Bank of Moscow

Group of Joint Stock Commercial Bank Bank of Moscow (Open Joint Stock Company)

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

Moscow

2009

Contents

BDO Unicon
Auditors and Consultants

Closed joint-stock company

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company)

We have audited the accompanying consolidated financial statements of the Group of Joint Stock Commercial Bank –Bank of Moscow (Open Joint Stock Company), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Alexander I. Verenkov
FCCA
Partner

3 April 2009
BDO Unicon

Section 11, Build 1, 125, Warshavskoye Shosse, Moscow, Russian Federation

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

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

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

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

On behalf of the Group's management the consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 3 April 2009 by:

D.V. Akulinin First Vice - President	L.N. Davydova Chief Accountant

Bank of Moscow OJSC

3 April 2009

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Note	2008	2007
Assets			
Cash and cash equivalents	5	133 268 662	63 920 118
Mandatory cash balances with central banks		1 162 092	6 294 827
Financial assets at fair value through profit or loss	6	35 411 892	51 312 593
Due from other banks	7	74 337 103	40 853 080
Loans to customers	8	516 563 769	351 622 231
Financial assets available for sale	9	10 644 540	3 771 181
Investments held to maturity	10	959 716	-
Investments in associates and non-consolidated subsidiaries	11	3 965 609	266 883
Premises and equipment and intangible assets	12	19 255 617	7 800 053
Other assets	13	5 334 292	2 227 266
Current tax asset		467 521	11 328
Deferred tax asset	24	14 544	6 638
Total assets		**801 385 357**	**528 086 198**
Liabilities			
Due to other banks	14	214 923 626	69 624 721
Customer accounts	15	406 540 962	350 646 223
Financial liabilities at fair value through profit or loss	6	10 922 808	154 010
Debt securities issued	16	91 715 230	55 956 291
Other liabilities	17	7 970 954	1 614 181
Current tax liability		28 013	495 986
Deferred tax liability	24	1 633 346	999 783
Total liabilities		**733 734 939**	**479 491 195**
Equity			
Share capital	19	16 212 704	15 476 839
Share premium		16 191 261	8 642 176
Treasury shares		-	(11 483)
Revaluation reserve for financial assets available for sale		2 478	5 710
Revaluation reserve for premises and equipment		5 371 156	314 317
Accumulated exchange differences		149 419	(113 986)
Retained earnings		29 397 886	22 852 385
Equity attributable to the shareholders of the parent Bank		**67 324 904**	**47 165 958**
Minority interest	18	**325 514**	**1 429 045**
Total equity		**67 650 418**	**48 595 003**
Total liabilities and equity		**801 385 357**	**528 086 198**

D.V. Akulinin
First Vice - President

L.N. Davydova
Chief Accountant

ЗАРЕГИСТРИРОВАНО В РЕЕСТРЕ ПЕЧАТЕЙ № 1904033627
Открытое акционерное общество акционерный коммерческий банк «Банк Москвы» ОГРН 1027700159497
Joint stock commercial bank - Bank of Moscow (open joint stock company)
Банк Москвы
МОСКВА

3 April 2009

(in thousands of Russian Roubles)

	Note	2008	2007
Interest income	20	61 597 343	39 544 375
Interest expense	20	(33 215 599)	(20 467 081)
Net interest income		**28 381 744**	**19 077 294**
Provisions for impairment of due from other banks and loans to customers	7, 8	(8 966 815)	(2 446 959)
Net interest income after provision for impairment of due from other banks and loans to customers		**19 414 929**	**16 630 335**
Gains less losses arising from financial assets at fair value through profit or loss		(6 943 320)	615 310
Gains less losses arising from financial liabilities at fair value through profit or loss		674 382	(46 080)
Gains less losses arising from financial assets available for sale		122 640	37 029
Gains less losses from dealing in foreign currency and precious metals		919 389	2 908 423
Gains less losses from revaluation of foreign currency and precious metals		1 485 642	(1 952 341)
Fee and commission income	21	7 292 854	5 217 688
Fee and commission expense	21	(1 515 031)	(917 902)
Dividends received		53 538	5 394
Provision for impairment of financial assets available for sale	9	(113 868)	-
Provision for impairment of other assets	13	(361 231)	(1 001)
Provision for impairment of investments held to maturity	10	(1 484)	-
Net income		**21 028 440**	**22 496 855**
General and administrative expenses	22	(14 991 552)	(11 491 444)
Contributions to the Deposit Insurance Fund		(667 540)	(585 986)
Other operating income less expenses	23	1 344 365	957 993
Operating income		**6 713 713**	**11 377 418**
Share in net profit of associates	11	842 538	19 113
Net share in other movements in equity of non-consolidated subsidiaries		(6 302)	4 285
Net gain on acquisition and sale of subsidiaries and associates	27	699 166	1 791 798
Profit before taxation		**8 249 115**	**13 192 614**
Income tax expense	24	(1 271 185)	(3 146 384)
Net profit		**6 977 930**	**10 046 230**
Net profit attributable to the shareholders of the parent Bank		6 762 236	8 883 603
Net profit attributable to minority interest	18	215 694	1 162 627
Basic earnings per share (EPS) (RUR per share)	25	**50,76**	**69,18**

D.V. Akulinin
First Vice - President

L.N. Davydova
Chief Accountant

3 April 2009

(in thousands of Russian Roubles)

	2008	2007
Cash flows from operating activities		
Interest received	58 143 135	39 488 622
Interest paid	(29 086 005)	(19 118 644)
Gains less losses arising from financial assets at fair value through profit or loss	(5 653 483)	524 873
Gains less losses from dealing in foreign currency and precious metals	919 389	2 835 647
Fees and commissions received	7 149 905	5 217 688
Fees and commissions paid	(1 515 031)	(917 902)
General and administrative expenses paid, other net operating income received less expenses, and contributions to the Deposit Insurance Fund	(13 480 352)	(10 740 123)
Income tax paid	(2 814 404)	(2 504 230)
Cash flows from operating activities before changes in operating assets and liabilities	**13 663 154**	**14 785 931**
Net (increase)/decrease in operating assets		
Mandatory cash balances with central banks	5 132 735	5 026
Financial assets at fair value through profit or loss	14 178 571	(14 006 114)
Due from other banks	(33 229 024)	(11 549 140)
Loans to customers	(169 649 456)	(98 194 677)
Other assets	(3 327 365)	(1 058 737)
Net increase/(decrease) in operating liabilities		
Due to other banks	143 728 318	31 747 447
Customer accounts	55 470 610	88 542 500
Financial liabilities at fair value through profit or loss	775 125	-
Debt securities issued (excluding eurobonds)	28 815 805	(5 067 268)
Other liabilities	6 209 686	315 501
Net cash flows from operating activities	**61 768 159**	**5 520 469**
Cash flows from investing activities		
Acquisition of subsidiaries and associates	(4 674 623)	(60 073)
Acquisition of financial assets available for sale	(11 067 566)	(665 104)
Proceeds from disposal of financial assets available for sale	1 192 608	250 531
Increase in cash and cash equivalents on acquisition of subsidiaries	109 910	-
Purchase of premises and equipment	(1 302 161)	(1 776 241)
Proceeds from sale of premises and equipment	1 758	64 892
Dividends received	53 538	5 394
Net cash flows from investing activities	**(15 686 536)**	**(2 180 601)**
Cash flows from financing activities		
Share issue (Note 19)	8 284 950	6 985 776
Eurobonds issued by the Bank	5 762 233	10 259 915
Sale of treasury shares	25 167	-
Dividends paid (Note 26)	(232 381)	(167 405)
Net cash flows from financing activities	**13 839 969**	**17 078 286**
Effect of exchange rate changes on cash and cash equivalents	9 426 952	(150 684)
Net change in cash and cash equivalents	**69 348 544**	**20 267 470**
Cash and cash equivalents at the beginning of the year (Note 5)	63 920 118	43 652 648
Cash and cash equivalents at the end of the year (Note 5)	**133 268 662**	**63 920 118**

D.V. Akulinin
First Vice - President

3 April 2009

L.N. Davydova
Chief Accountant

(in thousands of Russian Roubles)

		Equity attributable to the shareholders of the parent Bank							Minority interest	Total equity
	Note	Share capital	Share premium	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2007		**15 476 839**	**8 642 176**	**(11 483)**	**5 710**	**314 317**	**(113 986)**	**22 852 385**	**1 429 045**	**48 595 003**
Share issue										
- nominal value		735 865	-	-	-	-	-	-	-	735 865
- share premium		-	7 549 085	-	-	-	-	-	-	7 549 085
Revaluation of financial assets available for sale		-	-	-	(4 240)	-	-	-	-	(4 240)
Deferred tax on fair value reserve for financial assets available for sale		-	-	-	1 008	-	-	-	-	1 008
Revaluation of premises and equipment		-	-	-	-	6 297 247	-	-	-	6 297 247
Deferred tax on revaluation reserve for premises and equipment		-	-	-	-	(1 244 710)	-	-	-	(1 244 710)
Sale of treasury shares		-	-	11 483	-	-	-	13 684	-	25 167
Exchange differences		-	-	-	-	4 302	263 405	-	17 740	285 447
Dividends declared for the year 2007	26	-	-	-	-	-	-	(232 420)		(232 420)
Net profit for the year 2008		-	-	-	-	-	-	6 762 236	215 694	6 977 930
Change in minority interest on acquisition of subsidiaries		-	-	-	-	-	-	-	(1 336 965)	(1 336 965)
Transfer from non-consolidated subsidiaries into consolidated subsidiaries	18	-	-	-	-	-	-	2 001	-	2 001
Balance as at 31 December 2008		**16 212 704**	**16 191 261**	**-**	**2 478**	**5 371 156**	**149 419**	**29 397 886**	**325 514**	**67 650 418**

D.V. Akulinin
First Vice - President

L.N. Davydova
Chief Accountant

3 April 2009

The notes set out on pages 10 to 86 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Note	Equity attributable to the shareholders of the parent Bank							Minority interest	Total equity
		Share capital	Share premium	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2006		14 786 839	2 346 400	(11 483)	549	358 183	(64 005)	14 130 359	422 511	31 969 353
Share issue										
- nominal value		690 000	-	-	-	-	-	-	-	690 000
- share premium		-	6 295 776	-	-	-	-	-	-	6 295 776
Revaluation of financial assets available for sale		-	-	-	5 161	-	-	-	-	5 161
Depreciation of revaluation reserve for premises and equipment		-	-	-	-	(4 005)	-	4 005	-	-
Write-off of revaluation of premises and equipment due to disposals, less deferred taxation		-	-	-	-	(39 861)	-	-	-	(39 861)
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	-	(49 981)	-	7 134	(42 847)
Dividends declared for the year 2006	18, 26	-	-	-	-	-	-	(165 582)	(1 830)	(167 412)
Net profit for the year 2007		-	-	-	-	-	-	8 883 603	1 162 627	10 046 230
Change in minority interest on acquisition of subsidiaries	18	-	-	-	-	-	-	-	(161 397)	(161 397)
Balance as at 31 December 2007		**15 476 839**	**8 642 176**	**(11 483)**	**5 710**	**314 317**	**(113 986)**	**22 852 385**	**1 429 045**	**48 595 003**

Akulinin D.V.
First Vice- President

3 April 2009

Davydova L.N.
Chief Accountant

The notes set out on pages 10 to 85 are an integral part of these consolidated financial statements.

1. Principal Activities of the Group

These consolidated financial statements comprise the financial statements of Joint-Stock Commercial Bank – Bank of Moscow (open joint stock company) (hereinafter the "Bank" or the "Bank of Moscow") and its subsidiaries. The Bank and its subsidiaries are jointly referred to as the "Group" or "Group of the Bank of Moscow". The list of subsidiaries and associates included in these consolidated financial statements is disclosed in Note 3.

The Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. The Bank of Moscow was set up in March 1995 through reorganisation of Moscow Settlement Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of the Russian Federation (hereinafter the Central Bank of RF or the Bank of Russia) on 14 October 2004. The Bank also holds licenses of the professional securities market participant and a license for trading in precious metals.

The principal activities of the Bank and its subsidiaries are corporate and retail banking services, brokerage transactions and investment services on the territory of the Russian Federation and abroad.

Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals.

The Government of the City of Moscow directly and indirectly (through O.J.S.C. «Metropolitan Insurance group») owns the Bank being its principal shareholder.

The Bank is registered at the following address: 8/15, Rozhdestvenka Str., Moscow, Russian Federation.

As at 31 December 2008, the Bank had 395 divisions on the territory of the Russian Federation and 7 subsidiary banks (as at 31 December 2007: 362 divisions on the territory of the Russian Federation and 5 subsidiary banks): in the Russian Federation (Moscow) – OJSC Mosvodokanalbank, Group's interest of 65.87%; (Bryansk) - Commercial Joint Stock Bank Bezhitsa-Bank (OJSC), Group's interest of 59.83%; in the Republic of Belarus (Minsk) – OJSC Bank Moscow-Minsk, Group's interest of 100.0%; in the Republic of Latvia (Riga) – JSC Latvian Businessbank (AS Latvijas Biznesa Banka), Group's interest of 99.87%; in the Republic of Estonia (Tallinn) – Estonian Credit Bank (Eesti Krediidipank), Group's interest of 89.04%; in the Republic of Ukraine (Kiev) – BM Bank LLC, Group's interest of 100.0%, in the Republic of Serbia (Belgrade) – JSC Bank of Moscow – Belgrade, Group's interest of 100.0%.

The Bank's head office is located in Moscow. The Bank's 128 offices and sub-offices are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorised dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to most municipal and commercial organisations, which participate in the implementation of Moscow Government programs.

As at 31 December 2008, the Bank of Moscow's regional network comprised 50 branches, 12 operating offices and 194 sub-branches located on the territory of the Russian Federation (as at 31 December 2007: 53 branches and 191 sub-branches). The subsidiary bank – OJSC Mosvodokanalbank – has 3 sub-branches on the territory of the Russian Federation (as at 31 December 2007: none). The subsidiary bank – Commercial Joint Stock Bank Bezhitsa-Bank (OJSC) – has 2 branches on the territory of the Russian Federation (as at 31 December 2007: 2 branches). The subsidiary bank – OJSC Bank Moscow-Minsk – has 5 branches and 38 sub-branches located on the territory of the Republic of Belarus (as at 31 December 2007: 5 branches and 15 sub-branches). The subsidiary bank – BM Bank LLC – has 43 sub-branches on the territory of the Republic of Ukraine (as at 31 December 2007: 12 sub-branches). The subsidiary bank – JSC Latvian Businessbank (AS Latvijas Biznesa Banka) has 1 sub-brunch located on the territory of the Republic of Latvia (as at 31 December 2007: 1 sub-branch). The subsidiary bank – Estonian Credit Bank (Eesti Krediidipank) – has 10 branches and 14 sub-branches located on the territory of the Republic of Estonia (as at 31 December 2007: 10 branches and 13 sub-branches).

The average number of the Group employees for the year 2008 was 11 233 (as at 31 December 2007: 8 974).

On 15 July 2008 the international rating agency Moody's Investors Service upgraded the Bank's financial strength rating (FSR) from "D-" to "D".

On 16 July 2008, the international rating agency Moody's Investors Service upgraded to «Baa1» the long-term foreign currency deposit ratings, confirmed the «P-2» short-term deposit rating, and changed the outlook of the long-term foreign currency deposit rating to positive.

At the end of 2008 in connection with the negative trends in Russia's economy and global financial crisis leading rating agencies changed the outlook of the sovereign credit ratings of Russia:

- Standard&Poor's – from «stable» to «negative» (October 2008);
- Fitch Ratings – from «stable» to «negative» (November 2008);
- Moody's Investors Service - from «positive» to «stable» (December 2008).

(in thousands of Russian Roubles)

This rating action was followed by a change in ratings outlook for strategic Russian banks, including Bank of Moscow.

On 10 November 2008, the international rating agency Fitch Ratings confirmed the long-term foreign currency and local currency issuer default ratings (IDR) at «BBB», confirmed short-term IDR at «F3», confirmed the support rating at «2», and revised the long-term foreign currency and local currency IDR outlook to negative.

On 12 December 2008, the international rating agency Moody's Investors Service confirmed the long-term foreign currency deposit rating at «Baa1», confirmed the «P-2» short-term deposit rating, confirmed the FSR of «D», and changed the outlook of the long-term foreign currency deposit rating to stable.

Under the influence of the deepening crisis in the Russian economy, Fitch Ratings and Standard & Poor's downgraded the sovereign ratings of Russia.

On 4 February 2009, the international rating agency Fitch Ratings downgraded the long-term foreign currency and local currency IDR from «BBB+» to «BBB», short-term IDR from «F2» to « F3», and the country ceiling of the Russian Federation from "A-" to «BBB +», the long-term foreign currency and local currency IDR outlook was reaffirmed as negative.

At the same time Fitch Ratings downgraded long-term issuer default ratings of 14 Russian banks, including Bank of Moscow. Bank of Moscow's long-term foreign currency IDR was set at a level «BBB-», the outlook «negative». Short-term IDR was confirmed at the level «F3», support rating - at the level of «2».

On 24 February 2009, the international rating agency Moody's Investors Service confirmed the long-term foreign and local currency deposit ratings at «Baa1», confirmed the «P-2» short-term deposit rating, confirmed the FSR of «D». The outlook on the bank's ratings was changed to negative.

2. Operating Environment of the Group

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised to be the market economy and a number of main reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

In 2004 the Bank joined the Mandatory Deposit Insurance System. The activities of the Mandatory Deposit Insurance System are provided for by federal laws and regulations. It is managed by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private customers is up to RUR 700 thousand per each depositor in the event of bankruptcy or withdrawal of the license for banking operations by the Central Bank of Russia.

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity on capital markets.

Inflation

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

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

Currency transactions and currency control

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

(in thousands of Russian Roubles)

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

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

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not reflect the values of financial instruments, which would be determined in an active market on transactions on an arm's-length basis between knowledgeable and willing counterparties. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

The international financial crisis led to substantial reduction of Russia's international reserves, the outflow of foreign capital from the country and declining oil prices. In this context, the international rating agencies Fitch Ratings and Moody's revised their sovereign ratings outlooks and Standard & Poor's downgraded its sovereign rating as follows: Moody's – «Baa1» with "stable" outlook on 12 December 2008, Fitch Ratings – «BBB» with "negative" outlook on 4 February 2009, Standard & Poor's – «BBB» with "negative" outlook on 8 December 2008.

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

The large-scale economic crisis forced the Russian government and CBR to enhance resolving the issues that had been accumulating in the Russian economy, financial and tax systems for a number of years. On 7 November 2008, the government approved an anti-crisis plan. The plan identifies 55 tasks covering the major sectors of the Russian economy from banks to agribusiness, real estate and small business.

In the second half of 2008, the government took steps to buy out shares on the equity market and allocated funds to refinance the debts on foreign loans of large Russian enterprises and banks, maturing in the second half of 2008 and in 2009. Support of the real sector includes price preferences granted to Russian companies under state and municipal procurement programs, expanded subsidizing of interest rates on loans for technological modernization of production and the started program of state guarantees for loans to enterprises. These guarantees are issued in addition to the collateral that the enterprises provide or will provide to the banks. A state program is being developed to help those individuals with mortgage loans who have lost their jobs or a substantial part of income as a result of the crisis.

Since 1 January 2009, the tax system were changed in favour of business: corporate income tax rate was cut from 24% to 20% and tax prepayment procedure was cancelled. Income tax rates for small businesses using simplified taxation procedures were reduced from 15% to 5% of the profit amount.

The CBR has lowered mandatory reserve requirements, expanded the list of assets accepted as collateral on CBR loans and provides loans to commercial banks through collateral-free auctions, raised the refinancing rate from 10% to 13% per annum, signed agreements on partial compensation of losses incurred on the interbank market with a number of major Russian banks, including the Bank of Moscow, to encourage the operations on the interbank market and continues mild depreciation of the Russian rouble. A number of restrictions were introduced on the amount of bank foreign assets to mitigate the capital outflow from Russia.

At present investors have re-evaluated their exposure to risks. The volume of financing has reduced considerably resulting in increased volatility. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing loans and borrowings at terms and conditions similar to those applied to earlier transactions.

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

The accompanying consolidated financial statements reflect the Group management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic development of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the Government and other factors including regulatory and political developments, which are beyond the Group's control. The Group's management cannot predict the impact of the above factors on the financial position of the Bank and the Group. The accompanying consolidated financial statements do not include the adjustments associated with this risk.

3. Basis of Presentation

General principles

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations of the International Accounting Standards Board. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

The functional currency of the Group and the presentation currency of the Group's consolidated financial statements is the national currency of the Russian Federation, i.e. the Russian Rouble.

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

Subsidiaries

Subsidiary undertakings, i.e. those entities in which the Group owns over one half of the voting shares or is otherwise able to exercise control over the operations, including special purpose entities (SPE) have been consolidated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the date of acquisition, if the business combination of the companies is made by one transaction; and the date of each share purchase if the business combination of the companies occurs in stages by successive share purchases. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the date of acquisition, irrespective of the extent of any minority interest.

The excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Minority interest

Minority interest is the share of the subsidiary that is not owned by the Group. Minority interest at the reporting date is minority's portion of the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of the acquisition and post-acquisition changes in the equity of the subsidiary. Minority interest is recorded within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary and are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

(in thousands of Russian Roubles)

Below are the consolidated Group's subsidiaries as at 31 December 2008:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
BM Holding LTD	Switzerland	Financial services	100.00	1998
OJSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Stroiportinvest	Russia	Financial services	100.00	2006
BoM Finance Ltd.	British Virgin Islands	Financial services	100.00	2007
BoM Asset Management Ltd.	Cyprus	Financial services	100.00	2007
Crossplanet Ltd.	Cyprus	Financial services	100.00	2007
LLC Mos-Broker	Russia	Brokerage, dealer, depository services	100.00	2008
CJSC Lespromprocessing	Russia	Financial services	100.00	2008
CJSC Spetsstroy-2	Russia	Construction	100.00	2008
JSC Bank of Moscow - Belgrade	Serbia	Banking services	100.00	2008
CJSC DOSSOM	Russia	Catering	100.00	2001
AS Latvijas Biznesa Banka	Latvia	Banking services	99.87	2002
CJSC Financial Assistant	Russia	Financial services	99.67	2006
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
AS Eesti Krediidipank	Estonia	Banking services	89.04	2005
AS Martinoza	Estonia	Real estate management	89.04	2005
AS Krediidipanga Liising	Estonia	Leasing	89.04	2005
OJSC Mosvodokanalbank	Russia	Banking services	65.87	1997
OJSC Bezhitsa-Bank	Russia	Banking services	59.83	2008
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.00	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

(in thousands of Russian Roubles)

Below are the consolidated Group's subsidiaries as at 31 December 2007:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
CJSC DOSSOM	Russia	Catering	100.00	2001
OJSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Stroiportinvest	Russia	Financial services	100.00	2007
AS Latvijas Biznesa Banka	Latvia	Banking services	99.87	2002
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2007
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2007
AS Eesti Krediidipank	Estonia	Banking services	89.04	2005
AS Martinoza	Estonia	Real estate management	89.04	2005
AS Krediidipanga Liising	Estonia	Leasing	89.04	2005
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.00	1997
CJSC Financial Assistant	Russia	Financial services	50.67	2006
OJSC Mosvodokanalbank	Russia	Banking services	50.10	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

Kuznetski Capital S.A. founded for special purposes as SPE (Eurobonds issue) and registered in Luxemburg was also included in these consolidated financial statements.

Where the companies do not have a significant influence on the consolidated financial statements of the Group, they are not consolidated. The investments in the share capitals of these companies are reflected within investments in associates and non-consolidated subsidiaries in the consolidated balance sheet.

Following is a list of the companies, which were not included into the consolidated financial statements for the year 2008:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
Private security company Yaroslavna, LLC	Russia	Security	99.83	1999
CJSC Monolit	Russia	Wholesale	99.00	2007
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
LLC VM-Open City	Russia	Publishing	57.00	2008
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

Following is a list of the companies, which were not included into consolidated financial statements for the year 2007:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
BM Holding LTD	Switzerland	Financial services	100.00	1998
BoM Finance Ltd.	British Virginia Isles	Financial services	100.00	2007
BoM Asset Management Ltd.	Cyprus	Financial services	100.00	2007
Crossplanet Ltd.	Cyprus	Financial services	100.00	2007
CJSC Monolit	Russia	Wholesale	99.00	2007
Private security company Yaroslavna, LLC	Russia	Security	75.30	1999
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

(in thousands of Russian Roubles)

Associates

Associates are entities in which the Group directly or indirectly owns between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence (for example, through representation in management bodies), but which it does not control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments on behalf of the associate.

Below is the list of the Group's associates as at 31 December 2008:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
City Centre for Data Processing (EIRTS), LLC	Russia	Maintenance of software and hardware	49.50	2005
SIA LBB ĪPAŠUMI	Latvia	Real estate business	48.94	2008
Äigrumäe Kinnisvara AS	Estonia	Financial services	44.43	2007
CJSC Automated Banking Technologies	Russia	Information technologies	25.82	2006
O.J.S.C. «Metropolitan Insurance group»	Russia	Insurance	24.92	2007
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999
LLC Pension Reserve	Russia	Financial services	19.00	2008

Below is the list of the Group's associates as at 31 December 2007:

Name	Country of registration	Business activity	Percentage of ownership	Year of acquisition
City Centre for Data Processing (EIRTS), LLC	Russia	Maintenance of software and hardware	49.50	2005
VM-Service, LLC	Russia	Logistics	48.50	2002
Äigrumäe Kinnisvara AS	Estonia	Financial services	44.43	2008
JSCB Russky Zemelny Bank	Russia	Banking services	31.00	1999
CJSC Automated Banking Technologies	Russia	Information technologies	20.02	2007
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999

Effect of changes in the presentation format

Below there are adjustments of the consolidated statement of income for the year ended 31 December 2007 to conform to the presentation format of the year ended 31 December 2008:

Amount	Before reclassification	After reclassification
14 977	Other operating income less expenses	Gains less losses from dealing in foreign currencies and precious metals
615 310	Gains less losses arising from financial assets at fair value through profit or loss and available for sale	Gains less losses arising from financial assets at fair value through profit or loss
(46 080)	Gains less losses arising from financial assets at fair value through profit or loss and available for sale	Gains less losses arising from financial liabilities at fair value through profit or loss
37 029	Gains less losses arising from financial assets at fair value through profit or loss and available for sale	Gains less losses arising from financial assets available for sale

Standards applied

The accounting policies adopted are consistent with those of the previous financial year. Certain new IFRSs became effective for the Group from 1 January 2008. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations:

- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"(effective for annual reporting periods beginning on 1 march 2007, i.e. form 1 January 2008);
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 16 "Hedging of net investments into foreign transactions" (effective for annual reporting periods beginning on 1 October 2008).

IFRS and IFRIC interpretations not yet effective

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

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 "Borrowing Costs" (amended in March 2007; applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009);
- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on 1 January 2009);
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on 1 July 2008 or after this date);
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on 1 January 2009);
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on 1 July 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on 1 July 2009).

4. Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Group. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds of restricted nature, are excluded from cash and cash equivalents.

Gold and other precious metals are recorded at current CBR prices approximating their fair value, quoted at a discount to London Metal Exchange rates. Changes in the CBR prices are recorded as exchange differences within gains less losses from revaluation of foreign currency and precious metals in the consolidated statement of income.

Cash and cash equivalents do not include mandatory cash balances held with central banks.

Mandatory cash balances with the central banks

Mandatory cash balances held with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and the central banks of other countries where the Group's members are residents. Mandatory cash balances held in central banks are not available to finance the Group's day-to-day operations and are excluded from cash and cash equivalents for the purposes of consolidated statement of cash flows.

Financial assets

The Group classifies its financial assets in the following categories:

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

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

Purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace (regular way purchases or sales) are recognised on the trade date, i.e. the date the Group commits to purchase or sell the asset. In all other cases such transactions are reported as derivative financial instruments until the payment is made.

In the course of application of the Group's accounting policy with respect to definition of financial assets recognized in the consolidated financial statements, the management used judgments and estimates the most significant of which are presented below.

Initial recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.
Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition or issue of a financial asset that is not classified as at fair value through profit or loss are added to the amount initially recognised.

Fair value measurement

The fair value of financial instruments traded in an active market is determined on the basis of market or dealer quotations, plus the transaction costs incurred.

If quoted market prices are not available, the fair value of financial assets and liabilities recorded in the consolidated balance sheet is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Otherwise, the fair value should be determined using the management's best estimate based on liquidity considerations and data used for models, such as correlation and volatility of long-term financial derivative instruments.

Derecognition of financial assets

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

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

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

Reclassifications of financial assets

The Group shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued, except rare circumstances when such reclassification is permitted for non-derivative financial instruments, other than those designated at fair value through profit or loss upon initial recognition, if there is no active market for this financial instrument. In this case debt financial instruments measured at fair value through profit or loss may be reclassified into financial assets available for sale, investments held to maturity and loans and receivables depending on the designated purpose. Equity financial instruments measured at fair value through profit or loss may be reclassified into financial assets available for sale in the rare circumstances referred to above.

In exceptional circumstances, , such as the absence of an active market, financial assets available for sale representing debt instruments may be reclassified into investments held to maturity or loans to customers, if the entity has the intention to hold that financial asset for the foreseeable future or until maturity.

If financial assets as described in the above two paragraphs are reclassified into investments held to maturity or loans to customers, the market price on the date of reclassification will become the new cost of these financial assets.

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

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

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

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

In connection with the grave deterioration of the situation on the world financial markets in the year 2008, a number of financial assets at fair value through profit or loss were reclassified in accordance with Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" into financial assets available for sale (Note 9) and investments held to maturity (Note 10). Besides, some financial assets available for sale were reclassified into investments held to maturity (Note 10). These reclassifications were made by subsidiary banks of the Group AS Latvijas Biznesa Banka , AS Eesti Krediidipank and OJSC Mosvodokanalbank.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss include trading securities and derivative financial instruments.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase.

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including options, futures, forwards and swaps. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the consolidated statement of income as gains less losses arising from financial assets or liabilities at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss. The Group does not use derivative financial instruments for hedging purposes.

Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

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

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

Loans purchased from third parties are carried at amortized cost using the effective interest method.

Due from other banks

The Group adopts accounting policies applicable to loans to customers and provision for loan impairment in respect of the Group's placements with other banks.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are classified as investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition of a financial asset that is not classified as at fair value through profit or loss are added to the amount initially recognised. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the consolidated statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unreleased gains and losses are included in the consolidated statement of income as gains less losses arising from financial assets available for sale. Impairment of previously remeasured assets is reported on equity accounts within the revaluation reserve for financial assets available for sale which was set up earlier.

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

Investments held to maturity

This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group's management determines the appropriate classification of financial assets at the time of purchase.

The Group assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

Initially, investments held to maturity are recorded at fair value (which includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on investments held to maturity are recognised in the consolidated statement of income when such assets are impaired, as well as through the amortisation process.

If the Group sells significant portion of its portfolio of investments held to maturity before their maturity the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest income on investments held to maturity is recognised in the consolidated statement of income within interest income.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, investments held to maturity, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

The Group assesses on each reporting date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognized in the consolidated statement of income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

Objective evidence that due from other banks and loans to customers are impaired includes observable data that comes to the attention of the Group about one or more of the following events:

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

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status, statistical information about actual losses of the Group (loans written off against allowances for impairment) and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed by adjusting the allowance account through the consolidated statement of income.

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

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Group shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan. The write-off of uncollectible loan and relating interest is justified if there are documents to prove that the borrower failed to fulfil obligations to its creditors within the period not less than one year till the date when the decision was taken to write off the loan.

(2) Impairment of financial assets available for sale

The Group assesses at each balance sheet date whether there is objective evidence that an asset or a group of assets available for sale is impaired.

In case of investments in equity instruments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment. According to the Group, a 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline In making this judgment, the Group evaluates among other factors, the volatility in share price. Cumulative loss is measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income transfer from equity to the statement of income.

Impairment losses on equity instruments are not reversed through the consolidated statement of income: increases in the fair value after impairment are recognized directly in equity. If in subsequent periods the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively rated to the event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the profit and loss accounts of the current period.

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

(3) Impairment of investments held to maturity

The Group assesses on an individual basis whether there is any objective evidence that the value of the investments held to maturity has been impaired. In case of such objective evidence of impairment loss the amount of loss is determined as a difference between the carrying value of the asset and the present value of the expected future cash flows. The carrying value of the asset is decreased and the loss is recognised in the consolidated statement of income. If in the next year the amount of expected impairment losses decreases due the event occurred after the recognition of impairment losses, the previously recognised amounts are recorded as income in the consolidated statement of income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

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

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at fair value at the date of acquisition.

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss if they are incurred for the purpose of repurchasing or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities or obligations to return borrowed securities sold to third parties. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss unless they are designate as hedges. Obligations to return borrowed securities sold to third parties are recorded at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the consolidated statement of income.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using the effective interest rate include due to other banks, customer accounts and debt securities issued. The respective expenses are recorded as interest expense in the consolidated statement of income using the effective interest rate method.

Due to other banks. Due to other banks are recorded when funds or other assets are advanced to the Group by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers.

Debt securities issued. Debt securities issued include promissory notes, bonds and deposit certificates issued by the Group. If the Group purchases its own debt securities issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is reported as gain from early retirement of debt.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, the securities are not reclassified. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent by the Group to counterparties continue to be recognised in the Group's consolidated financial statements as securities. Securities borrowed are not recorded in the Group's consolidated financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the consolidated statement of income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

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

Premises and equipment

Premises and equipment are stated at cost restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 (applied to premises and equipment purchased before this date) or at revalued amount, as described below, less accumulated depreciation and impairment provision.

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

The Group's premises are regularly revalued. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After the initial recognition at cost, the buildings shall be carried at a revalued amount being the fair value at the date of revaluation less accumulated impairment loss.

The Group's premises was revalued at current market prices as at 31 December 2008. The appraisal was performed by an independent professional valuer. The market value was used as a basis for valuation. Revaluation of premises was conducted by OJSC Bank of Moscow and subsidiaries CJSC Imagine, CJSC DOSSOM, CJSC Concern Vechernyaya Moskva. The Management believes that the carrying value of premises of other participants of the Group does not differs materially from its fair value.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded within general and administrative expenses of the consolidated statement of income.

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

Construction in progress is carried at cost less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying amount at the transfer date. Construction in progress is not depreciated until the asset is available for use.

Depreciation

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

- Premises 1% – 5% per annum;
- Office and computer equipment and other premises and equipment 10% – 25% per annum.

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

Goodwill

Goodwill acquired in a business combination is initially recognised at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill arising on acquisition of subsidiaries is recorded in the consolidated balance sheet. Goodwill arising on acquisition of associates is recorded as investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment, as well as when there are indications of impairment. If such indications exist, the Group performs an impairment analysis to evaluate recoverability of the carrying amount of goodwill. Goodwill is written off when the carrying value of goodwill exceeds its recoverable amount.

The excess of the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognised in the consolidated statement of income as income.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Group:
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets include computer software, licenses and other intangible assets acquired in a business combination.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets have finite or infinite useful lives. Intangible assets with finite useful lives are amortised over the useful economic life ranging from 3 to 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Finance lease – the Group as lessee

Leases where all the risks and rewards of ownership of the asset are substantially transferred from lessor to lessee are classified as finance leases.

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee under the finance lease contract, are included as part of the amount recognised as an asset under the lease.

Operating lease - the Group as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses. Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Operating lease – the Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised as other operating income in the consolidated statement of income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Share capital

Contributions to share capital made before 1 January 2003 are recorded at cost adjusted for inflation and contributions to share capital made after 1 January 2003 are recorded at cost.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising from sale of own shares are recognized as share premium.

Treasury shares

Where the Group purchases its treasury shares, the consideration paid including any attributable incremental external costs is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed of, any consideration received is included in the equity. Treasury shares are recognized at acquisition cost.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements were authorized for issue. Payment of dividends and other distribution of earnings are made on the basis of the current year net profits as reported in the financial statements prepared in accordance with the legislation of the Russian Federation.

The amount of dividends that can be paid out by the Group is limited by retained earnings determined in accordance with legislation of the Russian Federation.

Contingent assets and liabilities

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

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

Credit related commitments

This category includes guarantees, letters of credit, and undrawn irrevocable credit lines, assumed by the Group in the normal course of its business. Guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group to pay on behalf of the client the agreed amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Credit related commitments are initially recognised at their fair value. Subsequently, at each balance sheet date, the commitments are reviewed and revised to obtain the current best estimate. The best estimate of expenditure required to settle the existing commitment will be the amount that the Group would either pay to settle the commitment at the balance sheet data or transfer to a third party at this date.

Taxation

Income tax expense is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and other countries where the Group's subsidiaries are operating. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted or substantively enacted at the balance sheet date. The income tax charge comprises current tax and deferred tax and is recorded in the consolidated statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Taxable profits and losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns.

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

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset only within each individual company of the Group. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Management's judgment is required to determine the amount of deferred tax assets that may be recognized in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia and other countries where the Group's subsidiary banks and companies are operating also have various other operating taxes, which are assessed on the Group's activities. These taxes are recorded within general and administrative expenses in the consolidated statement of income.

Income and expense recognition

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

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

Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of income. Investment portfolio and other management and advisory service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied to services related to property management, financial planning and custody services that are continuously provided over an extended period of time.

Employee benefits and social insurance contributions

The Group pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the state pension, social insurance, and obligatory medical insurance funds in respect of the Group's employees. These expenses are recognised as incurred and are included in staff costs. The Group subsidiaries, which operate on the territory of other countries, make the respective contributions in accordance with the local legislation. The Group does not have its own pension plan. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

(in thousands of Russian Roubles)

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency at the Central Bank of Russian Federation exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the official exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from translation of the transactions in foreign currencies are included within gains less losses from revaluation of foreign currency and precious metals in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated at the Central Bank of Russian Federation exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rate ruling at the dates the fair values were determined.

At the date of consolidated financial statements, for companies whose functional currency is other than the Group's presentation currency, the assets and liabilities are translated to Russian Roubles at the exchange rate at the balance sheet date, whereas their income statement items are translated at an average rate of exchange for the year. Gains and losses on translation are charged to equity. When a subsidiary or associate whose functional currency is other than the Group's presentation currency is sold, the total amount shown within the equity and related to this company is recognized in the consolidated statement of income.

Fiduciary activities

Assets held by the Group in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Group's consolidated balance sheet. Commissions received from such operations are shown within fee and commission income in the consolidated statement of income.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing either products or services (business segment), or in providing products and services within particular economic environment (geographical segment). A segment shall be reported separately in the consolidated financial statements if a majority of its revenue is earned from sales to external customers, and its revenue, its financial result or its assets are ten percent or more of all the segments.

The Group's major activity is banking business. The impact of the Group's other companies (non-banks) on the structure of the Group's assets, liabilities and profits is insignificant.

The Group's banking business can be divided into three core segments: treasury, corporate and retail business. Each segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Over 95% of the Group's banking business is concentrated in the Russian Federation, where the Bank of Moscow, the Group's parent company, is situated. The remaining business is conducted in Latvia, Estonia, Belarus, Ukraine and Serbia.

5. Cash and Cash Equivalents

	2008	**2007**
Cash on hand	21 440 842	17 412 571
Precious metals	309 196	143 113
Cash balances with the central banks (other than mandatory reserve deposits)	64 717 807	38 204 695
Correspondent accounts and overnight deposits with other banks:		
- the Russian Federation;	7 352 194	1 676 438
- other countries	39 448 623	6 483 301
Total cash and cash equivalents	**133 268 662**	**63 920 118**

Geographical analysis and analysis of cash and cash equivalents by currency structure are disclosed in Note 30.

(in thousands of Russian Roubles)

6. Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the consolidated balance sheet include trading securities and derivative financial instruments. As at the balance sheet date the Group does not have other types of financial instruments classified into this category.

	31 December 2008	31 December 2007
Rouble-denominated securities		
Corporate bonds	20 854 269	25 334 898
Corporate Eurobonds	7 927 429	-
Bonds of RF subjects and local authorities	1 529 399	3 677 534
Equity securities	937 686	4 786 411
Corporate promissory notes	194 216	1 979 574
Russian Federation bonds (OFZ)	61 211	4 489 052
	31 504 210	**40 267 469**
US dollar denominated securities		
Corporate Eurobonds	695 204	1 990 669
Eurobonds of the Russian Federation	590 521	5 626 009
Equity securities	242 256	289 163
Corporate promissory notes	-	51
Bonds of foreign governments	-	42 636
Federal currency bonds (OVGVZ)	-	1 649 830
	1 527 981	**9 598 358**
EUR denominated securities		
Bonds of foreign governments	806 399	259
Corporate Eurobonds	563 720	-
Equity securities	749	25 449
	1 370 868	**25 708**
Securities denominated in other currencies		
Equity securities	253 941	11 037
Bonds of foreign governments	-	1 291 679
Corporate promissory notes	-	256
Corporate bonds	-	8 250
	253 941	**1 311 222**
Derivative financial instruments in Russian Roubles	465 917	106
Derivative financial instruments in US dollars	158 497	109 730
Derivative financial instruments in EUR	130 478	-
	754 892	**109 836**
Total financial assets at fair value through profit or loss	**35 411 892**	**51 312 593**

Corporate bonds are represented by Rouble denominated interest-bearing securities issued by large Russian companies and credit institutions, quoted on the Moscow Interbank Currency Exchange (MICEX). As at 31 December 2008, these bonds in the Group's portfolio have maturities from 17 February 2009 to 15 November 2018, coupon rates ranging from 5.0% to 20.0% per annum in the year 2008 and yield to maturity ranging from 1.28% to 375.41% per annum, depending on the issue.

As at 31 December 2008, corporate bonds include mortgage-backed bonds of OJSC The Agency for Housing Mortgage Lending and CB Moscow Mortgage Agency (JSC), with the fair value of RUR 2 613 159 thousand, maturing from 23 February 2012 to 15 November 2018, with coupon rates ranging from 7.95% to 10.3% per annum and yield to maturity ranging from 1.28% to 20.7% per annum. Out of which, the bonds secured by state guarantees of the City of Moscow amount to RUR 1 076 694 thousand and have a maturity date of 20 September 2012, coupon rate of 10% per annum and yield to maturity of 7.76% per annum.

Corporate Eurobonds are represented by interest-bearing securities denominated in RUR, USD and EUR issued by large Russian companies and credit institutions and quoted on international markets. As at 31 December 2008, corporate Eurobonds in the Group's portfolio have maturity dates from 13 April 2009 to 20 October 2016, coupon rates ranging from

(in thousands of Russian Roubles)

5.06% to 10.50% per annum in the year 2008 and yield to maturity ranging from 7.83% to 29.00% per annum, depending on the issue.

Bonds of RF subjects and local authorities represent Rouble-denominated interest-bearing securities quoted on the MICEX. As at 31 December 2008, these bonds in the Group's portfolio have maturities from 21 April 2009 to 14 June 2017, coupon rates ranging from 6.0% to 11.0 % per annum and yield to maturity from 7.30% to 23.98% per annum, depending on the issue.

Equity securities are represented by shares of large Russian companies quoted on the MICEX and Russian Trading System, and depository receipts for shares of large Russian entities quoted on the London and New York Stock Exchanges.

Corporate promissory notes are Rouble-denominated notes of large Russian credit institutions. As at 31 December 2008, promissory notes in the Group's portfolio have maturities from 12 March 2009 to 9 July 2009 and yield to maturity ranging from 9.64% to 31.87% per annum.

OFZ are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2008, OFZ in the Group's portfolio have maturity dates from 20 January 2010 to 19 January 2011, coupon rates ranging from 6.10% to 7.40% per annum in the year 2008 and yield to maturity from 9.87% to 11.7% per annum, depending on the issue.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation and quoted on international markets. As at 31 December 2008, Eurobonds in the Group's portfolio have maturity date 31 March 2030, the coupon rate of 7.5% per annum and yield to maturity of 5.32%.

Bonds of foreign governments are represented by bonds of Germany and the Netherlands.

As at 31 December 2008, financial assets at fair value through profit or loss comprise securities provided as collateral under sale and repurchase agreements (REPO) with the fair value of RUR 6 244 327 thousand, and the related liabilities are recorded within due from other banks (Note 14).

The trading securities are stated at fair value determined on the basis of observable market quotations.

The Group recognizes an impairment loss in case of objective evidence of impairment , such as delays in coupon payments or principal repayment. The credit quality analysis of trading debt securities as at 31 December 2008 and 31 December 2007 has shown that above-stated trading debt securities in the total amount of RUR 33 222 368 thousand (as at 31 December 2007: RUR 46 090 697 thousand) are current.

As at 31 December 2008 the following corporate bonds were recognized as impaired and reflected in the consolidated balance sheet at fair value equal to zero:

	Nominal value	Fair value
OJSC Moscow Region Mortgage Agency	360 000	-
OJSC Sibir Airlines	81 415	-
OJSC Voljskaya Textile Company	60 620	-
Total impaired corporate bonds	**502 035**	**-**

There are no renegotiated balances, representing the carrying value of trading debt securities with revised conditions that were otherwise overdue.

(in thousands of Russian Roubles)

Below, there is information on outstanding transactions in derivative financial instruments. Amounts relating to these transactions are shown on a gross basis – before offsetting by each counterparty and are short-term in nature.

	2008			2007		
	Contract amount	Fair value Asset	Fair value Liability	Contract amount	Fair value Asset	Fair value Liability
Forward transactions	**-**	**326 008**	**153 660**	**-**	**109 836**	**45 997**
Foreign currency						
sell	9 395 395	280 825	91 498	2 956 368	39 975	-
buy	1 355 668	9 091	13 114	18 782 988	39 311	23 075
Securities						
sell	35 400	2 614	-	2 191 450	30 550	-
buy	3 346 624	33 478	49 048	1 566 264		22 845
Precious metals						
sell	-	-	-	48 784	-	77
Options	**-**	**162 051**	**162 051**	**-**	**-**	**-**
Foreign currency						
sell	162 051	-	162 051	-	-	-
buy	162 051	162 051	-	-	-	-
Futures	**-**	**130 478**	**-**	**-**	**-**	**-**
Foreign currency						
sell	1 653 311	130 478	-	-	-	-
Swap transaction	**-**	**136 355**	**860 025**	**-**	**-**	**108 013**
Currency and interest rate swaps	16 395 144	136 355	860 025	3 065 670	-	108 013
Total derivative financial instruments	**-**	**754 892**	**1 175 736**	**-**	**109 836**	**154 010**
Fair value of securities sold under reverse repo agreements						
Bonds of foreign governments			5 058 144			
Eurobonds of the Russian Federation			3 535 402			
Corporate eurobonds			728 053			
Bonds of RF subjects and local authorities			425 473			
Total financial liabilities at fair value through profit or loss			**10 922 808**			**154 010**

7. Due from Other Banks

	2008	2007
Loans and deposits with other banks	65 137 565	33 982 979
Reverse repo agreements with other banks	8 676 997	6 896 028
Deposits with the central banks	524 272	-
Overdue placements with other banks	1 415	2 549
Less: provision for impairment of due from other banks	(3 146)	(28 476)
Total due from other banks	**74 337 103**	**40 853 080**

As at 31 December 2008, the Group had deposits balances above 10% of the Group's capital with 5 banks-counterparties (as at 31 December 2007: 2 banks-counterparties). The aggregate amount of these funds was RUR 37 325 032 thousand (as at 31 December 2007: RUR 11 039 719 thousand) or 50.2% of due from other banks (as at 31 December 2007: 27.0%).

As at 31 December 2008, securities acquired from banks under reverse repo agreements comprise corporate bonds with the fair value of RUR 260 543 thousand (as at 31 December 2007: RUR 3 396 914 thousand), bonds of RF subjects with the fair value of RUR 497 585 thousand (as at 31 December 2007: 91 970 thousand), Eurobonds of the Russian Federation with the fair value of RUR 2 131 045 thousand (2007: none), bonds of foreign governments with the fair value of RUR 5 484 515 thousand (2007: none). As at 31 December 2007 securities purchased from banks under reverse repo agreements also comprised corporate shares with the fair value of RUR 4 308 690 thousand and debt securities of RF Ministry of Finance with the fair value of RUR 417 069 thousand.

(in thousands of Russian Roubles)

Movements in the provision for impairment of due from other banks are as follows:

	2008	2007
Provision for impairment of due from other banks as at 1 January	**28 476**	**9 278**
(Recovery of provision)/Provision for impairment of due from other banks during the year	(24 353)	20 029
Exchange difference	(977)	(831)
Provision for impairment of due from other banks as at 31 December	**3 146**	**28 476**

The credit quality analysis of due from other banks as at 31 December 2008 and as at 31 December 2007 has shown that all the above classes of due from other banks in the total amount of RUR 74 338 834 thousand are current (as at 31 December 2007: RUR 40 879 007 thousand). Due from other banks in the amount of RUR 1 415 thousand (as at 31 December 2007: RUR 2 549 thousand) are more than 1 year overdue.

There are no revised balances representing the carrying amount of due from other banks whose payment would otherwise be overdue.

Due from other banks except for "reverse repo" transactions are not collateralised.

Geographical analysis and analysis of due from other banks by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 30. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 34.

8. Loans to Customers

	2008	2007
Corporate loans	349 322 311	219 096 665
Loans to small and medium business	46 519 103	42 300 754
Loans to government and municipal authorities	16 077 139	5 524 281
Reverse repo agreements	4 465 770	14 599 704
Less: provision for impairment of loans to legal entities	(6 432 960)	(2 375 000)
Total loans to legal entities	**409 951 363**	**279 146 404**
Consumer loans	57 144 119	35 627 724
Mortgage loans	30 937 434	17 326 936
Car loans	15 714 246	13 816 866
Credit cards	5 759 444	3 593 714
Scoring loans	3 424 996	4 203 119
Overdrafts	88 805	57 586
Less: provision for impairment of loans to individuals	(6 456 638)	(2 150 118)
Total loans to individuals	**106 612 406**	**72 475 827**
Total loans to customers	**516 563 769**	**351 622 231**

As at 31 December 2008, accrued interest on impaired loans amounted to RUR 197 674 thousand (2007: RUR 146 514 thousand).

As at 31 December 2008, the Group had 7 borrowers (2007: 3 borrowers) with the total amount over 10% of the Group's capital. The aggregate amount of these loans was RUR 65 170 327 thousand (2007: RUR 16 944 403 thousand) or 12.6% of loans to customers (2007: 4.8%).

As at 31 December 2008, securities acquired under reverse repo agreements comprise corporate bonds with the fair value of RUR 8 190 thousand (2007: RUR 6 242 152 thousand), bonds of RF subjects with the fair value of RUR 461 982 thousand (2007: RUR: 2 101 871 thousand), Eurobonds of the Russian Federation with the fair value of RUR 2 323 318 thousand (2007: none), corporate Eurobonds with the fair value of RUR 1 910 134 thousand (2007: none). As at 31 December 2007 securities purchased from customers under reverse repo agreements also comprised debt securities of the Russian Ministry of Finance with the fair value of RUR 2 099 203 thousand and corporate shares with the fair value of RUR 6 748 531 thousand.

There are no revised balances representing the carrying amount of loans to customers whose payment would otherwise be overdue.

(in thousands of Russian Roubles)

Movements in the provision for impairment of loans to legal entities during 2008 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	**1 651 104**	**722 296**	**1 600**	**2 375 000**
(Recovery of provision)/Provision for impairment during the year	1 838 256	2 105 772	(984)	3 943 044
Provision of the acquired subsidiary	94 430	2 867	-	97 297
Exchange difference	9 053	30 540	-	39 593
Loans written off during the year as uncollectible	(17 925)	(4 049)	-	(21 974)
Provision for impairment of loans to legal entities as at 31 December	**3 574 918**	**2 857 426**	**616**	**6 432 960**

Movements in the provision for impairment of loans to individuals during 2008 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Over-drafts	Total
Provision for impairment of loans to individuals as at 1 January	**840 243**	**26 391**	**368 298**	**662 103**	**244 175**	**8 908**	**2 150 118**
Provision for impairment during the year	3 044 643	110 141	531 605	768 212	588 750	4 773	5 048 124
Provision of the acquired subsidiary	398	-	-	-	-	-	398
Exchange difference	7 570	1 332	189	1 157	135	58	10 441
Loans written off during the year as uncollectible	(120 562)	(1 515)	-	(570 650)	(59 716)	-	(752 443)
Provision for impairment of loans to individuals as at 31 December	**3 772 292**	**136 349**	**900 092**	**860 822**	**773 344**	**13 739**	**6 456 638**

Movements in the provision for impairment of loans to legal entities during 2007 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	**1 458 376**	**485 064**	**-**	**1 943 440**
Provision for impairment during the year	196 480	247 118	1 600	445 198
Exchange difference	1 005	(8 486)	-	(7 481)
Loans written off during the year as uncollectible	(4 757)	(1 400)	-	(6 157)
Provision for impairment of loans to legal entities as at 31 December	**1 651 104**	**722 296**	**1 600**	**2 375 000**

Movements in the provision for impairment of loans to individuals during 2007 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Over-drafts	Total
Provision for impairment of loans to individuals as at 1 January	**166 049**	**6 076**	**42 514**	**809 644**	**358 127**	**10 558**	**1 392 968**
(Recovery of provision)/Provision for impairment during the year	760 679	20 148	325 814	743 783	132 958	(1 650)	1 981 732
Exchange difference	452	167	(30)	-	-	-	589
Loans written off during the year as uncollectible	(86 937)	-	-	(891 324)	(246 910)	-	(1 225 171)
Provision for impairment of loans to individuals as at 31 December	**840 243**	**26 391**	**368 298**	**662 103**	**244 175**	**8 908**	**2 150 118**

(in thousands of Russian Roubles)

Structure of the Group's loan portfolio by type of ownership is as follows:

	2008		2007	
Type of ownership	**Amount**	**%**	**Amount**	**%**
Loans to non-state entities and organisations	375 415 426	70.9	258 167 041	72.4
Loans to individuals	113 069 044	21.4	74 625 945	21.0
Loans to RF subjects	16 077 139	3.0	5 524 281	1.6
Loans to enterprises in federal ownership	14 304 160	2.7	13 046 627	3.6
Loans to enterprises owned by the Government of the City of Moscow	7 644 086	1.4	4 138 342	1.2
Loans to enterprises in regional (municipal) ownership (other than the Government of the City of Moscow)	2 943 512	0.6	645 113	0.2
Total loans to customers (gross)	**529 453 367**	**100.0**	**356 147 349**	**100.0**

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

	2008		2007	
	Amount	**%**	**Amount**	**%**
Individuals	113 069 044	21.4	74 625 945	21.0
Financial and other services	111 806 273	21.1	66 528 365	18.7
Construction	69 472 928	13.1	57 140 438	16.0
Manufacturing	62 399 134	11.8	63 113 533	17.7
Trade	54 075 477	10.2	47 747 211	13.4
Transport and communications	28 260 557	5.3	7 678 857	2.2
Fuel and energy sector	23 106 903	4.4	4 962 882	1.4
Metallurgy	16 996 2573.2		7 496 040	2.1
State agencies	16 077 1393.1		5 524 281	1.6
Food industry	12 243 655	2.3	6 118 862	1.7
Agriculture and fishing	2 180 390	0.4	1 083 384	0.3
Science	2 128 427	0.4	2 399 520	0.7
Other	17 637 183	3.3	11 728 031	3.2
Total loans to customers (gross)	**529 453 367**	**100.0**	**356 147 349**	**100.0**

The table below contains information on the collateral as at 31 December 2008:

	Guarantees and sureties	**Property**	**Securities**	**Total**
Corporate loans	425 908 330	216 372 059	74 261 610	716 541 999
Loans to small and medium business	81 192 031	84 698 833	1 786 813	167 677 677
Reverse repo agreements	-	-	4 703 624	4 703 624
Total collateral against loans to legal entities	**507 100 361**	**301 070 892**	**80 752 047**	**888 923 300**
Car loans	10 430 989	24 962 854	313	35 394 156
Consumer loans	11 858 001	2 602 420	66 690	14 527 111
Mortgage loans	14 149 343	34 963 101	2 135 664	51 248 108
Total collateral against loans to individuals	**36 438 333**	**62 528 375**	**2 202 667**	**101 169 375**
Total collateral against loans to customers	**543 538 694**	**363 599 267**	**82 954 714**	**990 092 675**

(in thousands of Russian Roubles)

The table below contains information on the collateral as at 31 December 2007:

	Guarantees and sureties	Property	Securities	Total
Corporate loans	183 292 942	140 645 845	44 625 455	368 564 242
Loans to small and medium business	116 094 069	50 447 451	2 099 408	168 640 928
Reverse repo agreements	-	-	17 191 757	17 191 757
Total collateral against loans to legal entities	**299 387 011**	**191 093 296**	**63 916 620**	**554 396 927**
Car loans	9 557 942	21 243 026	313	30 801 281
Consumer loans	6 038 965	1 137 577	237 486	7 414 028
Mortgage loans	6 041 858	21 787 515	769 950	28 599 323
Total collateral against loans to individuals	**21 638 765**	**44 168 118**	**1 007 749**	**66 814 632**
Total collateral against loans to customers	**321 025 776**	**235 261 414**	**64 924 369**	**621 211 559**

The fair value of collateral may vary from the carrying amount.

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

	Loans without overdue payments		Impaired loans with overdue payments	Total
	Current	Partially impaired		
Corporate loans	223 340 553	125 630 345	351 413	349 322 311
Loans to small and medium business	24 715 732	20 518 400	1 284 971	46 519 103
Loans to government and municipal authorities	16 015 539	61 600	-	16 077 139
Reverse repo agreements	4 465 770	-	-	4 465 770
Less: provision for impairment of loans to legal entities	-	(4 943 397)	(1 489 563)	(6 432 960)
Total loans to legal entities	**268 537 594**	**141 266 948**	**146 821**	**409 951 363**
Consumer loans	449 890	43 391 863	13 302 366	57 144 119
Mortgage loans	29 743 725	-	1 193 709	30 937 434
Car loans	14 025 998	-	1 688 248	15 714 246
Credit cards	16 827	4 355 624	1 386 993	5 759 444
Scoring loans	76 017	2 377 424	971 555	3 424 996
Overdrafts	70 610	-	18 195	88 805
Less: provision for impairment of loans to individuals	-	(364 133)	(6 092 505)	(6 456 638)
Total loans to individuals	**44 383 067**	**49 760 778**	**12 468 561**	**106 612 406**
Total loans to customers	**312 920 661**	**191 027 726**	**12 615 382**	**516 563 769**

In the second half of the year 2007 a crisis on the international financial market made the Group revise its approach to risk assessment.

The strategic objective set by the Group was to apply a more conservative approach in evaluating the quality of the borrowers' financial position. The Group increased requirements to the size and quality of collateral. As a result, the volume of current impaired loans increased as at 31 December 2007 as loans were categorized as impaired due to the toughened provisioning requirements and not due to actual growth in the borrowers' default on their obligations.

In the year 2008 for the first time the Group applied a statistics-based approach to the quality analysis of loans provided to individuals based on the data of actual losses on loans for the last five years and recognized impairment in respect of some loans previously recorded as current.

(in thousands of Russian Roubles)

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

	Current	Overdue			Total
		Less than 1 month	From 1 to 6 months	More than 6 months	
Corporate loans	125 653 345	90 467	126 353	111 593	125 981 758
Loans to small and medium business	20 889 355	386 348	239 038	288 630	21 803 371
Loans to government and municipal authorities	61 600	-	-	-	61 600
Less: provision for impairment of loans to legal entities	(5 337 352)	(444 880)	(281 365)	(369 363)	(6 432 960)
Total impaired loans to legal entities	**141 266 948**	**31 935**	**84 026**	**30 860**	**141 413 769**
Consumer loans	53 932 393	125 377	336 288	2 300 171	56 694 229
Mortgage loans	1 085 905	10 767	38 490	58 547	1 193 709
Car loans	1 001 834	10 672	52 084	623 658	1 688 248
Credit cards	5 173 142	29 692	111 274	428 509	5 742 617
Scoring loans	2 728 414	12 536	58 681	549 348	3 348 979
Overdrafts	863	2 475	3 624	11 233	18 195
Less: provision for impairment of loans to individuals	(2 265 502)	(9 290)	(229 125)	(3 952 721)	(6 456 638)
Total impaired loans to individuals	**61 657 049**	**182 229**	**371 316**	**18 745**	**62 229 339**
Total impaired loans to customers	**202 923 997**	**214 164**	**455 342**	**49 605**	**203 643 108**

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

	Loans without overdue payments		Impaired loans with overdue payments	Total
	Current	Partially impaired		
Corporate loans	117 443 094	101 629 076	24 495	219 096 665
Loans to small and medium business	13 819 501	28 233 040	248 213	42 300 754
Loans to government and municipal authorities	5 364 281	160 000	-	5 524 281
Reverse repo agreements	14 599 704	-	-	14 599 704
Less: provision for impairment of loans to legal entities	-	(2 140 914)	(234 086)	(2 375 000)
Total loans to legal entities	**151 226 580**	**127 881 202**	**38 622**	**279 146 404**
Consumer loans	30 281 576	-	5 346 148	35 627 724
Mortgage loans	16 958 535	-	368 401	17 326 936
Car loans	13 004 502	-	812 364	13 816 866
Credit cards	2 877 508	-	716 206	3 593 714
Scoring loans	3 639 610	-	563 509	4 203 119
Overdrafts	45 677	-	11 909	57 586
Less: provision for impairment of loans to individuals	-	-	(2 150 118)	(2 150 118)
Total loans to individuals	**66 807 408**	**-**	**5 668 419**	**72 475 827**
Total loans to customers	**218 033 988**	**127 881 202**	**5 707 041**	**351 622 231**

(in thousands of Russian Roubles)

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

	Current	Overdue			Total
		Less than 1 month	From 1 to 6 months	More than 6 months	
Corporate loans	101 629 076	-	3 843	20 652	101 653 571
Loans to small and medium business	28 273 705	57 944	42 134	107 470	28 481 253
Loans to government and municipal authorities	160 000	-	-	-	160 000
Less: provision for impairment of loans to legal entities	(2 181 579)	(43 854)	(38 434)	(111 133)	(2 375 000)
Total impaired loans to legal entities	**127 881 202**	**14 090**	**7 543**	**16 989**	**127 919 824**
Consumer loans	4 736 496	68 090	117 030	424 532	5 346 148
Mortgage loans	351 643	319	7 734	8 705	368 401
Car loans	619 550	5 587	26 218	161 009	812 364
Credit cards	506 621	17 322	49 000	143 263	716 206
Scoring loans	66 379	5 971	37 663	453 496	563 509
Overdrafts	17	1 380	2 418	8 094	11 909
Less: provision for impairment of loans to individuals	(854 257)	(8 670)	(97 445)	(1 189 746)	(2 150 118)
Total impaired loans to individuals	**5 426 449**	**89 999**	**142 618**	**9 353**	**5 668 419**
Total impaired loans to customers	**133 307 651**	**104 089**	**150 161**	**26 342**	**133 588 243**

Geographical analysis and analysis of loans to customers by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 30. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 34.

9. Financial Assets Available for Sale

	2008	2007
Equity securities	10 002 586	3 239 911
Bonds of foreign governments	506 113	-
Corporate debt securities	229 493	448 163
Corporate Eurobonds	29 828	93 626
Less: provision for impairment of financial assets available for sale	(123 480)	(10 519)
Total financial assets available for sale	**10 644 540**	**3 771 181**

Equity securities mainly represent shares and equity holdings of Moscow enterprises: OJSC Serp & Molot, CJSC Investlesprom, CJSC Insurance Group, OJSC Pushkinskaya Ploshchad Polygraphic Company, JSC Zarechiye, as well as shares of JSCB Russky Zemelny Bank, JSCB Zarechiye and JSCB Bank of Khakasia.

Bonds of foreign governments are represented by discount securities of Ministry of Finance of Belarus denominated in BYR with maturity ranging from 6 January 2009 to 15 April 2009 and yield to maturity ranging from 10.03% to 10.28% per annum.

Corporate debt securities are represented by interest-bearing securities issued by Ukraine companies with maturity ranging from 28 February 2009 to 16 September 2009 with the coupon rate ranging from 13.25% to 23.0% per annum and yield to maturity from 11.8% to 19.11% per annum.

Corporate Eurobonds are represented by interest-bearing bonds of CJSC AKB Gazbank denominated in USD with maturity on 20 May 2010, the coupon rate of 9.75% per annum and yield to maturity ranging of 9.75% per annum.

(in thousands of Russian Roubles)

Movements in financial assets available for sale are as follows:

	2008	2007
Financial assets available for sale as at 1 January (gross)	**3 781 700**	**433 646**
Gains less losses from revaluation at fair value	(4 240)	5 161
Accrued interest income	189 796	96 880
Interest received	(81 133)	(26 305)
Acquisitions	11 067 566	665 104
Disposals	(1 192 608)	(250 531)
Fair value of shares acquired as a result of exchange	-	2 909 957
Reclassification to investments held to maturity	(209 282)	-
Reclassification from financial assets at fair value through profit or loss	39 479	-
Transfer to associates*	(2 909 957)	-
Transfer from associates*	62 741	-
Exchange difference	23 958	(52 212)
Financial assets available for sale as at 31 December (gross)	**10 768 020**	**3 781 700**

* Additional information is presented in Note 11.

Movements in the provision for impairment of financial assets available for sale are as follows:

	2008	2007
Provision for impairment of financial assets available for sale as at 1 January	**10 519**	**10 519**
Provision for impairment of financial assets available for sale	113 868	-
Exchange difference	(907)	-
Provision for impairment of financial assets available for sale as at 31 December	**123 480**	**10 519**

Below there is analysis of assets reclassified into assets available for sale during 2008. Reclassification was made by subsidiary banks of the Group - AS Latvijas Biznesa Banka and AS Eesti Krediidipank:

	Financial assets at fair value through profit or loss		**Available for sale**	
	Corporate Eurobonds	Equity securities	Corporate Eurobonds	Equity securities
Results on reclassifications as if there were no reclassification				
Carrying value	38 773	706	-	-
Fair value	38 773	706	-	-
Expenses from movements in fair value of assets which would be recognized in the consolidated statement of income	-	(2 471)	-	-
Results on reclassified assets on the reporting date after reclassification				
Carrying value	-	-	38 773	706
Fair value	-	-	38 773	706
Income/expense recognized in the consolidated statement of income	-	-	1 059	(530)
Expenses recognized in equity	-	-	-	(2 471)

(in thousands of Russian Roubles)

10. Investments Held to Maturity

	2008
Corporate Eurobonds	398 712
Corporate bonds	282 989
Corporate promissory notes	193 814
Bonds of RF subjects and local authorities	51 849
Bonds of foreign governments	33 836
Less: provision for impairment of investments held to maturity	(1 484)
Total investments held to maturity	**959 716**

Corporate Eurobonds are represented by interest-bearing securities denominated in USD and EUR issued by large Russian, Latvian, Belarus and Ukrainian companies and credit institutions quoted on international markets. As at 31 December 2008, corporate Eurobonds in the Group's portfolio have maturity dates from 22 January 2009 to 5 March 2014, coupon rates ranging from 4.17% to 10.00% per annum in the year 2008 and yield to maturity ranging from 6.65% to 11.09% per annum, depending on the issue.

Corporate bonds are represented by interest-bearing securities denominated in RUR issued by large Russian companies and credit institutions quoted on the MICEX. Corporate bonds in the Group's portfolio as at 31 December 2008 have maturities ranging from 1 April 2009 to 15 March 2040, coupon rates ranging from 6.79% to 22.0% in 2008 and yield to maturity ranging from 9.86% to 262.52% per annum depending on the issue.

As at 31 December 2008 corporate bonds include OJSC The Agency for Housing Mortgage Lending issued under securitization of mortgage portfolio. Corporate bonds have the fair value of RUR 6 323 thousand with maturities ranging from 15 June 2018 from 15 November 2018, coupon rates ranging from 7.63% to 8.05% per annum and yield to maturity ranging from 18.1% to 20.7% per annum.

Corporate promissory notes are Rouble-denominated notes of large Russian credit institutions. As at 31 December 2008, promissory notes in the Group's portfolio have maturities from 12 January 2009 to 24 February 2009 and yield to maturity ranging from 9.45% to 12.65% per annum.

Bonds of RF subjects and local authorities represent Rouble-denominated interest-bearing securities quoted on the MICEX. As at 31 December 2008, these bonds in the Group's portfolio have maturities from 27 March 2009 to 20 December 2012, coupon rates ranging from 7.50% to 12.0 % per annum and yield to maturity from 8.19% to 31.43% per annum, depending on the issue.

Bonds of foreign governments are represented by interest-bearing securities denominated in Latvian lat quoted on the Stock Exchange of Riga. These bonds in the Group's portfolio as at 31 December 2008 have maturity date 14 February 2013, the coupon rate of 5.13% per annum and yield to maturity of 5.14% per annum.

Movements of the portfolio of investments held to maturity are as follows:

	2008
Carrying value as at 1 January (gross)	
Accrued interest income	13 290
Interest received	(12 822)
Reclassification from financial assets at fair value through profit or loss	751 918
Reclassification from financial assets available for sale	209 282
Exchange difference	(468)
Carrying value as at 31 December (gross)	**961 200**

(in thousands of Russian Roubles)

Below, there is analysis of assets reclassified to assets held to maturity during 2008. Reclassification was performed by the following banks of the Group: AS Latvijas Biznesa Banka, AS Eesti Krediidipank and OJSCB Mosvodokanalbank.

	Financial assets										
	at fair value though profit or loss				available for sale		held to maturity				
	Corporate bonds	Corporate Eurobonds	Bonds of RF subjects and local authorities	Corporate promissory notes	Bonds of foreign govern-ments	Corporate Eurobonds	Corporate Eurobonds	Corporate bonds	Corporate promissory notes	Bonds of RF subjects and local authorities	Bonds of foreign govern-ments
Results on reclassified assets as if there were no reclassification											
Carrying value	282 989	189 430	51 849	192 330	33 836	209 282	-	-	-	-	-
Fair value	273 712	103 560	49 305	198 654	33 836	175 451	-	-	-	-	-
Expense from movements in fair value of assets which would be recognized in the consolidated statement of income	(9 277)	(85 870)	(2 544)	-	-	-	-	-	-	-	-
Income/expense from movements in fair value of assets which would be recognized in equity	-	-	-	6 324	-	(33 831)	-	-	-	-	-
Results on reclassified assets at the reporting date after reclassification											
Carrying value	-	-	-	-	-	-	398 712	282 989	193 814	51 849	33 836
Fair value	-	-	-	-	-	-	279 011	273 712	198 654	49 305	33 836
Income recognized in the consolidated statement of income	-	-	-	-	-	-	941	-	-	-	-
Income recognized in equity	-	-	-	-	-	-	941	-	-	-	-

(in thousands of Russian Roubles)

The analysis of movements in the provision for impairment of investments held to maturity during 2008 is presented below:

	2008
Provision for impairment of investments held to maturity as at 1 January	**-**
Provision for impairment of investments held to maturity	1 484
Provision for impairment of investments held to maturity as at 31 December	**1 484**

11. Investments in Associates and Non-Consolidated Subsidiaries

	2008	2007
Investments in associates	3 950 186	236 792
Investments in non-consolidated subsidiaries	15 423	30 091
Total investments in associates and non-consolidated subsidiaries	**3 965 609**	**266 883**

Movements in the carrying value of investments in associates are as follows:

	2008	2007
Carrying value as at 1 January	**236 792**	**722 895**
Share in net profit of the associates	842 538	19 113
Transfer from the financial assets available for sale	2 909 957	-
Fair value of increase of share in associates	15 200	-
Acquisition/(disposal) of associates	8 459	(505 216)
Transfer to the financial assets available for sale	(62 741)	-
Exchange difference	(19)	-
Carrying value as at 31 December	**3 950 186**	**236 792**

Below is the list of investments in associates:

	2008		2007	
Name	**Amount of investment**	**% of ownership**	**Amount of investment**	**% of ownership**
O.J.S.C. «Metropolitan Insurance group» *	3 762 365	24.9	-	-
JSCB Russian National Commercial Bank	145 309	20.0	137 277	20,0
LLC Pension Reserve**	27 410	19.0	-	-
CJSC Automated Banking Technologies	13 811	20.0	27 764	20,0
Äigrumäe Kinnisvara AS	1 234	44.5	1 179	44,5
SIA"LBB ĪPAŠUMI"***	57	49.0	-	-
City Centre for Data Processing (EIRTS), LLC	-	49.5	-	49,5
VM-Service, LLC****	-	-	-	48,5
JSCB Russky Zemelny Bank*****	-	-	70 572	31,0
Total investments in associates	**3 950 186**		**236 792**	

* In the reporting period, O.J.S.C. «Metropolitan Insurance group» was transferred from financial assets available for sale into associates.

** The company is acquired in the reporting period. Information on acquisition of the associate is disclosed in Note 27.

*** The company is set up in the reporting period. Information on foundation of the associate is disclosed in Note 27.

**** The company is sold in the reporting period. Information on disposal of the associate is disclosed in Note 27.

***** The bank was transferred from associates into financial assets held for sale. Additional information is disclosed in Note 27.

(in thousands of Russian Roubles)

Below is the list of investments in non-consolidated subsidiaries:

	2008		2007	
Name	**Amount of investment**	**% of ownership**	**Amount of investment**	**% of ownership**
Private security company Yaroslavna, LLC	15 414	75.3	15 520	75.3
LLC VM-Open City	9	100.0	-	-
BM Holding LTD*	-	100.0	9 665	100.0
Editorial office of MK-Boulevard magazine, LLC	-	50.0	4 896	50.0
CJSC Monolit	-	99.0	10	99.0
CJSC Stolichnaya Neftyanaya Kompania	-	75.0	-	75.0
Total investments in non-consolidated subsidiaries	**15 423**		**30 091**	

* As at 31 December 2007, the company was included in the financial statements of the companies BoM Finance Ltd., BoM Assets Management Ltd. and Crossplanet Ltd.

Financial statements of the above subsidiaries were not included in the Group's consolidated financial statements, as they would not have a material effect on the consolidated financial statements (less than 0.1% of total assets and net profit of the Group for 2008 and 2007).

(in thousands of Russian Roubles)

12. Premises and equipment and intangible assets

	Premises	Office and computer equipment and other fixed assets	Capital investments	Intangible assets	Total
Carrying value as at 31 December 2007	**4 805 478**	**1 765 703**	**752 452**	**476 420**	**7 800 053**
Initial/revalued cost					
Balance as at 31 December 2007	5 050 535	3 197 402	752 452	676 020	9 676 409
Purchased with a subsidiary (Note 27)	4 940 991	14 763	-	-	4 955 754
Additions	331 007	350 182	537 188	316 138	1 534 515
Transfer to another category	241 354	92 332	(333 686)	-	-
Disposals	(735 115)	(455 773)	(54 872)	(1 068)	(1 246 828)
Revaluation	6 297 247	-	-	-	6 297 247
Elimination of accumulated depreciation of revalued premises and equipment	(209 102)	-	-	-	(209 102)
Effect of exchange rate movements	109 337	8 567	59 398	1 034	178 336
Balance as at 31 December 2008	**16 026 254**	**3 207 473**	**960 480**	**992 124**	**21 186 331**
Accumulated depreciation					
Balance as at 31 December 2007	245 057	1 431 699	-	199 600	1 876 356
Purchased with a subsidiary	7 735	12 293	-	-	20 028
Transfer to another category	(40 067)	40 067	-	-	-
Depreciation charges	132 541	450 302	-	104 445	687 288
Disposals	(19 096)	(455 384)	-	(646)	(475 126)
Elimination of accumulated depreciation of revalued premises and equipment	(209 102)	-	-	-	(209 102)
Effect of exchange rate movements	17 017	12 839	-	1 414	31 270
Balance as at 31 December 2008	**134 085**	**1 491 816**	**-**	**304 813**	**1 930 714**
Carrying value as at 31 December 2008	**15 892 169**	**1 715 657**	**960 480**	**687 311**	**19 255 617**

(in thousands of Russian Roubles)

	Premises	Office and computer equipment and other fixed assets	Capital investments	Intangible assets	Total
Carrying value as at 31 December 2006	**4 197 806**	**1 820 669**	**476 644**	**84 244**	**6 579 363**
Initial cost					
Balance as at 31 December 2006	4 425 147	3 102 732	476 644	221 729	8 226 252
Additions	614 789	310 897	437 588	457 259	1 820 533
Transfer to another category	10 918	2 593	(13 511)	-	-
Disposals	-	(214 322)	(136 137)	(2 317)	(352 776)
Effect of exchange rate movements	(319)	(4 498)	(12 132)	(651)	(17 600)
Balance as at 31 December 2007	**5 050 535**	**3 197 402**	**752 452**	**676 020**	**9 676 409**
Accumulated depreciation					
Balance as at 31 December 2006	227 341	1 282 063	-	137 485	1 646 889
Depreciation charges	14 009	286 145	-	64 183	364 337
Disposals	-	(135 589)	-	(2 321)	(137 910)
Effect of exchange rate movements	3 707	(920)	-	253	3 040
Balance as at 31 December 2007	**245 057**	**1 431 699**	**-**	**199 600**	**1 876 356**
Carrying value as at 31 December 2007	**4 805 478**	**1 765 703**	**752 452**	**476 420**	**7 800 053**

(in thousands of Russian Roubles)

The Group's premises were appraised by an independent valuer as at 31 December 2008. The valuation was performed by the independent appraiser Neo Centre LLC and was based on the market value. The revaluation of premises was performed by OJSC Bank of Moscow and the subsidiaries CJSC Imagine , CJSC DOSSOM and CJSC Concern Vechernyaya Moskva. The carrying value of the premises amounts to RUR 6 697 728 thousand representing positive revaluation of the Group's premises. Deferred tax liability from this revaluation of property was charged to reserve for revaluation of premises and equipment within the Group's equity.

As at 31 December 2008, property comprised items received by the Group under finance lease contracts in the total amount of RUR 856 667 thousand (2007: RUR 1 180 095 thousand). Upon termination of the lease term, the right of ownership is transferred to the Group.

Capital investments represent investments in construction and renovation of premises. Upon completion of the work, these assets are reflected in the corresponding category of premises and equipment.

13. Other Assets

	2008	2007
Receivables	3 080 772	1 135 627
Insurance claims	897 817	-
Advance payments	540 908	519 871
Prepaid expenses	390 385	123 579
Plastic card receivables	191 900	112 376
Property transferred to the Group as debt repayment	138 566	104 150
Taxes payable (other than income tax)	35 711	8 955
Other	424 271	225 458
Less: provision for impairment of other assets	(366 038)	(2 750)
Total other assets	**5 334 292**	**2 227 266**

The insurance claims are claims filed to the Deposit Insurance Agency to compensate payments made to the individual depositors of the banks with a recalled license.

Security received by the Group into its ownership for non-payments represents property received by the Group in settlement of overdue loans. The Group intends to realize these assets in the foreseeable future. Initially, these assets were carried at fair value.

The table below shows the analysis of changes in the provision for impairment of other assets:

	2008	2007
Provision for impairment of other assets as at 1 January	**2 750**	**1 816**
Provision	361 231	1 001
Exchange differences	2 057	(67)
Provision for impairment of other assets as at 31 December	**366 038**	**2 750**

Receivables are not secured by collateral.

The table below shows the credit quality analysis of other financial assets as at 31 December 2008:

	Current	Overdue				Total
		Less than 1 month	From 1 to 6 months	From 6 months to 1 year	More than 1 year	
Receivables	2 413 725	119 163	23 194	447 829	76 861	3 080 772
Insurance claims	897 817	-	-	-	-	897 817
Plastic card receivables	191 900	-	-	-	-	191 900
Less: provision for impairment of other assets	(30 065)	-	(5 775)	(223 915)	(76 741)	(336 496)
Total other financial assets	**3 473 377**	**119 163**	**17 419**	**223 914**	**120**	**3 833 993**

The credit quality analysis of other financial assets as at 31 December 2007 showed that all other financial assets in the total amount of RUR 1 248 003 thousand are current.

The geographical analysis of other assets by currency structure and maturities is disclosed in Note 30.

(in thousands of Russian Roubles)

14. Due to Other Banks

	2008	2007
Term deposits and loans of other banks	86 112 317	24 565 374
Loans and deposits of CBR	79 407 816	-
Syndicated loans of foreign banks	39 814 178	40 117 444
Correspondent accounts of other banks	3 306 431	2 509 921
Repo agreements with other banks	3 304 225	-
Subordinated loan	2 978 659	2 431 982
Total due to other banks	**214 923 626**	**69 624 721**

As at 31 December 2008, the Group raised funds over 10% of the Group's capital from three banks (as at 31 December 2007: four banks). The aggregate amount of these funds was RUR 159 278 857 thousand (as at 31 December 2007: RUR 34 258 674 thousand) or 74.1% of due to other banks (as at 31 December 2007: 49.2%).

As at 31 December 2008, the securities sold under repo agreements include RF government and corporate Eurobonds with the fair value of RUR 1 036 915 thousand and RUR 5 207 412 thousand, accordingly (as at 31 December 2007: none).

The Group raised syndicated loans from foreign banks:

Description	Interest rate	Payment schedule	Date of origination	Maturity date	Nominal value, '000	Carrying amount, RUR'000
I	LIBOR+0.7%	every half year	11.05.2006	11.05.2009	$400 000	11 796 714
II	LIBOR+0.55%	every half year	19.03.2007	19.03.2010	$105 000	3 110 248
III	LIBOR+0.55%	every half year	23.11.2007	24.05.2010	$600 000	17 571 465
IV	LIBOR+0.65%	every half year	13.05.2008	13.11.2009	$220 000	6 435 254
Total syndicated loans in USD					**$1 325 000**	**38 913 681**
I	EURIBOR +0.7%	quarterly	04.10.2008	23.09.2009	€22 000	900 497
Total syndicated loans in EUR					**€22 000**	**900 497**
Total syndicated loans						**39 814 178**

In 2008 the Group raised a loan from Sumitomo Mitsui Banking Corporation Europe LTD in the amount of JPY 5 500 thousand (RUR 1 791 785 thousand) maturing on 11 July 2011.

In 2008 the Group raised a loan from ING Bank, Amsterdam, in the amount of USD 25 300 thousand (RUR 743 324 thousand) maturing on 25 June 2010.

In 2007 the Group raised a loan from Sumitomo Mitsui Banking Corporation Europe LTD in the amount of JPY 3 900 000 thousand (RUR 1 270 538 thousand) maturing on 18 December 2012.

In 2007 the Group raised a loan from Commerzbank in the amount of 61 150 thousand Swiss francs (or RUR 1 701 982 thousand) maturing prior to 2012.

On 21 December 2006 the Group raised a subordinated loan from ABN Amro Bank in the amount of USD 100 000 thousand (RUR 2 938 040 thousand) maturing on 21 December 2016.

(in thousands of Russian Roubles)

15. Customer Accounts

	2008	2007
Federal and regional budgets and funds		
- Current/settlement accounts	22 312 864	36 169 613
- Term deposits	71 881 514	62 400 000
State-owned organisations		
- Current/settlement accounts	20 882 630	19 976 649
- Term deposits	5 898 151	394 416
Other legal entities		
- Current/settlement accounts	83 096 031	83 463 772
- Term deposits	51 262 070	21 585 297
Individuals		
- Current/demand accounts	29 812 259	27 509 948
- Term deposits	121 395 443	99 146 528
Total customer accounts	**406 540 962**	**350 646 223**

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

As at 31 December 2008, the Group raised funds over 10% of the Group's capital from 2 clients (as at 31 December 2007: 4 clients). The aggregate amount of these funds was RUR 113 205 500 thousand (as at 31 December 2007: RUR 117 796 586 thousand) or 27.8% of customer accounts (as at 31 December 2007: 33.6%).

The geographical analysis and analysis of customer accounts by currency structure, maturities and interest rates are disclosed in Note 30. Information on the funds raised from related parties is disclosed in Note 34.

16. Debt Securities Issued

	2008	2007
Eurobonds	63 952 625	47 989 195
Bonds	20 566 469	611 950
Promissory notes	7 196 136	7 351 781
Certificates of deposit	-	3 365
Total debt securities issued	**91 715 230**	**55 956 291**

As at 31 December 2008, Eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value,'000	Carrying amount, RUR'000	Market price, %
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000	7 487 864	95.54
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000	8 706 896	85.25
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	$300 000	8 849 691	40.11
IV tranche	7.335%, every half year	12.05.2006	13.05.2013	$500 000	14 786 120	62.32
VI tranche, subordinated	6.807%, every half year the first 5 years, then the rate equals US Treasury plus 5.25%	10.05.2007	10.05.2017	$400 000	11 805 818	37.61
VII tranche	6.253% , every year	04.03.2008	04.03.2011	CHF 250 000	7 289 318	76.00
Total foreign currency Eurobonds					**58 925 707**	
V tranche	7.25%, every half year	25.11.2006	25.11.2009	RUR 5 000 000	5 026 918	75.48
Total Eurobonds					**63 952 625**	

(in thousands of Russian Roubles)

As at 31 December 2007, Eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value,'000	Carrying amount, RUR'000	Market price, %
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000	6 242 459	103.88
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000	7 382 074	103.25
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	$300 000	7 373 158	101.94
IV tranche	7.335%, every half year	12.05.2006	13.05.2013	$500 000	12 095 118	102.67
VI tranche, subordinated	6.807%, every half year, then the rate equals US Treasury plus 5.25%	10.05.2007	10.05.2017	$400 000	9 879 418	98.36
Total foreign currency Eurobonds					**42 972 227**	
V tranche	7.25%, every half year	25.11.2006	25.11.2009	RUR 5 000 000	5 016 968	99.25
Total Eurobonds					**47 989 195**	

As at 31 December 2008, the bonds comprised:

Type/code of state registration	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price, %
A	14.5%, every quarter	25.06.2007	21.06.2010	UAH 7 005	27 118	-
B	19%, every quarter	26.11.2007	16.11.2010	UAH 110	432	-
Total bonds in foreign currency					**27 550**	
40202748B	7.85%, every half year	08.02.2008	01.02.2013	RUR 10 000 000	10 228 668	100.59
40102748B	9.25%, every half year	01.08.2008	29.07.2011	RUR 10 000 000	10 310 251	99.99
Total bonds in Russian Roubles					**20 538 919**	
Total bonds					**20 566 469**	

As at 31 December 2007, the bonds comprised:

Type/code of state registration	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000
A	13.5%, every quarter	25.06.2007	21.06.2010	UAH 45 000	217 700
B	13%, every quarter	26.11.2007	16.11.2010	UAH 25 000	122 138
EE3300093046	-	01.10.2007	01.04.2008	EKK 7 500	173 689
EE3300080688	4.99%, at the end of the period	20.02.2007	20.02.2008	EKK 4 250	98 423
Total bonds					**611 950**

17. Other Liabilities

	2008	2007
Payables	7 135 007	730 732
Remuneration to employees payable	273 746	681 854
Settlements with plastic cards	194 598	151 883
Taxes payable other than income tax	90 086	2 524
Prepaid income	37 892	46 300
Dividends payable	72	33
Other	239 553	855
Total other liabilities	**7 970 954**	**1 614 181**

As at 31 December 2007, remuneration to employees payable included accrued bonus to the employees in the total amount of RUR 660 366 thousand for the year 2007 which was paid in two instalments in January and March 2008.

(in thousands of Russian Roubles)

18. Minority Interest

Movements in minority interest of the Group are as follows:

	2008	2007
Minority interest as at 1 January	**1 429 045**	**422 511**
Share in net profit	215 694	1 162 627
Dividends declared	-	(1 830)
Acquisition of subsidiaries	(1 336 965)	(161 397)
Exchange difference	17 740	7 134
Minority interest as at 31 December	**325 514**	**1 429 045**

In 2007 the Group's subsidiary AS Eesti Krediidipank declared dividends for the year 2006 in the amount of RUR 15 888 thousand. The Group reflected changes in the minority interest in the amount of RUR 1 830 thousand.

In 2008 dividends were not declared by the Group's subsidiaries.

19. Share Capital

Authorised, issued and fully paid share capital comprises:

	31 December 2008		31 December 2007	
	Number of shares	**Nominal value, RUR'000**	**Number of shares**	**Nominal value, RUR'000**
Ordinary shares	137 359 580	13 735 958	130 000 932	13 000 093
Restatement of share capital prior to 31 December 2002 under IAS 29	-	2 476 746	-	2 476 746
Total share capital	**137 359 580**	**16 212 704**	**130 000 932**	**15 476 839**

The nominal value of each ordinary share is 100 roubles. Each share gives the right of one vote.

The Government of the City of Moscow directly and indirectly (through O.J.S.C. «Metropolitan Insurance group») owns the Bank, being its principal shareholder.

On 28 August 2008, the CBR registered the 12th issue of the Bank of Moscow ordinary voting shares in the amount of 7 358 648 at the nominal value of RUR 100. The shares were offered at the following prices: RUR 1 081 per share under the pre-emptive rights offer and RUR 1 201 per share under open subscription, totalling RUR 8 284 950 thousand, including share premium of RUR 7 549 085 thousand. 44% of the shares of 12th issue was bought out by the Moscow Government.

In the reporting period the subsidiary OJSC International Asset Management Company sold its shares of OJSC Bank of Moscow for RUR 25 167 thousand.

The share capital structure is as follows:

	31 December 2008	31 December 2007
Government of the City of Moscow	44.00%	44.00%
O.J.S.C. «Metropolitan Insurance group»	7.59%	-
OJSC Moscow Insurance Company	5.81%	15.37%
LLC NPO Farmatsevtika*	4.26%	4.51%
LLC Stroyelektromontazh*	4.23%	4.47%
LLC Gazdorstroy Association *	4.20%	4.44%
LLC Khimpromexport *	3.99%	4.20%
Other shareholders with less than 5% in the share capital	25.92%	23.01%
Total	**100.00%**	**100.00%**

* As at 31 December 2008, the ultimate beneficiaries in the proportion of 80/20 are Mr. A.F. Borodin, President of the Bank, and Mr. L.F. Alaluev, Deputy Chairman of the Board of Directors.

(in thousands of Russian Roubles)

20. Interest Income and Expense

	2008	2007
Interest income		
Loans to customers	51 505 595	31 843 735
Due from other banks	5 141 172	3 114 898
Financial assets at fair value through profit or loss	4 747 490	4 488 862
Financial assets available for sale	189 796	96 880
Investments held to maturity	13 290	-
Total interest income	**61 597 343**	**39 544 375**
Interest expense		
Current accounts and term deposits of customers	21 931 770	13 639 449
Term deposits of banks	6 539 654	3 132 395
Debt securities issued	4 744 175	3 695 237
Total interest expense	**33 215 599**	**20 467 081**
Net interest income	**28 381 744**	**19 077 294**

21. Fee and Commission Income and Expense

	2008	2007
Fee and commission income		
Commission on settlement and cash transactions	3 570 757	2 599 497
Commission on operations with plastic cards	1 997 836	1 420 650
Commission on guarantees issued	678 728	382 593
Commission on transactions with securities	222 665	223 321
Commissions from fiduciary activities	212 369	361 253
Commission on cash collection	193 961	178 874
Other	416 538	51 500
Total fee and commission income	**7 292 854**	**5 217 688**
Fee and commission expense		
Commission on cash collection	546 823	437 162
Commission on operations with plastic cards	498 436	359 668
Commission on settlement and cash transactions	245 438	107 623
Commission on guarantees received	65 821	1 565
Commission on transactions with securities	52 549	4 862
Other	105 964	7 022
Total fee and commission expense	**1 515 031**	**917 902**
Net fee and commission income	**5 777 823**	**4 299 786**

22. General and Administrative Expenses

	Note	2008	2007
Staff costs		7 938 238	6 400 878
Rent		1 746 683	1 161 263
Taxes other than income tax		990 703	879 878
Professional services (security, communications and other)		950 217	776 477
Expenses related to premises and equipment		801 054	289 860
Administrative expenses		722 620	307 304
Advertising and marketing		711 210	692 565
Depreciation and amortization	12	687 288	364 337
Charity		136 732	67 096
Other		306 807	551 786
Total general and administrative expenses		**14 991 552**	**11 491 444**

Staff costs include remuneration to employees and unified social tax.

(in thousands of Russian Roubles)

23. Other Operating Income less Expenses

	2008	2007
Fines and penalties received and paid	985 318	452 381
Proceeds from property lease	214 097	247 476
Net income from sale of goods, work and services by non-banks	16 187	157 554
Other	128 763	100 582
Total other operating income less expenses	**1 344 365**	**957 993**

24. Income Tax

Income tax expense comprises:

	2008	2007
Current income tax expense	1 890 238	2 735 176
Deferred taxation movement due to origination and reversal of temporary differences	625 657	455 368
Less: deferred taxation charged directly to equity	(1 244 710)	(44 160)
Total income tax expense	**1 271 185**	**3 146 384**

Each entity of the Group files individual tax returns.

The current tax rate applicable to the major portion of the profits earned by the Bank of Moscow and its Russian resident subsidiaries in the year 2008 is 24% (2007: 24%). The income tax rate for Latvian residents is 15% (2007: 15%), for Ukrainian residents – 25% (2007: 25%), for Serbian residents – 10%, and the effective tax rate for Byelorussian residents is 26.3% (2007: 26.3%).

In 2008 the tax rate applicable to coupon income on state securities was: 15% on coupon income of OFZ and OVGVZ issued in 1999; 0% on OVGVZ coupon income of the 5th -7th tranches; 24% on coupon income of Russian Government Eurobonds. In 2006, the tax rate applicable to coupon income on state securities of RF subjects was 15% and to coupon income on securities of local authorities - 9%.

Current tax expense of the Bank and its subsidiaries located on the territory of the Russian Federation was computed based on the amount of profits calculated under Russian federal accounting regulations and adjusted for compliance with the Russian tax legislation. Accordingly, current tax expense of the subsidiary banks located on the territory of Latvia, Estonia, Belarus, Ukraine and Serbia was determined in compliance with local tax legislation.

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

	2008	2007
IFRS profit before taxation	**8 249 115**	**13 192 614**
Theoretical tax charge at the rate of 24% (2007: 24%)	2 460 078	3 166 227
Non-taxable income less non-deductible expenses	(920 861)	212 579
Influence of income tax rate change to 20% from 1 January 2009	(166 630)	-
Income on government securities taxed at different rates	(75 953)	(229 882)
Adjustments for non-resident subsidiary banks' profits taxed at different rates	(25 449)	(2 540)
Income tax expense for the year	**1 271 185**	**3 146 384**

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying value of certain assets and liabilities for consolidated financial reporting purposes and for the Group's profit tax purposes. Since 1 January 2009, the income tax rate in the Russian Federation was fixed at 20%. Deferred tax assets (deferred tax liabilities) as at 1 January 2009 are reflected at the rate of 20% (2007: 24%), except for coupon income on government securities that taxed at the rate of 15% (2007: 15%).

(in thousands of Russian Roubles)

	2008	Change	Effect from change of income tax rate	2007
Tax effect of deductible temporary differences				
Premises and equipment and intangible assets	309 166	177 830	(26 230)	157 566
Recognized deferred tax assets of subsidiary banks	14 544	7 906	-	6 638
Provision for loan impairment	-	(173 673)	(34 735)	208 408
Other liabilities	-	(80 691)	(16 140)	96 831
Total deferred tax assets (gross)	**323 710**	**(68 628)**	**(77 105)**	**469 443**
Tax effect of taxable temporary differences				
Revaluation of premises and equipment	(1 333 267)	(1 259 439)	14 729	(88 557)
Premises and equipment and intangible assets	(203 744)	492 049	139 159	(834 952)
Revaluation of securities at fair value	(169 183)	215 485	76 934	(461 602)
Provision for impairment of other assets	(92 168)	(27 604)	12 913	(77 477)
Other requirements	(67 246)	(67 246)	-	-
Due from banks and loans to customers	(58 575)	(58 575)	-	-
Recognized deferred tax assets of subsidiary banks	(18 329)	(18 329)	-	-
Total deferred tax liabilities (gross)	**(1 942 512)**	**(723 659)**	**243 735**	**(1 462 588)**
Total net deferred tax liabilities	**(1 618 802)**	**(792 287)**	**166 630**	**(993 145)**

Comparative information for the year 2007 is provided below:

	2007	Change	2006
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers	208 408	168 857	39 551
Other liabilities	96 831	96 831	-
Premises and equipment and intangible assets	69 009	(97 428)	166 437
Deferred tax assets of subsidiary banks	6 638	(18 112)	24 750
Revaluation of financial assets at fair value through profit or loss	-	(2 166)	2 166
Other assets	-	(56 767)	56 767
Total deferred tax assets (gross)	**380 886**	**91 215**	**289 671**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(834 952)	(347 124)	(487 828)
Revaluation of financial assets at fair value through profit or loss	(461 602)	(195 187)	(266 415)
Provision for impairment of other assets	(77 477)	(4 272)	(73 205)
Total deferred tax liabilities (gross)	**(1 374 031)**	**(546 583)**	**(827 448)**
Net deferred tax liabilities	**(993 145)**	**(455 368)**	**(537 777)**

Considering the existing structure of the Group, tax losses and current tax assets of different entities may not be offset against current tax liabilities and taxable profit of other entities and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the Group does not offset deferred tax assets of one entity against the deferred tax liabilities of another entity.

As at 31 December 2008, the total deferred tax liability in the amount of RUR 1 333 267 thousand (2007: RUR 88 557 thousand) was calculated in respect of gain on revaluation of premises at fair value and recorded within equity in accordance with IAS 16 (Note 12).

25. Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares during the year less the average number of ordinary shares bought out by the Group from its shareholders.

The Group has no potentially dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

	2008	2007
Net profit attributable to shareholders of the parent Bank (in thousands of roubles)	**6 762 236**	**8 883 603**
Weighted average number of ordinary shares in issue (in thousands)	133 227	128 404
Basic earnings per share (RUR per share)	**50,76**	**69,18**

26. Dividends

	2008	2007
Dividends payable as at 1 January	33	26
Dividends for 2007 declared during the year	232 420	-
Dividends for 2006 declared during the year	-	167 412
Dividends paid during the year	(232 381)	(167 405)
Dividends payable as at 31 December	**72**	**33**
Dividends per share, declared during the year	**1,79**	**1,36**

Dividends declared for the year 2007 include dividends attributable to the shareholders of the parent Bank in the amount of RUR 232 420 thousand.

Dividends declared for the year 2006 include dividends attributable to the shareholders of the parent Bank in the amount of RUR 165 582 thousand and to minority interest in the amount of RUR 1 830 thousand.

In 2008, the dividends attributable to shareholders of the parent Bank were paid in the amount of RUR 232 381 thousand (2007: RUR 165 575 thousand).

There are no dividends attributable to minority interest paid in 2008 (2007: RUR 1 830 thousand).

27. Acquisitions and Disposals

Acquisition of subsidiary banks

Commercial joint stock bank Bezhitsa-bank (OJSC)

As at 14 February 2008, the Group acquired 50% in the share capital of commercial joint stock bank Bezhitsa-bank (OJSC) through payment of additional share issue. On 30 September 2008 the Group acquired 9.68% in the share capital of commercial joint stock bank Bezhitsa-bank (OJSC) through payment of additional share issue increasing its shareholding to 59.68%. As at 31 December 2008 the Group acquired 0.1573% in the share capital of commercial joint stock bank Bezhitsa-bank (OJSC) by increasing its interest rates in the share capital to 59.83%.

(in thousands of Russian Roubles)

The fair value of assets and liabilities of commercial joint stock bank Bezhitsa-bank (OJSC) and the excess of the Group's share in the net fair value of identifiable assets and liabilities acquired over the cost of acquisition are shown in the table below:

	At the date of acquisition		
	14 February 2008	30 September 2008	31 December 2008
Cash and cash equivalents	162 436	71 958	80 903
Mandatory reserve deposits with central banks	8 606	4 048	866
Loans to customers	657 058	966 409	951 207
Premises and equipment	14 808	15 234	14 982
Other assets	3 090	2 296	1 515
Due to other banks	(20 045)	(180 988)	(281 597)
Customer accounts	(592 465)	(568 095)	(425 563)
Debt securities issued	(24 773)	(30 428)	(31 106)
Other liabilities	(20 292)	(12 278)	(13 352)
Total net assets	**188 423**	**268 156**	**297 855**
Acquired share in the net assets	**94 211**	**24 784**	**402**
Share in net assets increase from additional share issue	**-**	**33 840**	**-**
The excess of the Group's share in the net fair value of the net assets acquired over the cost of acquisition	**(42 122)**	**9 056**	**(207)**
Consideration paid (gross)	**52 089**	**67 680**	**195**

The excess of the Group's share in the net fair values of identifiable assets and liabilities of commercial joint stock bank Bezhitsa-bank (OJSC) over the cost of acquisition in the amount of RUR 33 273 thousand was recorded within net gain on acquisition and sale of subsidiaries and associates of the consolidated statement of income at the time of acquisition.

OJSC Mosvodokanalbank

On 1 August 2008 the Group acquired 15.77% in the share capital of OJSC Mosvodokanalbank through payment of additional share issue increasing its shareholding to 65.87%.

The fair value of assets and liabilities of commercial joint stock bank OJSC Mosvodokanalbank and the excess of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of OJSC Mosvodokanalbank over the cost of acquisition are shown in the table below:

	At the date of acquisition 1 August 2008
Cash and cash equivalents	619 639
Mandatory reserve deposits with central banks	36 414
Financial assets at fair value through profit or loss	702 774
Due from other banks	400 453
Loans to customers	645 510
Financial assets available for sale	18 840
Premises and equipment and intangible assets	11 026
Other assets	7 000
Tax assets	10 489
Due to other banks	(53)
Customer accounts	(2 046 762)
Debt securities issued	(4 856)
Other liabilities	(142 393)
Tax liabilities	(271)
Total net assets	**257 810**
Acquired share in net assets	**40 658**
Share in net assets increase from additional share issue	**50 100**
The excess of the Group's share in the net fair value of the net assets acquired over the cost of acquisition	**(11 520)**
Consideration paid (gross)	**79 238**

(in thousands of Russian Roubles)

The excess of the Group's share in the net fair values of identifiable assets, liabilities and contingent liabilities of commercial joint stock bank OJSC Mosvodokanalbank over the cost of acquisition in the amount of RUR 11 520 thousand attributable to acquisition of additional share of OJSC Mosvodokanalbank was recorded within net gain on acquisition and sale of subsidiaries and associates of the consolidated statement of income at the time of acquisition.

OJSC Bank of Moscow- Belgrade

On 4 August 2008, the Group set up a fully-owned subsidiary OJSC Bank of Moscow-Belgrade (100% ownership) incorporated in Serbia with the share capital of RSD 1 235 135 thousand.

Acquisition of subsidiaries and associates

CJSC Spetsstroy-2

On 30 October 2008 the Group acquired 100% in the share capital of CJSC Spetsstroy-2.

The fair value of assets and liabilities of CJSC Spetsstroy-2 are shown in the table below:

	At the date of acquisition 30 October 2008
Cash and cash equivalents	7 264
Loans to customers	595 150
Premises and equipment	4 886 625
Other assets	1 607 231
Due to other banks	(2 984 002)
Other liabilities	(379 607)
Total net assets	**3 732 661**
Acquired share in net assets	**3 732 661**
The excess of the Group's share in the net fair value of the net assets acquired over the cost of acquisition	**-**
Consideration paid (gross)	**3 732 661**

CJSC Financial assistant

On 12 December 2008 the Group acquired 48.9992% in the share capital of CJSC Financial Assistant increasing its interest in the share capital to 99.67%.

The fair value of assets and liabilities of CJSC Financial Assistant and the excess of the Group's share in the net fair value of identifiable assets and liabilities acquired over the cost of acquisition are shown in the table below:

	At the date of acquisition 31 December 2008
Cash and cash equivalents	6 656
Finance assets available for sale	124 572
Investments in associates and non-consolidated subsidiaries	3 972 123
Other assets	8
Current tax assets	1 292
Due to other banks	(168 173)
Debt securities issued	(551 752)
Other liabilities	(550 670)
Total net assets	**2 834 056**
Acquired share in net assets	**1 388 665**
The excess of the Group's share in the net fair value of the net assets acquired over the cost of acquisition	**(654 364)**
Consideration paid (gross)	**734 301**

The excess of the Group's share in the net fair values of identifiable assets and liabilities of CJSC Financial Assistant over the cost of acquisition in the amount of RUR 654 364 thousand was recorded within net gain on acquisition and sale of subsidiaries and associates of the consolidated statement of income at the time of acquisition.

(in thousands of Russian Roubles)

SIA LBB ĪPAŠUMI

In 2008 the Group established SIA LBB ĪPAŠUMI with its interest in the share capital equalling 48.94%. The company is registered in Latvia and its share capital amounts to 2 thousand lats.

LLC Mos-broker

In 2008 the Group established LLC Mos-broker with its interest in the share capital equalling 100%. The company is registered in Russia and its share capital amounts to RUR 60 000 thousand.

LLC Pension Reserve

In 2008, the Group acquired 19% in the share capital of LLC Pension Reserve for RUR 8 408 thousand. The company is registered in Russia and its share capital amounts to RUR 110 000 thousand.

CJSC Lespromprocessing

In 2008 the Group acquired 100% in the share capital of CJSC Lespromprocessing incorporated in Russia with the share capital of RUR 350 thousand.

LLC VM – Open City

In 2008 the Group established LLC VM- Open City with participating interest of 57%. The company is incorporated in Russia with the share capital of RUR 10 thousand.

Disposal of associates

LLC VM-Service

At the beginning of the reporting period the Group held shares of LLC VM-Service. The Group's interest in the amount of 48.5% in the share capital of the associate at the beginning of the reporting period had the fair value equal to zero.

As a result of disposal of LLC VM-Service the Group reflected income in the amount of RUR 9 thousand within net gain on acquisition and sale of subsidiaries and associates in the consolidated statement of income.

Disposed assets and liabilities and the cost of disposal are as follows:

	At the date of disposal 17 December 2008
Cash and cash equivalents	1
Other assets	2
Other liabilities	(20)
Total net assets	**(17)**
Share in net assets	**-**
The excess of the value of acquired assets over the value of transferred assets	**9**
Net additions from disposals	**9**

Disposal of associate banks

JSCB Russky Zemelny Bank

At the beginning of the reporting period the Group held of shares of JSCB Russky Zemelny Bank in the amount of 31% of share capital. On 18 November 2008, as a result of additional share issue by Russky Zemelny Bank the Group's interest in the share capital was diluted to 3.6123%.

(in thousands of Russian Roubles)

28. Fiduciary Management Transactions

The Group manages the customer's property at their request and receives commission for asset management services. The Group is not liable in respect of fixed payments to customers. The assets managed by the Group at the customers' request are not owned by the Group and are not recorded in the consolidated balance sheet.

The Group had the following assets with the values as at the date of their transfer into fiduciary management :

	2008	2007
Net assets of unit investment funds	3 137 137	11 217 889
Securities in fiduciary management	8 814 516	3 021 501
Due from other banks on current accounts and other assets in fiduciary management	150 871	380 461
Total	**12 102 524**	**14 619 851**

29. Segment Reporting

The Group uses information on business segments as its primary format for reporting segment information. Over 95% of the Group's banking business is concentrated on the territory of the Russian Federation at the location of the parent company of the Group – the Bank of Moscow. Based on this, the Group considers unreasonable to segment it's business by geographic principle.

The Group's main business segments are as follows:

Treasury business – this business segment includes trading in financial instruments, transactions with securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on interbank loan markets, interest rate arbitrage on SWAP transactions. Besides, the treasury function includes the Group's short-term asset management and the Group's open positions in foreign currencies, i.e. currency risk management.

Corporate business – this business segment includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, rendering of investment banking services, trade financing of corporate clients, rendering of structured financing, merging and acquisition consulting services.

Retail business – this segment covers rendering of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer and mortgage lending.

The Group transactions not included in the above business segments are disclosed separately.

Transactions between business segments are conducted on an arm's length basis. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, intersegment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

(in thousands of Russian Roubles)

Segment information on main business segments of the Group for year ended 31 December 2008 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 939 924	109 880 874	21 440 745	7 119	-	133 268 662
Financial assets at fair value through profit or loss	19 960 154	14 106 360	-	1 345 378	-	35 411 892
Due from other banks	67 327 801	-	-	-	-	67 327 801
Other assets	-	-	191 900	1 854 134	3 288 258	5 334 292
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**89 227 879**	**123 987 234**	**21 632 645**	**3 206 631**	**3 288 258**	**241 342 647**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	729 700	432 392	-	-	1 162 092
Due from other banks	558 814	6 450 488	-	-	-	7 009 302
Loans to customers	-	411 235 447	105 174 840	153 482	-	516 563 769
Financial assets available for sale	506 113	259 321		5 929 437	3 949 669	10 644 540
Investments held to maturity	-	959 716	-	-	-	959 716
Investments in associates and non-consolidated subsidiaries	-	-	-	3 791 599	174 010	3 965 609
Premises and equipment and intangible assets	-	-	-	5 779 054	13 476 563	19 255 617
Current tax asset	-	-		12 271	455 250	467 521
Deferred tax asset	-	-	-	-	14 544	14 544
Total assets maturing in more than 1 month and part of assets with no stated maturity	**1 064 927**	**419 634 672**	**105 607 232**	**15 665 843**	**18 070 036**	**560 042 710**
Total assets	**90 292 806**	**543 621 906**	**127 239 877**	**18 872 474**	**21 358 294**	**801 385 357**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	11 872 892	-	599 070	-	-	12 471 962
Customer accounts	-	126 291 525	29 812 259	-	-	156 103 784
Financial liabilities at fair value through profit or loss	10 062 783	-	860 025	-	-	10 922 808
Other liabilities	-	-	194 598	6 556 459	-	6 751 057
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**21 935 675**	**126 291 525**	**31 465 952**	**6 556 459**	**-**	**186 249 611**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	-	190 361 491	12 090 173	-	-	202 451 664
Customer accounts	-	128 884 765	121 395 443	156 970	-	250 437 178
Debt securities issued	-	82 200 900	7 289 318	2 225 012	-	91 715 230
Other liabilities	-	-	-	-	1 219 897	1 219 897
Current tax liability	-	-	-	53	27 960	28 013
Deferred tax liability	-	-	-	141 085	1 492 261	1 633 346
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**-**	**401 447 156**	**140 774 934**	**2 523 120**	**2 740 118**	**547 485 328**
Total liabilities	**21 935 675**	**527 738 681**	**172 240 886**	**9 079 579**	**2 740 118**	**733 734 939**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(67 292 204)**	**2 304 291**	**9 833 307**	**3 349 828**	**(3 288 258)**	**(55 093 036)**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	67 292 204	(35 826 252)	(31 465 952)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(1 064 927)**	**(18 187 516)**	**35 167 702**	**(13 142 723)**	**(15 329 918)**	**(12 557 382)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	13 535 057	(13 535 057)	-	-	-
Equity financing	1 064 927	38 174 420	-	9 792 895	18 618 176	67 650 418
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

Segment information on main business segments of the Group for year ended 31 December 2007 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 551 604	44 918 869	17 412 518	37 127	-	63 920 118
Financial assets at fair value through profit or loss	31 169 053	19 836 673	-	306 867	-	51 312 593
Due from other banks	28 702 998	-	-	-	-	28 702 998
Other assets	-	-	112 376	100 170	2 014 720	2 227 266
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**61 423 655**	**64 755 542**	**17 524 894**	**444 164**	**2 014 720**	**146 162 975**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	2 495 133	3 799 694	-	-	6 294 827
Financial assets available for sale	-	541 789	-	3 107 051	122 341	3 771 181
Due from other banks	7 337 494	4 812 588	-	-	-	12 150 082
Loans to customers	-	278 982 822	72 474 432	164 977	-	351 622 231
Investments in associates and non-consolidated subsidiaries	-	-	-	45 544	221 339	266 883
Premises and equipment and intangible assets	-	-	-	118 364	7 681 689	7 800 053
Current tax asset	-	-	-	3 475	7 853	11 328
Deferred tax asset	-	-	-	-	6 638	6 638
Total assets maturing in more than 1 month and part of assets with no stated maturity	**7 337 494**	**286 832 332**	**76 274 126**	**3 439 411**	**8 039 860**	**381 923 223**
Total assets	**68 761 149**	**351 587 874**	**93 799 020**	**3 883 575**	**10 054 580**	**528 086 198**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	6 452 908	-	501 678	-	-	6 954 586
Customer accounts	-	139 610 034	27 509 948	-	-	167 119 982
Financial assets at fair value through profit or loss	154 010	-	-	-	-	154 010
Other liabilities	-	-	151 883	29 207	-	181 090
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**6 606 918**	**139 610 034**	**28 163 509**	**29 207**	**-**	**174 409 668**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	6 175 376	51 240 783	5 253 976	-	-	62 670 135
Customer accounts	-	84 363 015	99 146 528	16 698	-	183 526 241
Debt securities issued	-	53 823 636	-	2 132 655	-	55 956 291
Other liabilities	-	-	-	-	1 433 091	1 433 091
Current tax liability	-	-	-	7 579	488 407	495 986
Deferred tax liability	-	-	-	-	999 783	999 783
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**6 175 376**	**189 427 434**	**104 400 504**	**2 156 932**	**2 921 281**	**305 081 527**
Total liabilities	**12 782 294**	**329 037 468**	**132 564 013**	**2 186 139**	**2 921 281**	**479 491 195**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(54 816 737)**	**74 854 492**	**10 638 615**	**(414 957)**	**(2 014 720)**	**28 246 693**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	54 816 737	(26 653 228)	(28 163 509)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(1 162 118)**	**(97 404 898)**	**28 126 378**	**(1 282 479)**	**(5 118 579)**	**(76 841 696)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	8 904 048	(10 601 484)	1 697 436	-	-
Equity financing	1 162 118	40 299 586	-	-	7 133 299	48 595 003
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

The table below shows a breakdown of the consolidated statement of income of the Group by business segments for year ended 31 December 2008:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	8 480 051	38 536 530	14 535 233	45 529	-	61 597 343
Interest expense	(2 511 322)	(22 079 134)	(8 479 319)	(145 824)	-	(33 215 599)
Gains less losses arising from financial assets at fair value through profit or loss	(7 125 322)	-	-	182 002	-	(6 943 320)
Gains less losses arising from financial liabilities at fair value through profit or loss	674 382	-	-	-	-	674 382
Gains less losses arising from financial assets available for sale	(850)	-	107 058	16 432	-	122 640
Gains less losses from dealing in foreign currency and precious metals and revaluation of foreign currency and precious metals	1 563 113	-	842 504	(586)	-	2 405 031
Net operating result on banking assets and liabilities	**1 080 052**	**16 457 396**	**7 005 476**	**97 553**	**-**	**24 640 477**
Income/(expense) on re-allocation of funds on demand, maturing in less than 1 month and with no stated maturity	(1 404 263)	718 519	685 744	-	-	-
Income/(expense) on re-allocation of funds maturing in more than 1 month and with no stated maturity	-	(1 316 085)	1 316 085	-	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**(324 211)**	**15 859 830**	**9 007 305**	**97 553**	**-**	**24 640 477**
Fee and commission income	221 073	4 186 394	2 734 957	150 430	-	7 292 854
Fee and commission expense	(52 335)	(963 478)	(498 436)	(782)	-	(1 515 031)
Provisions for impairment of due from other banks and loans to customers	24 353	(3 922 446)	(5 048 124)	(20 598)	-	(8 966 815)
General and administrative expenses	(566 817)	(4 676 702)	(5 194 271)	(290 409)	(4 263 353)	(14 991 552)
Other income/(expense)	-	107 313	210 466	1 534 995	(63 592)	1 789 182
Profit before taxation	**(697 937)**	**10 590 911**	**1 211 897**	**1 471 189**	**(4 326 945)**	**8 249 115**
Income tax expense	-	-	-	(43 060)	(1 228 125)	(1 271 185)
Profit after taxation	**(697 937)**	**10 590 911**	**1 211 897**	**1 428 129**	**(5 555 070)**	**6 977 930**
Minority interest	-	-	-	-	(215 694)	(215 694)
Net profit	**(697 937)**	**10 590 911**	**1 211 897**	**1 428 129**	**(5 770 764)**	**6 762 236**

(in thousands of Russian Roubles)

The table below shows a breakdown of the consolidated statement of income of the Group by business segments for year ended 31 December 2007:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	6 350 438	24 361 115	8 771 835	60 987	-	39 544 375
Interest expense	(1 487 053)	(11 607 840)	(7 259 901)	(112 287)	-	(20 467 081)
Gains less losses arising from financial assets at fair value through profit or loss	582 506	-	-	32 804	-	615 310
Gains less losses arising from financial liabilities at fair value through profit or loss	(46 080)	-	-	-	-	(46 080)
Gains less losses arising from financial assets available for sale	37 029	-	-	-	-	37 029
Gains less losses from dealing in foreign currency and precious metals and revaluation of foreign currency and precious metals	677 738	-	278 344	-	-	956 082
Net operating result on banking assets and liabilities	**6 114 578**	**12 753 275**	**1 790 278**	**(18 496)**	**-**	**20 639 635**
Income/(expense) on re-allocation of funds on demand, maturing in less than 1 month and with no stated maturity	(3 552 026)	1 914 916	1 637 110	-	-	-
Income/(expense) on re-allocation of funds maturing in more than 1 month and with no stated maturity	-	(1 582 539)	1 813 694	(231 155)	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**2 562 552**	**13 085 652**	**5 241 082**	**(249 651)**	**-**	**20 639 635**
Fee and commission income	223 321	2 214 314	2 565 444	214 609	-	5 217 688
Fee and commission expense	(4 678)	(548 014)	(364 927)	(283)	-	(917 902)
Provisions for impairment of due from other banks and loans to customers	(20 029)	(443 107)	(1 982 321)	(1 502)	-	(2 446 959)
General and administrative expenses	(462 480)	(3 815 460)	(4 237 983)	(255 209)	(2 720 312)	(11 491 444)
Other income/(expense)	-	-	(585 986)	2 100 821	676 761	2 191 596
Profit before taxation	**2 298 686**	**10 493 385**	**635 309**	**1 808 785**	**(2 043 551)**	**13 192 614**
Income tax expense				(54 340)	(3 092 044)	(3 146 384)
Profit after taxation	**2 298 686**	**10 493 385**	**635 309**	**1 754 445**	**(5 135 595)**	**10 046 230**
Minority interest					(1 162 627)	(1 162 627)
Net profit	**2 298 686**	**10 493 385**	**635 309**	**1 754 445**	**(6 298 222)**	**8 883 603**

30. Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks.

The main risk management activity is to identify, measure and control the above-mentioned risks, take management decisions to avoid or minimise risks (hedging, reallocation, diversification, etc.).

The Group implemented a three-level risk management system. At the first level, business units exercise preliminary and operational control over the established limits in the course of transactions. At the second level, back office controls compliance of business units with the established limits. At the third level, preliminary and subsequent risk control is exercised independently by specialised divisions, which are charged with risk control functions.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

In accordance with strategic tasks in the management area a comprehensive system for management of all types of risks is functioning and developing within the Group. Further efforts will be aimed at development of the existing risk management methods and instruments, as well as systematisation and integration of risk assessment and management methods with regard for international standards.

Credit risk. Credit risk is the risk of financial losses caused by inability of the Group's borrower or counterparty to meet their liabilities.

The following methods of control and management are applied to manage credit risk.

Risk assessment. The risk by each credit product is assessed on the basis of internal bank ratings. The level of risk for individual borrowers is assessed with the use of scoring methods. At the same time, stress-testing of portfolios is carried out on a regular basis to evaluate stability and maximum financial loss for market instrument portfolios. To evaluate the risks relating to credit products provided to legal entities the Group uses the instruments below.

Limits on transactions for provision of credit products. The limiting system comprises:

- scope limits, which limit credit risk concentration by division, type of products, region, industry, etc.;
- scope limits for separate counterparties;
- limits by each credit product, calculated in accordance with own methods of credit risk assessment;
- risk limits, which set up maximum admissible risk of separate divisions' portfolios;
- maturity limits depending on risk level by product, type and other terms of lending;
- limits of personified lending authority.

Limit values are updated on a regular basis in accordance with current level of credit risk and macro- and microeconomic situation. Compliance of authorised persons and management bodies with set limits is monitored daily.

Monitoring of credit risk of operating products is conducted regularly and is aimed at detection of risk-increasing factors in order to further neutralise them and reduce concentration.

The Group developed the policy and procedures related to credit risk management. These include requirements for setting of and complying with the limits on loan portfolio concentration and provide for establishment of the Credit Committee to monitor credit risk exposure of the Group.

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

The Group's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For loan guarantees and commitments, the maximum exposure to credit risk is equal to total liabilities (Note 31).

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 6, 7, 8, 9, 10.

In the conditions of the global deterioration of macroeconomic indicators in the second half of the year 2008 and the relating increase of the credit risk for the banking sector as a whole, the Bank of Moscow implemented a package of measures aimed at raising the quality of the loan portfolio and minimization of possible losses on asset-related transactions. These measures include:

- signing with the CBR of an agreement on compensation of part of possible losses from transactions on the interbank market subject to Article 3 of Federal Law No. 173-FZ "On additional measures to support the financial system of the Russian Federation" of 13 October 2008;
- tightened approach to borrower risk assessment due to a heightened possibility of defaults in the corporate lending sector in accordance with the applicable methods, for instance, expansion of a list of categories of the borrower's payments taken into account in calculating the risk limit and introduction of a new factor describing the public credit history of the customer;
- changes in procedures used to monitor the borrower's financial position allowing a pro-active response to any deterioration in the situation;
- revision of approaches to evaluation of counterparty's credit quality;
- more rigid requirements to liquidity and reliability of collateral;
- development and implementation of a comprehensive program of restructuring the Bank's retail loans for bona fide borrowers experiencing temporary difficulties with servicing current loans;
- upward revision of provisions for possible losses;
- suspension of lending authority for the number of divisions and all authorized representatives of the Bank of Moscow.

Under the risk management system created in 2006 the Bank of Moscow divisions have in place an effective risk management system enabling the monitoring of the credit and operational risks. Besides, the Bank is involved in transition started in 2007 to the uniform standards of banking risks management in subsidiary banks.

A restructuring program was put in place to manage retail credit risks enabling the customers to ease the debt burden through the selection of the most optimal restructuring option. The program applies to force-majeure circumstances suffered by the customers as a result of crisis in the economy or other events. Besides, each force-majeure event should be supported by documentary evidence thereby eliminating any unfair customers.

The Bank has implemented the retail loan portfolio quality control system. The control is exercised on the basis of permanent monitoring of key performance indicators. The KPI allow to identify negative trends at all stages of the loan production process (from visual customer assessment to loan repayment) as well as credit products that may cause potential problems. Based on the detected changes, preventive measures are elaborated to mitigate the negative trends. The KPI control is maintained in the SAS environment implemented in 2008 and includes daily, weekly and monthly monitoring of the entire KPI range. Control is exercised in points of sales on the basis of the developed SAS regulations and is also performed from one centre by a specialized unit.

In 2008 the Bank of Moscow proceeded with creation of a centralized service of underwriting and verification of retail credit products. This service will allow to remove prejudiced decision-making on lending in the Bank's divisions and mitigate the level of credit risks accepted.

Credit risk on off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in managing contingent obligations as it does for balance sheet financial instruments based on procedures of authorisation of deals, risk control limits and monitoring of the financial position of counterparty.

The policy of the credit risk management is reviewed and approved by the Board.

Market risks. Market risks are the risks of potential losses due to decreases in the value of securities portfolio and other traded assets as a result of adverse movements in market parameters (prices, interest and currency exchange rates). The following methods of control and management are applied to market risks.

Market risk assessment is performed using two main methods: statistical probability method and method of historical modelling. These methods allow to calculate the amount of potential gains or losses of the portfolio over a specified time horizon and level of reliability.

The market risk *limiting system* is similar to the credit risk limiting system, but it has a number of peculiarities consisting in the use of special limits applicable only to this type of risk (stop-loss limits, etc.).

Market risk *monitoring* encompasses revaluing all open positions at market prices in order to identify present value of portfolios and changes in estimates of expected potential losses.

Hedging implies additional transactions with financial instruments with similar characteristics for guaranteed limitation of losses.

Market risks may be reduced without decrease in the expected yield by means of portfolio *diversification*, mainly, diversification into different market instruments and segments.

The Group manages market risks by increasing or decreasing its position within the limits set by the Group management. These limits mitigate possible effect of changes in the market financial indicators on the Group's income and value of sensitive assets and liabilities.

The procedures of market risk management, as well as the tariff policy of the Group, are reviewed and approved by the Financial Committee.

Interest rate risk is determined by the level of changes in interest rates on interest margin and net interest income. Interest margins may increase or decrease as a result of such changes, depending on different structure of interest-bearing assets and liabilities.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The management of the Group sets limits on the level of acceptable mismatch of interest rate re-pricing terms, which are monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(in thousands of Russian Roubles)

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	46 800 817	-	-	-	86 467 845	133 268 662
Mandatory cash balances with central banks	-	-	-	-	1 162 092	1 162 092
Financial assets at fair value through profit or loss	13 417 705	1 524 964	701 626	18 168 620	1 598 977	35 411 892
Due from other banks	73 365 778	641 396	21 417	308 512	-	74 337 103
Loans to customers	17 382 580	124 356 056	162 405 022	212 420 111	-	516 563 769
Financial assets available for sale	75 828	550 121	105 500	30 105	9 882 986	10 644 540
Investments held to maturity	188 609	101 082	212 368	457 657	-	959 716
Investments in associates and non-consolidated subsidiaries	-	-	-	-	3 965 609	3 965 609
Premises and equipment and intangible assets	-	-	-	-	19 255 617	19 255 617
Other assets	-	-	-	-	5 334 292	5 334 292
Current tax asset	-	-	-	-	467 521	467 521
Deferred tax asset	-	-	-	-	14 544	14 544
Total assets	**151 231 317**	**127 173 619**	**163 445 933**	**231 385 005**	**128 149 483**	**801 385 357**
Liabilities						
Due to other banks	89 668 931	111 586 018	2 903 273	10 765 404	-	214 923 626
Customer accounts	109 888 412	91 101 893	98 146 672	54 467 835	52 936 150	406 540 962
Financial liabilities at fair value through profit or loss	10 922 808	-	-	-	-	10 922 808
Debt securities issued	4 868 796	632 025	13 350 381	72 864 028	-	91 715 230
Other liabilities	-	-	-	-	7 970 954	7 970 954
Current tax liability	-	-	-	-	28 013	28 013
Deferred tax liability	-	-	-	-	1 633 346	1 633 346
Total liabilities	**215 348 947**	**203 319 936**	**114 400 326**	**138 097 267**	**62 568 463**	**733 734 939**
Net interest rate gap as at 31 December 2008	**(64 117 630)**	**(76 146 317)**	**49 045 607**	**93 287 738**	**65 581 020**	**67 650 418**
Cumulative interest rate gap as at 31 December 2008	**(64 117 630)**	**(140 263 947)**	**(91 218 340)**	**2 069 398**	**67 650 418**	**-**

(in thousands of Russian Roubles)

General analysis of interest rate risk of the Group for the year ended 31 December 2007 is provided below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	8 159 739	-	-	-	55 760 379	63 920 118
Mandatory cash balances with central banks	-	-	-	-	6 294 827	6 294 827
Financial assets at fair value through profit or loss	4 199 478	5 645 304	1 077 255	35 201 628	5 188 928	51 312 593
Due from other banks	30 262 772	3 453 326	7 074 873	62 109	-	40 853 080
Loans to customers	22 417 424	76 623 103	77 323 643	175 258 061	-	351 622 231
Financial assets available for sale	-	94 171	286 896	160 722	3 229 392	3 771 181
Investments in associates and non-consolidated subsidiaries	-	-	-	-	266 883	266 883
Premises and equipment and intangible assets	-	-	-	-	7 800 053	7 800 053
Other assets	-	-	-	-	2 227 266	2 227 266
Current tax asset	-	-	-	-	11 328	11 328
Deferred tax asset	-	-	-	-	6 638	6 638
Total assets	**65 039 413**	**85 815 904**	**85 762 667**	**210 682 520**	**80 785 694**	**528 086 198**
Liabilities						
Due to other banks	295 105	49 609 636	3 473 193	16 246 787	-	69 624 721
Customer accounts	148 590 163	90 515 445	52 440 519	12 923 070	46 177 026	350 646 223
Financial liabilities at fair value through profit or loss	154 010	-	-	-	-	154 010
Debt securities issued	2 696 357	1 738 017	3 437 934	48 083 983	-	55 956 291
Other liabilities	-	-	-	-	1 614 181	1 614 181
Current tax liability	-	-	-	-	495 986	495 986
Deferred tax liability	-	-	-	-	999 783	999 783
Total liabilities	**151 735 635**	**141 863 098**	**59 351 646**	**77 253 840**	**49 286 976**	**479 491 195**
Net interest rate gap as at 31 December 2007	**(86 696 222)**	**(56 047 194)**	**26 411 021**	**133 428 680**	**31 498 718**	**48 595 003**
Cumulative interest rate gap as at 31 December 2007	**(86 696 222)**	**(142 743 416)**	**(116 332 395)**	**17 096 285**	**48 595 003**	**-**

(in thousands of Russian Roubles)

If as at 31 December 2008, the interest rates had been by 50 basis points lower, provided all other conditions remained unchanged, the profit for the year would have been by RUR 895 767 thousand (2007: by RUR 475 884 thousand) lower as a result of the decreased interest income on loans.

If as at 31 December 2008, the interest rates had been by 50 basis points higher, provided all other conditions remained unchanged, the profit for the year would have been by RUR 895 767 thousand (2007: by RUR 475 884 thousand) higher as a result of the increased interest income on loans.

The table below shows analysis of average effective interest rates by currency for main monetary financial instruments. The analysis was prepared on the basis of weighted average interest rates at the end of the year.

	USD		EUR		RUR	
	2008	2007	2008	2007	2008	2007
Assets						
Due from other banks	5.43%	5.54%	2.24%	4.02%	17.05%	6.53%
Loans to customers	10.46%	9.72%	9.79%	8.54%	14.44%	10.97%
Financial assets at fair value through profit or loss	8.40%	6.40%	5.26%	3.58%	8.50%	8.67%
Financial assets available for sale	9.75%	-	-	-	10.89%	-
Investments held to maturity	7.50%	-	5.63%	-	9.97%	-
Liabilities						
Due to other banks	5.16%	5.78%	4.97%	4.85%	11.09%	5.55%
Customer accounts	7.52%	5.22%	7.33%	6.10%	6.56%	4.63%
Financial liabilities at fair value through profit or loss	5.21%	-	5.14%	-	8.00%	-
Debt securities issued	7.26%	7.33%	6.97%	4.96%	8.19%	6.92%

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2008 is set out below:

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	90 098 900	37 767 938	5 401 824	133 268 662
Mandatory cash balances with central banks	844 557	-	317 535	1 162 092
Financial assets at fair value through profit or loss	33 930 690	1 336 070	145 132	35 411 892
Due from other banks	16 887 122	53 389 046	4 060 935	74 337 103
Loans to customers	441 455 965	269 776	74 838 028	516 563 769
Financial assets available for sale	9 869 850	29 908	744 782	10 644 540
Investments held to maturity	785 936	29 674	144 106	959 716
Investments in associates and non-consolidated subsidiaries	3 964 318	-	1 291	3 965 609
Premises and equipment and intangible assets	17 501 356	-	1 754 261	19 255 617
Other assets	4 625 952	336 791	371 549	5 334 292
Current tax asset	421 954	-	45 567	467 521
Deferred tax asset	10 521	-	4 023	14 544
Total assets	**620 397 121**	**93 159 203**	**87 829 033**	**801 385 357**
Liabilities				
Due to other banks	82 399 592	50 840 140	81 683 894	214 923 626
Customer accounts	381 768 620	1 575 545	23 196 797	406 540 962
Financial liabilities at fair value through profit or loss	4 828 710	6 080 854	13 244	10 922 808
Debt securities issued	27 735 055	63 952 625	27 550	91 715 230
Other liabilities	7 277 478	883	692 593	7 970 954
Current tax liability	107	-	27 906	28 013
Deferred tax liability	1 615 017	-	18 329	1 633 346
Total liabilities	**505 624 579**	**122 450 047**	**105 660 313**	**733 734 939**
Net balance sheet position as at 31 December 2008	**114 772 542**	**(29 290 844)**	**(17 831 280)**	**67 650 418**

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2007 is set out below:

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	55 847 318	6 238 283	1 834 517	63 920 118
Mandatory cash balances with central banks	6 014 574	-	280 253	6 294 827
Financial assets at fair value through profit or loss	49 790 309	668 084	854 200	51 312 593
Due from other banks	8 450 968	29 827 516	2 574 596	40 853 080
Loans to customers	315 238 807	260 172	36 123 252	351 622 231
Financial assets available for sale	3 229 392	-	541 789	3 771 181
Investments in associates and non-consolidated subsidiaries	256 039	9 665	1 179	266 883
Premises and equipment and intangible assets	6 819 805	-	980 248	7 800 053
Other assets	1 958 064	11 171	258 031	2 227 266
Current tax asset	11 277	-	51	11 328
Deferred tax asset	6 638	-	-	6 638
Total assets	**447 623 191**	**37 014 891**	**43 448 116**	**528 086 198**
Liabilities				
Due to other banks	6 544 004	44 937 967	18 142 750	69 624 721
Customer accounts	332 218 905	1 085 719	17 341 599	350 646 223
Financial liabilities at fair value through profit or loss	148 937	-	5 073	154 010
Debt securities issued	7 355 146	47 989 195	611 950	55 956 291
Other liabilities	1 302 095	-	312 086	1 614 181
Current tax liability	495 986	-	-	495 986
Deferred tax liability	999 783	-	-	999 783
Total liabilities	**349 064 856**	**94 012 881**	**36 413 458**	**479 491 195**
Net balance sheet position as at 31 December 2007	**98 558 335**	**(56 997 990)**	**7 034 658**	**48 595 003**

(in thousands of Russian Roubles)

Currency risk. The Group takes on exposure to effects of foreign currency exchange rates volatility on its financial position and cash flows. The Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. In the table below the analysis of Group's position on currency as at 31 December 2008 is presented. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	57 466 308	11 740 997	47 236 989	16 824 368	133 268 662
Mandatory cash balances with central banks	844 557	-	106	317 429	1 162 092
Financial assets at fair value through profit or loss	31 970 127	1 686 478	1 501 346	253 941	35 411 892
Due from other banks	8 675 626	11 043 740	51 224 224	3 393 513	74 337 103
Loans to customers	335 667 601	145 887 337	16 197 420	18 811 411	516 563 769
Financial assets available for sale	9 872 279	30 368	703	741 190	10 644 540
Investments held to maturity	527 168	378 553	20 159	33 836	959 716
Investments in associates and non-consolidated subsidiaries	3 964 318	-	-	1 291	3 965 609
Premises and equipment and intangible assets	17 511 480	-	-	1 744 137	19 255 617
Other assets	4 408 447	394 548	179 374	351 923	5 334 292
Current tax asset	425 977	-	-	41 544	467 521
Deferred tax asset	10 521	-	-	4 023	14 544
Total assets	**471 344 409**	**171 162 021**	**116 360 321**	**42 518 606**	**801 385 357**
Liabilities					
Due to other banks	81 232 141	51 381 411	67 859 099	14 450 975	214 923 626
Customer accounts	287 922 931	60 776 197	46 324 278	11 517 556	406 540 962
Financial liabilities at fair value through profit or loss	634 079	9 217 361	313 653	757 715	10 922 808
Debt securities issued	30 420 222	53 735 217	242 923	7 316 868	91 715 230
Other liabilities	7 273 278	231 313	21 960	444 403	7 970 954
Current tax liability	107	-	-	27 906	28 013
Deferred tax liability	1 615 017	-	-	18 329	1 633 346
Total liabilities	**409 097 775**	**175 341 499**	**114 761 913**	**34 533 752**	**733 734 939**
Net balance sheet position as at 31 December 2008	**62 246 634**	**(4 179 478)**	**1 598 408**	**7 984 854**	**67 650 418**

(in thousands of Russian Roubles)

As at 31 December 2007, the Group had the following positions in currency:

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	53 328 449	3 604 025	2 498 185	4 489 459	63 920 118
Mandatory cash balances with central banks	6 014 574	-	-	280 253	6 294 827
Financial assets at fair value through profit or loss	40 267 575	9 708 088	643 998	692 932	51 312 593
Due from other banks	8 089 459	11 338 412	19 204 046	2 221 163	40 853 080
Loans to customers	247 370 044	85 396 204	10 475 763	8 380 220	351 622 231
Financial assets available for sale	3 228 782	93 626	610	448 163	3 771 181
Investments in associates and non-consolidated subsidiaries	256 039	-	-	10 844	266 883
Premises and equipment and intangible assets	6 819 805	-	-	980 248	7 800 053
Other assets	1 860 512	165 225	61 593	139 936	2 227 266
Current tax asset	11 277	-	-	51	11 328
Deferred tax asset	6 638				6 638
Total assets	**367 253 154**	**110 305 580**	**32 884 195**	**17 643 269**	**528 086 198**
Liabilities					
Due to other banks	11 024 612	42 857 763	11 753 005	3 989 341	69 624 721
Customer accounts	291 080 381	21 937 906	29 744 472	7 883 464	350 646 223
Financial liabilities at fair value through profit or loss	-	-	-	154 010	154 010
Debt securities issued	10 654 670	44 503 514	186 157	611 950	55 956 291
Other liabilities	1 205 846	239 244	49 860	119 231	1 614 181
Current tax liability	495 986	-	-	-	495 986
Deferred tax liability	999 783	-	-	-	999 783
Total liabilities	**315 461 278**	**109 538 427**	**41 733 494**	**12 757 996**	**479 491 195**
Net balance sheet position as at 31 December 2008	**51 791 876**	**767 153**	**(8 849 299)**	**4 885 273**	**48 595 003**

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

(in thousands of Russian Roubles)

The table below shows the change in the financial result and equity as a result of possible fluctuations of exchange rates used as at the balance sheet date if all other conditions remain unchanged:

	2008	
	Effect on profit or loss before taxation	**Effect on equity**
USD appreciation by 7%	(292 563)	(222 348)
USD depreciation by 7%	292 563	222 348
EUR appreciation by 18%	287 713	218 662
EUR depreciation by 18%	(287 713)	(218 662)
Appreciation of other currencies by 5%	399 243	303 425
Depreciation of other currencies by 5%	(399 243)	(303 425)

	2007	
	Effect on profit or loss before taxation	**Effect on equity**
USD appreciation by 5%	38 358	29 152
USD depreciation by 5%	(38 358)	(29 152)
EUR appreciation by 5%	(442 465)	(336 273)
EUR depreciation by 5%	442 465	336 273
Appreciation of other currencies by 5%	244 264	185 641
Depreciation of other currencies by 5%	(244 264)	(185 641)

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

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

The Group developed liquidity management tools with the objective of maintaining the availability of funds to meet its liabilities as they come due. The liquidity management policy of the Group is reviewed and approved by the Financial Committee.

Liquidity is managed based on the following main principles:

- *substantiated assessment and forecasting* of liquidity crisis,
- *pro-active approach* to prevention/successful overcoming of possible crisis,
- *methods of effective liquidity management*,
- *methods of effective control* over functioning of liquidity management system and preparation of internal and external reports.

To maintain objective reflection of actual situation the Group implemented a system of mandatory segregation of rights and responsibilities between the bodies comprising the liquidity management system, which:

- take strategic decisions;
- manage liquidity;
- analyse and control the process.

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

- Quick liquidity ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2008, this ratio was 76.0% (2007: 42.9%).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. As at 31 December 2008, this ratio was 93.6% (2007: 71.3%).

(in thousands of Russian Roubles)

- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2008, this ratio was 106.8% (2007: 115.5%).

The basic technique of management and control of the Group's liquidity is a gap management and duration matching of the Group's assets and liabilities (GAP analysis). This technique allows assessing the Group's position in the short, medium and long term with regard for planned changes in cash accounting and write-off.

To manage *quick liquidity* the Group applies the principle of anticipatory receipt and use in calculations of the information about its calendar transactions, customer deposits/write-offs on the basis of forecast and insider information. Quick liquidity is monitored and managed using the automated payment accounting system.
To manage *current and medium-term liquidity* the Group uses cash-flow calendar which helps to assess liquidity and impact on liquidity of large transactions and arrangements carried out to obtain the desirable values.

The scenario analysis performed by the Group represents different options of modelling payment flows with regard for planned, probabilistic and strategic indicators of the Group performance.

Within the framework of each scenario, significant positive and negative fluctuations of liquidity are considered over the entire projected period. The information on the market condition and demand is also taken into account.

Based on the scenario analysis, the Bank's liquidity indicators are assessed and tested for compliance with internal and external standard requirements.

Static analysis of quick, current and long-term liquidity is carried out by calculating economic ratios required by the Central Bank of Russia. In case of significant (exceeding 20%) changes in values of ratios for the last 3 months, especially for the last month of the period, reasons (or movements in assets and liabilities), which gave rise to material changes in these ratios are analysed.

The Group envisaged measures to be taken in case of insufficient liquidity and failure to cover gap using traditional sources. Depending on the complexity of the situation and general condition of the financial system the Group can act as follows:

- sell part of assets in descending its liquidity;
- enter into REPO transactions with the Central Bank of Russia;
- restrict growth of assets in certain types of business;
- change rates and tariffs;
- work purposefully with major clients and counterparties to make long-term placements.

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

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

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	73 130 994	101 748 844	10 476 274	39 241 106	224 597 218
Customer accounts	74 259 325	92 173 440	102 068 897	143 332 408	411 834 070
Debt securities issued	4 521 799	3 801 060	16 519 416	92 602 214	117 444 489
Financial liabilities at fair value through profit or loss	10 922 808	-	-	-	10 922 808
Total potential future payments under financial liabilities	**162 834 926**	**197 723 344**	**129 064 587**	**275 175 728**	**764 798 585**

(in thousands of Russian Roubles)

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	369 810	10 038 837	16 097 724	45 856 444	72 362 815
Customer accounts	193 967 408	92 106 715	54 312 101	12 319 643	352 705 867
Debt securities issued	2 968 469	2 642 024	5 837 812	63 351 404	74 799 709
Financial liabilities at fair value through profit or loss	154 010	-	-	-	154 010
Total potential future payments under financial liabilities	**197 459 697**	**104 787 576**	**76 247 637**	**121 527 491**	**500 022 401**

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

The Group does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Group monitors the expected maturity limits taking into account actual change in balances for the last 12 months.

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis of assets and liabilities as at 31 December 2008:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	133 268 662	-	-	-	-	133 268 662
Mandatory cash balances with central banks	-	-	-	-	1 162 092	1 162 092
Financial assets at fair value through profit or loss	35 411 892	-	-	-	-	35 411 892
Due from other banks	73 387 195	22 317	619 079	308 512	-	74 337 103
Loans to customers	17 353 349	120 921 836	162 319 472	215 969 112	-	516 563 769
Financial assets available for sale	75 828	550 121	105 500	30 105	9 882 986	10 644 540
Investments held to maturity	188 609	101 082	212 368	457 657	-	959 716
Investments in associates and non-consolidated subsidiaries	-	-	-	-	3 965 609	3 965 609
Premises and equipment and intangible assets	-	-	-	-	19 255 617	19 255 617
Other assets	5 193 460	35 799	16 879	63 155	24 999	5 334 292
Current tax asset	-	-	-	-	467 521	467 521
Deferred tax asset	-	-	-	-	14 544	14 544
Total assets	**264 878 995**	**121 631 155**	**163 273 298**	**216 828 541**	**34 773 368**	**801 385 357**
Liabilities						
Due to other banks	71 867 467	97 498 839	9 366 961	36 190 359	-	214 923 626
Customer accounts	73 774 689	91 101 893	98 146 672	143 517 708	-	406 540 962
Financial liabilities at fair value through profit or loss	10 922 808	-	-	-	-	10 922 808
Debt securities issued	4 868 796	632 025	13 350 381	72 864 028	-	91 715 230
Other liabilities	7 628 566	101 645	41 183	2 066	197 494	7 970 954
Current tax liability	-	-	-	-	28 013	28 013
Deferred tax liability	-	-	-	-	1 633 346	1 633 346
Total liabilities	**169 062 326**	**189 334 402**	**120 905 197**	**252 574 161**	**1 858 853**	**733 734 939**
Net liquidity gap as at 31 December 2008	**95 816 669**	**(67 703 247)**	**42 368 101**	**(35 745 620)**	**32 914 515**	**67 650 418**
Cumulative liquidity gap as at 31 December 2008	**95 816 669**	**28 113 422**	**70 481 523**	**34 735 903**	**67 650 418**	**-**

Mandatory cash balances with central banks are included within the no stated maturity category as the Group is unable to use them for operational management of its liquidity position.

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

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis of assets and liabilities as at 31 December 2007:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	63 920 118	-	-	-	-	63 920 118
Mandatory cash balances with central banks	-	-	-	-	6 294 827	6 294 827
Financial assets at fair value through profit or loss	51 312 593	-	-	-	-	51 312 593
Due from other banks	34 384 912	2 095 407	4 065 497	307 264	-	40 853 080
Loans to customers	16 086 312	73 864 135	78 450 885	183 220 899	-	351 622 231
Financial assets available for sale	-	94 171	286 896	93 626	3 296 488	3 771 181
Investments in associates and non-consolidated subsidiaries	-	-	-	-	266 883	266 883
Premises and equipment and intangible assets	-	-	-	-	7 800 053	7 800 053
Other assets	2 064 382	14 371	615	132 371	15 527	2 227 266
Current tax asset	-	-	-	-	11 328	11 328
Deferred tax asset	-	-	-	-	6 638	6 638
Total assets	**167 768 317**	**76 068 084**	**82 803 893**	**183 754 160**	**17 691 744**	**528 086 198**
Liabilities						
Due to other banks	1 582 000	7 570 745	15 718 245	44 753 731	-	69 624 721
Customer accounts	111 308 865	80 111 100	53 162 029	106 064 229	-	350 646 223
Financial liabilities at fair value through profit or loss	154 010	-	-	-	-	154 010
Debt securities issued	2 968 469	1 465 905	3 437 934	48 083 983	-	55 956 291
Other liabilities	1 014 632	432 926	28 661	137 576	386	1 614 181
Current tax liability	-	-	-	-	495 986	495 986
Deferred tax liability	-	-	-	-	999 783	999 783
Total liabilities	**117 027 976**	**89 580 676**	**72 346 869**	**199 039 519**	**1 496 155**	**479 491 195**
Net liquidity gap as at 31 December 2008	**50 740 341**	**(13 512 592)**	**10 457 024**	**(15 285 359)**	**16 195 589**	**48 595 003**
Cumulative liquidity gap as at 31 December 2008	**50 740 341**	**37 227 749**	**47 684 773**	**32 399 414**	**48 595 003**	**-**

In the opinion of the Group's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Group. It is unusual for banks ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

Operational risk. The Group implemented fundamental measures for operational risk management, which imply regulation of performed transactions and business processes and availability of internal control system. These measures are supported by the respective risk assessment methodology based on world experience. The methodology of operational risk assessment was developed and approved. For information support of risk assessment the Bank has introduced special software and maintains database of losses resulted from realisation of operational risks. T he following management methods and instruments are applied to operational risks:

Standardisation and development of technologies. Clear and unambiguous description of performed transactions technology and decision-making procedure within the internal regulatory framework and its timely actualisation is one of the main factors for decreasing the level of operational risk and it also forms the basis for timely detection and effective control of risks. Operational risks are also mitigated by implementing the information technologies allowing to decrease the level of manual transactions.

Limitation of authority. The Group implemented a multilevel system of limits on authorities of responsible persons and collective bodies, identified responsibility and interchangeability of employees in all segments of work.

Operational risk assessment. In accordance with the existing methodology of assessing the Bank's operational risks the quantitative analysis of operational risk implies modelling of the Bank's losses based on historical data.

The quantitative assessment of operational risk is aimed at ranking of the Bank activity lines depending on the level of the operational risk based on the data of experts from the Bank divisions. In addition, the Bank divisions use self-assessment techniques to assess operational risks.

Control. There is a system of procedures aimed at prevention or detection of departures from laws, regulations and standards of professional activities, settlement of conflict of interests, provision of adequate level of reliability relevant to the nature and scope of transactions performed.

Risk insurance. Certain types of loss arising from realisation of operational risks are covered by insurance, thus transferring possible loss to insurance organisations.

Provisions by main types of risk are made to form sources to cover possible loss. Provision rates and procedures are defined on the basis of the approved regulations.

Based on the results of regular risk analysis the Group prepares management reports for its management. These reports not only provide assessment of risk level but also offer arrangements to limit and diversify risks.

Capital Management

The Group's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation; to ensure the Group's ability to operate as a going concern and maintain capital base at the level required to sustain capital adequacy ratio at 8% recommended by the Basle Accord.

The control over the Bank's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised daily based on the calculation of the amount of its equity and risk weighted assets. The calculation of the Bank's mandatory economic norms and ratios is submitted to the Central Bank of the Russian Federation every month.

The Group's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is controlled on the basis of quarterly reports that are verified and signed by the Group's management.

In accordance with the current capital requirements set by the CBR, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level which equals 10%. As at 31 December 2008, the Group's capital adequacy ratio was 13.1 % (2007: 14.1%).

The Group and the Bank are also obliged to comply with minimum capital requirements stipulated in loan agreements, including capital adequacy ratio, calculated on the basis of the Basle Capital Accord, as defined in "International Convergence of Capital Management and Capital Standards" (revised in April 1998) usually called Basle I and in the Supplement to the Basle Capital Accord which introduced consideration of market risks (revised in November 2005).

During 2007 and 2008 the Group and the Bank complied with all external capital requirements.

(in thousands of Russian Roubles)

The structure of the Group's capital calculated in accordance with the Basle Capital Accord is given below:

	2008	2007
Core capital (Tier 1 capital)	61 801 851	46 959 917
Secondary capital (Tier 2 capital)	29 111 279	19 795 840
Total equity (capital)	**90 913 130**	**66 755 757**
Risk-weighted assets	**653 621 043**	**450 813 917**
Capital adequacy ratio	**13.9%**	**14.8%**
Core capital adequacy ratio	**9.5%**	**10.4%**
Minimum capital adequacy ratio	8.0%	8.0%

31. Contingent Liabilities

Insurance. The insurance market in the Russian Federation is still in the phase of development, so many forms of insurance protection applied in other countries are not available in the Russian Federation yet. The Group has not obtained full insurance coverage for premises and equipment, against discontinuance of operations or third party liability with respect to property or ecological damage arising due to malfunction of banking equipment or in connection with the main operations of the Group.

However, the Group has obtained insurance coverage for the most significant property items: premises, motor vehicles, ATM and other items against damage due to accidents and unlawful actions of third parties.

Legal issues. In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation legislation. The tax system of the Russian Federation is characterised by a large number of taxes and frequently changed regulations that may have the retroactive effect and often contain ambiguous and contradictory statements. Often, differing opinions exist among various regulatory bodies in respect of the same regulation. Accuracy of tax computations is subject to review and investigation by a number of fiscal authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation, which are substantially more significant than typically found in other countries.

As at 31 December 2008, the management believes that its interpretation of the respective legislation is appropriate, and the Group's tax, currency and customs positions will be sustained.

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

	2008	2007
Less than 1 year	705 481	485 865
From 1 to 5 years	201 424	182 249
Total operating lease commitments	**906 905**	**668 114**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative financial instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting.

Credit related commitments of the Group are as follows:

	2008	2007
Guarantees issued	48 105 954	36 187 683
Commitments to extend credit	23 737 226	32 534 793
Letters of credit	8 840 935	8 918 743
Total credit related commitments	**80 684 115**	**77 641 219**

(in thousands of Russian Roubles)

Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of guarantees, letters of credit and undrawn credit lines does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

The Group management estimates possibility of losses in connection with credit related commitments as immaterial. As at 31 December 2008 and 31 December 2007, the Group did not set up provisions for the respective liabilities.

32. Fair Value of Financial Instruments

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

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

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	133 268 662	133 268 662	63 920 118	63 920 118
Financial assets at fair value through profit or loss	35 411 892	35 411 892	51 312 593	51 312 593
Due from other banks	74 337 103	74 337 103	40 853 080	40 853 080
Loans to customers	516 563 769	516 563 769	351 622 231	351 622 231
Financial assets available for sale	10 644 540	10 644 540	3 771 181	3 771 181
Investments held to maturity	959 716	834 518	-	-
Financial liabilities				
Due to other banks	214 923 626	214 923 626	69 624 721	69 624 721
Customer accounts	406 540 962	406 540 962	350 646 223	350 646 223
Financial liabilities at fair value through profit or loss	10 922 808	10 922 808	154 010	154 010
Debt securities issued	91 715 230	70 820 496	55 956 291	55 454 797

Financial instruments carried at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available for sale are carried in the consolidated balance sheet at their fair value (Notes 5, 6, 9). Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Group based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. In the opinion of the Group, the fair values of due from other banks as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts (Note 7). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represent the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The Group believes that fair values of loans to customers as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts (Note 8). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Investments held to maturity. The fair value of investments held to maturity is based on the market quotations.

Borrowings. The estimated fair value of borrowings with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The management believes that fair values of borrowings as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts (Note 14, 15). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities issued is based on market quotations. The fair value of instruments without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity (Note 16).

33. Reconciliation of Categories of Financial Instruments to Balance Sheet

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Group classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) investments held to maturity; 3) loans and receivables; 4) financial assets available for sale.

(in thousands of Russian Roubles)

The table below shows reconciliation of categories of financial assets to the balance sheet as at 31 December 2008:

	Financial assets at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial assets available for sale	Total
Assets					
Cash and cash equivalents	**133 268 662**	**-**	**-**	**-**	**133 268 662**
Financial assets at fair value through profit or loss	**35 411 892**	**-**	**-**	**-**	**35 411 892**
- Corporate bonds	20 854 269	-	-	-	20 854 269
- Corporate Eurobonds	9 186 353	-	-	-	9 186 353
- Bonds of RF subjects and local authorities	1 529 399	-	-	-	1 529 399
- Equity securities	1 434 632	-	-	-	1 434 632
- Bonds of foreign governments	806 399	-	-	-	806 399
- Derivative financial instruments	754 892	-	-	-	754 892
- Eurobonds of the Russian Federation	590 521	-	-	-	590 521
- Corporate promissory notes	194 216	-	-	-	194 216
- Russian Federation bonds (OFZ)	61 211	-	-	-	61 211
Due from other banks	**-**	**-**	**74 337 103**	**-**	**74 337 103**
- Loans and deposits with other banks	-	-	65 135 834	-	65 135 834
- Deposits with central banks	-	-	524 272	-	524 272
- Reverse repo agreements with other banks	-	-	8 676 997	-	8 676 997
Loans to customers	**-**	**-**	**516 563 769**	**-**	**516 563 769**
- Corporate loans	-	-	345 747 393	-	345 747 393
- Loans to small and medium business	-	-	43 661 677	-	43 661 677
- Loans to state and municipal authorities	-	-	16 076 523	-	16 076 523
- Consumer loans	-	-	53 371 827	-	53 371 827
- Mortgage loans	-	-	30 801 085	-	30 801 085
- Car loans	-	-	14 814 154	-	14 814 154
- Credit cards	-	-	4 986 100	-	4 986 100
- Scoring loans	-	-	2 564 174	-	2 564 174
- Overdrafts	-	-	75 066	-	75 066
- Reverse repo agreements	-	-	4 465 770	-	4 465 770
Financial assets available for sale	**-**		**-**	**10 644 540**	**10 644 540**
- Equity securities	-		-	9 882 986	9 882 986
- Bonds of foreign governments	-		-	506 113	506 113
- Corporate debt securities	-		-	225 613	225 613
- Corporate Eurobonds	-		-	29 828	29 828
Investments held to maturity	**-**	**959 716**	**-**	**-**	**959 716**
- Corporate Eurobonds	-	398 712	-	-	398 712
- Corporate bonds	-	282 989	-	-	282 989
- Corporate promissory notes	-	192 330	-	-	192 330
- Bonds of foreign governments	-	33 836	-	-	33 836
- Bonds of RF subjects and local authorities	-	51 849	-	-	51 849
Other financial assets	**-**	**-**	**3 833 993**	**-**	**3 833 993**
- Accounts receivable	-	-	2 744 276	-	2 744 276
- Insurance claims			897 817		897 817
- Plastic cards receivables	-	-	191 900	-	191 900
Total financial assets	**168 680 554**	**959 716**	**594 734 865**	**10 644 540**	**775 019 675**
Non-financial assets					26 365 682
Total assets					**801 385 357**

(in thousands of Russian Roubles)

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

	Financial assets at fair value through profit or loss	**Loans and receivables**	**Financial assets available for sale**	**Total**
Assets				
Cash and cash equivalents	63 920 118	-	-	63 920 118
Financial assets at fair value through profit or loss	**51 312 593**	**-**	**-**	**51 312 593**
- Corporate bonds	25 343 148	-	-	25 343 148
- Eurobonds of the Russian Federation	5 626 009	-	-	5 626 009
- Equity securities	5 112 060	-	-	5 112 060
- Russian Federation bonds (OFZ)	4 489 052	-	-	4 489 052
- Bonds of RF subjects and local authorities	3 677 534	-	-	3 677 534
- Corporate Eurobonds	1 990 669	-	-	1 990 669
- Corporate promissory notes	1 979 881	-	-	1 979 881
- Federal currency bonds (OVGVZ)	1 649 830	-	-	1 649 830
- Bonds of foreign governments	1 334 574	-	-	1 334 574
- Derivative financial instruments	109 836	-	-	109 836
Due from other banks	**-**	**40 853 080**	**-**	**40 853 080**
- Loans and deposits with other banks	-	33 957 052	-	33 957 052
- Reverse repo agreements with other banks	-	6 896 028	-	6 896 028
Loans to customers	**-**	**351 622 231**	**-**	**351 622 231**
- Corporate loans	-	217 445 561	-	217 445 561
- Loans to small and medium business	-	41 578 458	-	41 578 458
- Loans to state and municipal authorities	-	5 522 681	-	5 522 681
- Consumer loans	-	34 787 481	-	34 787 481
- Mortgage loans	-	17 300 545	-	17 300 545
- Car loans	-	13 448 568	-	13 448 568
- Scoring loans	-	3 541 016	-	3 541 016
- Credit cards	-	3 349 539	-	3 349 539
- Overdrafts	-	48 678	-	48 678
- Reverse repo agreements	-	14 599 704	-	14 599 704
Financial assets available for sale	**-**	**-**	**3 771 181**	**3 771 181**
- Equity securities	-	-	3 229 392	3 229 392
- Corporate debt securities	-	-	448 163	448 163
- Corporate Eurobonds	-	-	93 626	93 626
Other financial assets	**-**	**1 248 003**	**-**	**1 248 003**
- Accounts receivable	-	1 135 627	-	1 135 627
- Plastic cards receivables	-	112 376	-	112 376
Total financial assets	**115 232 711**	**393 723 314**	**3 771 181**	**512 727 206**
Non-financial assets				15 358 992
Total assets				**528 086 198**

All financial liabilities of the Group, except the derivative financial instruments, are carried at amortised cost. Derivative financial instruments are classified as at fair value through profit or loss.

34. Related Party Transactions

In the normal course of business the Company enters into transactions with its main shareholders, directors and other related parties. For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Group's policy, the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

(in thousands of Russian Roubles)

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

	Shareholders		Directors and key management personnel		Associates	
	2008	2007	2008	2007	2008	2007
Financial assets at fair value through profit or loss						
Financial assets at fair value through profit or loss as at 1 January	812 205	284 186	-	-	4 105 819	2 445 604
Financial assets at fair value through profit or loss acquired during the year	43 356 896	4 820 452	-	-	16 428 356	5 981 712
Financial assets at fair value through profit or loss sold and repaid during the year	(43 906 738)	(4 292 433)	-	-	(15 749 767)	(4 321 497)
Financial assets at fair value through profit or loss as at 31 December	**262 363**	**812 205**	**-**	**-**	**4 784 408**	**4 105 819**
Due from other banks						
Due from other banks as at 1 January	-	-	-	-	633 717	545 000
Due from other banks placed during the year	-	-	-	-	13 984 574	1 946 838
Due from other banks repaid during the year	-	-	-	-	(14 118 291)	(1 858 121)
Due from other banks as at 31 December	**-**	**-**	**-**	**-**	**500 000**	**633 717**
Provisions for impairment of due from other banks						
Provision for impairment of due from other banks as at 1 January	-	-	-	-	5 000	5 000
Recovery of provision for impairment of due from other banks during the year	-	-	-	-	(5 000)	-
Provision for impairment of due from other banks as at 31 December	**-**	**-**	**-**	**-**	**-**	**5 000**
Due from other banks as at 1 January (less provision for impairment)	**-**	**-**	**-**	**-**	**628 717**	**540 000**
Due from other banks as at 31 December (less provision for impairment)	**-**	**-**	**-**	**-**	**500 000**	**628 717**
Loans to customers						
Loans to customers as at 1 January (gross)	-	-	440 770	245 286	4 138 342	5 969 929
Loans to customers issued during the year	-	-	399 547	529 368	26 345 693	4 196 015
Loans to customers repaid during the year	-	-	(528 071)	(333 884)	(22 839 949)	(6 027 602)
Loans to customers as at 31 December (gross)	**-**	**-**	**312 246**	**440 770**	**7 644 086**	**4 138 342**
Provisions for loan impairment						
Provision for loan impairment as at 1 January	-	-	4 408	-	85 117	258 122
(Recovery of provision)/ provision for loan impairment during the year	-	-	(1 285)	4 408	7 467	(173 005)
Provision for loan impairment as at 31 December	**-**	**-**	**3 123**	**4 408**	**92 584**	**85 117**
Loans to customers as at 1 January less provision for impairment	**-**	**-**	**436 362**	**245 286**	**4 053 225**	**5 711 807**
Loans to customers as at 31 December less provision for impairment	**-**	**-**	**309 123**	**436 362**	**7 551 502**	**4 053 225**
Interest received on loans to customers and due from other banks	**-**	**-**	**37 687**	**29 511**	**597 258**	**723 834**

(in thousands of Russian Roubles)

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

	Shareholders		Directors and key management personnel		Associates	
	2008	2007	2008	2007	2008	2007
Due to other banks						
Due to other banks as at 1 January	-	-	-	-	23 759	13 510
Due to other banks received during the year	-	-	-	-	12 611 453	5 405 614
Due to other banks repaid during the year	-	-	-	-	(12 584 111)	(5 395 365)
Due to other banks as at 31 December	**-**	**-**	**-**	**-**	**51 101**	**23 759**
Customer accounts						
Customer accounts as at 1 January	91 869 476	75 607 686	442 178	416 637	20 845 817	13 115 755
Customer accounts received during the year	411 409 661	308 960 963	7 540 559	2 307 818	707 704 066	384 041 368
Customer accounts repaid during the year	(411 557 135)	(292 699 173)	(7 460 138)	(2 282 277)	(710 508 380)	(376 311 306)
Customer accounts as at 31 December	**91 722 002**	**91 869 476**	**522 599**	**442 178**	**18 041 503**	**20 845 817**
Interest expense on deposits	**9 614 123**	**4 433 351**	**67 557**	**42 096**	**2 190 340**	**38 935**
Fee and commission income for the year	**4 759**	**4 693**	**-**	**-**	**2 559 575**	**446 229**
Guarantees issued by the Group at the end of the year	**1 924 416**	**1 607 776**	**-**	**-**	**133 659**	**8 433 456**
Guarantees received by the Group at the end of the year	**-**	**-**	**-**	**-**	**28 221 696**	**13 524 681**
Import letters of credit at the end of the year	**-**	**58 022**	**-**	**-**	**-**	**-**

Operations with the structural divisions of the Moscow Government account for a substantial share of related party transactions.

Remuneration to members of the Board for 2008 amounted to RUR 430 760 thousand (2007: RUR 701 606 thousand).

35. Events after the Balance Sheet Date

On 20 January 2009 the Group raised a syndicated multi-currency loan from the club of Western banks in the total amount of EUR 105 000 thousand and USD 30 000 thousand maturing on 20 July 2011. The interest rate is LIBOR + 1.5% per annum.

On 27 January 2009, the Bank's Board of Directors took a decision to increase the share capital in 2009 through the issue of 21 008 403 ordinary shares with the nominal value of RUR 100 each.

On 6 February 2009 the Bank of Moscow raised loans from the state corporation Deposit Insurance Agency in the amount of RUR 10 000 million maturing on 6 May 2009 and in the amount of RUR 10 000 million maturing on 6 August 2009.

On 10 February 2009 Mr. A.F. Borodin, President of the Bank, and Mr. L.F. Alaluev, Deputy Chairman of the Board of Directors, declared an increase of their participating interest to 23%.

On 13 February 2009 Bank of Moscow, within the framework of an offer, bought out 9 760 bonds of the second series at face value. The total amount of the offered securities is RUR 9.76 million. The value of issue is RUR 10 billion.