash on hand	211,660	122,214
Nostro accounts with Russian credit institutions	130,387	632,020
Nostro accounts with foreign credit institutions	458,462	307,878
	588,849	939,898
Accounts in non-banking credit institutions	27,974	2,239
Settlements with stock exchanges and brokers	14	106
	1,126,644	**1,280,683**

The following table provides information on the credit quality (Fitch rating) of Nostro accounts with other banks included in cash and cash equivalents:

	2008	**2007**
Rated from BBB to BBB+	927	871,318
Rated BBB-	458,462	-
Rated from BB- to B+	23,151	-
Rated CCC	-	45,000
Others	106,309	23,580
	588,849	939,898

At 31 December 2008 the aggregate amount of nostro accounts with the two biggest counterparties amounted to 550,264 or 93.0% of total nostro accounts (2007: 871,318 or 92.7%).

Geographical, currency, maturity and interest rates analyses of cash and cash equivalents are disclosed in Note 24.

(in thousands of Russian Roubles)

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

	2008	2007
Financial assets at FVPL		
Corporate bonds	-	273,907
Credit organisations bonds	-	178,180
Promissory notes	1,525	202,522
Corporate shares	3,872	2,946
	5,397	**657,555**

At 31 December 2008 credit quality of financial assets at FVPL was as follows:

	Credit organisations bonds	Corporate bonds	Promissory notes	Corporate shares	Total
Leading Russian banks	-	-	1,525	480	2,005
Other Russian banks	-	-	-	-	-
Leading Russian companies	-	-	-	3,392	3,392
Total financial assets at FVPL	**-**	**-**	**1,525**	**3,872**	**5,397**

At 31 December 2007 credit quality of financial assets at FVPL was as follows:

	Credit organisations bonds	Corporate bonds	Promissory notes	Corporate shares	Total
Leading Russian banks	80,385	-	23,660	1,922	105,967
Other Russian banks	97,795	-	178,862	-	276,657
Leading Russian companies	-	-	-	1,024	1,024
Other Russian companies	-	273,907	-	-	273,907
Total financial assets at FVPL	**178,180**	**273,907**	**202,522**	**2,946**	**657,555**

Leading Russian banks are represented by those included in Top 100 biggest Russian banks by net assets value. Leading Russian companies include mainly blue-chip shares and shares of Russian Top 150 companies.

Discount rate on Promissory Notes used for fair value valuation was 6.9% (2007: varies from 10.0% to 12.5%).

Geographical, currency, maturity and interest rates analyses of financial assets at FVPL are disclosed in Note 24.

(in thousands of Russian Roubles)

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

Reclassification of financial assets under amendments to IAS 39 (October 2008)

In light of the substantial falls in the securities markets in Russia commencing September 2008 and the subsequent lack of liquidity in the market, meaning the Bank was either unable to sell certain securities or sell them at what they believe is a reasonable price, a situation which they believe will continue for the foreseeable future, the Bank decided to perform reclassification of securities under the amendments to IAS 39 issued in October 2008 by the IASB. The following reclassifications were made when the relevant criteria were met:

- From FVPL to AFS
- From FVPL to HTM

The securities had previously been held under FVPL due to being actively traded and held for liquidity purposes. The decision about reclassification was made on 24 December 2008 thus securities were reclassified at fair value as at 24 December 2008. The table below shows financial effects of the reclassification:

Reclassified	Carrying value of reclassified securities as at 31 December 2008	Fair value of reclassified securities as at 31 December 2008 (based on market quotes)	Revaluation gain/ (loss) recognised in IS for 2008	Revaluation gain/ (loss) that would have been recognised in IS in 2008 if not reclassified	Effective interest rate	Expected cash flows
FVPL to AFS	104,381	104,381	(49,415)	(47,350)	12.6%	155,815
FVPL to HTM	59,573	64,066	(14,264)	(15,005)	8.4%	59,573

7. Securities available-for-sale ("AFS")

	2008	2007
Russian State bonds ("OFZ")	-	34,954
Corporate shares	662	3,685
Corporate bonds	158,510	22,952
	159,172	**61,591**
Less: Allowance for impairment	(17,947)	(228)
	141,225	**61,363**

The allowance for impairment as at 31 December 2008 relates to one debt security for which market price at that date amounted to 2.4% of its nominal value. All other remaining AFS securities as at 31 December 2008 were current and not impaired. In 2007 all AFS debt securities were current and not impaired.

AFS securities included quoted and unquoted corporate shares as follows:

	2008	2007
Quoted corporate shares	442	3,457
Unquoted corporate shares	220	228
Allowance for impairment	-	(228)
Total AFS corporate shares (net)	**662**	**3,457**

(in thousands of Russian Roubles)

7. Securities available-for-sale (“AFS”) (continued)

The movements in carrying values of AFS securities were as follows:

	2008	2007
Carrying value at the beginning of accounting period	**61,363**	**165,171**
Changes in fair value revaluation reserve for securities AFS	(65,761)	(794)
Purchased securities AFS	198,524	23,342
Securities AFS disposed of	(34,954)	(126,128)
Allowance for impairment	(17,947)	(228)
Carrying value at the end of accounting period	**141,225**	**61,363**

Geographical, currency, maturity and interest rates analyses of AFS securities are disclosed in Note 24.

8. Securities held to maturity (“HTM”)

	2008	2007
Russian State bonds (“OFZ”)	27,564	-
Corporate bonds	15,133	-
Credit organisations bonds	47,300	-
	89,997	**-**

The following table provides information on the credit quality (Moody’s rating) of HTM securities:

	2008	2007
Rated Baa1	27,564	-
Rated Baa2	47,300	-
Not rated	15,133	-
	89,997	-

Geographical, currency, maturity structure and interest rate analyses of HTM securities are disclosed in Note 24.

9. Due from Banks

	2008	2007
Short-term loans to Russian banks	817,628	658,166
	817,628	**658,166**

As at 31 December 2008, the Bank had four large counterparties with aggregate balance amounting to 817,628 representing 100.0% of the total interbank loans (2007: 371,000 representing 45.5%).

As at 31 December 2008 the amounts due from other banks related to Top 100 Russian banks by net assets.

In 2008 and 2007 no loans to other banks were issued at non-market rates.

(in thousands of Russian Roubles)

9. Due from Banks (continued)

Management believes that at 31 December 2008 and 31 December 2007 fair value of the amounts due from banks was not significantly different from their carrying value.

Geographical, currency, maturity and interest rates analyses of the amounts due from banks are disclosed in Note 24.

10. Loans and Advances to Customers

	2008	2007
Loans to legal entities	4,659,943	4,034,073
Loans to entrepreneurs	525,212	437,550
Loans to individuals (including mortgages)	990,107	921,567
Promissory notes	75,000	9,000
Reverse repo deals	349,818	-
	6,600,080	**5,402,190**
Less: Allowance for impairment	(611,884)	(219,299)
	5,988,196	**5,182,891**

The movements in allowances for impairment of loans and advances to customers were as follows:

	Loans to legal entities and promissory notes	Loans to entrepreneurs	Loans to individuals including mortgages	Total
31 December 2006	**123,323**	**12,313**	**27,886**	**163,522**
Charge	42,293	9,425	4,059	55,777
31 December 2007	**165,616**	**21,738**	**31,945**	**219,299**
Charge/ (reversal)	367,636	39,640	(14,691)	392,585
31 December 2008	**533,252**	**61,378**	**17,254**	**611,884**

At 31 December 2008 loans were issued to borrowers in the following industry sectors:

	2008		2007	
	Amount	%	Amount	%
Retail and wholesale trade	1,786,742	27.1%	1,526,219	28.2%
Other	1,278,146	19.3%	1,025,597	19.0%
Manufacturing	997,050	15.1%	665,357	12.3%
Individuals	990,107	15.0%	921,567	17.1%
Entrepreneurs	525,212	8.0%	437,550	8.1%
Construction	466,481	7.1%	284,464	5.3%
Property	192,245	2.9%	173,183	3.2%
Agriculture	189,523	2.9%	168,586	3.1%
Transport	138,749	2.1%	72,662	1.3%
Mining	35,825	0.5%	127,005	2.4%
Loans to customers (gross)	**6,600,080**	**100.0%**	**5,402,190**	**100.0%**

(in thousands of Russian Roubles)

10. Loans and Advances to Customers (continued)

At 31 December 2008 the ten largest borrowers accounted for 2,278,060 representing 34.5% of the total gross loan portfolio (2007: 1,909,301 representing 35.3%).

At 31 December 2008 structure of loan portfolio in terms of collateral was as follows:

	Loans to legal entities, reverse repo and promissory notes	Loans to entrepreneurs	Loans to individuals including mortgages	Total
Unsecured loans	284,676	17,082	21,740	323,498
Secured loans				
property	2,334,631	284,074	249,970	2,868,675
securities	748,054	-	347,900	1,095,954
other assets	-	-	5,175	5,175
guarantees	1,717,400	224,056	365,322	2,306,778
	5,084,761	**525,212**	**990,107**	**6,600,080**

Securities collateral includes 525,402 regarding one bond with no credit rating pledged under reverse repo deals. Under conditions of the reverse repo deals the Bank did not have the right to sell or repledge those securities.

At 31 December 2007 structure of loan portfolio in terms of collateral was as follows:

	Loans to legal entities and promissory notes	Loans to entrepreneurs	Loans to individuals including mortgages	Total
Unsecured loans	23,523	-	-	23,523
Secured loans				
property	609,754	40,664	326,414	976,832
securities	415,130	-	2,439	417,569
other assets	704,742	83,178	275,220	1,063,140
guarantees	2,289,924	313,708	317,494	2,921,126
	4,043,073	**437,550**	**921,567**	**5,402,190**

As at 31 December 2008 total fair value of collateral held by the Bank in respect of its lending operations was 12,188,189 (2007: 7,810,549). Fair value of collateral relating to overdue loans held by the Bank was 636,440 (2007: 174,842) The Bank did not take possession of any collateral during the year in respect of making recoveries on its lending operations (2007: nil).

At 31 December 2008 credit quality of loan portfolio was as follows:

(in thousands of Russian Roubles)

10. Loans and Advances to Customers (continued)

	Loans to legal entities and promissory notes	Loans to entrepreneurs	Loans to individuals including mortgages	Total
Standard loans for which no specific impairment has been identified	4,007,132	496,343	968,065	5,471,540
Sub-standard loans (with impairment)				
not past due	523,144	13,970	2,863	539,977
Impaired loans				
not past due	344,809	-	5,987	350,796
overdue less than 90 days	183,666	640	6,143	190,449
overdue more than 90 days and less than 1 year	22,172	3,283	2,263	27,718
overdue more than 1 year	3,838	10,976	4,786	19,600
Allowance for impairment	**(533,252)**	**(61,378)**	**(17,254)**	**(611,884)**
Loans to customers (net)	**4,551,509**	**463,834**	**972,853**	**5,988,196**

At 31 December 2007 credit quality of loan portfolio was as follows:

	Loans to legal entities and promissory notes	Loans to entrepreneurs	Loans to individuals including mortgages	Total
Standard loans for which no specific impairment has been identified	3,275,796	352,607	889,622	4,518,025
Sub-standard loans (with impairment)				
not past due	429,185	4,900	-	434,085
Impaired loans				
not past due	314,948	68,797	20,792	404,537
overdue less than 90 days	10,000	-	1,441	11,441
overdue more than 90 days and less than 1 year	5,925	9,478	4,423	19,826
overdue more than 1 year	7,219	1,768	5,289	14,276
Allowance for impairment	**(165,616)**	**(21,738)**	**(31,945)**	**(219,299)**
Loans to customers (net)	**3,877,457**	**415,812**	**889,622**	**5,182,891**

As at 31 December 2008 overdue loans for which no specific impairment allowance was created were nil (2007: nil).

No loans were included in current that had been subject to re-negotiation and would otherwise be categorised as overdue. (2007: none)

As at 31 December 2008 accrued interest income on impaired loans amounted to 61,001 (2007: 13,302).

(in thousands of Russian Roubles)

10. Loans and Advances to Customers (continued)

Geographical, currency, maturity and interest rates analyses of loans and advances to customers are disclosed in Note 24.

Loans issued to related parties and relating interest income are disclosed in Note 26.

11. Accrued Interest and Other Assets

	2008	2007
Accrued interest income	89,384	49,228
Debtors and prepayments	7,812	14,243
Unsettled transactions	4,815	1,726
Tax prepayments	1,244	2,104
Precious metals	12	10
Other	6,444	897
	109,711	**68,208**
Less: Allowance for impairment	(16,415)	(5,228)
	93,296	**62,980**

At 31 December 2008 credit quality of other financial assets was as follows:

	Accrued interest income	Debtors and prepayments	Unsettled transactions	Total
Standard and not impaired	28,383	6,148	4,815	39,346
Impaired				
not past due	49,077	4,579	-	53,656
overdue less than 30 days	3,295	5	-	3,300
overdue more than 30 days and less than 90 days	1,072	157	-	1,229
overdue more than 90 days and less than 180 days	2,083	2,635	-	4,718
overdue more than 180 days and less than 360 days	5,474	1,988	-	7,462
Allowance for impairment	**(14,163)**	**(2,252)**	**-**	**(16,415)**
Net other financial assets	**75,221**	**13,260**	**4,815**	**93,296**

At 31 December 2007 credit quality of other financial assets was as follows:

(in thousands of Russian Roubles)

11. Accrued Interest and Other Assets (continued)

	Accrued interest income	Debtors and prepayments	Unsettled transactions	Total
Standard and not impaired	35,926	13,339	1,726	50,991
Impaired				
not past due	12,938	-	-	12,938
overdue less than 30 days	349	-	-	349
overdue more than 30 days and less than 90 days	-	246	-	246
overdue more than 90 days and less than 180 days	-	658	-	658
overdue more than 180 days and less than 360 days	15	-	-	15
Allowance for impairment	**(4,324)**	**(904)**	**-**	**(5,228)**
Net other financial assets	**44,904**	**13,339**	**1,726**	**59,969**

The movements in allowances for impairment of other financial assets were as follows:

	Accrued interest	Debtors and prepayments	Total
31 December 2006	**-**	**53**	**53**
Charge	4,271	904	5,175
31 December 2007	**4,271**	**957**	**5,228**
Charge	9,892	1,295	11,187
31 December 2008	**14,163**	**2,252**	**16,415**

Management believes that at 31 December 2008 and 31 December 2007 carrying value of each category of other financial assets approximately equal their fair value.

Geographical, currency, maturity analyses of accrued interest and other assets are disclosed in Note 24.

(in thousands of Russian Roubles)

12. Property, Plant and Equipment

	Buildings	Capital improvements	Computers and office equipment	Motor vehicles	Safes	Furniture, fixtures and other equipment	Total
Cost							
31 December 2006	**69,431**	**10,847**	**31,527**	**8,697**	**2,810**	**34,962**	**158,274**
Additions	18,446	2,413	19,719	7,204	2,262	20,997	**71,041**
Disposals	-	(261)	(720)	(1,209)	-	(650)	**(2,840)**
31 December 2007	**87,877**	**12,999**	**50,526**	**14,692**	**5,072**	**55,309**	**226,475**
Additions	2,291	-	12,743	827	622	5,525	**22,008**
Disposals	-	(460)	(1,409)	(14)	-	(828)	**(2,711)**
31 December 2008	**90,168**	**12,539**	**61,860**	**15,505**	**5,694**	**60,006**	**245,772**
Depreciation							
31 December 2006	**2,049**	**5,665**	**16,572**	**3,283**	**572**	**15,133**	**43 274**
Charge for the year	1,395	3,810	6,749	3,604	193	6,409	**22 160**
Disposals	-	(114)	(607)	(1,127)	-	(495)	**(2 343)**
31 December 2007	**3,444**	**9,361**	**22,714**	**5,760**	**765**	**21,047**	**63,091**
Charge for the year	1,595	1,472	9,846	3,959	320	9,050	**26,242**
Disposals	-	(460)	(1,187)	(14)	-	(608)	**(2,269)**
31 December 2008	**5,039**	**10,373**	**31,373**	**9,705**	**1,085**	**29,489**	**87,064**
Net book values							
31 December 2006	**67,382**	**5,182**	**14,955**	**5,414**	**2,238**	**19,829**	**115,000**
31 December 2007	**84,433**	**3,638**	**27,812**	**8,932**	**4,307**	**34,262**	**163,384**
31 December 2008	**85,129**	**2,166**	**30,487**	**5,800**	**4,609**	**30,517**	**158,708**

As at 31 December 2008 tangible fixed assets were insured for the total of 46,008 (2007: 114,264).

As at 31 December 2008 carrying value of fixed assets acquired under finance leases amounted to 3,127 (2007: 6,981)

(in thousands of Russian Roubles)

13. Intangible Assets

Cost	
31 December 2006	**10,041**
Additions	7,616
Disposals	(4,020)
31 December 2007	**13,637**
Additions	6,986
Disposals	(3,175)
31 December 2008	**17,448**
Amortisation	
31 December 2006	**3,655**
Charge for the year	4,894
Disposals	(4,020)
31 December 2007	**4,529**
Charge for the year	5,556
Disposals	(3,175)
31 December 2008	**6,910**
Net Book Values	
31 December 2006	**6,386**
31 December 2007	**9,108**
31 December 2008	**10,538**

14. Due to Banks

	2008	**2007**
Term loans of other banks	652,131	896,166
	652,131	**896,166**

At 31 December 2008 loans received from the three largest counterparties amounted to 652,131 or 100.0% of the total amount due to other banks (2007: 512,699 or 57.2%).

In 2008 and 2007 no loans from other banks were taken at non-market rates.

Management believes that at 31 December 2008 at 31 December 2007 fair value of loans from other banks was not significantly different from their carrying value.

Geographical, currency, maturity and interest rates analyses of the amounts due to other banks are disclosed in Note 24.

(in thousands of Russian Roubles)

15. Customer Accounts

	2008	2007
State and public organisations		
Current accounts	4,378	7,806
	4,378	7,806
Legal entities		
Current accounts	1,205,565	827,539
Term deposits	1,472,710	1,201,771
	2,678,275	2,029,310
Individuals		
Current accounts	190,460	201,590
Term deposits	1,394,312	1,798,029
	1,584,772	1,999,619
	4,267,425	**4,036,735**

As 31 December 2008 and 31 December 2007 customer accounts related to the following industries:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Individuals	1,584,772	37.1%	1,960,503	48.5%
Retail and wholesale trade	945,554	22.2%	1,333,691	33.0%
Mining	717,850	16.8%	133,398	3.3%
Manufacturing	355,544	8.3%	178,115	4.4%
Construction	298,752	7.0%	137,839	3.4%
Other	233,462	5.5%	184,334	4.6%
Property	49,237	1.2%	37,525	0.9%
Entrepreneurs	40,231	0.9%	39,085	1.0%
Insurance	32,336	0.8%	15,469	0.4%
Financial leasing	4,363	0.1%	11,018	0.3%
Agriculture	4,063	0.1%	3,150	0.1%
Charity	1,261	0.0%	2,608	0.1%
	4,267,425	**100.0%**	**4,036,735**	**100.0%**

At 31 December 2008 balances relating to the three largest customers amounted to 2,303,151 or 54.0% of the total customer accounts (2007: 2,534,015 or 62.8%).

In 2008 and 2007 no deposits were taken at non-market rates.

Management believes that Bank at 31 December 2008 and 31 December 2007 fair value of amounts due to customers was not significantly different from their carrying value.

Geographical, currency, maturity and interest rates analyses of customer accounts are disclosed in Note 24.

At 31 December 2008 a significant amount of customer accounts was held by related parties. Related party balances and transactions are disclosed in Note 26.

(in thousands of Russian Roubles)

16. Debt Securities Issued

	2008	2007
Promissory notes	1,328,474	1,064,654
	1,328,474	**1,064,654**

Debt securities issued comprise RUR denominated promissory notes. These promissory notes bear average effective interest rate of 9.7% (2007: 9.3%). At 31 December 2008 78.9% (2007: 94.6%) of promissory notes issued were held by four entities, including a significant amount held by related parties as disclosed in Note 26.

At 31 December 2008 and 31 December 2007 carrying values of debt securities issued were equal to their fair value.

Geographical, currency, maturity and interest rates analyses of debt securities issued are disclosed in Note 24.

17. Accrued Interest and Other Liabilities

	2008	2007
Settlements on operations with suppliers and clients	11,072	7,713
Accrued interest	8,803	6,558
Settlements with employees	6,243	4,890
Deferred income from guarantees issued	172	56
Liabilities on credit commitments	-	12,916
	26,290	**32,133**

Geographical, currency and maturity analyses of accrued interest and other liabilities are disclosed in Note 24.

18. Fee and Commission Income

	2008	2007
Fee and commission income		
Commission income on cash operations and collection operations	80,602	56,261
Other commissions received	70,760	4,314
Commission income on settlement operations	29,180	28,318
Currency control commission	3,223	2,342
Commission income on guarantees issued	2,664	340
Total fee and commission income	**186,429**	**91,575**
Fee and commission expenses		
Commission expenses from cash and collection operations	6,021	1,393
Commission expenses from settlement operations	4,941	376
Other commissions paid	1,556	179
Total fee and commission expense	**12,518**	**1,948**
Net fee and commission income	**173,911**	**89,627**

(in thousands of Russian Roubles)

19. Administrative Expenses

	2008	2007
Staff costs	161,595	152,429
Depreciation and amortisation	31,798	27,054
Expenses on tangible fixed assets (including repair and maintenance)	38,391	22,910
Rent	36,124	10,285
Taxes other than income tax	20,953	12,362
Marketing and advertising	16,957	11,444
Security	13,484	9,694
Professional services	9,803	2,170
Insurance of deposits	8,247	4,706
Transportation costs	3,811	1,559
Royalties	3,071	-
Office costs	1,584	11,635
Property insurance	867	974
Other administrative expenses	1,444	11,176
	154,736	**98,915**
Total administrative expenses	**348,129**	**278,398**

Staff costs include Unified Social Tax and other contributions to the Social Security Fund amounting to 26,146 (2007: 23,883).

20. Taxation

	2008	2007
Current tax charge	52,470	64,749
Deferred tax charge relating to the origination and reversal of temporary differences	8,044	17,158
Deferred tax recognised in equity	(8,532)	(192)
Profit tax charge for the year	**51,982**	**81,715**

The income tax rate applicable to the majority of the Bank's income was 24% for 2008 and 2007.

The effective income tax rate differs from the statutory income tax rate. The reconciliation between the expected and the actual income tax expense is provided below:

	2008	2007
IFRS Profit before tax	**167,986**	**284,094**
Statutory rate	24%	24%
Theoretical income tax expense as the statutory rate	40,317	68,183
State securities income at different rates	12,541	(587)
Effect of allowable / (non-deductible) items	(388)	14,119
Income tax expense	**52,470**	**81,715**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. Deferred income tax is calculated on all temporary differences under the balance sheet liability method using a statutory tax rate of 20%.

(in thousands of Russian Roubles)

20. Taxation (continued)

Deferred tax assets and (liabilities) comprise:

	2006	Movement	2007	Movement	2008
Tax effect of deductible temporary differences					
Financial assets at FVPL	(2,005)	2,691	686	(686)	-
Allowances for impairment	1,030	(13,102)	(12,072)	(4,007)	(16,079)
AFS securities	(447)	(192)	(639)	(8,532)	(9,171)
Property plant and equipment	(5,858)	(7,081)	(12,939)	5,358	(7,581)
Other liabilities	899	526	1,425	(177)	1,248
Net deferred tax (liability)	**(6,381)**	**(17,158)**	**(23,539)**	**(8,044)**	**(31,583)**

21. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2008			2007		
	Number of shares	**Par value**	**Value**	**Number of shares**	**Par value**	**Value**
Common shares	30,000,000	50	1,500,000	30,000,000	50	1,500,000
Inflation adjustment			78,277			78,277
			1,578,277			**1,578,277**

The share capital of the Bank was contributed by the shareholders in RUR and they are entitled to dividends and any capital distribution in RUR.

All common shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote.

At 31 December 2008 the distribution of share capital was as follows:

Shareholder	%
OOO “Energoinvest”	98.91
Levina N.A.	1.00
Other	0.09
Total	**100.00**

22. Commitments and Contingencies

Legal

From time to time and in the normal course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

(in thousands of Russian Roubles)

22. Commitments and Contingencies (continued)

Tax legislation

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. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

Operating lease commitments

The following are the amounts payable under non cancellable operating leases over the relevant time periods:

	2008	**2007**
Less than 1 year	6,990	7,467
Between 1 and 5 years	8,076	11,639
	15,066	**19,106**

The category 'less than one year' does not include lease payments for buildings under a lease that is renewed every 12 months, and is likely that it will continue to be renewed on the same basis.

Capital commitments

As of the end of 2008 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements (2007: nil).

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements. The fair value of guarantees issued are reflected in Other Liabilities. .

Credit related commitments comprise:

	2008	**2007**
Unused limits on overdrafts	681,631	625,241
Unused credit lines	8,171	124,079
Guarantees issued	102,999	5,200
	792,801	**754,520**
Recognised as liabilities	-	(12,916)
Total credit related commitments	**792,801**	**741,604**

(in thousands of Russian Roubles)

23. Allowance for Impairment

The movements in allowances for impairment of interbank loans, securities AFS and loans to customers were as follows:

	Due from credit institutions	Securities AFS	Loans and advances to customers	Total
31 December 2006	**9,707**	**1,065**	**163,522**	**174,294**
(Reversal)/ Charge	(9,707)	(837)	55,777	45,233
31 December 2007	-	**228**	**219,299**	**219,527**
(Reversal)/ Charge	-	17,719	392,585	410,304
31 December 2008	-	**17,947**	**611,884**	**629,831**

24. Financial Risk Management

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

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately.

The Bank takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market.

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

At 31 December 2008 the Bank had the following positions in currencies:

	RUR	USD	EUR	GBP	Total
Assets					
Cash and cash equivalents	640,804	212,470	241,627	31,743	1,126,644
Mandatory balances with CBRF	8,193	-	-	-	8,193
Financial assets at FVPL	5,397	-	-	-	5,397
AFS securities	141,225	-	-	-	141,225
HTM securities	89,997	-	-	-	89,997
Due from Banks	817,628	-	-	-	817,628
Loans and advances to customers	5,708,934	83,227	-	196,035	5,988,196
Accrued interests and other assets	93,296	-	-	-	93,296
Tax receivables	33,561	-	-	-	33,561
Property and equipment	158,708	-	-	-	158,708
Intangible assets	10,538	-	-	-	10,538
Total assets	**7,708,281**	**295,697**	**241,627**	**227,778**	**8,473,383**
Liabilities					
Due to banks	504,921	105,769	41,441	-	652,131
Customer accounts	3,655,954	184,026	165,949	261,496	4,267,425
Debt securities issued	1,328,474	-	-	-	1,328,474
Accrued interest and other liabilities	26,290	-	-	-	26,290
Deferred tax liability	31,583	-	-	-	31,583
Total liabilities	**5,547,222**	**289,795**	**207,390**	**261,496**	**6,305,903**
Net balance sheet position 31 December 2008	**2,161,059**	**5,902**	**34,237**	**(33,718)**	**2,167,480**
Net balance sheet position 31 December 2007	**2,119,166**	**(5,349)**	**(6,928)**	**1,636**	**2,108,525**

The following table demonstrates the sensitivity to a reasonably possible change in the RUR to US Dollar, EUR and GBP exchange rates, with all other variables held constant, of the Bank's profit before tax and the Bank's equity.

Increase/ decrease in exchange rate	Currency	Effect on profit and equity	
		31 December 2008	31 December 2007
+ 5% / - 5%	USD	295 / (295)	(267) / 267
+ 30% / - 30%	USD	1,771 / (1,771)	n/a
+ 5% / - 5%	EUR	1,712 / (1,712)	(346) / 346
+ 30% / - 30%	EUR	10,271 / (10,271)	n/a
+ 5% / - 5%	GBP	(1,686) / 1,686	(82) / 82
+ 30% / - 30%	GBP	(10,115) / 10,115	n/a

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

24. Financial Risk Management (continued)

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

Credit risk for internal measuring and reporting purposes is primarily measured by reference to the four category credit rating system similar to those required by CBR. The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data. For this purpose the loan portfolio of the Bank is classified into four risk groups as follows:

Risk group	Loan group	Probability of repayment	Impairment range in %
1	Loans without indicators of impairment.	Should be repaid fully and on time.	0-2%
2	Loans without obvious indicators of impairment, but with potential indicators of impairment	Should be repaid fully and on time. In case of overdue all interests and principal amount will be repaid. However there are some negative tendencies in financial conditions of the borrower or in industry in general.	5-10%
3	Loans partly impaired (with some indicators of impairment)	Conditions of loan agreements were changed (prolongation, changes in interest rates); bad financial conditions of the borrower.	20-50%
4	Impaired loans (with indicators of impairment)	Will not be repaid. This group includes following loans with indicators of impairment: 1. Bad financial condition of the borrower; 2. Overdue interests or/and principal amount; 3. Was impaired previously.	100%

Information concerning the credit quality of the loan portfolio in accordance with the above system, at the balance sheet date is given in Note 10.

The Bank sets out its approach to credit risks through its formal credit policy, which is subject of regular review and approval by the Management Board. The Credit policy establishes:

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

The following departments are involved in credit risk management process:

- Management Board;
- Big Credit Committee and Small Credit Committee;
- Credit Committees of additional offices and branches;
- Financial Committee;
- Risk Management Committee.

24. Financial Risk Management (continued)

The Credit Committees ('CC') is the key function in the credit risk management process. The CC meets at least weekly, and also more regularly when required. CC members comprise representatives from senior management, credit department, finance, and legal. Their objective is to review credit policy, monitor loan quality on an ongoing basis, approve loans, approve write-offs and other credit related activity. The CC is authorised to approve loans up to RUR 30m. Granting of loans in excess of the RUR 30m level requires an approval of the Board of Directors.

The Bank manages credit risk by:

- adequately allocating duties, competences and responsibilities among the Bank's business divisions, executive bodies and officials (risk assessment, risk control, execution of transactions exposed to credit risk, meeting specific portfolio parameters);
- maintaining divisions and executive bodies coordination in particular on stress scenarios;
- proper risk assessment within limits settings, conducting transactions and constant monitoring of risk;
- due transaction structuring (form, parameters of the transaction, collateral and insurance);
- regular assessment;
- loan granting after sufficient assessment of borrowers' creditworthiness and legal documentation; regular reassessment of the creditworthiness of borrowers;
- establishing credit exposure limits both on the whole portfolio and sub-limits (geographical, industry) individual counterparties (groups of related counterparties) including quality and quantity parameters of loans and instruments carrying credit risk;

There is regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The analysis is based on the customer's most recent financial statements and other information submitted by the customer or obtained from other sources. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The current market value of collateral is regularly assessed by internal specialists.

The analysis of debt securities and other assets does not differ from the analyses of the Bank's borrowers as described above and is performed with the use of similar techniques although, not all the financial information is consistent or readily available from all issuers. In relation to this, the department of bank's risk evaluation uses additional methods to assess the issuers' financial position based on fundamental and technical analysis of the securities' market. The department also uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and on over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor's, Moody's or Fitch Ratings.

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

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance sheet commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Bank's maximum exposure to credit risk on financial assets and credit related commitments as at 31 December 2008 and 31 December 2007 was as follows:

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

	31 December 2008	31 December 2007
Balance sheet risks		
Cash and cash equivalents (excluding cash on hand)	914,984	1,158,469
Financial assets at FVPL	5,397	657,555
Securities AFS	141,225	61,363
Securities HTM	89,997	-
Due from banks	817,628	658,166
Loans and advances to customers	5,988,196	5,182,891
Accrued interest and other assets	93,296	62,980
Total balance sheet risks	**8,050,723**	**7,781,424**
Off balance sheet risks		
Unused limits on overdraft	681,631	625,241
Unused credit lines	8,171	124,079
Guarantees issued	102,999	5,200
Total off balance sheet risks	**792,801**	**754,520**

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. As the Bank has few quoted equity investments it believes it has very little market risk.

Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Liquidity risk is monitored by the Treasury Department, Financial Committee and Risk Committee.

The Bank seeks to actively support a diversified and stable funding base comprising 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 tables below provide an analysis of the Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

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

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	1,126,644	-	-	-	-	1,126,644
Mandatory balances with CBRF	-	-	-	-	8,193	8,193
Financial assets at FVPL	5,397	-	-	-	-	5,397
Securities AFS	141,225	-	-	-	-	141,225
Securities HTM	-	15,133	47,300	27,564	-	89,997
Due from Banks	817,628	-	-	-	-	817,628
Loans to customers	119,198	1,241,425	1,292,474	3,333,767	1,332	5,988,196
Accrued interest income and other assets	66,035	12,963	6,577	-	7,721	93,269
Tax receivables	-	33,561	-	-	-	33,561
Property, plant and equipment	-	-	-	-	158,708	158,708
Intangible assets	-	-	-	-	10,538	10,538
Total assets	**2,276,127**	**1,303,082**	**1,346,351**	**3,361,331**	**186,492**	**8,473,383**
Liabilities						
Due to banks	147,210	22,000	-	482,921	-	652,131
Customers accounts	1,458,251	1,349,584	161,742	1,118,676	179,172	4,267,425
Debt securities issued	124,133	836,333	118,567	249,441	-	1,328,474
Accrued interest and other liabilities	17,242	2,849	3,256	2,943	-	26,290
Deferred tax liability	-	-	-	-	31,583	31,583
Total liabilities	**1,746,836**	**2,210,766**	**283,565**	**1,853,981**	**210,755**	**6,305,903**
Net liquidity gap	**529,291**	**(907,684)**	**1,062,786**	**1,507,350**	**(24,263)**	**2,167,480**
Accumulated gap as at 31 December 2008	**529,291**	**(378,393)**	**684,393**	**2,191,743**	**2,167,480**	
Accumulated gap as at 31 December 2007	**1,057,297**	**(805,115)**	**435,378**	**1,880,087**	**2,108,525**	

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in less than one month.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

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

The Bank was in compliance with the above ratios during the year ended 31 December 2008 and year ended 31 December 2007. The following table represents the mandatory liquidity ratios for the Bank calculated at 31 December 2008 and 31 December 2007:

	Requirement	31 December 2008	31 December 2007
Instant liquidity ratio (N2)	Minimum 15%	73.1%	92.9%
Current liquidity ratio (N3)	Minimum 50%	112.0%	79.0%
Long-term liquidity ratio (N4)	Maximum 120%	70.0%	66.1%

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with.

Interest Rate Risk

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

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

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

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

	2008				2007			
	RUR	USD	EUR	GBP	RUR	USD	EUR	GBP
Interest earning assets								
Nostro accounts	2.18%	0.15%	2.29%	-	2.60%	1.50%	3.50%	5.30%
Interbank loans	7.00%	-	-	-	7.60%	-	-	-
Financial assets at FVPL	6.90%	-	-	-	11.80%	-	-	-
Securities AFS	12.30%	-	-	-	11.20%	-	-	-
Securities HTM	10.00%	-	-	-	-	-	-	-
Loans to customers	16.80%	13.70%	-	12.00%	15.10%	12.50%	12.00%	-
Interest bearing liabilities								
Interbank loans	11.50%	1.50%	2.00%	-	6.40%	4.80%	4.00%	-
Customers deposits	10.12%	8.46%	5.79%	3.80%	6.70%	3.30%	4.50%	3.40%
Debt securities issued	9.70%	-	-	-	9.30%	-	-	-

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

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

	2008	2007
RUR		
100 bp parallel increase	12,693	9,270
100 bp parallel decrease	(12,693)	(9,270)
300 bp parallel increase	38,079	n/a
300 bp parallel decrease	(38,079)	n/a
USD		
50 bp parallel increase	(1,033)	(320)
50 bp parallel decrease	1,033	320
EUR		
50 bp parallel increase	(1,037)	(42)
50 bp parallel decrease	1,037	42
GBP		
50 bp parallel increase	(327)	(1,461)
50 bp parallel decrease	327	1,461

Country risk

Country risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2 and Note 28. Comments on the risk associated with the Russian tax are set out in Note 22. The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible.

At 31 December 2008 geographical concentration of the Bank's assets and liabilities was as follows:

	Russia	OECD	Total
Assets			
Cash and cash equivalents	668,182	458,462	1,126,644
Mandatory balances with CBRF	8,193	-	8,193
Financial assets at FVPL	5,397	-	5,397
Securities Available-for-sale	141,225	-	141,225
Securities Held-to-maturity	89,997	-	89,997
Due from Banks	817,628	-	817,628
Loans and advances to customers	5,988,196	-	5,988,196
Accrued interest and other assets	93,296	-	93,296
Tax receivables	33,561	-	33,561
Property, plant and equipment	158,708	-	158,708
Intangible assets	10,538	-	10,538
Total assets	**8,014,921**	**458,462**	**8,473,383**
Liabilities			
Due to banks	652,131	-	652,131
Customer accounts	4,267,425	-	4,267,425
Debt securities issued	1,328,474	-	1,328,474
Accrued interest and other liabilities	26,290	-	26,290
Deferred tax liability	31,583	-	31,583
Total liabilities	**6,305,903**	**-**	**6,305,903**
Net balance sheet position	**1,709,018**	**458,462**	**2,167,480**
Credit related commitments	**792,801**	**-**	**792,801**

(in thousands of Russian Roubles)

24. Financial Risk Management (continued)

At 31 December 2007 geographical concentration of the Bank's assets and liabilities was as follows:

	Russia	OECD	Total
Assets			
Cash and cash equivalents	1,261,972	18,711	1,280,683
Mandatory balances with CBRF	79,485	-	79,485
Financial assets at FVPL	657,555	-	657,555
Securities Available-for-sale	61,363	-	61,363
Due from Banks	368,999	289,167	658,166
Loans and advances to customers	5,182,891	-	5,182,891
Accrued interest and other assets	62,980	-	62,980
Tax receivables	6,137	-	6,137
Property and equipment	163,384	-	163,384
Intangible assets	9,108	-	9,108
Total assets	**7,853,874**	**307,878**	**8,161,752**
Liabilities			
Due to banks	896,166	-	896,166
Customer accounts	4,036,735	-	4,036,735
Debt securities issued	1,064,654	-	1,064,654
Accrued interest and other liabilities	32,133	-	32,133
Deferred tax liability	23,539	-	23,539
Total liabilities	**6,053,227**	**-**	**6,053,227**
Net balance sheet position	**1,800,647**	**307,878**	**2,108,525**
Credit related commitments	**741,604**	**-**	**741,604**

25. Non-financial Risks

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has internal regulations and procedures aimed to minimise operational risk such as standardization and automation of banks' operations, regulation of documents circulation and development of disaster recovery policies. In accordance with internal regulations for assessing the ability of the bank to cover possible operational losses, the bank include operational risk in to account when calculate capital adequacy ratio.

25. Non-financial Risks (continued)

Legal risk

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

Internal factors include:

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

External factors include:

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

Every week the Bank monitors changes in laws and sends information to all managers of departments to make changes in internal regulations. All employees have access to Bank's internal regulations and legal reference system.

Standard contracts are prepared and reviewed and used by all relevant business units of the Bank for the majority of transactions. Moreover, responsible person was appointed by the Chairman to develop and implement internal regulations to prevent money laundering.

Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from wrong business decisions which are effected on the Bank's strategic goals. The Bank performs market trend analysis and current planning, monitors banking services and alternative expanding to minimise strategic risk. Also, the Management Board and the Board of Directors discuss the most important current affairs and take appropriate measures.

Reputation Risk

The Bank complies with current laws and regulations in order to manage reputation risks. Moreover, it enforces existing policies and procedures, keeps bank secrecy, as well as, implements internal controls, follows regulations of banks' professional activity and settles liabilities in time. Furthermore, the Bank reviews corporate press releases in order to measure banks reputation. Finally, it implements additional employee and customer identification to prevent money laundering. All monitored data on risks is collected and systemised and sent to banks' management for further attention.

26. Related Party Transactions

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

Related parties comprise the Parent company, key management personnel and other related parties. Other related parties are entities exerting significant influence on the Bank, and companies which are under the control or significant influence of a party, which also has control or significant influence over the Bank.

(in thousands of Russian Roubles)

26. Related Party transactions (continued)

	2008					
			Other related parties			
	Parent	Management	Companies under common control	Entities exerting significant influence	Total Related party balance / result	Total per category in financial statements
BALANCE SHEET						
Loans and advances to customers						
At the beginning of the year	-	5,488	-	-	**5,488**	**5,182,891**
Granted during the year	-	927	1,422,399	-	**1,423,326**	**n/a**
Repaid during the year	-	1,442	1,331,959	-	**1,333,401**	**n/a**
At the end of the year	-	4,973	90,440	-	**95,413**	**6,600,080**
Less: ceased to be related party during the year	-	(710)	-	-	**(710)**	**n/a**
Less: allowance for impairment	-	-	(13,207)	-	**(13,207)**	**(611,884)**
Loans and advances to customers (net)	-	4,263	77,233	-	**81,496**	**5,988,196**
Customer accounts						
At the beginning of the year	145,525	1,371,283	1,102,511	-	**2,619,319**	**4,036,735**
Received during the year	732,085	71,541	19,486,240	-	**20,289,866**	**n/a**
Redeemed during the year	841,315	457,263	19,718,492	-	**21,017,070**	**n/a**
At the end of the year	36,295	985,561	870,259	-	**1,892,115**	**4,267,425**
Debt securities issued						
At the beginning of the year	-	420,325	-	-	**420,325**	**1,064,654**
Received during the year	-	1,493,492	-	-	**1,493,492**	**n/a**
Redeemed during the year	-	1,458,870	-	-	**1,458,870**	**n/a**
At the end of the year	-	454,947	-	-	**454,947**	**1,328,474**
Credit commitments	-	751	399,680	-	**400,431**	**792,801**
INCOME STATEMENT						
Interest Income						
Interest income from loans to customers	-	587	8,633	-	**9,220**	**973,459**
Interest Expense						
Interest expense from customer accounts	4,465	79,194	22,766	-	**106,425**	**189,590**
Interest on PNs	-	68,932	-	-	**68,932**	**125,975**
Other income and expenses						
Income from foreign exchange transactions	263	-	9,534	-	**9,797**	**12,492**
Fee and commission income	114	-	5,142	-	**5,256**	**186,429**

Balances at the beginning of the year for Management include amounts relating to a new member of the Board of Directors previously disclosed under “Entities exerting significant influence”.

(in thousands of Russian Roubles)

26. Related Party transactions (continued)

	2007					
			Other related parties			
	Parent	Management	Companies under common control	Entities exerting significant influence	Total Related party balance / result	Total per category in financial statements
BALANCE SHEET						
Loans to customers						
At the beginning of the year	-	5,943	-	-	**5,943**	**3,149,270**
Granted during the year	-	-	808,890	-	**808,890**	**n/a**
Repaid during the year	-	455	808,890	-	**809,345**	**n/a**
At the end of the year	-	5,488	-	-	**5,488**	**5,182,891**
Customer accounts	145,525	30,064	1,102,511	1,341,219	**2,619,319**	**4,036,735**
Debt securities issued	-	-	-	420,325	**420,325**	**1,064,654**
Credit commitments	-	-	213,000	-	**213,000**	**741,604**
INCOME STATEMENT						
Interest Income						
Interest income from loans to customers	799	585	432	-	**1,816**	**658,088**
Interest Expense						
Interest on PNs	-	-	-	20,325	**20,325**	**102,337**
Interest expense from customer accounts	11,984	1,739	38,207	76,007	**127,937**	**165,200**
Other income and expenses						
Income from foreign exchange transactions	3,362	-	3,227	-	**6,589**	**19,205**
Fee and commission income	630	-	1,189	31	**1,850**	**91,575**

Interest rate analysis of transactions with related parties is presented in the table below:

	2008			
	RUR	**USD**	**EUR**	**GBP**
Loans to customers	12.30%	-	-	-
Customers deposits	5.20%	5.30%	6.00%	3.75%
Debt securities issued	7.90%	-	-	-

The total remuneration of the 14 key management personnel of the Bank (including UST) amounted to 12,223 for the year ended 31 December 2008 (2007: 16,668).

27. Capital Management

The Bank's policy is to maintain a strong capital base in order to maintain investor and creditor confidence.

The CBRF sets and monitors capital requirements for the Bank. Currently banks have to maintain a ratio of capital to risk weighted assets, the total capital ratio, above the prescribed minimum of 10% (2007: 10%). Further, the State Deposit Insurance Scheme requires banks to maintain a total capital ratio of 11%. The Bank complied with these limits during the year and preceding year. The capital ratio of the Bank was, at 31 December 2008 31.01% (2007: 28.4%). The Bank's primary aim with regard to capital is to meet these requirements.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1998, as of 31 December 2008 was 30.71% (2007: 33.53%). This ratio exceeded the minimum ratio of 8% recommended by Basel Accord.

(in thousands of Russian Roubles)

27. Capital Management (continued)

The capital adequacy ratios in accordance with the 1998 Basel Accord guidelines were as follows:

	31 December 2008	31 December 2007
Tier 1 Capital		
Share capital	1,578,277	1,578,277
Retained earnings	644,227	528,223
Intangible assets	(10,538)	(9,108)
Unrealised losses from securities AFS	(55,024)	-
Total Tier 1 Capital	**2,156,942**	**2,097,392**
Risk weighted assets	**7,023,104**	**6,254,455**
Tier 1 Capital ratio	**30.71**	**33.53**

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

Weighting	Description
0%	Cash, amounts with the Central Bank of Russian Federation and claims on the Government of the Russian Federation denominated and funded in RUB.
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% - 5%	Foreign exchange contracts
0% - 0.5%	Interest rate contracts

28. Events after the Balance Sheet date

Loan arrears and impairment

Currently there are different estimates given by various authorities in terms of loan arrears at the end of 2008 in Russia. CBRF has announced that on average 2% of Banks' loan portfolios are overdue at 31 December 2008 and they will reach 10% by 31 December 2009. At the same time Standard & Poor's recently announced that currently overdue loans comprise 10% of total banks' portfolios and that at 31 December 2009 they will reach 15% of loan portfolios. It is not possible to estimate the effects on the Bank of increasing arrears since the balance sheet date.

Change of ownership

In April 2009 one of the existing shareholders acquired a significant stake in the Bank. Upon completion of the deal that shareholder now owns 50.00% of the Bank's share capital.