

**KHANTY-MANSIYSK  
BANK GROUP  
OPEN JOINT STOCK COMPANY  
(OAO KHANTY-MANSIYSK BANK)**

**Consolidated Financial Statements  
For the Year Ended 31 December 2008**

# **“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP (OAO “KHANTY-MANSIYSK BANK”)**

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## **Independent Auditors' Report**

To the Shareholders and the Board of Directors of "KHANTY-MANSIYSK BANK" OPEN JOINT STOCK COMPANY (OAO "KHANTY-MANSIYSK BANK")

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of "KHANTY-MANSIYSK BANK" OPEN JOINT STOCK COMPANY (OAO "KHANTY-MANSIYSK BANK") (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

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

ZAO KPMG

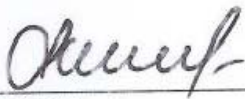
ZAO KPMG  
25 May 2009


**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008  
(in thousands of Russian Rubles)**

	Notes	2008	2007
Interest income	4	10 571 854	6 387 972
Interest expense	4	(5 355 919)	(3 417 974)
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>		<b>5 215 935</b>	<b>2 969 998</b>
Provision for impairment losses on interest bearing assets	5	(1 894 719)	(331 638)
<b>NET INTEREST INCOME</b>		<b>3 321 216</b>	<b>2 638 360</b>
Fee and commission income	6	1 399 955	1 009 014
Fee and commission expense	6	(187 110)	(125 036)
<b>NET FEE AND COMMISSION INCOME</b>		<b>1 212 845</b>	<b>883 978</b>
Net (loss)/gain on financial assets at fair value through profit or loss		(1 003 596)	109 252
Net (loss)/gain on securities available-for-sale		(556 261)	972
Net gain/(loss) on foreign exchange operations		476 949	(52 660)
Net (loss)/gain on operations with precious metals		(309 518)	387
Other income	7	16 193	5 017
		<b>3 157 828</b>	<b>3 585 306</b>
<b>OPERATING EXPENSES</b>	8	<b>(4 085 872)</b>	<b>(3 161 437)</b>
Provision for other impairment losses	5	(26 280)	(408)
<b>(LOSS)/PROFIT BEFORE INCOME TAX</b>		<b>(954 324)</b>	<b>423 461</b>
Income tax benefit/(expense)	9	175 422	(28 094)
<b>NET (LOSS)/PROFIT</b>		<b>(778 902)</b>	<b>395 367</b>

On behalf of the Management Board

  
\_\_\_\_\_  
President  
D.A. Mizgulin  
25 May 2009

  
\_\_\_\_\_  
Chief Accountant  
V.I. Marinina  
25 May 2009

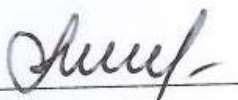
The notes on pages 8-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 2.


**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2008  
(in thousands of Russian Rubles)**

	Notes	31 December 2008	31 December 2007
<b>ASSETS</b>			
Cash and balances with the Central Bank of the Russian Federation	10, 25, 26	8 048 397	6 519 959
Minimum reserve deposits with the Central Bank of the Russian Federation	11, 25, 26	112 375	766 289
Due from credit institutions and settlement centers	12, 25, 26	4 308 791	3 012 411
Financial assets at fair value through profit or loss	13, 25, 26, 30	4 056 359	11 048 660
Loans and deposits to credit institutions	14, 25, 26	10 057 470	13 746 489
Loans and advances to customers	15, 25, 26, 30	68 710 183	40 917 435
Financial assets available-for-sale	16, 25, 26	14 926 750	4 658 503
Deferred tax asset	9	1 007 842	-
Property, plant and equipment	17, 25, 26	4 040 928	3 087 139
Other assets	18, 25, 26, 29	1 113 213	637 450
<b>TOTAL ASSETS</b>		<b>116 382 308</b>	<b>84 394 335</b>
<b>LIABILITIES</b>			
Due to credit institutions	19, 25, 26	38 622 545	14 110 065
Customer accounts	20, 25, 26, 29	53 823 121	50 650 656
Securities issued	21, 25, 26, 29	8 744 703	7 990 274
Financial liabilities at fair value through profit or loss	13, 22, 25, 26	1 057 079	-
Other liabilities	23, 25, 26, 29	283 440	237 701
		<b>102 530 888</b>	<b>72 988 696</b>
Subordinated debt and eurobonds	24, 25, 26, 30	3 610 040	3 141 746
<b>TOTAL LIABILITIES</b>		<b>106 140 928</b>	<b>76 130 442</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	27	7 782 369	5 787 336
Share premium	27	4 060 504	70 439
Reserve fund	27	1 050 787	750 787
Revaluation reserve for financial assets available-for-sale		(3 234 811)	(21 383)
Revaluation reserve for property, plant and equipment		632 545	617 150
Retained (loss)/earnings		(50 014)	1 059 564
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>10 241 380</b>	<b>8 263 893</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>116 382 308</b>	<b>84 394 335</b>

**On behalf of the Management Board**

  
**President**  
**D.A. Mizgulin**  
 25 May 2009

  
**Chief Accountant**  
**V.I. Marinina**  
 25 May 2009

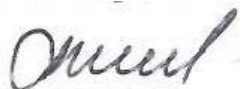
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**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP (OAO “KHANTY-MANSIYSK BANK”)**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008  
(in thousands of Russian Rubles)**

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve fund</u>	<u>Revaluation reserve for financial assets available-for-sale</u>	<u>Revaluation reserve for property, plant and equipment</u>	<u>Retained (loss)/ earnings</u>	<u>Total equity</u>
<b>Balance at 31 December 2006</b>	5 787 336	70 439	750 787	739	633 382	692 080	7 934 763
Net realized gains on disposal of available-for-sale assets, transferred to the consolidated income statement, net of deferred tax of RUB 233 thousand	-	-	-	(739)	-	-	(739)
Net unrealized losses on available-for-sale assets, net of deferred tax of RUB 6,753 thousand	-	-	-	(21 383)	-	-	(21 383)
Depreciation of revaluation reserve for property, plant and equipment, net of deferred tax of RUB 5,126 thousand	-	-	-	-	(16 232)	16 232	-
Net profit	-	-	-	-	-	395 367	395 367
<b>Total income</b>							<b>373 245</b>
Preference shares dividends declared	-	-	-	-	-	(80)	(80)
Ordinary shares dividends declared	-	-	-	-	-	(44 035)	(44 035)
<b>Balance at 31 December 2007</b>	<b>5 787 336</b>	<b>70 439</b>	<b>750 787</b>	<b>(21 383)</b>	<b>617 150</b>	<b>1 059 564</b>	<b>8 263 893</b>
Net realized losses on disposal of available-for-sale assets, transferred to the consolidated income statement, net of deferred tax of RUB 6,753 thousand	-	-	-	21 383	-	-	21 383
Net unrealized losses on available-for-sale assets, net of deferred tax of RUB 808,703 thousand	-	-	-	(3 234 811)	-	-	(3 234 811)
Depreciation of revaluation reserve for property, plant and equipment, net of deferred tax of RUB 5,126 thousand	-	-	-	-	(16 232)	16 232	-
Effect of a change in the income tax rate	-	-	-	-	31 627	1 710	33 337
Net loss	-	-	-	-	-	(778 902)	(778 902)
<b>Total loss</b>							<b>(3 958 993)</b>
Ordinary shares issue	1 995 033	3 990 065	-	-	-	-	5 985 098
Transfer to reserve fund	-	-	300 000	-	-	(300 000)	-
Preference shares dividends declared	-	-	-	-	-	(80)	(80)
Ordinary shares dividends declared	-	-	-	-	-	(48 538)	(48 538)
<b>Balance at 31 December 2008</b>	<b>7 782 369</b>	<b>4 060 504</b>	<b>1 050 787</b>	<b>(3 234 811)</b>	<b>632 545</b>	<b>(50 014)</b>	<b>10 241 380</b>

On behalf of the Management Board



President  
D.A. Mizgulin  
25 May 2009



Chief Accountant  
V.I. Marinina  
25 May 2009

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**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2008  
(in thousands of Russian Rubles)**

	Notes	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest income received		10 064 194	6 353 300
Interest expense paid		(4 243 174)	(2 969 773)
Net receipts from financial instruments at fair value through profit or loss		271 307	322 729
Net (payments)/receipts from operations with precious metals		(49 177)	387
Net receipts/(payments) from foreign exchange		9 247	(115 316)
Fee and commission income received		1 399 955	1 009 014
Fee and commission expense paid		(181 088)	(125 036)
Dividends received		4 864	15 690
Other income		16 193	5 017
Operating expenses paid		(3 684 902)	(2 979 356)
<b>Cash flows from operating activities before taxation and changes in operating assets and liabilities</b>		<b>3 607 419</b>	<b>1 516 656</b>
Decrease in minimum reserve deposit with the Central Bank of the Russian Federation		653 914	49 589
Increase in guarantee deposits on plastic cards		(145 537)	(43 343)
Net (purchases)/sales of precious metals		(2 740)	166 802
Net repayments/(originations) of loans and deposits to credit institutions		3 944 851	(2 454 386)
Net sales of financial assets at fair value through profit or loss		2 679 617	11 752 930
Net increase in loans and advances to customers		(27 610 878)	(18 158 324)
Net increase in deposits from credit institutions		23 047 315	5 835 887
Net increase in customer accounts		1 710 844	2 154 623
Net (repayments)/receipts of own promissory notes		(2 576 912)	4 111 522
Net changes in other assets and liabilities		254 523	(395 708)
Net income tax payments		(799 572)	(138 471)
<b>Cash flows from operating activities</b>		<b>4 762 844</b>	<b>4 397 777</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1 293 350)	(674 872)
Proceeds from sale of property, plant and equipment		672	2 546
Purchase of financial assets available-for-sale		(10 031 653)	(2 586 921)
<b>Net cash flows used in investing activities</b>		<b>(11 324 331)</b>	<b>(3 259 247)</b>

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**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)  
(in thousands of Russian Rubles)**

	Notes	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of share capital		5 985 098	-
Dividends paid		(48 618)	(44 115)
Receipts of subordinated debt		-	2 492 462
Issue of bonds	21	3 000 000	-
<b>Cash flows from financing activities</b>		<b>8 936 480</b>	<b>2 448 347</b>
<b>Effect of changes in foreign exchange rates on cash and cash equivalents</b>		<b>305 297</b>	<b>(5 287)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2 680 290</b>	<b>3 581 590</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>beginning of the year</b>	10	<b>9 412 262</b>	<b>5 830 672</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>end of the year</b>	10	<b>12 092 552</b>	<b>9 412 262</b>

On behalf of the Management Board



President  
D.A. Mizgulin  
25 May 2009



Chief Accountant  
V.I. Marinina  
25 May 2009

The notes on pages 8-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 2.

# “KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP (OAO “KHANTY-MANSIYSK BANK”)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousands of Russian Rubles)

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### 1. ORGANISATION

KHANTY-MANSIYSK BANK Group consists of “KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY (“the Bank”) and its subsidiary (“the Group”). KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY (OAO “KHANTY-MANSIYSK BANK”) is an open joint-stock company, which was incorporated in the Russian Federation in 1992. The registered office of the Bank is located at: 38, Mira Str., Khanty-Mansiysk, Khanty-Mansiysk Autonomous District – Yugra, Russian Federation. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank has a banking license number 1971 issued by the CBR. The principal activities of the Bank are commercial banking activities, trading in securities and foreign currencies, and lending and issuing guarantees.

The Group has the following licenses:

- General banking license issued by the CBR;
- License for receiving and placing deposits in precious metals and performing other operations with precious metals in accordance with the laws of the Russian Federation issued by the CBR;
- Brokerage license of a professional stock market maker issued by the Federal Financial Markets Service (“FSFM”);
- Asset management license of a professional stock market participant issued by the FSFM;
- Depository license of a professional stock market participant issued by the FSFM;
- Dealer license of a professional stock market participant issued by the FSFM;
- License of a commodity exchange intermediary for performing futures and options transactions in the stock exchange market issued by the FSFM.

The Group has a branch network for provision services to its customers. During the reporting period the Group had 18 branches in the Russian Federation, 1 representative office in the Russian Federation and 1 representative office abroad. As at the 31 December 2008, the Group had 114 additional offices and operating cash desks (31 December 2007: 87).

In 2007 the Bank became the parent company of the banking Group, which includes the following company (in addition to the Bank):

<u>Company</u>	<u>Country of incorporation</u>	<u>Ownership as at 31 December 2008</u>	<u>Ownership as at 31 December 2007</u>
BKM FINANCE LIMITED	Ireland	0%	0%

BKM FINANCE LIMITED is a special purpose entity established to facilitate the issue of debt securities by the Group. This entity is not owned by the Group, control arises through the predetermination of the entity’s activities.

**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2008**

*(in thousands of Russian Rubles)*

The Group is a member of the following professional associations:

- The Association of Russian Banks;
- The Association of Regional Banks “Russia”;
- The Tyumen Regional Association of Credit Institutions;
- The Association of Banks of the North-West;
- The Moscow Interbank Currency Exchange;
- The Siberian Interbank Currency Exchange;
- The National Depository Center (as depositor);
- The Chamber of Industry and Commerce of the Khanty-Mansiysk autonomous district;
- The Chamber of Industry and Commerce of the Tyumen district;
- The Saint-Petersburg Chamber of Industry and Commerce;
- The Regional Chamber of Industry and Commerce of the Leningrad region;
- The Chamber of Industry and Commerce of Nizhnevartovsk;
- The Non-Commercial Partnership “Russian Trading System” Stock Exchange”;
- The Russian National S.W.I.F.T. Association;
- MASTER CARD;
- The Association of Russian Banks – Member of VISA International;
- The Settlement System of ZAO “Processing company “UNION CARD”;
- The Brussels International Banking Club;
- The Self-Regulatory Organization “National Securities Market Association”;
- The National Currency Association;
- The System of Deposit Insurance of the Russian Federation;
- The Interregional Bureau of Credit History Details (MBKI, Tyumen);
- The National Bureau of Credit History Details (Moscow);
- The International Association “The Northern Forum”
- The Non-Commercial Organization “Association of Builders of Yugra”;
- The West-Siberian Association of Builders;
- The Moscow International Currency Association;
- The Non-Commercial Partnership “National Bureau of Credit Information”.

The number of employees of the Group as at 31 December 2008 and 2007 was 3,426 and 2,909, respectively.

As at 31 December 2008 and 2007 the Management Board of the Bank consisted of 6 people. As at 31 December 2008 and 2007 the Bank’s Board of Directors was represented by 11 persons, including 1 member of the Management Board.

As at 31 December 2008 and 2007, the following shareholders owned more than 5% of the issued shares of the Bank:

	<b>Share in the capital, % 31 December 2008</b>	<b>Share in the capital, % 31 December 2007</b>
Khanty-Mansiysk Autonomous District – Yugra, represented by the Department of State Property of Khanty-Mansiysk Autonomous District – Yugra	66.30	92.73
Limited Liability Company “IST – Capital”	16.43	-
Limited Liability Company “Ferrosplav Invest”	6.50	-
Other (less than or equal to 5%)	10.77	7.27
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

These consolidated financial statements were authorized for issue by the Bank’s Management Board on 25 May 2009.

# “KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP (OAO “KHANTY-MANSIYSK BANK”)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Russian Rubles)

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### 2. BASIS OF PREPARATION

**Accounting basis** – These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements are presented in thousands of Russian Roubles (the “RUB”), unless otherwise indicated. These consolidated financial statements are prepared on the cost basis, except that certain financial instruments are stated at fair value, and buildings are stated at revalued amounts according to International Accounting Standard (“IAS”) 39 “Financial Instruments: “Recognition and Measurement” and IAS 16 “Property, Plant and Equipment”.

In accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” the economy of the Russian Federation was considered to be hyperinflationary during 2002 and prior years. From 1 January 2003, the economy of the Russian Federation is no longer considered to be hyperinflationary and the values of the Group’s non-monetary assets, liabilities and shareholders’ equity as stated in measuring units as at 31 December 2002 have formed the basis for the amounts carried forward.

The Group maintains its accounting records in accordance with the Russian laws. The accompanying consolidated financial statements have been prepared on the basis of the Russian statutory accounting records and have been appropriately adjusted to conform with IFRS.

**Use of estimates and judgments** – The preparation of the consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan and advances to customers impairment estimates – Note 15;
- Financial assets available-for-sale impairment estimates – Note 16;
- Land and building revaluation estimates – Note 17;
- Estimates in relation to determination of fair values of financial instruments not quoted in an active market – Notes 13 and 16.

These estimates involve an exercise of judgement. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

**Functional and presentation currency** – The national currency of the Russian Federation is the Russian Rouble (“RUB”). Management has determined the Group’s functional currency to be the RUB for all the Group’s companies as it better reflects the economic substance of the underlying events and circumstances of the Group. The RUB is also the Group’s presentation currency for the purposes of these consolidated financial statements.

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

**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2008**

*(in thousands of Russian Rubles)*

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**3. SIGNIFICANT ACCOUNTING POLICIES**

***Recognition and measurement of financial instruments*** – The Group recognizes financial assets and liabilities in its consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Rights to purchase of financial instruments that will be subsequently measured at fair value accounted for in the same way as acquired instruments between the trade date and the settlement date are.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to an acquisition or an issue of the financial asset or the financial liability. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

***Cash and balances with the Central Bank of the Russian Federation*** – Cash represents cash on hand. Unrestricted balances on correspondent and deposit accounts with the CBR are recognized as balances with the Central Bank of the Russian Federation.

***Due from credit institutions and settlement centers*** include amounts placed by the Group on nostro accounts with credit institutions and settlement centers. Due from credit institutions and settlement centers are recognized at amortised value.

For the purposes of the consolidated statement of cash flows ***cash and cash equivalents*** include cash and balances with the CBR and due from credit institutions and settlement centers that are not restricted, other than balances in precious metals. For purposes of preparation of the consolidated statement of cash flows, the minimum reserve deposit required by the CBR is not included in cash equivalents due to restrictions on its withdrawability.

***Financial assets at fair value through profit or loss*** represent financial instruments acquired for the purpose of selling them in the near future; are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; are derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or financial assets that upon initial recognition are designated by the Group at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value of financial assets at fair value through profit or loss or appropriate pricing models if quoted market prices are not available. Fair value adjustment on financial assets at fair value through profit or loss is recognized in the income statement for the period.

**“KHANTY-MANSIYSK BANK” OPEN JOINT STOCK COMPANY GROUP  
(OAO “KHANTY-MANSIYSK BANK”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2008  
(in thousands of Russian Rubles)**

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In October 2008 amendments to IAS 39 were issued. These amendments permit to reclassify in ‘rare circumstances’ non-derivative financial instruments, other than those designated at fair value through profit or loss upon initial recognition, out of at fair value through profit or loss category. The Group performed the reclassification as at 1 July 2008. The results of the reclassification are included in these consolidated financial statements (Note 16).

***Loans and deposits to credit institutions*** – In the normal course of business, the Group originates loans and deposits amounts with other banks for various time periods. Loans and deposits to credit institutions are measured at amortized cost using the effective interest rate method. Instruments that do not have fixed maturities are carried at amortized cost based on expected maturities.

***Loans and advances to customers*** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial instruments.

Loans and advances granted by the Group are initially recognized at fair value plus transaction costs, directly attributable to the acquisition or origination of relevant financial assets. Where the fair value of consideration given does not equal the fair value of the loan (for example where the loan is issued at lower than market rates), the difference between the fair value of consideration given and the fair value of the loan is recognized in the consolidated income statement or in consolidated statement of changes in equity, as appropriate. Subsequently, loans are carried at amortized cost using the effective interest method. Instruments that do not have fixed maturities are carried at amortized cost based on expected maturities. Loans and advances to customers are carried net of any provision for impairment.

***Write off of loans and advances to customers*** – Loans are written off against allowance for impairment losses if they are non-recoverable and no recovery is expected from foreclosure of collateral. The Board of Directors considers and makes a decision on writing off loans in the consolidated balance sheet against provisions for loan impairment, and where such provision is not sufficient – to the losses of the reporting year. The Group writes off a loan balance (and any related provisions for loan impairment) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

***Purchased loans*** – Loans purchased from another lender subsequently to the original date are classified either as loans or as available-for-sale instruments. For purchased loans classified as available-for-sale instruments, fair value is determined using quotes of the active market or using a discounted cash flow (“DCF”) model. If market prices are not available and it is impracticable to apply the DCF model, the prices for similar assets are used.

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

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

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

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

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

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

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

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

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

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

**Financial assets held to maturity** are debt securities with determinable or fixed payments which the Group has the positive intent and ability to hold to maturity. Such securities are carried at amortized cost, less any provision for impairment. Amortisation of discounts is recognized as an adjustment to interest income over the period to maturity using the effective interest rate method.

**Financial assets available-for-sale** represent debt and equity investments that the Group has an intention to hold for an indefinite period of time. Financial assets available-for-sale are initially recorded at fair value. Subsequently the securities are measured at fair value, with revaluation recognized directly in equity until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement, except for impairment losses, foreign exchange gains and losses and interest income accrued using the effective interest rate method, which are recognized in the consolidated income statement.

The Group uses quoted market prices to determine the fair value for the financial assets available-for-sale. If there is no active market for certain instruments, the Group determines their fair values using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to determine the value of the instrument and it was demonstrated that such a technique provided reliable estimates of prices obtained in actual market transactions, the Group uses that technique for fair value estimation.

Non-quoted debt securities and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if their fair value can not be reliably measured.

When there is objective evidence that financial assets available-for-sale have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversal of impairment loss on debt instruments available-for-sale, which are objectively related to events occurring after the impairment, is recognized in the consolidated income statement for the period. Reversal of impairment loss on equity instruments available-for-sale is not recognized in the consolidated income statement.

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Investments in equity securities of companies where the Group owns more than 20% of the share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or if non-consolidation of such companies does not significantly affect the consolidated financial statements of the Group as a whole, as well as investments in equity securities of companies where the Group owns less than 20% of the share capital, are stated at fair value. If fair value of these instruments can not be determined, investments are stated at cost, less any provision for impairment. Such investments are accounted for as investments available-for-sale.

***Precious metals*** are assets and liabilities denominated in precious metals that are translated at the current rate of the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Results from changes in the precious metal prices are recorded as net gains on operations with precious metals.

***Repurchase and reverse repurchase agreements*** – The Group enters into sale and repurchase agreements with securities (“repo”) and purchase and resale agreements with securities (“reverse repo”) in the normal course of its business. Repo and reverse repo agreements are utilized by the Group as an element of its liquidity management and securities trading business.

A repo is an agreement to transfer securities to another party in exchange for cash or other consideration within an obligation to repurchase securities at a future date for an amount equal to the cash or other consideration received plus interest. These repo agreements are accounted for as financing transactions. Securities transferred under repo agreements are retained in the consolidated balance sheet and consideration received under these agreements is recorded as secured deposit received.

Reverse repo agreements are recognised in the consolidated financial statements as amounts placed on deposit which is collateralized by securities. Assets purchased under reverse repo agreements are not recognised in consolidated balance sheet.

When securities purchased under reverse repo agreements are sold to third parties, any gains or losses are recognised as net gains on financial instruments at fair value through profit or loss in the consolidated income statement. The obligation to return securities is recorded as a trading liability and measured at fair value. Any related income or expense arising from differences between the purchase and sale prices represents interest income or expense and is accrued over the term of the repo agreement using the effective interest rate method.

***Derivative financial instruments*** – The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Group include forward transactions in foreign exchange, precious metals and securities, interest rate swaps and derivatives embedded in another contractual arrangement. The Group does not use hedge accounting for accounting of transactions with derivatives.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the consolidated income statement. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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*Property, plant and equipment, and intangible assets* – Property, plant and equipment and intangible assets, (except for land and buildings) acquired after 31 December 2002 are carried at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment and intangible assets (except for land and buildings), acquired before 31 December 2002 are carried at cost adjusted for hyperinflation less accumulated depreciation and accumulated impairment losses.

Land and buildings were carried at cost adjusted for hyperinflation less accumulated depreciation and impairment losses until 31 December 2006.

As at 31 December 2006 the Group changed its accounting policies. As a result, land and buildings held for own use in delivery of services or for administrative purposes are recorded in the consolidated balance sheet at their revalued amounts, being their fair value at the date of revaluation, determined using market prices by professional independent appraisers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed on a regular basis so that the carrying amount does not differ significantly from the fair value of land and buildings subject to revaluation.

Depreciation of revalued buildings is charged to the consolidated income statement. The depreciation attributable to revaluation amount of land and buildings is transferred from the revaluation reserve for property, plant and equipment directly to retained (loss)/earnings, without any charge to the consolidated income statement. On the subsequent sale or disposal of revalued land and buildings, the attributable revaluation surplus remaining in the revaluation reserve property, plant and equipment is transferred directly to retained (loss)/earnings.

Depreciation of assets under construction and those not placed in use commences from the date the assets are ready for their intended use.

Depreciation of property, plant and equipment (except for land) and intangible assets is designed to write off assets over their useful economic lives. Depreciation is charged on a straight-line basis over the following useful lives assumed by the management:

Buildings and constructions	20-50 years
Transport and other equipment	3-7 years
Intangible assets	3-7 years

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to assess whether their carrying values exceed their recoverable amounts. If carrying values of property, plant and equipment exceed their estimated recoverable amounts, assets are written down to their recoverable amounts. An impairment loss in respect of property, plant and equipment and intangible assets is recognized in the relevant reporting period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment is adjusted in future periods to allocate the revised carrying value of assets, less residual value (if any), on a straight line basis over the remaining useful life.

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Any increase in the carrying amount of property, plant and equipment as a result of the revaluation is recognized in the revaluation reserve for property, plant and equipment, except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of land or buildings is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

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

**Impairment loss** – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference between the carrying and recoverable amounts of the asset is an impairment loss recognized as an expense in the consolidated income statement for the year in which it arises.

**Operating leases** – Leases under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Payments under operating leases are expensed over the term of the lease and included in the operating expenses.

**Taxation** – Income tax comprises current and deferred tax.

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before taxes reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible.

The Group’s current tax expense is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the consolidated income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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Deferred and current income tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority in each future tax period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The Russian Federation also has various other taxes, which are relevant to the Group’s activities. These taxes are included as a component of operating expenses in the consolidated income statement.

***Due to credit institutions and customer accounts*** – Due to credit institutions and customer accounts are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently, amounts due to credit institutions and customers are stated at amortized cost, and any respective difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method.

***Subordinated debt*** is initially recognized at fair value. Subsequently, subordinated debt is stated at amortized cost using the effective interest method.

***Securities issued*** – Securities issued represent promissory notes and eurobonds issued by the Group to obtain additional source of financing. These financial instruments are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently, securities issued are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the life of the instrument using the effective interest rate method.

***Provisions*** – Provisions are recognized when the Group 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 this obligation and a reliable estimate of the obligation can be made.

***Share capital and share premium*** – Contributions to share capital, made before 1 January 2003, are recognized at their cost adjusted for hyperinflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share capital contributions other than cash contributions are stated at their fair value at the date of contribution. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of related income taxes.

Dividends on ordinary and privileged shares are recognized as a decrease in equity in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 “Events after the balance sheet date” and disclosed accordingly.

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***Pension obligations*** – The Group does not have any pension arrangements other than payments to the State pension system of the Russian Federation, which requires current contributions by 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 Group has no post-retirement benefits or other significant compensation benefits requiring accrual.

***Contingencies*** – Contingent liabilities are not recognized in the consolidated financial statements, unless it is probable that an outflow of resources will be required to settle the obligation and the amount of it can be estimated reliably. These liabilities are included in provision for losses on guarantees and other off-balance sheet commitments and accounted for as other liabilities in the consolidated balance sheet. Contingent assets are not recognized in the consolidated financial statements. Contingent assets are disclosed when an inflow of economic benefits is probable.

***Recognition of income and expense*** – Interest income and expense are recognised in the consolidated income statement on an accrual basis calculated using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability/group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest income includes interest/coupon income earned on investments in securities available-for-sale and securities at fair value through profit or loss. Commissions and other income are credited to income when the related transactions are completed. Loan origination fees together with the related direct costs that are considered to be integral to the overall profitability of a loan, are recorded in interest income over the estimated life of the financial instrument using the effective interest rate method. Non-interest income/(expenses) are recognized on an accrual basis when the corresponding service has been provided.

***Translation into Russian Roubles*** – Monetary assets and liabilities denominated in foreign currencies and precious metals are translated into Russian Roubles at the appropriate foreign exchange rate ruling at the balance sheet date. Foreign currency and precious metals transactions are accounted for at the foreign exchange rates prevailing at the date of the transaction. Profits and losses arising from the translations are included in net gains on foreign exchange transactions and net gains on transactions with precious metals.

***Foreign exchange rates*** – The foreign exchange rates at the year-end used by the Group in the preparation of these consolidated financial statements are as follows:

	<b>31 December 2008</b>	<b>31 December 2007</b>
RUB/USD	29.3804	24.5462
RUB/EUR	41.4411	35.9332
RUB/gold (1 ounce)	25 414.0500	20 532.9000

***Financial guarantees and letters of credit*** – Financial guarantees and letters of credit issued by the Group are obligations of the Group to make payments to the beneficiary under the instrument to reimburse it for a loss incurred when a specified debtor fails to make payment when due under the original or modified terms of a contract.

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Financial guarantees and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of the amount recognized as a provision and the amount initially recognized less, where appropriate, cumulative amortization of consideration received over the life of a financial guarantee or a letter of credit.

***Offset of financial assets and liabilities*** – Financial assets and liabilities are offset and reported net in the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

***Fiduciary activities*** – The Group provides trustee services to its customers. Also the Group provides depository services to its customers that include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group’s consolidated financial statements. The Group has the operational risk associated with these activities, and the Group’s customers are exposed to relevant credit and market risks.

### ***Changes in accounting policies***

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

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

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

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

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale assets. For details on the impact of these reclassifications, refer to Note 16 of these consolidated financial statements.

### ***New Standards and Interpretations not yet adopted***

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

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

The amendment to International Financial Reporting Standard IFRS 7 “Financial Instruments: Disclosures”, which is effective from 1 January 2009, introduces additional requirements for disclosure of fair values of financial instruments.

Various “Improvements to IFRSs” have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009.

The Group has not yet analysed the likely impact of these amendments on its financial position and results of operations.

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**4. NET INTEREST INCOME**

	<u>2008</u>	<u>2007</u>
<b>Interest income</b>		
Interest on loans and advances to customers – legal entities and entrepreneurs	4 760 338	2 006 123
Interest on loans and advances to customers – individuals	3 070 868	2 238 002
Interest on securities available-for-sale	1 070 130	347 360
Interest on accounts, loans and deposits due from credit institutions	914 179	628 103
Interest on securities at fair value through profit or loss	<u>756 339</u>	<u>1 168 384</u>
<b>Total interest income</b>	<u><b>10 571 854</b></u>	<u><b>6 387 972</b></u>
<b>Interest expense</b>		
Interest on customer accounts – individuals	(1 699 531)	(1 259 793)
Interest on amounts due to credit institutions	(1 497 985)	(770 377)
Interest on customer accounts – legal entities and entrepreneurs	(1 173 334)	(1 088 668)
Interest on securities issued	<u>(985 069)</u>	<u>(299 136)</u>
<b>Total interest expense</b>	<u><b>(5 355 919)</b></u>	<u><b>(3 417 974)</b></u>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<u><b>5 215 935</b></u>	<u><b>2 969 998</b></u>

**5. PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS AND OTHER TRANSACTIONS**

The movements in provisions for impairment losses on interest bearing assets were as follows:

	<u>Financial assets available-for-sale – debt securities</u>	<u>Loans and advances to customers</u>	<u>Total</u>
<b>At 31 December 2006</b>	-	<b>1 450 831</b>	<b>1 450 831</b>
Provision	-	331 638	331 638
Write-off of assets	-	<u>(4 819)</u>	<u>(4 819)</u>
<b>At 31 December 2007</b>	-	<b>1 777 650</b>	<b>1 777 650</b>
Provision	305 333	1 589 386	1 894 719
Write-off of assets	-	<u>(38 274)</u>	<u>(38 274)</u>
<b>At 31 December 2008</b>	<u><b>305 333</b></u>	<u><b>3 328 762</b></u>	<u><b>3 634 095</b></u>

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The movements in provisions for impairment losses on non-interest bearing securities and provisions for losses on other assets were as follows:

	<b>Financial assets available-for-sale – other investment securities</b>	<b>Other assets</b>	<b>Total</b>
<b>At 31 December 2006</b>	<b>1 323</b>	<b>1 074</b>	<b>2 397</b>
Provision	-	408	408
Write-off of assets	-	(408)	(408)
<b>At 31 December 2007</b>	<b>1 323</b>	<b>1 074</b>	<b>2 397</b>
(Recovery of provision)/provision	(7)	26 287	26 280
Write-off of assets	-	(6)	(6)
<b>At 31 December 2008</b>	<b>1 316</b>	<b>27 355</b>	<b>28 671</b>

Allowance for losses on assets is deducted from the related assets. Provision for guarantees issued is recorded within other liabilities.

**6. FEE AND COMMISSION INCOME AND EXPENSE**

	<b>2008</b>	<b>2007</b>
<b>Income from services provided and commission income:</b>		
Settlements	1 151 982	878 179
Cash operations	151 174	120 413
Issue of guarantees	80 746	5 052
Other operations	16 053	5 370
<b>Total fee and commission income</b>	<b>1 399 955</b>	<b>1 009 014</b>
<b>Expense on services received and commission expense:</b>		
Settlements	(187 079)	(122 444)
Cash operations	(9)	(2 179)
Other operations	(22)	(413)
<b>Total fee and commission expense</b>	<b>(187 110)</b>	<b>(125 036)</b>
<b>Net commission income</b>	<b>1 212 845</b>	<b>883 978</b>

**7. OTHER INCOME**

	<b>2008</b>	<b>2007</b>
Income from operations with precious metals coins	7 787	-
Income from lease of property	3 853	3 371
Income from refund of state duties	540	90
Other operating income	4 013	1 556
<b>Total other income</b>	<b>16 193</b>	<b>5 017</b>

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**8. OPERATING EXPENSES**

	<u>2008</u>	<u>2007</u>
Staff costs	2 158 155	1 645 424
Depreciation of property, plant and equipment and intangible assets	332 624	153 202
Unified social tax	309 286	245 843
Administrative expenses	258 597	145 829
Information technology and telecommunication services expenses	191 472	275 293
Taxes other than income tax	174 156	151 724
Payments to the deposit insurance fund	124 017	98 558
Charity expenses	123 821	129 090
Professional service fees	111 055	92 607
Repairs and maintenance expense, building maintenance	84 010	53 460
Rent expenses	82 765	46 896
Advertisement expenses	65 739	66 668
Security expenses	54 937	38 997
Other	15 238	17 846
<b>Total operating expenses</b>	<b><u>4 085 872</u></b>	<b><u>3 161 437</u></b>

Administrative expenses include purchases of inventory, business trip and transportation expenses, insurance and other.

**9. INCOME TAX**

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations, which differ from International Financial Reporting Standards. During the years ended 31 December 2008 and 31 December 2007 the income tax rate for corporations in the Russian Federation, excluding cases set out in the clauses 2-5 of Article 284 of the Tax Law of the Russian Federation, was 24%. The tax rate for coupon income on state and municipal securities was 15% (federal budget). The tax rate for dividend income received by Russian companies was 9% (federal budget). Dividend income tax is withheld from the income paid to receiver of dividends by the tax agent in accordance with the Article 275 of the Tax Law of the Russian Federation.

The Group is subject to certain permanent tax differences as certain income and expenses are non-taxable and non-tax deductible under Russian tax regulations.

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes taking into account the income tax rate for corporations of 20% effective from 1 January 2009. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Income tax expense for the year ended 31 December 2008 and 31 December 2007 is as follows:

	<u>2008</u>	<u>2007</u>
<b>Current tax benefit/(expense)</b>		
Current income tax	(7 456)	(145 378)
Settlements with budget on income tax over provided in prior years	10 323	2 948
	<u>2 867</u>	<u>(142 430)</u>
<b>Deferred tax benefit</b>		
Origination of temporary differences	129 041	60 003
Recovery of provision for deferred tax asset	43 514	54 333
	<u>172 555</u>	<u>114 336</u>
<b>Total income tax benefit/(expense) recognised in the consolidated income statement</b>	<u>175 422</u>	<u>(28 094)</u>

The Group’s applicable tax rate for current tax is 24% and for deferred tax is 20% (2007: 24% and 24%, respectively).

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 31 December 2007 are explained as follows:

	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
(Loss)/profit before tax	<u>(954 324)</u>		<u>423 461</u>	
Income tax at the applicable tax rate	229 038	(24%)	(101 631)	(24%)
Change in deferred tax due to change in the tax rate	(73 164)	8%	-	-
Non-deductible costs, non-taxable income and income recognized in the tax accounting	(39 930)	4%	(25 090)	(6%)
Recovery of provision for deferred tax asset	43 514	(4%)	54 333	13%
Income taxed at lower tax rates	5 641	(1%)	41 346	10%
Settlements with budget on income tax over provided in prior years	10 323	(1%)	2 948	1%
	<u>175 422</u>	<u>(18%)</u>	<u>(28 094)</u>	<u>(6%)</u>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2008 and 2007. Deferred tax assets as at 31 December 2008 have been recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group’s ability to claim the deductions in future periods.

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Deductible and taxable temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Due from credit institutions and settlement centers	-	-	(19)	-	(19)	-
Loans and deposits to credit institutions	-	-	(139)	-	(139)	-
Loans and advances to customers	398 212	230 736	-	-	398 212	230 736
Financial assets at fair value through profit or loss	287 444	3 249	(356 676)	-	(69 232)	3 249
Financial assets available-for-sale	808 703	6 753	-	-	808 703	6 753
Property, plant and equipment	-	-	(212 947)	(250 963)	(212 947)	(250 963)
Other assets	19 614	40 255	(9 097)	-	10 517	40 255
Due to credit institutions	-	-	(10 785)	-	(10 785)	-
Customer accounts	-	18 554	(4)	(5 070)	(4)	13 484
Securities issued	2 727	-	(8 613)	-	(5 886)	-
Other liabilities	44 515	-	-	-	44 515	-
<b>Total deferred tax assets/(liabilities)</b>	<b>1 561 215</b>	<b>299 547</b>	<b>(598 280)</b>	<b>(256 033)</b>	<b>962 935</b>	<b>43 514</b>
Tax losses carried forward	44 907	-	-	-	44 907	-
Provision for deferred tax asset	-	(43 514)	-	-	-	(43 514)
<b>Recognized net deferred tax assets/(liabilities)</b>	<b>1 606 122</b>	<b>256 033</b>	<b>(598 280)</b>	<b>(256 033)</b>	<b>1 007 842</b>	<b>-</b>

The tax rate applicable for deferred taxes was 20% (2007: 24%).

As at 31 December 2008 the management estimated whether the Group will in the future have taxable profit sufficient to recover deductible temporary differences existing as at that date. Based on the analysis performed the management concluded that it is probable that the Group will receive taxable profit sufficient to recover the deductible temporary differences in full. Accordingly, the deferred tax asset of RUB 1 007 842 thousand as at 31 December 2008 has been recognised in these consolidated financial statements in full.

Movement in temporary differences during the year ended 31 December 2008:

	31 December 2007	Recognised in equity	Recognised in income	31 December 2008
Due from credit institutions and settlement centers	-	-	(19)	(19)
Loans and deposits to credit institutions	-	-	(139)	(139)
Loans and advances to customers	230 736	-	167 476	398 212
Financial assets at fair value through profit or loss	3 249	-	(72 481)	(69 232)
Financial assets available-for-sale	6 753	801 950	-	808 703
Property, plant and equipment	(250 963)	33 337	4 679	(212 947)
Other assets	40 255	-	(29 738)	10 517
Due to credit institutions	-	-	(10 785)	(10 785)
Customer accounts	13 484	-	(13 488)	(4)
Securities issued	-	-	(5 886)	(5 886)
Other liabilities	-	-	44 515	44 515
<b>Total deferred tax assets</b>	<b>45 514</b>	<b>835 287</b>	<b>84 134</b>	<b>962 935</b>
Tax losses carried forward	-	-	44 907	44 907
Provision for deferred tax asset	(43 514)	-	43 514	-
<b>Recognized net deferred tax assets</b>	<b>-</b>	<b>835 287</b>	<b>172 555</b>	<b>1 007 842</b>

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**10. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN  
FEDERATION**

	<u>31 December 2008</u>	<u>31 December 2007</u>
Correspondent account with the Central Bank of the Russian Federation	4 063 078	4 000 668
Cash on hand	<u>3 985 319</u>	<u>2 519 291</u>
<b>Total cash and balances with the Central Bank of the Russian Federation</b>	<b><u>8 048 397</u></b>	<b><u>6 519 959</u></b>

Cash and cash equivalents recognised in the consolidated statement of cash flows are comprised of the following:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Cash and balances with the Central Bank of the Russian Federation	8 048 397	6 519 959
Due from credit institutions and settlement centers	4 308 791	3 012 411
Guarantee deposits on plastic cards	(262 057)	(116 520)
Due from credit institutions and settlement centers in precious metals	<u>(2 579)</u>	<u>(3 588)</u>
<b>Total cash and cash equivalents</b>	<b><u>12 092 552</u></b>	<b><u>9 412 262</u></b>

**11. MINIMUM RESERVE DEPOSITS WITH THE CENTRAL BANK OF THE  
RUSSIAN FEDERATION**

As at 31 December 2008 and 31 December 2007 the Group maintained mandatory balances of RUB 112 375 thousand and RUB 766 289 thousand, respectively, with the Central Bank of the Russian Federation. The Group is not able to use its mandatory balances with the Central Bank of the Russian Federation for payments and other purposes. According to the Russian legislation mandatory balances are interest-free.

**12. DUE FROM CREDIT INSTITUTIONS AND SETTLEMENT CENTERS**

	<u>31 December 2008</u>	<u>31 December 2007</u>
Due from settlement centers	1 847 026	642 307
NOSTRO accounts with banks – residents of the Russian Federation	643 583	747 101
NOSTRO accounts with banks – residents of countries included in the Organization for Economic Co-operation and Development (“OECD”) and their subsidiary banks	335 927	393 785
Other NOSTRO accounts with banks – non-residents	<u>1 482 255</u>	<u>1 229 218</u>
<b>Total amounts due from credit institutions and settlement centers</b>	<b><u>4 308 791</u></b>	<b><u>3 012 411</u></b>

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**13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31 December 2008</b>	<b>31 December 2007</b>
First to default credit-linked notes	2 650 917	-
Currency forward contracts	885 387	111 831
Debt securities with embedded put options	232 543	-
Interest rate swaps	197 546	-
Forward contracts with equity and debt securities	89 966	-
Debt securities	-	10 489 458
Equity securities	-	447 371
<b>Total financial assets at fair value through profit at loss</b>	<b>4 056 359</b>	<b>11 048 660</b>

Debt securities as at 31 December 2007 comprise:

	<b>31 December 2007</b>
Eurobonds	3 654 063
Promissory notes of credit institutions	3 110 463
Corporate bonds quoted in public market in the Russian Federation	2 059 727
Russian Government Federal bonds (OFZ)	774 629
Bonds of credit institutions	530 648
Bonds of Russian regional and municipal governments	359 928
<b>Total debt securities</b>	<b>10 489 458</b>

The following table provides information on the notional amounts of derivative contracts:

	<b>31 December 2008</b>		
	<b>Nominal amount</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
Currency forward contracts	48 093 570	885 387	(873 769)
Interest rate swaps	2 867 595	197 546	(179 840)
Forward contracts with equity and debt securities	381 624	89 966	(3 470)
<b>Total</b>	<b>51 342 789</b>	<b>1 172 899</b>	<b>(1 057 079)</b>

**First to default credit-linked notes and debt securities with embedded put options**

First to default credit-linked notes are USD denominated floating coupon notes issued by the major international financial institutions, repayment of which is dependent on certain corporate bonds being repaid by their issuers in full (the “reference bonds”). In case of default of any of the reference bonds, the major international financial institutions had the right to transfer to the Group defaulted bonds with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group under these notes.

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As at 31 December 2008 first to default credit-linked notes include first to default credit-linked notes as follows.

Nominal amount		Maturity date	Coupon rate	Reference bonds	Carrying amount RUB'000
Nominal currency	Rouble equivalent, RUB'000				
USD 60 mln.	1 762 824	20 March 2011	LIBOR+12.75% per annum	AO Bank VTB, AO Vypelkom, AO Severstal	1 478 631
USD 30 mln.	881 412	20 December 2011	6-month LIBOR+6.6% per annum	AO Gazprom, AO Severstal, AO Evrazholding, AO Mobile Telecommunication Systems, AO Vypelkom	559 014
USD 30 mln.	881 412	20 November 2012	LIBOR+12.5% per annum	AK Alrosa, AO TNK-BP, AO Evrazholding, AO Mobile Telecommunication Systems, AO Rosneft	613 272
					<b>2 650 917</b>

These instruments are not traded in the active market and there are no market quotes available. The value of these instruments was determined by the Group using model of future cash flows estimated based on the probability of default for reference bonds.

Included in debt securities with embedded put options, as at 31 December 2008, are USD denominated financial instruments with a nominal amount of USD 20 000 thousand, or RUB 587 608 thousand, a coupon rate of 19.5% per annum and a maturity date of 9 March 2009, issued by a major international bank, repayment of which was dependent on changes in market value of certain corporate equity instruments (the “reference equity instruments”). If the market value of any of the reference equity instruments as at the maturity date of a debt security with an embedded put option is less than the contractual threshold value, the counterparty had the contractual right to repay this debt security with an embedded put option in the amount equal to the part of the nominal amount estimated as a ratio between the value of the reference equity instrument as at the maturity date of a debt security with an embedded put option and its value as at the date of contract.

These instruments are not traded in the active market and there are no market quotes available. The value of these instruments was determined by the Group using a model of future cash flows estimated based on the forecast prices of reference equity instruments.

First to default credit-linked notes and debt securities with embedded put options were classified by the Group as financial assets at fair value through profit or loss as these instruments contain embedded derivatives that significantly modify the cash flows that would otherwise be required under the contract.

As at 31 December 2007 the eurobonds portfolio included corporate bonds issued in the international stock market with declared coupon yields of 6.00-8.25% per annum maturing from April 2008 to May 2016.

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Promissory notes of credit institutions are debt obligations of credit institutions, residents of the Russian Federation, acquired by the Group with the intention of short-term profit-taking from selling them in the near term. Fair value of such promissory notes is estimated by the Group using discounted cash flow technique and discounts rates are determined using over-the-counter quotes provided by major market makers and publicly available to all market participants.

Russian Government Federal bonds (OFZ) represent domestic bonds of the Russian Federation government denominated in Russian Roubles with a fixed coupon and fixed yield. The Group holds bonds with various fixed maturities and coupon yield rates.

As at 31 December 2007 the OFZ portfolio included securities with coupon yields of 5.80-10.00% per annum depending on the maturity of the tranche. The bonds have maturities from April 2009 to July 2010.

The Group determined fair value of OFZ bonds on the basis of stock exchange bid quotations on the last trading day of the reporting periods.

Bonds of credit institutions as at 31 December 2007 included in the Group's securities portfolio are represented by bonds with coupon yields of 7.60-8.60% per annum maturing from August 2008 to November 2011.

Bonds of Russian regional and municipal governments are quoted bonds of Russian regional and municipal governments denominated in Russian Roubles with different fixed maturities.

As at 31 December 2007 the portfolio of Russian regional and municipal governments bonds includes bonds with coupon yields of 8.00-10.00% per annum maturing in 2008-2014.

The Group determined fair value of the bonds of Russian regional and municipal governments on the basis of stock exchange bid quotations on the last trading day of the reporting periods.

Equity instruments are common or privileged shares of companies – residents of Russian Federation which are acquired by the Group with the intention of short-term (not more than 12 months) profit taking.

As at 31 December 2007 the financial assets at fair value through profit or loss in the amount of RUB 973 590 thousand were pledged as collateral for sale and repurchase agreements.

### 14. LOANS AND DEPOSITS TO CREDIT INSTITUTIONS

	<u>31 December 2008</u>	<u>31 December 2007</u>
Loans and deposits	6 986 997	11 844 003
Advances under reverse repurchase agreements	3 070 473	1 903 126
<b>Total loans and deposits to credit institutions before deduction of deferred income</b>	<b>10 057 470</b>	<b>13 747 129</b>
Deferred income	-	(640)
<b>Total loans and deposits to credit institutions</b>	<b><u>10 057 470</u></b>	<b><u>13 746 489</u></b>

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As at 31 December 2008 and 31 December 2007 included in loans and deposits to credit institutions is accrued interest income of RUB 22 873 thousand and RUB 63 911 thousand, respectively.

As at 31 December 2008 and 31 December 2007 the Group provided loans and deposits to two and three counterparties respectively, totalling RUB 8 771 694 thousand and RUB 3 852 123 thousand, respectively, which individually exceeded 10% of the Group’s equity.

As at 31 December 2007, the Group placed equivalent of RUB 1 283 920 thousand as loans and deposits with Russian banks, which were received from the same banks in different currencies. Information on the deposits received is disclosed in Note 19.

As at 31 December 2008 and 31 December 2007 the Group purchased securities under reverse repurchase agreements from credit institutions.

Information on the fair value of assets pledged as collateral for these agreements is provided below:

	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>Bonds of credit institutions, quoted in public market:</b>	<b>1 026 172</b>	-
Rated from BBB to BBB+	51 012	-
Rated from BB- to BB+	975 160	
<b>Corporate eurobonds:</b>	<b>837 020</b>	-
Rated from BB- to BB+	341 029	-
Not rated	495 991	-
<b>GDR on shares of Russian issuers:</b>	<b>561 166</b>	-
<b>Eurobonds of credit institutions:</b>	<b>285 908</b>	-
Rated from B- to B+	82 287	-
Not rated	203 621	-
<b>Quoted corporate bonds:</b>	<b>43 098</b>	<b>330 982</b>
Rated below B-	-	22 074
Not rated	43 098	308 908
<b>Quoted shares of Russian issuers:</b>	-	<b>1 100 925</b>
Rated from BBB to BBB+	-	863 660
Rated from BB- to BB+	-	225 638
Not rated	-	11 627
<b>Quoted shares of issuers - non-residents:</b>	-	<b>432 141</b>
<b>Russian Government Federal bonds (OFZ):</b>	-	<b>142 387</b>
Rated from BBB to BBB+	-	142 387
<b>Total</b>	<b><u>2 753 364</u></b>	<b><u>2 006 435</u></b>

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**15. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Commercial loans:</b>		
Loans to corporate clients	44 697 776	20 423 868
Small business loans	1 831 591	1 844 926
Loans to budget organizations of different levels	605 093	27 819
<b>Total commercial loans</b>	<b>47 134 460</b>	<b>22 296 613</b>
<b>Loans to individuals:</b>		
Mortgage loans	14 254 894	13 435 013
Consumer loans	5 542 087	5 010 595
Auto loans	2 436 358	1 189 294
Credit cards	633 135	268 738
Consumer loans to individuals – employees of budget organizations	447 037	494 832
<b>Total loans to individuals</b>	<b>23 313 511</b>	<b>20 398 472</b>
<b>Loans under sale and repurchase agreements</b>	<b>1 590 974</b>	<b>-</b>
<b>Gross loans to customers</b>	<b>72 038 945</b>	<b>42 695 085</b>
Impairment allowance	(3 328 762)	(1 777 650)
<b>Net loans to customers</b>	<b>68 710 183</b>	<b>40 917 435</b>

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The following table provides information on commercial loans to individual as at 31 December 2008:

	<u>Gross loans</u>	<u>Impairment</u>	<u>Net loans</u>	<u>Impairment to gross loans, %</u>
<b>Loans to corporate clients</b>				
Loans for which no specific impairment has been identified	39 514 605	1 120 434	38 394 171	2.84%
Impaired loans:				
- not past due	4 762 924	1 414 442	3 348 482	29.70%
- overdue less than 90 days	251 250	48 504	202 746	19.30%
- overdue more than 90 days and less than 1 year	5 446	5 406	40	99.27%
- overdue more than 1 year	163 551	163 551	-	100.00%
Total impaired loans	<u>5 183 171</u>	<u>1 631 903</u>	<u>3 551 268</u>	<u>31.48%</u>
<b>Total loans to corporate clients</b>	<b><u>44 697 776</u></b>	<b><u>2 752 337</u></b>	<b><u>41 945 439</u></b>	<b><u>6.16%</u></b>
<b>Small business loans</b>				
Loans for which no specific impairment has been identified	1 783 309	62 332	1 720 977	3.50%
Impaired loans:				
- not past due	46 511	29 483	17 028	63.39%
- overdue less than 90 days	477	477	-	100.00%
- overdue more than 90 days and less than 1 year	1 294	1 294	-	100.00%
- overdue more than 1 year	48 282	31 254	17 028	64.73%
<b>Total small business loans</b>	<b><u>1 831 591</u></b>	<b><u>93 586</u></b>	<b><u>1 738 005</u></b>	<b><u>5.11%</u></b>
<b>Loans to budget organizations of different levels</b>				
Loans for which no specific impairment has been identified	605 093	-	605 093	0.00%
<b>Total loans to budget organizations of different levels</b>	<b><u>605 093</u></b>	<b><u>-</u></b>	<b><u>605 093</u></b>	<b><u>0.00%</u></b>
<b>Total commercial loans</b>	<b><u>47 134 460</u></b>	<b><u>2 845 923</u></b>	<b><u>44 288 537</u></b>	<b><u>6.04%</u></b>

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

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In determining the impairment allowance for commercial loans, the following key assumptions were used:

- Management have assumed a time lag of 3 to 6 months to identify impairment after the loss triggering event.
- In many cases for analysis of future cash flows on impaired loans the Management uses the projected cash flows from a sale of real estate pledged. To estimate the realizable value of real estate the Management uses a discount from 30% to 40% to the originally appraised value of the property pledged. Other types of collateral, generally, are not used in the cash flows analysis.

The Group estimates loan impairment for small business loans based on its past historical loss experience for these types of loans. The significant assumptions used in determining the impairment losses for loans to small business include:

- Management has assumed that losses migration rates are constant and can be estimated based on historic loss migration pattern using historical data and Management has assumed a time lag of 3 months to identify impairment after the loss triggering event;
- Management adjusted its past historical loss experience taking into account the current economic situation and impact of economic crisis on the quality of the loan portfolio.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on commercial loans as at 31 December 2008 would be RUB 442 885 thousand lower/higher.

During the year ended 31 December 2008 the Group renegotiated commercial loans that would otherwise be past due or impaired of RUB 944 475 thousand. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Impaired or overdue loans with a gross value of RUB 3 571 413 thousand are secured by collateral with a fair value of RUB 1 920 849 thousand. For the remaining impaired loans of RUB 1 660 040 thousand there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2008 the Group did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2007: nil)

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The following table provides information on loans to individual portfolios as at 31 December 2008:

	<u>Gross loans</u>	<u>Impairment</u>	<u>Net loans</u>	<u>Impairment to gross loans,%</u>
<b>Mortgage loans</b>				
- Not past due	14 140 166	79 507	14 060 659	0.56%
- Overdue less than 30 days	68 995	37 458	31 537	54.29%
- Overdue 30-90 days	37 313	28 060	9 253	75.20%
- Overdue 91-180 days	1 402	1 402	-	100.00%
- Overdue 181-365 days	3 756	3 756	-	100.00%
- Overdue more than 365 days	3 262	3 262	-	100.00%
<b>Total mortgage loans</b>	<b>14 254 894</b>	<b>153 445</b>	<b>14 101 449</b>	<b>1.08%</b>
<b>Consumer loans</b>				
- Not past due	5 291 759	30 658	5 261 101	0.58%
- Overdue less than 30 days	90 889	20 395	70 494	22.44%
- Overdue 30-90 days	55 987	27 670	28 317	49.42%
- Overdue 91-180 days	14 971	14 885	86	99.43%
- Overdue 181-365 days	13 886	13 886	-	100.00%
- Overdue more than 365 days	74 595	74 595	-	100.00%
<b>Total consumer loans</b>	<b>5 542 087</b>	<b>182 089</b>	<b>5 359 998</b>	<b>3.29%</b>
<b>Auto loans</b>				
- Not past due	2 376 459	24 748	2 351 711	1.04%
- Overdue less than 30 days	33 299	11 659	21 640	35.01%
- Overdue 30-90 days	18 179	12 299	5 880	67.65%
- Overdue 91-180 days	3 089	3 089	-	100.00%
- Overdue 181-365 days	3 021	3 021	-	100.00%
- Overdue more than 365 days	2 311	2 311	-	100.00%
<b>Total auto loans</b>	<b>2 436 358</b>	<b>57 127</b>	<b>2 379 231</b>	<b>2.34%</b>
<b>Credit cards</b>				
- Credit cards	633 135	83 199	549 936	13.14%
<b>Total credit cards</b>	<b>633 135</b>	<b>83 199</b>	<b>549 936</b>	<b>13.14%</b>
<b>Consumer loans to individuals – employees of budget organizations</b>				
- Not past due	437 438	1 394	436 044	0.32%
- Overdue less than 30 days	3 962	573	3 389	14.46%
- Overdue 30-90 days	1 000	375	625	37.50%
- Overdue 91-180 days	630	630	-	100.00%
- Overdue 181-365 days	733	733	-	100.00%
- Overdue more than 365 days	3 274	3 274	-	100.00%
<b>Total consumer loans to individuals – employees of budget organizations</b>	<b>447 037</b>	<b>6 979</b>	<b>440 058</b>	<b>1.56%</b>
<b>Total loans to individuals</b>	<b>23 313 511</b>	<b>482 839</b>	<b>22 830 672</b>	<b>2.07%</b>

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The Group estimates loan impairment for loans to individuals based on its past historical loss experience for these types of loans. The significant assumptions used in determining the impairment losses for loans to individuals include:

- Management has assumed that losses migration rates are constant and can be estimated based on historic loss migration pattern using historical data and the Management has assumed a time lag of 3 months to identify impairment after the loss triggering event.
- Management adjusted its past historical loss experience taking into account the current economic situation and impact of the economic crisis on the quality of the loan portfolio.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent the loan impairment on loans to individuals as at 31 December 2008 would be RUB 228 307 thousand lower/higher.

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying car. Consumer loans are secured by guarantees received from third parties. Credit card overdrafts are not secured.

The Group estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 99% of the mortgage balance. Management believes that it is impracticable to estimate a fair value of collateral held in respect of other loans to individuals.

As at 31 December 2008 and 31 December 2007 included in loans and advances to customers is accrued interest income of RUB 620 092 thousand and RUB 317 578 thousand, respectively.

As at 31 December 2008 and 31 December 2007 loans and advances to customers are recognized less deferred income of RUB 307 304 thousand and RUB 198 173 thousand, respectively.

As at 31 December 2008 the Group provided loans to 24 borrowers totalling RUB 26 895 497 thousand, which individually exceeded 5% of the Group's equity.

As at 31 December 2007 the Group provided loans to nine borrowers totalling RUB 8 443 964 thousand, which individually exceeded 5% of the Group's equity.

As at 31 December 2008 the Group purchased securities under reverse repurchase agreements from its clients.

Information on the fair value of assets pledged as collateral for these agreements is provided below:

	<b>31 December 2008</b>
<b>Corporate eurobonds:</b>	<b>573 001</b>
Rated from BB- to BB+	313 280
Rated below B-	259 721
<b>Quoted bonds of credit institutions:</b>	<b>15</b>
Rated from BBB to BBB+	15
<b>Eurobonds of credit institutions:</b>	<b>254 527</b>
<b>Quoted shares of Russian issuers:</b>	<b>434 949</b>
Rated from BBB to BBB+	3 260
Not rated	431 689
<b>Total</b>	<b>1 262 492</b>

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Analysis of loans by sector is provided below:

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Individuals</b>	<b>23 313 511</b>	<b>20 398 472</b>
<b>Commercial loans:</b>		
Trade and services	12 692 188	4 793 625
Construction	11 944 003	2 902 012
Production of machinery and equipment including transport vehicles and electrical equipment	6 926 024	2 527 818
Finance	4 403 590	6 421 490
Transport and telecommunications	3 662 524	3 110 885
Mining	2 631 989	699 285
Agriculture, forestry and fishing industry	1 361 384	1 028 013
Energy, gas and water production and distribution (including housing maintenance and utilities)	1 045 857	486 979
Metallurgy industry	842 896	-
Budgets of different levels	605 093	27 819
Printing industry including paper production	267 263	31 396
Food industry	231 391	67 422
Petrochemical industry	200 478	-
Healthcare and provision of social services	163 791	139 850
Hotels and restaurants	119 125	23 636
Other	36 384	36 383
<b>Total commercial loans</b>	<b>47 134 460</b>	<b>22 296 613</b>
<b>Loans under sale and repurchase agreements</b>	<b>1 590 974</b>	<b>-</b>
<b>Gross loans and advances to customers</b>	<b>72 038 945</b>	<b>42 695 085</b>
Impairment allowance	(3 328 762)	(1 777 650)
<b>Net loans and advances to customers</b>	<b>68 710 183</b>	<b>40 917 435</b>

Movements in provision for the impairment losses on loans and advances to customers for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

**16. FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Debt securities, net	13 910 504	4 268 102
Quoted equity securities	625 845	-
Other investment securities, net	390 401	390 401
<b>Total financial assets available-for-sale</b>	<b>14 926 750</b>	<b>4 658 503</b>

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Debt securities comprise:

	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>Debt securities available-for-sale:</b>		
<b>Russian Federation eurobonds:</b>	<b>2 445 498</b>	-
Rated from BBB to BBB+	2 445 498	-
<b>Russian Federation bonds:</b>	<b>37 911</b>	-
Rated from BBB to BBB+	37 911	-
<b>Corporate eurobonds:</b>	<b>1 748 753</b>	<b>1 783 429</b>
Rated from AA- to AA+	-	198 526
Rated from BB- to BB+	1 748 753	924 435
Not rated	-	660 468
<b>Corporate bonds:</b>	<b>4 756 729</b>	-
Rated from BBB to BBB+	2 084 559	-
Rated from BB- to BB+	117 825	-
Rated from B- to B+	87 243	-
Rated below B-	74 036	-
Not rated	2 393 066	-
<b>Promissory notes of credit institutions:</b>	<b>2 888 163</b>	-
Rated from BBB to BBB+	46 634	-
Rated from BB- to BB+	2 841 529	-
<b>Eurobonds of credit institutions:</b>	<b>794 301</b>	<b>1 502 484</b>
Rated from AA- to AA+	-	736 386
Rated from BBB to BBB+	93 769	-
Rated from BB- to BB+	700 532	-
Not rated	-	766 098
<b>Bonds of credit institutions:</b>	<b>1 338 334</b>	-
Rated from BB- to BB+	560 305	-
Not rated	778 029	-
<b>Bonds of Russian regional and municipal governments:</b>	<b>206 148</b>	-
Rated below B-	206 148	-
<b>Corporate promissory notes:</b>	-	<b>982 189</b>
Not rated	-	982 189
<b>Total gross debt securities available-for-sale</b>	<b>14 215 837</b>	<b>4 268 102</b>
Impairment allowance	(305 333)	-
<b>Total debt securities available-for-sale</b>	<b>13 910 504</b>	<b>4 268 102</b>

As at 31 December 2008 and 2007, coupon rates for debt securities available-for-sale are 6.63-15.00% and 6.00-10.00% per annum, respectively.

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As at 31 December 2008 and 31 December 2007 included in securities available-for-sale is accrued interest (coupon) income of RUB 241 320 thousand and RUB 89 661 thousand, respectively.

As at 31 December 2008 financial assets available-for-sale of RUB 2 395 323 thousand were pledged as collateral for sale and repurchase agreements.

As at 31 December 2008 quoted equity securities comprise:

	<b>31 December 2008</b>
<b>Quoted equity securities:</b>	
Rated from BBB to BBB+	625 831
Not rated	14
<b>Total quoted equity securities</b>	<b>625 845</b>

Other investment securities comprise:

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Other investment securities:</b>		
Investments in unquoted equity securities of companies – residents of the Russian Federation	390 401	390 401
Investments in associates	1 316	1 323
<b>Total other investment securities, gross</b>	<b>391 717</b>	<b>391 724</b>
Impairment allowance	(1 316)	(1 323)
<b>Total other investment securities, net</b>	<b>390 401</b>	<b>390 401</b>

Included in investments in unquoted equity securities of companies – residents of the Russian Federation as at 31 December 2008 and 31 December 2007 are investments in 100% stake of OOO “Curorty Yugry” purchased by the Group in 2007. The Group does not have control or significant influence over OOO “Curorty Yugry”. In addition, the consolidation of OOO “Curorty Yugry” would not have a material effect on these consolidated financial statements.

Investments in associates comprise:

	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Share of capital %</b>	<b>Carrying value</b>	<b>Share of capital %</b>	<b>Carrying value</b>
Investments in associates				
ZAO PK “HESCARD”	50%	1 316	50%	1 316
OOO “AUCTION”	-	-	50%	7
<b>Total investments in associates, gross</b>		<b>1 316</b>		<b>1 323</b>
Impairment allowance		(1 316)		(1 323)
<b>Total investments in associates, net</b>		<b>-</b>		<b>-</b>

ZAO PK “HESCARD” is not operating actively and was not consolidated or accounted for using the equity method in these consolidated financial statements as the effect of such consolidation would not be significant.

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The movements in provision for impairment for the years ended 31 December 2008 and 31 December 2007 are disclosed in Note 5.

**Reclassification of securities**

Pursuant to the amendments to IAS 39 and IFRS 7 (as described in Note 3) the Group reclassified certain securities to available-for-sale assets. The Group identified securities eligible under the amendments for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification the Group determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

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

	1 July 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Quoted securities reclassified to available-for-sale assets	4 624 284	4 624 284	3 545 619	3 545 619

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

	Profit or loss	Equity
<b>Period before reclassification</b>		
Quoted securities reclassified to available-for-sale assets		
Interest income	144 890	144 890
Net change in fair value	(151 752)	(151 752)
	<b>(6 862)</b>	<b>(6 862)</b>
<b>Period after reclassification</b>		
Quoted securities reclassified to available-for-sale assets		
Interest income	166 402	166 402
Net impairment loss on financial assets	(92 804)	(92 804)
Net change in fair value	-	(1 001 928)
	<b>73 598</b>	<b>(928 330)</b>

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

	Profit or loss	Equity
<b>Period before reclassification</b>		
Quoted securities reclassified to available-for-sale assets		
Interest income	166 402	166 402
Net trading expense	(1 094 732)	(1 094 732)
	<b>(928 330)</b>	<b>(928 330)</b>

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At 1 July 2008 the effective interest rates on quoted securities reclassified to available-for-sale assets ranged from 5.4% to 15.40% with the present value of the expected discounted recoverable cash flows of RUB 4 624 284 thousand.

**17. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Capital investments and assets not in use</b>	<b>Total</b>
<b>Cost/Revalued amount</b>					
At 31 December 2006	27 470	1 989 190	761 617	156 438	2 934 715
Additions	993	1 613	161	672 105	674 872
Disposals	-	-	(94 041)	-	(94 041)
Transfers from capital investments to property. plant and equipment	-	230 333	267 562	(497 895)	-
At 31 December 2007	<b>28 463</b>	<b>2 221 136</b>	<b>935 299</b>	<b>330 648</b>	<b>3 515 546</b>
Additions	55			1 293 295	1 293 350
Disposals	-	(4 799)	(54 757)	-	(59 556)
Transfers from capital investments to property. plant and equipment	-	650 760	236 005	(886 765)	-
At 31 December 2008	<b>28 518</b>	<b>2 867 097</b>	<b>1 116 547</b>	<b>737 178</b>	<b>4 749 340</b>
<b>Accumulated depreciation</b>					
At 31 December 2006	-	-	355 607	-	355 607
Charge for the year	-	49 155	104 047	-	153 202
Eliminated on disposals	-	-	(80 402)	-	(80 402)
At 31 December 2007	-	<b>49 155</b>	<b>379 252</b>	-	<b>428 407</b>
Charge for the year	-	56 182	276 442	-	332 624
Eliminated on disposals	-	(135)	(52 484)	-	(52 619)
At 31 December 2008	-	<b>105 202</b>	<b>603 210</b>	-	<b>708 412</b>
<b>Carrying value</b>					
At 31 December 2008	<b>28 518</b>	<b>2 761 895</b>	<b>513 337</b>	<b>737 178</b>	<b>4 040 928</b>
<b>Carrying value</b>					
At 31 December 2007	<b>28 463</b>	<b>2 171 981</b>	<b>556 047</b>	<b>330 648</b>	<b>3 087 139</b>

As at 31 December 2006 the land and buildings owned by the Bank were revalued to market prices based on valuation performed by an independent appraiser. Management assumes that as at 31 December 2008 and 2007 this revaluation continued to reflect the fair value of these properties.

The following methods were used for the estimation of fair value of land and buildings: discounted cash flow approach (income capitalization approach), sales comparison approach (comparative approach), aggregate asset valuation approach (cost approach).

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In the estimates of the fair values of land and buildings recognised in the consolidated financial statements the valuation approaches described above were used to the extent they were considered as appropriate in each case, taking into consideration reliability and completeness of the information available, the nature of the property under the appraisal, etc.

If land and buildings were accounted at historical cost adjusted for hyperinflation less accumulated depreciation (for buildings), their carrying value would be RUB 1 957 015 thousand as at 31 December 2008 and RUB 1 367 046 thousand as at 31 December 2007.

Movements of intangible assets and respective accumulated amortization as at and for the year ended 31 December 2007 were as follows:

	<u>2007</u>
<b>Cost</b>	
At the beginning of the period	40 581
Disposals	<u>(40 581)</u>
At the end of the period	<u>-</u>
<b>Accumulated amortisation</b>	
At the beginning of the period	40 581
Write-off on disposal	<u>(40 581)</u>
At the end of the period	<u>-</u>
<b>Carrying value</b>	<u><u>-</u></u>

**18. OTHER ASSETS**

	<u>31 December 2008</u>	<u>31 December 2007</u>
Current income tax asset	783 930	4 005
Prepayments and other debtors	250 582	113 210
Prepayments for capital investments	65 938	482 981
Precious metals coins	32 120	31 167
Precious metals	4 655	2 661
Taxes receivable other than income tax	<u>3 343</u>	<u>4 500</u>
	<b>356 638</b>	<b>634 519</b>
Impairment allowance	<u>(27 355)</u>	<u>(1 074)</u>
<b>Total other assets</b>	<u><b>1 113 213</b></u>	<u><b>637 450</b></u>

The movements in the impairment provision on other assets for the years ended 31 December 2008 and 31 December 2007 are disclosed in Note 5.

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**19. DUE TO CREDIT INSTITUTIONS**

	<u>31 December 2008</u>	<u>31 December 2007</u>
Term deposits	36 621 226	13 002 659
Borrowings under sale and repurchase agreements	1 467 182	815 694
Demand deposits	<u>534 137</u>	<u>291 712</u>
<b>Total due to credit institutions</b>	<b><u>38 622 545</u></b>	<b><u>14 110 065</u></b>

Included into due to credit institutions are loans under loan agreements (sale and repurchase agreements) secured by pledge of securities. As at 31 December 2008 and 2007 the fair value of assets pledged as collateral for the loan agreements described above was RUB 2 395 323 thousand and RUB 973 590 thousand, respectively.

As at 31 December 2008 and 2007 included in term deposits from credit institutions is accrued interest expense of RUB 202 640 thousand and RUB 28 495 thousand, respectively.

**20. CUSTOMER ACCOUNTS**

Customer accounts as at 31 December 2008 comprise:

	<u>Regional and local budgets</u>	<u>State unitary enterprises</u>	<u>Large corporate clients</u>	<u>Small and medium business</u>	<u>Individuals</u>	<u>Total customer accounts</u>
Demand accounts	164 821	2 168 904	2 855 546	8 193 169	8 627 443	22 009 883
Term deposits	<u>-</u>	<u>3 290 199</u>	<u>1 207 259</u>	<u>7 603 687</u>	<u>19 712 093</u>	<u>31 813 238</u>
<b>Total customer accounts</b>	<b><u>164 821</u></b>	<b><u>5 459 103</u></b>	<b><u>4 062 805</u></b>	<b><u>15 796 856</u></b>	<b><u>28 339 536</u></b>	<b><u>53 823 121</u></b>

Customer accounts as at 31 December 2007 comprise:

	<u>Regional and local budgets</u>	<u>State unitary enterprises</u>	<u>Large corporate clients</u>	<u>Small and medium business</u>	<u>Individuals</u>	<u>Total customer accounts</u>
Demand accounts	67 124	1 716 896	2 646 438	6 572 025	8 024 123	19 026 606
Term deposits	<u>10 760 000</u>	<u>234 140</u>	<u>3 988 500</u>	<u>1 278 926</u>	<u>15 362 484</u>	<u>31 624 050</u>
<b>Total customer accounts</b>	<b><u>10 827 124</u></b>	<b><u>1 951 036</u></b>	<b><u>6 634 938</u></b>	<b><u>7 850 951</u></b>	<b><u>23 386 607</u></b>	<b><u>50 650 656</u></b>

Included into customer accounts are borrowings under loan agreements (sale and repurchase agreements) secured by pledge of securities transferred to customers. As at 31 December 2007 the fair value of assets pledged as collateral for the above agreements was RUB 667 thousand.

As at 31 December 2008 and 31 December 2007 included in customer accounts is accrued interest income of RUB 703 013 thousand and RUB 681 420 thousand, respectively.

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As at 31 December 2008 included in customer accounts are deposits from nine customers of RUB 13 848 513 thousand (26% of total customer accounts), which individually exceeded 5% of the Group’s equity. As at 31 December 2007 included in customer accounts are deposits from seven customers of RUB 26 670 229 thousand (53% of total customer accounts), which individually exceeded 5% of the Group’s equity.

Analysis by sector and type of customers is presented below.

	<b>31 December 2008</b>	<b>31 December 2007</b>
Individuals	28 339 536	23 386 607
Finance	10 367 796	8 211 273
Construction	5 501 942	3 223 384
Trade and services	3 098 850	1 412 437
Other services	1 991 480	1 160 071
Transport and telecommunications	1 012 433	695 771
Energy, gas and water production and distribution (including housing maintenance and utilities)	823 051	407 573
Research activities	723 989	464 138
Agriculture and forestry	457 789	113 391
Production of machinery and equipment	423 436	208 420
Mining	312 690	122 072
Regional and local budgets funds	164 821	10 827 124
Other production	152 776	191 086
Food industry	102 632	10 964
Public associations	99 419	75 283
Wood processing and production	79 596	16 142
Printing industry including cellulose and paper production	73 732	48 592
Hotels and restaurants	57 348	46 274
Other	39 805	30 054
<b>Total customer accounts</b>	<b>53 823 121</b>	<b>50 650 656</b>

**21. SECURITIES ISSUED**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Promissory notes issued	5 673 051	7 990 274
Bonds	3 075 945	-
Bonds issuance costs	(4 293)	-
<b>Total securities issued</b>	<b>8 744 703</b>	<b>7 990 274</b>

The Group issues discount and interest bearing promissory notes for the purpose of financing its operations. The total nominal value of promissory notes issued as at 31 December 2008 and 31 December 2007 was RUB 5 955 750 thousand and RUB 8 499 455 thousand, respectively. The annual interest rates and discount rates on promissory notes issued as at 31 December 2008 were from 0.00% to 16.00% on promissory notes denominated in Russian Roubles and 12.00% on promissory note denominated in US Dollars. The annual interest rates and discount rates on promissory notes issued as at 31 December 2007 ranged from 4.00% to 7.82% on promissory notes denominated in foreign currency and from 0.00% to 20.23% on promissory notes denominated in Russian Roubles.

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In October 2008 the Group issued interest bearing non-converted documentary bonds denominated in Russian Roubles maturing on 31 October 2011 and with an early redemption option in November 2009. These bonds have coupon yields of 11.00% per annum.

As at 31 December 2008 and 31 December 2007 securities issued include accrued interest (discount) expenses of RUB 239 623 thousand and RUB 133 655 thousand, respectively.

**22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

As at 31 December 2008 financial liabilities at fair value through profit at loss comprise:

	<b>31 December 2008</b>
Currency forward contracts	873 769
Interest rate swaps	179 840
Forward contracts with securities	3 470
<b>Total financial liabilities at fair value through profit at loss</b>	<b>1 057 079</b>

The notional amounts of financial liabilities at fair value through profit or loss is disclosed in the Note 13.

**23. OTHER LIABILITIES**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Provision for unused vacations of employees	136 361	106 573
Settlements	80 462	57 572
Guarantees issued	33 777	26 929
Taxes payable other than income tax	29 427	20 227
Current income tax liability	3 378	25 892
Dividend payable	35	24
Finance lease commitments	-	484
<b>Total other liabilities</b>	<b>283 440</b>	<b>237 701</b>

**24. SUBORDINATED DEBT AND EUROBONDS**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Subordinated eurobonds	2 948 813	-
Subordinated debt	700 000	3 162 870
Expenses on issue of subordinated debt and eurobonds	(38 773)	(21 124)
<b>Total subordinated debt</b>	<b>3 610 040</b>	<b>3 141 746</b>

In 2005 the Group attracted a subordinated loan from a related party of RUB 700 000 thousand for a period over five years. The loan bears the interest rate equal to 2/3 of the refinancing rate set by the CBR. As at 31 December 2008 and 2007 the estimated interest rate was 8.67% and 6.67% per annum, respectively.

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In 2007 the Group attracted a subordinated loan amounting to RUB 2 441 746 thousand (USD 100 000 thousand) for a period more than five years with an interest rate of 11.00% per annum. In 2008 the loan was replaced by subordinated eurobonds issued by the Group.

In 2008 the Group issued subordinated eurobonds in USD with a total nominal value of USD 100 000 thousand with maturity on 20 June 2018. The coupon rate on these eurobonds is 11.00% per annum. The Group has the right to early repay subordinated eurobonds in 2013. In the future the coupon rate is determined as the U.S. Treasury rate increased by the margin as defined in the Subordinated Loan Agreement plus 1.50% per annum.

In the event of bankruptcy or liquidation of the Group repayment of subordinated debt is subordinate to the repayments of the Group’s liabilities to all other creditors.

**25. MATURITY ANALYSIS**

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2008 and 31 December 2007 with the exception of financial assets at fair value through profit or loss and financial assets available-for-sale as at 31 December 2007, which are shown in the category “Demand and less than 1 month” based on the fact that the Group’s management believes that all of these financial instruments could be liquidated within one month in the normal course of business as at 31 December 2007. Maturities of term deposits from individuals are shown based on the contractual maturity dates. However in accordance with Russian legislation individuals have a right to withdraw deposits on demand before their contractual maturities.

The following tables show assets and liabilities by remaining maturity as at 31 December 2008 and 2007.

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	<b>Demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>TOTAL 31 December 2008</b>
<b>Assets</b>								
Cash and balances with the Central Bank of the Russian Federation	8 048 397	-	-	-	-	-	-	<b>8 048 397</b>
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	112 375	-	<b>112 375</b>
Due from credit institutions and settlement centers	4 045 294	-	1 440	-	-	262 057	-	<b>4 308 791</b>
Financial assets at fair value through profit or loss	507 001	894 495	72 315	2 582 548	-	-	-	<b>4 056 359</b>
Loans and deposits to credit institutions	7 524 069	233 401	2 300 000	-	-	-	-	<b>10 057 470</b>
Loans and advances to customers	4 044 862	4 370 315	28 478 499	20 370 103	11 055 369	-	391 035	<b>68 710 183</b>
Financial assets available-for-sale	247 141	2 297 359	3 431 696	2 390 298	5 544 010	1 016 246	-	<b>14 926 750</b>
Property, plant and equipment	-	-	-	-	-	4 040 928	-	<b>4 040 928</b>
Deferred tax asset	-	-	-	-	-	1 007 842	-	<b>1 007 842</b>
Other assets	119 403	9 157	819 457	102 777	62 419	-	-	<b>1 113 213</b>
<b>TOTAL ASSETS</b>	<b>24 536 167</b>	<b>7 804 727</b>	<b>35 103 407</b>	<b>25 445 726</b>	<b>16 661 798</b>	<b>6 439 448</b>	<b>391 035</b>	<b>116 382 308</b>
<b>Liabilities</b>								
Due to credit institutions	2 511 012	11 733 142	24 378 391	-	-	-	-	<b>38 622 545</b>
Customer accounts	27 164 787	2 833 261	12 487 460	11 334 525	3 088	-	-	<b>53 823 121</b>
Securities issued	351 103	82 169	5 314 209	2 997 222	-	-	-	<b>8 744 703</b>
Financial liabilities at fair value through profit or loss	386 576	208 837	461 666	-	-	-	-	<b>1 057 079</b>
Other liabilities	243 249	376	16 765	23 050	-	-	-	<b>283 440</b>
	<b>30 656 727</b>	<b>14 857 785</b>	<b>42 658 491</b>	<b>14 354 797</b>	<b>3 088</b>	-	-	<b>102 530 888</b>
Subordinated debt and eurobonds	-	-	6 843	683 615	2 919 582	-	-	<b>3 610 040</b>
<b>TOTAL LIABILITIES</b>	<b>30 656 727</b>	<b>14 857 785</b>	<b>42 665 334</b>	<b>15 038 412</b>	<b>2 922 670</b>	-	-	<b>106 140 928</b>
<b>Net position</b>	<b>(6 120 560)</b>	<b>(7 053 058)</b>	<b>(7 561 927)</b>	<b>10 407 314</b>	<b>13 739 128</b>	<b>6 439 448</b>	<b>391 035</b>	<b>10 241 380</b>

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	<b>Demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>TOTAL 31 December 2007</b>
<b>Assets</b>								
Cash and balances with the Central Bank of the Russian Federation	6 519 959	-	-	-	-	-	-	<b>6 519 959</b>
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	766 289	-	<b>766 289</b>
Due from credit institutions and settlement centers	2 895 891	-	-	-	-	116 520	-	<b>3 012 411</b>
Financial assets at fair value through profit or loss	10 601 289	-	-	-	-	447 371	-	<b>11 048 660</b>
Loans and deposits to credit institutions	8 182 837	1 487 848	3 950 804	125 000	-	-	-	<b>13 746 489</b>
Loans and advances to customers	2 102 342	3 413 366	14 153 770	8 252 223	12 766 495	-	229 239	<b>40 917 435</b>
Financial assets available-for-sale	4 268 102	-	-	-	-	390 401	-	<b>4 658 503</b>
Property, plant and equipment	-	-	-	-	-	3 087 139	-	<b>3 087 139</b>
Other assets	51 551	30 797	35 533	519 569	-	-	-	<b>637 450</b>
<b>TOTAL ASSETS</b>	<b>34 621 971</b>	<b>4 932 011</b>	<b>18 140 107</b>	<b>8 896 792</b>	<b>12 766 495</b>	<b>4 807 720</b>	<b>229 239</b>	<b>84 394 335</b>
<b>Liabilities</b>								
Due to credit institutions	9 508 152	-	4 600 413	1 500	-	-	-	<b>14 110 065</b>
Customer accounts	19 120 276	481 952	15 246 408	15 802 020	-	-	-	<b>50 650 656</b>
Securities issued	115 036	1 357 039	6 162 008	356 191	-	-	-	<b>7 990 274</b>
Other liabilities	184 413	5 330	1 179	-	46 779	-	-	<b>237 701</b>
	<b>28 927 877</b>	<b>1 844 321</b>	<b>26 010 008</b>	<b>16 159 711</b>	<b>46 779</b>	-	-	<b>72 988 696</b>
Subordinated debt and eurobonds	-	-	-	700 000	2 441 746	-	-	<b>3 141 746</b>
<b>TOTAL LIABILITIES</b>	<b>28 927 877</b>	<b>1 844 321</b>	<b>26 010 008</b>	<b>16 859 711</b>	<b>2 488 525</b>	-	-	<b>76 130 442</b>
<b>Net position</b>	<b>5 694 094</b>	<b>3 087 690</b>	<b>(7 869 901)</b>	<b>(7 962 919)</b>	<b>10 277 970</b>	<b>4 807 720</b>	<b>229 239</b>	<b>8 263 893</b>

The Group has open credit facilities with the CBR and other Russian banks exceeding the negative liquidity gaps as at 31 December 2008. .

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**26. CURRENCY ANALYSIS**

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

	<b>RUB</b>	<b>USD</b> 1 USD = RUB 29.3804	<b>EUR</b> 1 EUR = RUB 41.4411	<b>Gold</b> 1 gram = RUB 821.80.	<b>Other currencies</b>	<b>TOTAL</b> <b>31 December</b> <b>2008</b>
<b>Assets</b>						
Cash and balances with the Central Bank of the Russian Federation	6 855 516	1 052 498	140 383	-	-	<b>8 048 397</b>
Minimum reserve deposits with the Central Bank of the Russian Federation	112 375	-	-	-	-	<b>112 375</b>
Due from credit institutions and settlement centers	2 154 504	2 027 809	123 899	2 579	-	<b>4 308 791</b>
Financial assets at fair value through profit or loss	155 947	3 810 898	-	89 514	-	<b>4 056 359</b>
Loans and deposits to credit institutions	5 661 003	1 066 985	3 329 482	-	-	<b>10 057 470</b>
Loans and advances to customers	57 413 179	10 724 714	572 290	-	-	<b>68 710 183</b>
Financial assets available-for-sale	10 031 966	4 248 214	646 570	-	-	<b>14 926 750</b>
Property, plant and equipment	4 040 928	-	-	-	-	<b>4 040 928</b>
Deferred tax asset	1 007 842	-	-	-	-	<b>1 007 842</b>
Other assets	1 096 000	8 090	2 063	4 315	2 745	<b>1 113 213</b>
<b>TOTAL ASSETS</b>	<b>88 529 260</b>	<b>22 939 208</b>	<b>4 814 687</b>	<b>96 408</b>	<b>2 745</b>	<b>116 382 308</b>
<b>Liabilities</b>						
Due to credit institutions	29 592 016	6 075 133	1 157 563	1 797 833	-	<b>38 622 545</b>
Customer accounts	43 926 025	6 062 446	3 834 642	-	8	<b>53 823 121</b>
Securities issued	7 113 909	1 630 794	-	-	-	<b>8 744 703</b>
Financial liabilities at fair value through profit or loss	41 318	1 015 761	-	-	-	<b>1 057 079</b>
Other liabilities	283 197	110	73	-	60	<b>283 440</b>
	<b>80 956 465</b>	<b>14 784 244</b>	<b>4 992 278</b>	<b>1 797 833</b>	<b>68</b>	<b>102 530 888</b>
Subordinated debt and eurobonds	661 227	2 948 813	-	-	-	<b>3 610 040</b>
<b>TOTAL LIABILITIES</b>	<b>81 617 692</b>	<b>17 733 057</b>	<b>4 992 278</b>	<b>1 797 833</b>	<b>68</b>	<b>106 140 928</b>
<b>Net on balance sheet position</b>	<b>6 911 568</b>	<b>5 206 151</b>	<b>(177 591)</b>	<b>(1 701 425)</b>	<b>2 677</b>	<b>10 241 380</b>
<b>Net off balance sheet position</b>	<b>6 212 920</b>	<b>(8 004 931)</b>	<b>3 582</b>	<b>1 788 429</b>	<b>-</b>	<b>-</b>
<b>Net on and off balance sheet positions</b>	<b>13 124 488</b>	<b>(2 798 780)</b>	<b>(174 009)</b>	<b>87 004</b>	<b>2 677</b>	<b>10 241 380</b>

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The following table shows the currency structure of assets and liabilities as at 31 December 2007:

	<b>RUB</b>	<b>USD</b> 1 USD = RUB 24.5462	<b>EUR</b> 1 EUR = RUB 35.9332	<b>Gold</b> 1 gram = RUB 654.69.	<b>Other currencies</b>	<b>TOTAL</b> <b>31 December</b> <b>2007</b>
<b>Assets</b>						
Cash and balances with the Central Bank of the Russian Federation	6 417 066	66 225	36 668	-	-	<b>6 519 959</b>
Minimum reserve deposits with the Central Bank of the Russian Federation	766 289	-	-	-	-	<b>766 289</b>
Due from credit institutions and settlement centers	1 343 981	1 488 319	176 523	3 588	-	<b>3 012 411</b>
Financial assets at fair value through profit or loss	7 394 596	3 654 064	-	-	-	<b>11 048 660</b>
Loans and deposits to credit institutions	11 896 052	1 753 238	97 199	-	-	<b>13 746 489</b>
Loans and advances to customers	38 117 125	2 799 861	449	-	-	<b>40 917 435</b>
Financial assets available-for-sale	1 372 591	2 519 814	766 098	-	-	<b>4 658 503</b>
Property, plant and equipment	3 087 139	-	-	-	-	<b>3 087 139</b>
Other assets	629 883	3 073	1 730	2 661	103	<b>637 450</b>
<b>TOTAL ASSETS</b>	<b>71 024 722</b>	<b>12 284 594</b>	<b>1 078 667</b>	<b>6 249</b>	<b>103</b>	<b>84 394 335</b>
<b>Liabilities</b>						
Due to credit institutions	10 445 117	3 340 080	324 868	-	-	<b>14 110 065</b>
Customer accounts	48 911 024	904 567	835 058	-	7	<b>50 650 656</b>
Securities issued	7 965 678	24 596	-	-	-	<b>7 990 274</b>
Other liabilities	237 701	-	-	-	-	<b>237 701</b>
	<b>67 559 520</b>	<b>4 269 243</b>	<b>1 159 926</b>	<b>-</b>	<b>7</b>	<b>72 988 696</b>
Subordinated debt and eurobonds	700 000	2 441 746	-	-	-	<b>3 141 746</b>
<b>TOTAL LIABILITIES</b>	<b>68 259 520</b>	<b>6 710 989</b>	<b>1 159 926</b>	<b>-</b>	<b>7</b>	<b>76 130 442</b>
<b>Net on balance sheet position</b>	<b>2 765 202</b>	<b>5 573 605</b>	<b>(81 259)</b>	<b>6 249</b>	<b>96</b>	<b>8 263 893</b>
<b>Net off balance sheet position</b>	<b>5 566 935</b>	<b>(5 300 239)</b>	<b>(266 696)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net on and off balance sheet positions</b>	<b>8 332 137</b>	<b>273 366</b>	<b>(347 955)</b>	<b>6 249</b>	<b>96</b>	<b>8 263 893</b>

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**27. SHARE CAPITAL, SHARE PREMIUM AND RESERVE FUND**

As at 31 December 2007, authorized, issued and fully paid share capital of the Bank is comprised of 50 039 674 ordinary shares with a par value of RUB 100 each and 10 000 preference shares, with a par value of RUB 100 each. All ordinary shares are of the same type and bear one vote. Share premium represents the excess of contributions from the shareholders over the nominal value of the shares issued.

In 2008 the Bank increased the share capital by RUB 1 995 033 thousand.

As at 31 December 2008 authorized, issued and fully paid share capital comprised of 69 990 000 ordinary shares, with a par value of RUB 100 each and 10 000 preference shares, with a par value of RUB 100 each. All ordinary shares are of the same type and bear one vote. Share premium represents the excess of contributions over the nominal value of the shares issued.

The Group’s reserves distributable among shareholders are limited to the amount of Bank’s reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations and which can be used according to the decision of the Board of Directors of the Bank. The reserve fund was created in accordance with the Bank’s statute that provides reserve funds should not be less than 15% of the Bank’s share capital as reported in its statutory books.

**28. FINANCIAL COMMITMENTS AND CONTINGENCIES**

In the normal course of business the Group has financial contingencies in order to satisfy the needs of its customers. These instruments are associated with different exposures to credit risk.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance transactions.

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

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Contingent liabilities and commitments on undrawn credit lines and overdraft facilities</b>		
Guarantee and letters of credit issued	19 364 904	4 963 900
Commitments on undrawn credit lines and overdraft facilities	9 147 722	5 731 383
<b>Total nominal amount of contingent liabilities and commitments on undrawn credit lines and overdraft facilities</b>	<b>28 512 626</b>	<b>10 695 283</b>

Commitments on undrawn credit lines and overdraft facilities are not unconditional.

**Operating leases** – The Group’s future minimum rental payments under non-cancellable operating leases of buildings and office equipment in effect as at 31 December 2008 and 31 December 2007 are as follows.

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	<b>31 December 2008</b>	<b>31 December 2007</b>
Not later than 1 year	48 626	20 203
Later than 1 year and not later than 5 years	62 568	49 799
<b>Total operating leases commitments</b>	<b>111 194</b>	<b>70 002</b>

**Legal proceedings** – Claims against the Group are received from customers and counterparties in the normal course of business from time to time. The Group has not made provisions for possible claims as at 31 December 2008 and 31 December 2007. Management believes that the Group will not experience significant losses as a result of any court proceedings.

**Fiduciary activities** – In the normal course of its business the Group enters into assets management agreements with clients to manage client’s assets in accordance with specific criteria established by clients, which imply restrictions on investments decisions which can be made by the Group. The Group may be claimed to be responsible for losses or appropriation of the clients’ funds until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the amount of the clients’ funds obtained under these agreements plus/minus any unrealized income/loss on the client’s position. Management believes that as at 31 December 2008 the Group was not exposed to the potential financial risk in respect of securities accepted by the Group on behalf of its clients, as at 31 December 2007 the maximum financial risk in respect of securities accepted by the Group on behalf of its clients did not exceed RUB 92 thousand.

The Group also provides depository services to its customers. As at 31 December 2008 and 31 December 2007 the Group had customer securities in custody totaling 1 423 912 921 items and 1 363 203 025, respectively.

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

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

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

**29. TRANSACTIONS WITH RELATED PARTIES**

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Group is a venturer;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as at 31 December 2008 and 31 December 2007:

	31 December 2008		31 December 2007	
	Related party transactions	Total category as per consolidated financial statements caption	Related party transactions	Total category as per consolidated financial statements caption
Financial assets at fair value through profit or loss	198 260	4 056 359	-	11 048 660
Loans and advances to customers including allowance for impairment	7 511 987	68 710 183	3 996 953	40 917 435
Other assets	(367 385)	(3 328 762)	(268 431)	(1 777 650)
of that allowance for impairment	6 929	1 113 213	38 354	637 450
Customer accounts	-	(27 355)	-	(1 074)
Subordinated debt and eurobonds	5 937 639	53 823 121	18 600 077	50 650 656
Securities issued	700 000	3 610 040	700 000	3 141 746
Other liabilities	452 486	8 744 703	1 116 740	7 990 274
	37 121	283 440	-	237 701

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Included in the consolidated income statement for the years ended 31 December 2008 and 31 December 2007 are the following amounts resulting from transactions with related parties:

	2008		2007	
	<u>Related party transactions</u>	<u>Total category as per consolidated financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per consolidated financial statements caption</u>
Interest income	656 895	10 571 854	235 133	6 387 972
Interest expense	(722 250)	(5 355 919)	(996 836)	(3 417 974)
Fee and commission income	68 932	1 399 955	12 625	1 009 014
Net gain on foreign exchange operations	217 254	476 949	-	(52 660)
Net gain on financial instruments at fair value through profit or loss	2 091	(1 003 595)	-	109 252
Other income	262	16 193	113	5 017
Operating expense	(222 536)	(4 085 872)	(202 139)	(3 161 437)

The majority of operations with related parties performed by the Group as at and for the years ended 31 December 2008 and 31 December 2007 were operations with shareholders of the Group and with companies, which are related to the shareholders of the Group.

The remuneration of the members of the Bank’s Management Board for the years ended 31 December 2008 and 31 December 2007 was RUB 109 410 thousand and RUB 103 818 thousand, respectively. The remuneration of the members of the Bank’s Board of Directors for the years ended 31 December 2008 and 31 December 2007 was RUB 1 800 thousand and RUB 1 000 thousand, respectively. There were no other payments to the members of the Bank’s Management Board and the Board of Directors.

**30. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Estimated fair value of financial instruments is disclosed in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosures” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale.

As currently no available market exists for majority of the Group’s financial instruments, estimation of fair values require application of judgements, which account for current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of its portfolios in particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets and Rouble denominated bonds are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

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

The fair values of financial assets and liabilities for which carrying amounts is different from their fair values are provided in the table below:

	31 December 2008		31 December 2007	
	Fair value	Carrying value	Fair value	Carrying value
<b>ASSETS</b>				
Loans and advances to customers	67 821 431	68 710 183	40 917 435	40 917 435
<b>LIABILITIES</b>				
Customer accounts	53 643 340	53 823 121	50 650 656	50 650 656
Securities issued	8 365 668	8 744 703	7 990 274	7 990 274
Subordinated debt and eurobonds	3 266 555	3 610 040	3 141 746	3 141 746

### 31. CAPITAL ADEQUACY

The Central Bank of the Russian Federation sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2008, this minimum level is 10% (2007: 10%). The Group was in compliance with the statutory capital ratio during the years ended 31 December 2008 and 2007. As at 31 December 2008 the Group’s statutory capital ratio is 15.3% (2007: 14.2%). Compliance with the statutory capital ratio is a necessary condition for membership of the Bank in the state deposit insurance system in accordance with Federal Law #177-FZ “On the Insurance of Household Deposits in Banks of the Russian Federation” dated 23 December 2003.

Capital calculated in accordance with the Russian legislation as at 31 December 2008 and 31 December 2007 was RUB 19 454 408 thousand and RUB 11 605 998 thousand, respectively.

### 32. SEGMENT REPORTING

For the purposes of preparation of the consolidated financial statements of the Group as at and for the year ended 31 December 2007 the Group has earlier adopted IFRS 8 “Operating Segments” (“IFRS 8”). IFRS 8 sets out the requirements for determining operating segments and disclosure of segment information on the basis of management reporting which is regularly reviewed by management when making decisions on the allocation of resources between the segments and evaluation of their performance.

In the financial statements for the year ended 31 December 2007 the Group used different approach for identification of operating segments, which were presented by geographical areas. During 2008 the Group changed the structure of its business segments and determined business lines as operating segments.

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The Group identified of four operating segments which represent key business lines (retail business, corporate business, investment business and capital). All segments provide similar range of services, which the Group is entitled to offer in the Russian Federation in accordance with the effective licenses (see Note 1). A Group’s Business Line Director leads each segment. All segments are managed by the Group’s management, which considers performance reports submitted by the Business Line Directors to make decisions for the Group as a whole.

Management reporting of the Group is based on statutory accounting records prepared in accordance with rules effective in the Russian Federation for credit institutions, adjusted as necessary for inter-segment settlements in accordance with internal regulations of the Group. The Group’s management assesses segment performance using a number of key indicators, regularly monitored on the basis of monthly, quarterly, and annual reports.

Settlements between the segments are made only through the Treasury of the Group. Settlements between the Treasury of the Group and the business line are accounted for the purposes of management reporting on the basis of internal methodologies of the Group, which determine the transfer prices. All amounts received, except for arbitrage and technical transactions, are subject to obligatory transfer to the Treasury. All active transactions, except for arbitrage and technical transactions, are subject to obligatory funding by the Treasury. Fair value pricing is not applied in mutual settlements between the Treasury and the business lines.

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Information on activities of business lines as at 31 December 2008 and 2007 is provided below.

	<b>Investment business</b>		<b>Corporate business</b>		<b>Retail business</b>		<b>Capital</b>		<b>Total for business lines</b>	
	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Assets</b>										
Cash and balances with the Central Bank of the Russian Federation	-	-	-	-	4 023 632	2 548 536	4 066 086	4 006 525	8 089 718	6 555 061
Minimum reserve deposits with the Central Bank of the Russian Federation	16 322	113 711	45 722	351 336	50 331	301 242	-	-	112 375	766 289
Due from credit institutions and settlement centers	3 813 200	2 800 203	-	-	309 848	129 991	-	-	4 123 048	2 930 194
Loans to credit institutions	6 471 413	10 132 772	-	-	-	-	-	-	6 471 413	10 132 772
Loans and advances to customers	14 058	402 341	43 735 853	22 171 046	23 168 468	20 148 315	-	-	66 918 379	42 721 702
Loans under reverse repurchase agreements	5 408 399	3 035 520	-	-	-	-	-	-	5 408 399	3 035 520
Financial assets available-for-sale	20 459 418	14 731 765	-	-	-	-	-	-	20 459 418	14 731 765
Property, plant and equipment	-	-	-	-	-	-	4 124 011	3 081 698	4 124 011	3 081 698
Other assets	47 957	295 200	500 642	61 148	270 471	220 477	546 117	992 741	1 365 187	1 569 566
Transfers	11 349 319	-	-	3 912 294	470 667	5 261	18 954 277	8 879 130	30 774 263	12 796 685
<b>Total assets</b>	<b>47 580 086</b>	<b>31 511 512</b>	<b>44 282 217</b>	<b>26 495 824</b>	<b>28 293 417</b>	<b>23 353 822</b>	<b>27 690 491</b>	<b>16 960 094</b>	<b>147 846 211</b>	<b>98 321 252</b>
<b>Liabilities</b>										
Due to credit institutions	35 691 166	13 209 179	-	-	-	-	-	-	35 691 166	13 209 179
Borrowings under sale and repurchase agreements	1 409 114	-	-	-	-	-	-	-	1 409 114	-
Customer accounts	250 163	61 222	25 171 183	26 475 882	27 708 296	22 700 938	-	-	53 129 642	49 238 042
Securities issued	8 735 361	8 507 813	-	-	-	-	-	-	8 735 361	8 507 813
Other liabilities	1 494 282	854 168	156 757	19 942	585 121	652 884	36 567	37 699	2 272 727	1 564 693
Subordinated debt	-	-	-	-	-	-	3 638 040	3 154 620	3 638 040	3 154 620
Transfers	-	8 879 130	18 954 277	-	-	-	11 819 986	3 917 555	30 774 263	12 796 685
<b>Total liabilities</b>	<b>47 580 086</b>	<b>31 511 512</b>	<b>44 282 217</b>	<b>26 495 824</b>	<b>28 293 417</b>	<b>23 353 822</b>	<b>15 494 593</b>	<b>7 109 874</b>	<b>135 650 313</b>	<b>88 471 032</b>

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	Investment business		Corporate business		Retail business		Capital		Total for business lines	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
<b>Shareholders' equity</b>										
Share capital	-	-	-	-	-	-	7 000 000	5 004 967	7 000 000	5 004 967
Reserve fund	-	-	-	-	-	-	1 050 787	750 787	1 050 787	750 787
Share premium	-	-	-	-	-	-	3 993 011	2 946	3 993 011	2 946
Revaluation reserve for financial assets available-for-sale	-	-	-	-	-	-	(3 699 674)	-	(3 699 674)	-
Revaluation reserve for property, plant and equipment	-	-	-	-	-	-	1 096 959	1 096 959	1 096 959	1 096 959
Retained (loss)/earnings	-	-	-	-	-	-	2 754 815	2 994 561	2 754 815	2 994 561
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12 195 898</b>	<b>9 850 220</b>	<b>12 195 898</b>	<b>9 850 220</b>
<b>Total liabilities and shareholders' equity</b>	<b>47 580 086</b>	<b>31 511 512</b>	<b>44 282 217</b>	<b>26 495 824</b>	<b>28 293 417</b>	<b>23 353 822</b>	<b>27 690 491</b>	<b>16 960 094</b>	<b>147 846 211</b>	<b>98 321 252</b>

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Income and expense of business lines as for the years ended 31 December 2008 and 2007 are as follows.

	Investment business		Corporate business		Retail business		Capital		Total for business lines	
	2008	2007	2008	2007	2008	2007	2008 год	2007 год	2008	2007
Interest income	3 508 861	1 985 470	4 074 551	1 737 652	3 030 451	2 054 354	-	-	10 613 863	5 777 476
Interest expense	(2 506 321)	(744 697)	(1 101 139)	(1 012 685)	(1 786 090)	(810 837)	-	-	(5 393 550)	(2 568 219)
<b>Net interest income</b>	<b>1 002 540</b>	<b>1 240 773</b>	<b>2 973 412</b>	<b>724 967</b>	<b>1 244 361</b>	<b>1 243 517</b>	-	-	<b>5 220 313</b>	<b>3 209 257</b>
Transfer income	-	-	-	1 132 931	144 886	23 649	673 061	1 514 059	817 947	2 670 639
Transfer expense	(378 612)	(1 514 060)	(294 449)	-	-	-	(144 886)	(1 156 579)	(817 947)	(2 670 639)
<b>Net (expense)/transfer income</b>	<b>(378 612)</b>	<b>(1 514 060)</b>	<b>(294 449)</b>	<b>1 132 931</b>	<b>144 886</b>	<b>23 649</b>	<b>528 175</b>	<b>357 480</b>	-	-
Income from sale/purchase of:	41 906 687	21 414 427	101 765	89 361	146 067	50 815	-	-	42 154 519	21 554 603
<i>Securities</i>	12 111 543	9 861 119	-	-	-	-	-	-	12 111 543	9 861 119
<i>Currency</i>	-	-	101 765	89 361	146 067	50 815	-	-	247 832	140 176
<i>Derivatives</i>	29 774 759	11 553 308	-	-	-	-	-	-	29 774 759	11 553 308
<i>Precious metals</i>	20 385	-	-	-	-	-	-	-	20 385	-
Expense from sale/purchase of:	(44 250 269)	(21 873 987)	(30 567)	(20 602)	(7)	(39)	-	-	(44 280 843)	(21 894 628)
<i>Securities</i>	(12 914 490)	(10 145 964)	-	-	-	-	-	-	(12 914 490)	(10 145 964)
<i>Currency</i>	-	-	(30 567)	(20 602)	(7)	(39)	-	-	(30 574)	(20 641)
<i>Derivatives</i>	(31 335 779)	(11 728 023)	-	-	-	-	-	-	(31 335 779)	(11 728 023)
<b>Net (expense)/income from sales/purchases transactions</b>	<b>(2 343 582)</b>	<b>(459 560)</b>	<b>71 198</b>	<b>68 759</b>	<b>146 060</b>	<b>50 776</b>	-	-	<b>(2 126 324)</b>	<b>(340 025)</b>
Income from revaluation of:	19 785 356	3 877 730	1 801 179	374 498	3 345 047	561 747	-	-	24 931 582	4 813 975
<i>Securities</i>	400 052	729 300	-	-	-	-	-	-	400 052	729 300
<i>Currency</i>	18 148 300	2 658 909	1 801 179	374 498	3 345 047	561 747	-	-	23 294 526	3 595 154
<i>Precious metals</i>	1 237 004	489 521	-	-	-	-	-	-	1 237 004	489 521
Expense from revaluation of:	(18 261 543)	(3 243 065)	(1 652 646)	(404 221)	(3 069 200)	(606 331)	-	-	(22 983 389)	(4 253 617)
<i>Securities</i>	(102 454)	(30 286)	-	-	-	-	-	-	(102 454)	(30 286)
<i>Currency</i>	(16 651 714)	(2 724 352)	(1 652 646)	(404 221)	(3 069 200)	(606 331)	-	-	(21 373 560)	(3 734 904)
<i>Precious metals</i>	(1 507 375)	(488 427)	-	-	-	-	-	-	(1 507 375)	(488 427)
<b>Net income/(expense) from revaluation</b>	<b>1 523 813</b>	<b>634 665</b>	<b>148 533</b>	<b>(29 723)</b>	<b>275 847</b>	<b>(44 584)</b>	-	-	<b>1 948 193</b>	<b>560 358</b>

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	<b>Investment business</b>		<b>Corporate business</b>		<b>Retail business</b>		<b>Capital</b>		<b>Total for business lines</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Fee and commission income	104 186	135 193	700 497	266 746	781 018	778 332	-	-	1 585 701	1 180 271
Fee and commission expense	(131 711)	(92 858)	(2 333)	-	(141 975)	(98 728)	(13 947)	(4 537)	(289 966)	(196 123)
<b>Net fee and commission (expense)/income</b>	<b>(27 525)</b>	<b>42 335</b>	<b>698 164</b>	<b>266 746</b>	<b>639 043</b>	<b>679 604</b>	<b>(13 947)</b>	<b>(4 537)</b>	<b>1 295 735</b>	<b>984 148</b>
Other income	16 079	20 805	65 622	6 573	22 340	33 278	42 055	39 197	146 096	99 853
Other expense	(135 072)	(27 058)	(1 172)	(2 463)	(152 348)	(132 844)	(136 186)	(6 675)	(424 778)	(169 040)
<b>Net other (expense)/income</b>	<b>(118 992)</b>	<b>(6 253)</b>	<b>64 450</b>	<b>4 110</b>	<b>(130 008)</b>	<b>(99 566)</b>	<b>(94 131)</b>	<b>32 522</b>	<b>(278 682)</b>	<b>(69 187)</b>
Income from recovery of provisions	482 503	1 489 200	5 072 103	4 393 697	148 228	500 386	24 240	5 359	5 727 074	6 388 642
Expense on charge for provisions	(504 781)	(1 184 902)	(5 960 157)	(5 045 135)	(165 023)	(368 571)	(60 442)	(17 589)	(6 690 403)	(6 616 197)
<b>Balance of provisions</b>	<b>(22 278)</b>	<b>304 299</b>	<b>(888 054)</b>	<b>(651 438)</b>	<b>(16 795)</b>	<b>131 815</b>	<b>(36 202)</b>	<b>(12 230)</b>	<b>(963 329)</b>	<b>(227 555)</b>
Operating expenses	(88 343)	(76 442)	(1 102 811)	(776 318)	(1 980 321)	(1 460 523)	(478 708)	(450 786)	(3 650 183)	(2 764 067)
<b>Profit before taxes</b>	<b>(452 981)</b>	<b>165 758</b>	<b>1 670 443</b>	<b>740 034</b>	<b>323 073</b>	<b>524 688</b>	<b>(94 813)</b>	<b>(77 551)</b>	<b>1 445 723</b>	<b>1 352 929</b>

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Information on the most significant differences between assets and liabilities and profit before taxes based on the management accounting data and similar amounts under IFRS:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Assets according to segment reporting	147 846 211	98 321 252
Transfers in segment reporting	(30 774 263)	(12 796 685)
<b>Assets according to segment reporting less transfers:</b>	<b>117 071 948</b>	<b>85 524 567</b>
Provision for impairment losses on interest bearing assets	(1 913 523)	(732 974)
Recovery of provision for impairment losses on other transactions	382 365	158 412
Deferred income from loans and advances to customers	(307 304)	(198 813)
Revaluation of debt and equity securities	(437 052)	(98 300)
Revaluation of debt securities with embedded put options	(447 868)	-
Revaluation of first to default credit-linked notes	(949 000)	-
Revaluation of derivatives	1 172 899	111 830
Deferred tax asset	1 007 842	-
Current income tax asset	764 930	-
Accrued income	28 831	478 960
Other adjustments	8 240	(128 004)
Recognition of financial assets under repo transactions	-	973 590
Reversal of accrued interest	-	(1 694 933)
<b>Assets according to the consolidated financial statements</b>	<b>116 382 308</b>	<b>84 394 335</b>
Liabilities according to segment reporting	135 650 313	88 471 032
Transfers in segment reporting	(30 774 262)	(12 796 685)
<b>Liabilities according to segment reporting less transfers:</b>	<b>104 876 051</b>	<b>75 674 347</b>
Revaluation of derivatives	1 057 079	-
Accrued expenses/liabilities	237 978	1 018 283
Deferred expense	(86 605)	(21 124)
Current income tax liability	3 378	25 892
Other adjustments	53 047	312 283
Recognition of financial assets under repo transactions	-	815 694
Reversal of accrued interest	-	(1 694 933)
<b>Liabilities according to the consolidated financial statements</b>	<b>106 140 928</b>	<b>76 130 442</b>
	<b>2008</b>	<b>2007</b>
<b>Profit before taxes according to segment reporting</b>	<b>1 445 723</b>	<b>1 352 929</b>
Provision for impairment losses on interest bearing assets	(1 180 549)	(123 520)
Revaluation of first to default credit-linked notes	(949 000)	-
Revaluation of debt securities with embedded put options	(447 868)	-
Recovery of provision for impairment losses on other transactions	222 879	19 028
Recognition/accrual of deferred income	79 334	(74 944)
Accrued expense	(180 463)	(728 763)
Deferred expense	65 481	21 124
Revaluation of debt and equity securities	15 728	(193 031)
Accrued income	11 261	62 108
Revaluation of derivatives	1 449	111 830
Other adjustments	(38 299)	(23 300)
<b>Profit before taxes according to the consolidated financial statements</b>	<b>(954 324)</b>	<b>423 461</b>

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**33. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the Group’s banking business and is an essential element of its operations. The main risks inherent in the Group’s operations are those related to credit risk, liquidity risk and market risk, including interest rate risk and currency risk. A description of the Group’s risk management policies in relation to those risks is presented below.

From the second half of 2008 the Russian economy was significantly influenced by the global financial crisis which increased the level of economic uncertainty in the financial markets and had adverse impact on different economic sectors and industries. A combination of external and internal adverse factors resulted a deterioration in the Russian economy. Among the effects were decrease in natural resources prices, contraction of external capital markets, a decrease in stock market indices, liquidity crisis in the banking sector, weakening of the Russian Ruble, and existing debt of Russian banks and companies to foreign creditors.

As a result, risks related to banking activities increased as well as the importance of effective risk management system. Due to the this the Risk Management and Financial Control Department together with the Group’s other business-units (Credit Committee, Asset and Liability Committee of the Group and others) promptly responded to changes in the financial markets and implemented measures necessary to maintain risks at acceptable levels and to minimize potential losses.

As a response to the deterioration in the Russian banking sector and financial markets the Group implemented measures aimed to ensure prompt decision making process, which corresponds to current business needs. This includes application of a more conservative approach for risk measurement and assessment, strengthening of risk management and financial control function for all of the Group’s businesses. As a example, such measures include: changes in the limits for investments in securities and credit instruments; development of revised lending strategy and maintaining an optimal loan portfolio structure, including introduction of new system of additional monitoring of loans granted, toughening of standard retail loan issuance procedures, closing project financing programs and restriction of working capital financing for borrowers operating in certain industries; modernization of liquidity reporting system, enhancement of reporting on problem assets of the Group, aimed at identification and analysis of additional sources of information for analysis of risks resulting from financial crisis.

The Group manages the following risks.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its obligations.

The approach to liquidity risk management is aimed at minimizing the risk of insufficient liquidity, when the Group is not able to meet its financial obligations in full or it is probable that a disposal of certain assets on unfavorable terms will be required, as well as it is aimed at minimizing the risk of excessive liquidity, reduction in incomes due to excessive amounts being placed in highly liquid assets.

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The liquidity is managed and controlled by:

- The Asset and Liability Committee of the Group, which is the Group’s strategy management unit.
- The Treasury, responsible for on-line liquidity management.
- The Risk Management and Financial Control Department responsible for establishing critical liquidity ratios and control over compliance with such ratios.
- The Internal Control Department in respect of control over compliance with liquidity management requirements and procedures, and reporting of liquidity ratios to the Board of Directors of the Group.

The liquidity management system includes:

- calculation of the level of adequacy of liquid assets;
- calculation of the amount of liquid assets required to meet obligations of the Group in crisis environment through stress-testing (on a regular basis);
- contingency funding plans in case of significant outflow of liabilities resulted from force-majeure;
- projected cash flow calculation over a time horizon up to 1 year;
- control over compliance of the balance sheet liquidity ratios with mandatory liquidity ratios.

The existing Group’s liquidity management system allows to assess adequately cash inflows and outflows for different future time periods and make decisions to cover liquidity gaps, if necessary, on a timely basis.

The Group implements prudent approach for assessment of medium-term and long-term liquidity, using the earliest possible estimated maturities for contractual liabilities and the latest possible estimated maturities for assets.

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

The following tables show the undiscounted cash flows on the Group’s financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturities. The total gross amounts of (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flows on the financial liabilities or unrecognized loan commitments. The Group’s expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

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

	<b>Demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount (inflow)/outflow</b>	<b>Carrying amount</b>
<b>Non-derivative liabilities</b>						
Due to credit institutions	2 602 511	12 044 440	25 168 735	-	39 815 686	<b>38 622 545</b>
Customer accounts	27 523 983	3 106 528	12 757 746	14 398 483	57 786 740	<b>53 823 121</b>
Securities issued	351 103	83 376	9 003 804	-	9 438 283	<b>8 744 703</b>
Other liabilities	241 327	-	6 077	484	247 888	<b>283 440</b>
Subordinated debt and eurobonds	-	-	353 268	6 643 427	6 996 695	<b>3 610 040</b>
<b>Derivative liabilities</b>						
- Inflow	(25 692 836)	(11 593 200)	(11 486 017)	(161 785)	(48 933 838)	<b>(1 172 899)</b>
- Outflow	25 581 133	11 414 641	11 693 848	152 285	48 841 907	<b>1 057 079</b>
<b>Total</b>	<b>30 607 221</b>	<b>15 055 785</b>	<b>47 497 461</b>	<b>21 032 894</b>	<b>114 193 361</b>	<b>104 968 029</b>
<b>Unrecognized loan commitments</b>	<b>28 512 626</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28 512 626</b>	<b>28 512 626</b>

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

	<u>Demand and less than 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>More than 1 year</u>	<u>Total gross amount (inflow)/outflow</u>	<u>Carrying amount</u>
<b>Non-derivative liabilities</b>						
Due to credit institutions	9 646 148	-	4 611 874	1 665	14 259 687	<b>14 110 065</b>
Customer accounts	19 205 732	527 357	15 706 279	15 933 003	51 372 371	<b>50 650 656</b>
Securities issued	115 183	1 380 040	6 646 845	389 022	8 531 090	<b>7 990 274</b>
Other liabilities	182 288	4 202	-	30 400	216 890	<b>237 701</b>
Subordinated debt	-	-	322 819	5 963 021	6 285 840	<b>3 141 746</b>
<b>Derivative liabilities</b>						
- Inflow	(57 801 745)	(22 069 459)	(23 669 929)	-	(103 541 133)	<b>(111 831)</b>
- Outflow	58 089 512	21 991 997	23 357 925	-	103 439 434	-
<b>Total</b>	<b>29 437 118</b>	<b>1 834 137</b>	<b>26 975 813</b>	<b>22 317 111</b>	<b>80 564 179</b>	<b>76 018 611</b>
<b>Unrecognized loan commitments</b>	<b>10 695 283</b>	-	-	-	<b>10 695 283</b>	<b>10 695 283</b>

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## **Market risk**

Market risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to market risks due to general and specific market fluctuations. Measures implemented by the Group to manage market risk include mainly modifying positions in financial assets and liabilities following changes in the market environment.

Asset and Liability Committee (“ALCO”) is responsible for managing market risk. Market risk limits are approved by ALCO based on recommendations of the Risk Management and Financial Control Department.

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

## **Interest Rate Risk**

Interest rate risk arises from changes in interest rates that affect the value of the Group’s financial instruments.

The Asset and Liability Committee of the Group, which is the Group’s strategy management unit, and the Group’s units responsible for financial analysis and reporting manage risks related to changes in interest rates and market changes based on the analysis of interest rate positions. This allows the Group to avoid the negative interest margin.

The level of projected interest margin is approved by the Board of Directors of the Group.

The interest rates applied by the Group are approved by the Asset and Liability Committee of the Group.

The Risk Management and Financial Control Department is responsible for establishing critical interest rate risk ratios and control over compliance with the ratios.

The Internal Control Department of the Group is responsible for control over the compliance with the interest rate risk management requirements and procedures and reporting of information on interest rate positions to the Board of Directors of the Group.

The interest rate risk management system includes:

- Calculation of aggregate interest rate repricing gaps.
- Calculation of interest margin under the assumption of the constant balance sheet positions.
- Analysis of effect of changes in market interest rates on net interest margin, including crisis scenarios using stress-testing.
- Control over compliance with interest rate ratios of the Group in order to ensure compliance with mandatory ratios.

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The majority of financial assets and liabilities of the Group are fixed rated contracts.

An analysis of sensitivity of the Group’s net income for the year and equity to changes in the market interest rates based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and repriced positions of interest-bearing assets and liabilities existing as at 31 December 2008 and 31 December 2007 is as follows:

	2008		2007	
	Net interest income	Equity	Net interest income	Equity
100 bp parallel rise	(259 228)	(259 228)	(103 247)	(103 247)
100 bp parallel fall	114 046	114 046	(35 256)	(35 256)

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

	31 December 2008			31 December 2007		
	RUB	USD	EUR	RUB	USD	EUR
<b>Assets</b>						
Financial assets at fair value through profit or loss	0.0%	6.8%	0.0%	13.4%	8.3%	-
Loans and deposits to credit institutions	6.0%	0.0%	1.5%	9.5%	8.3%	5.6%
Loans and advances to customers	15.9%	12.8%	15.9%	15.2%	11.0%	-
Loans under sale and repurchase agreements	11.0%	11.0%	-	10.5%	8.7%	-
Financial assets available-for-sale	15.6%	8.3%	13.2%	-	8.8%	7.0%
<b>Liabilities</b>						
Due to credit institutions	10.9%	5.0%	7.4%	4.8%	5.6%	4.8%
Customer accounts	11.4%	8.2%	8.3%	7.1%	7.8%	4.5%
Securities issued	11.9%	11.8%	-	10.2%	6.3%	-
Borrowings under sale and repurchase agreements	-	7.8%	9.8%	7.5%	8.6%	-
Subordinated debt	8.7%	-	-	6.7%	11.0%	-

**Currency risk**

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates or precious metal prices. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates and precious metal prices on its financial position and cash flows.

The exposure to currency risk is measured by the amount of the open foreign currency position, the maximum level of which is regulated by the Central Bank of the Russian Federation. The Group was in compliance with the requirements of the Central Bank of the Russian Federation in respect of the control over the open foreign currency position. Calculation of open foreign currency position is made in compliance with requirements of the Central Bank of the Russian Federation.

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The Asset and Liability Committee of the Group, which is the Group’s strategy management unit, sets currency risk limits. The Group manages currency risk by:

- establishing a system of stop-loss limits which limit the amount of acceptable losses, thereby the Group ensures that the Group will not have further losses which could be possible if the Group had an open position;
- limitations for each open position.

Control over the compliance with established limits for open currency positions is performed on a daily basis. For the purposes of intra-day control over currency risk the Group established the intra-day open foreign currency position limits. The Group calculates possible losses in case of adverse changes in the currency market using stress-testing. When planning its transactions the Group considers the expected movements in foreign exchange rates and precious metal prices.

Currency risk is managed in compliance with the requirements of the Central Bank of the Russian Federation and internal regulatory documents of the Group. Information on compliance with the requirements of the Central Bank of the Russian Federation and internal regulatory documents are regularly reported to the Board of Directors and the Management Board of the Group.

The Risk Management and Financial Control Department establishes critical currency risk ratios and controls compliance with these ratios.

The Internal Control Department of the Group is responsible for control over the compliance with the currency risk management requirements and procedures and reporting of information on the currency risk positions to the Board of Directors of the Group.

Information on the sensitivity of the Group’s net income and equity to changes in the foreign currency exchange rates is provided in the table below.

	2008		2007	
	Net income RUB’000	Equity RUB’000	Net income RUB’000	Equity RUB’000
5% appreciation of USD against RUB	(111 951)	(111 951)	10 388	10 388
5% depreciation of USD against RUB	111 951	111 951	(10 388)	(10 388)
5% appreciation of EUR against RUB	(6 960)	(6 960)	(13 222)	(13 222)
5% depreciation of EUR against RUB	6 960	6 960	13 222	13 222

**Price risk** is the risk that value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks in respect of its investments in financial instruments, which are subject to general and specific market fluctuations.

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The Group manages equity price risk at the macro risk-management level by:

- establishing a system of stop-loss limits which limit the amount of acceptable losses;
- limitations for each open position.

Risk limits are established based on a complex analysis of volatility of the instrument, assessment of potential losses using historical modeling, assessment of liquidity using information on trading volumes and assessment of financial position of the issuer. The Group performs a calculation of possible losses in case of adverse changes in the capital market using stress-testing. Value at risk model is used to estimate the potential losses that could occur as a result of movements in equity instruments prices to analyse and control equity price risk.

The sensitivity of the Group’s net income after taxes and equity to changes in securities prices is provided below.

	<u>2008</u>		<u>2007</u>	
	<u>Net income</u>	<u>Equity</u>	<u>Net income</u>	<u>Equity</u>
5% increase in securities prices	93 988	667 444	411 472	571 366
5% decrease in securities prices	(93 988)	(667 444)	(411 472)	(571 366)

### **Credit risk**

The Group is exposed to credit risk, which is the risk that another party to a financial instrument will default on its obligation and cause the other party to incur a financial loss.

The Group manages credit risk by:

- implementation of a decision making procedure which requires, in addition to risk assessment performed by business units (loan departments, functions responsible for interbank operations and securities portfolio management), the independent consideration and monitoring of credit risks by the Group’s departments independent from the Group’s business units (risk-management, legal department, security department, valuation and collateral department);
- implementation of system of limits, which requires establishing critical risk ratios by types of borrowers and portfolios;
- implementation of monitoring procedures for early identification of potential bad debts and mitigating negative trends;
- implementation of a system of loan portfolio concentration indicators;
- establishing an critical level of losses for loans issued to groups of related borrowers and control over the credit risk level.

Credit risk exposure is estimated using the results of regular analysis of the counterparty’s ability to meet its obligations to the Group, including forecast of macroeconomic and political trends affecting the creditworthiness of the counterparty.

The Group established the Credit Committee, which is responsible for the oversight of credit risk.

The Credit Committee has several compositions depending on the aggregate counterparty credit risk accepted by the Group and the nature of the asset.

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The Credit Committee manage credit risk by setting individual limits on all types of credit risk despite of the form of credit risk, excluding retail loans.

Credit risk for retail loans is managed by establishing standard lending conditions and setting loss limits on each portfolio of homogeneous loans.

For transactions with counterparties operating outside the OECD countries and the Russian Federation the country risk limit is set.

The Group’s Credit Committee approves new loans and changes and amendments to existing loan agreements. The Asset and Liability Committee takes decisions on establishing limits of investment in transactions with financial assets, which are associated with credit risks. The Board of Directors or the Management Board approves new significant loans. The Risk Management and Financial Control Department assesses the level of credit risk in respect of each instrument and submits the results of such assessment to the above mentioned committees for their consideration. The Department of Interbank Business, Lending Department and Investment Department of the Group are responsible for current monitoring and control over of credit risks.

Credit risk on off-balance sheet financial instruments is defined as a probability of losses due to failure of the counterparty to comply with the contractual terms and conditions. The Group applies the same credit policy to contingent liabilities as it does to balance sheet financial instruments, using the procedures for approving the loan limits and risk level limits in accordance with the established control procedures.

The Risk Management and Financial Control Department is responsible for establishing critical credit risk ratios and control over compliance with these ratios.

The Internal Control Department of the Group is responsible for control over the compliance with the credit risk management requirements and procedures and reporting of information on credit risk positions to the Board of Directors of the Group.

A large proportion of the Group’s operations is conducted with counterparties located on the territory of the Khanty-Mansiysky Autonomous District - Yugra.

Since 2006 under an agreement between the Group and the Government of the Autonomous District – KhMAO-Yugra, the Group is implementing a project «Affordable Housing in Yugra». The Group provides mortgage loans to the residents of the district who meet the requirements applicable to mortgage lending operations performed by the Group in the ordinary course of business under this project. The Group's management considers those loans as commercial lending operations and accordingly applies its regular procedures to manage the credit risk.

The Government of the Autonomous District – KhMAO-Yugra carries out a preliminary selection of potential borrowers and undertakes certain commitments in relation to communications about the program in the mass media and promotes presentations of information about this project of the Group across the entire territory of the district.

The Group has no commitments to the Government of the District and the Government of the District has no commitments to the Group in relation to this program.

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## **Operational risk**

Operational risk arises from:

- non-compliance of internal processes and procedures of conducting banking operations and other activities with the nature and size of the Group’s business and (or) current legislation,;
- failure to comply with internal processes and procedures of conducting banking operations and other activities by the Group’s employees or other parties as a result of incompetence, unintentional or intentional actions or by omission;
- inadequacy (lack) of functional capabilities, information, technological and another systems used by the Group and (or) their failures;
- external events.

The Group considers the following types of operational risk:

- personnel risk – is the risk of losses resulting from potential errors, fraud actions, insufficient qualification of the Group’s employees;
- process risk – is the risk of losses resulting from errors in processes of conducting operations and settlements on them, their accounting, recognition in the financial statements, pricing, etc.;
- technology risk – is the risk of losses resulting from inadequate technologies used, insufficient system capacity, inadequate systems in comparison to operations conducted, low quality of data processing or inadequacy of data used, etc.;
- environment risk – is the risk of losses resulting from non-financial changes in the environment, in which the Group operates, including changes in legislation, political changes, etc.

Operational risk of the Group is measured and managed by:

- performing special and general revisions in order to assess the risk of losses resulting from errors in operational processes and settlements on transactions, their accounting, recognition in the financial statements and control over implementation of correcting measures;
- maintaining of the losses database, of the Group’s losses failures and irregularities of business processes and control over implementation of correcting measures;
- preliminary assessment (existence of procedure of preliminary assessment by the business-unit not responsible for conducting operating activities) of local regulatory acts of the Group, limiting operational risks and internal regulating processes for existence and adequacy of control mechanisms;
- assessment of existing system of segmentation of duties and responsibilities and etc.;
- assessment of information on failures in operational process;
- compliance with Russian legislation, requirements of the Central Bank of the Russian Federation and internal banking documents.

The Group developed and implemented the system of assessment of the operational risk exposures in business units.

The Risk Management and Financial Control Department estimates the level of accepted operational risk.

The Internal Control Department of the Group is responsible for control over the compliance with the operational risk management requirements and procedures and reporting of information on operational risk to the Board of Directors of the Group.

## **34. EVENTS AFTER BALANCE SHEET DATE**

In 2009 the Group acquired a 25.37% stake in the Novosibirsk Municipal Bank for RUR 198 900 thousand.