VOZROZHDENIE BANK

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Vozrozhdenie Bank:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

30 March 2009
Moscow, Russian Federation

In millions of Russian Roubles	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	28 490	13 233
Mandatory cash balances with the Central Bank of the Russian Federation		155	1 305
Trading securities	8	9 037	6 702
Due from other banks	9	2 032	7 236
Loans and advances to customers	10	94 575	78 149
Investment securities available for sale	11	2 364	644
Premises, equipment and intangible assets	12	3 234	2 992
Other financial assets	13	879	849
Other assets		445	294
TOTAL ASSETS		**141 211**	**111 404**
LIABILITIES			
Due to other banks	14	21 360	4 845
Customer accounts	15	90 336	81 612
Debt securities in issue	16	5 913	7 103
Subordinated loans	17	4 464	2 874
Syndicated loans	18	3 337	2 550
Other financial liabilities	19	467	316
Other liabilities		269	214
TOTAL LIABILITIES		**126 146**	**99 514**
EQUITY			
Share capital	20	250	250
Share premium		7 306	7 306
Other reserves		52	-
Retained earnings	21	7 457	4 334
TOTAL EQUITY		**15 065**	**11 890**
TOTAL LIABILITIES AND EQUITY		**141 211**	**111 404**

Approved for issue and signed on behalf of the Board of Directors on 30 March 2009.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

In millions of Russian Roubles	**Note**	**2008**	**2007**
Interest income	22	14 511	9 745
Interest expense	22	(6 017)	(4 175)
Net interest income		**8 494**	**5 570**
Provision for loan impairment	10	(2 199)	(885)
Net interest income after provision for loan impairment		**6 295**	**4 685**
Fee and commission income	23	4 376	3 202
Fee and commission expense	23	(248)	(191)
(Losses less gains)/Gains less losses from trading securities		(89)	95
Gains from trading in foreign currencies		3 695	1 473
Losses from trading in foreign currencies		(3 022)	(1 163)
Foreign exchange translation losses less gains		(27)	(60)
Losses on initial recognition of assets at rates below market	10	(14)	(7)
Gains less losses from disposals of investment securities available for sale		24	-
Dividend income		3	3
Other operating income		138	225
Operating income		**11 131**	**8 262**
Administrative and other operating expenses	24	(7 029)	(5 732)
Profit before tax		**4 102**	**2 530**
Income tax expense	25	(965)	(626)
Profit for the year		**3 137**	**1 904**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in RR per share)			
Ordinary shares	26	125	80
Preference shares with determined dividend amount	26	127	78

In millions of Russian Roubles	Note	Share capital	Share premium	Other reserves	(Accumu-lated deficit)/ Retained earnings	Total equity
Balance at 31 December 2006		**4 397**	**3 162**	**-**	**(2 050)**	**5 509**
Total recognised income for 2007		-	-	-	1 904	**1 904**
Elimination of adjustments for hyperinflation	21	(4 177)	(316)	-	4 493	**-**
Share issue	20	30	4 460	-	-	**4 490**
Dividends declared		-	-	-	(13)	**(13)**
Balance at 31 December 2007		**250**	**7 306**	**-**	**4 334**	**11 890**
Fair value gains less losses on investments available for sale	11	-	-	68	-	**68**
Income tax recorded in equity	25	-	-	(16)	-	**(16)**
Net income recognised directly in equity		-	-	52	-	**52**
Profit for the year		-	-	-	3 137	**3 137**
Total recognised income for 2008		-	-	52	3 137	**3 189**
Dividends declared		-	-	-	(14)	**(14)**
Balance at 31 December 2008		**250**	**7 306**	**52**	**7 457**	**15 065**

In millions of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
Interest received		14 502	9 638
Interest paid		(5 659)	(3 763)
Fees and commissions received		4 432	3 290
Fees and commissions paid		(263)	(214)
Net (loss)/ income received from trading in trading securities		(2)	95
Net income received from trading in foreign currencies		715	310
Other operating income received		138	224
Administrative and other operating expenses paid		(6 415)	(5 249)
Income tax paid		(1 150)	(481)
Cash flows from operating activities before changes in operating assets and liabilities		**6 298**	**3 850**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		1 150	(206)
Net increase in trading securities		(1 972)	(2 582)
Net decrease/(increase) in due from other banks		5 252	(1 562)
Net increase in loans and advances to customers		(17 103)	(27 274)
Net decrease/(increase) in other financial assets		6	(2)
Net decrease/(increase) in other assets		18	(152)
Net increase in due to other banks		16 206	4 524
Net increase in customer accounts		5 473	21 079
Net (decrease)/increase in debt securities in issue *(net of bonds)*		(1 310)	86
Net increase in other financial liabilities		37	119
Net decrease in other liabilities		(38)	(26)
Net cash from/(used in) operating activities		**14 017**	**(2 146)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(1 886)	(485)
Proceeds from disposal of investment securities available for sale		264	-
Acquisition of premises, equipment and intangible assets	12	(749)	(800)
Proceeds from disposal of premises, equipment and intangible assets	12	62	65
Dividend income received		3	3
Net cash used in investing activities		**(2 306)**	**(1 217)**
Cash flows from financing activities			
Repayment of subordinated loans	17	(147)	-
Receipt of subordinated loans	17	1 278	604
Receipt of syndicated loans	18	195	2 529
Issue of bonds	16	-	3 000
Issue of ordinary shares	20	-	4 490
Dividends paid		(14)	(13)
Net cash from financing activities		**1 312**	**10 610**
Effect of exchange rate changes on cash and cash equivalents		**2 234**	**(119)**
Net increase in cash and cash equivalents		**15 257**	**7 128**
Cash and cash equivalents at the beginning of the year		**13 233**	**6 105**
Cash and cash equivalents at the end of the year		**28 490**	**13 233**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2008 for Vozrozhdenie Bank OJSC (the "Bank").

The Bank is incorporated and domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations. The Bank is ultimately de-facto controlled by Mr. D.L. Orlov (2007: Mr. D.L. Orlov).

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 55 (2007: 57) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The number of the Bank's employees as at 31 December 2008 was 6 635 (2007: 6 283).

The Bank's Head Office is located at the following address: Luchnikov pereulok, 7/4 bld. 1, 101990, Moscow, Russian Federation.

Presentation currency. These financial statements are presented in millions of Russian Roubles ("RR millions").

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter of 2008. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. In addition, since September 2008 there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.41 at 30 March 2009.

Due to increased market volatility, one-day MosPrime rate fluctuated between 7.8% p.a. and 8.8% p.a. during the period from 29 September 2008 to 30 March 2009.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 438 200 000 thousand at 26 December 2008 and to USD 384 074 000 thousand at 1 March 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 41.83 per barrel at 31 December 2008 and USD 51.77 at 30 March 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the State deposit insurance scheme to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

2 Operating Environment of the Bank (Continued)

- Starting from October 2008 certain Russian banks received an access to additional financing from the CBRF in the form of uncollateralised auctions and additional financing from Vnesheconombank (State Corporation “Bank for development and foreign economic affairs”) in the form of subordinated loans.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management of the Bank is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Bank.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and the wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers of the Bank may be affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management of the Bank has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans and advances to customers is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure of collateral pledged, less costs for obtaining and selling the collateral. The market in Russia for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Management is unable to reliably determine the effects on the Bank’s future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank’s business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading and available-for-sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 3 and 5).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. These are fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities and derivative financial instruments are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, financial derivatives; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Bank may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the income statement as interest income. Dividends are recognized as dividend income when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred 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. This rule does not apply to the financial assets recognised in the end of the reporting period (usually in December) for which not enough information has been collected to identify an impairment trigger event. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

3 Summary of Significant Accounting Policies (Continued)

- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; and
- value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial 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. Financial guarantees and commitments to provide a loan are initially recognised at their fair value. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available for sale at the time of purchase.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity, net of taxes, until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

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

Costs of minor repairs and maintenance are expensed in profit or loss when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2%;
Office and computer equipment	15-20%
Intangible assets	20%

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

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, deposit certificates and bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Subordinated loans. Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank. Subordinated loans are included in the calculation of capital in accordance with Russian Accounting Rules.

Syndicated loans. Syndicated loans are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments including forward agreements and foreign exchange contracts are carried at their fair value.

All derivative instruments are carried as assets when fair value at the balance sheet date is positive and as liabilities when fair value at the balance sheet date is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with the Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, 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 and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. 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 carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges include non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of the Bank and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

3 Summary of Significant Accounting Policies (Continued)

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 (2007: USD 1 = RR 24.5462).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from fiduciary activities are shown in fee and commission income.

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

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

***Segment reporting*.** A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. For the purpose of more transparent presentation, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications within balance sheet an income statement is as follows:

In millions of Russian Roubles	**2007**
Increase in	
Investment securities available for sale	644
Decrease in	
Other financial assets	644

In millions of Russian Roubles	**2007**
Increase in	
Interest income	
Loans and advances to customers – legal entities	7 279
Loans and advances to customers – individuals	1 990
Decrease in	
Interest income	
Loans and advances to customers	9 269

***Amendments of the financial statements after issue*.** The Bank's shareholders and management have the power to amend the financial statements after issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 5 million (31 December 2007: RR 2 million) higher or RR 9 million (31 December 2007: RR 2 million) lower.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2008.

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 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).

These interpretations did not have any significant effect on the Bank's financial statements.

***Reclassification of Financial Assets—Amendments to IAS 39*, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures* and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition*.** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Bank has elected not to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Bank does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated only to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as the fair value on initial measurement of the financial asset in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* or the cost on initial recognition of an ivestment in an associate or jointly controlled entity. The Bank does not expect the amended standard to have a material effect on its financial statements.

Amendment to IFRS 2 Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank is currently assessing the impact of the amended standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Bank as it does not expect a business combination to occur.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations because the Bank does not operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Bank's operations as the Bank does not have construction property contracts.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Bank does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Bank's financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Bank does not expect the improvements to have a material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2008**	**2007**
Cash balances with the CBRF (other than mandatory reserve deposits)	9 227	5 424
Correspondent accounts and overnight placements with other banks		
- Russian Federation	9 024	700
- Other countries	1 271	868
Cash on hand	8 968	6 241
Total cash and cash equivalents	**28 490**	**13 233**

Cash and cash equivalents are not impaired and are not collateralised.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 29.

8 Trading securities

In millions of Russian Roubles	**2008**	**2007**
Corporate bonds	2 943	698
Corporate Eurobonds	2 759	382
CBRF bonds	2 624	1 042
Federal loan bonds (OFZ)	396	2 688
Municipal bonds	260	276
VneshEconomBank 3% coupon bonds (VEB bonds)	49	1 610
Total debt securities	9 031	6 696
Corporate shares	6	6
Total trading securities	**9 037**	**6 702**

The entire trading securities portfolio includes trading securities quoted on the market.

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies freely tradable in the Russian Federation. These bonds have maturity dates from January 2009 to March 2013 (2007: from March 2008 to December 2012), coupon rates from 6.7% to 9.5% (2007: from 6.7% to 13.2%) and yield to maturity from 5.8% to 14.1% (2007: from 6.8% to 13.3%), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from January 2009 to October 2016 (2007: from January 2008 to June 2015), coupon rates from 3.9% to 10.9% (2007: from 5.9% to 10.9%) and yield to maturity from 6.5% to 27.7% (2007: from 5.9% to 7.3%), depending on the type of bond issue.

CBRF bonds are zero-coupon bonds denominated in Russian Roubles, issued by the Central Bank of Russian Federation. These bonds are issued at a discount to face value. These bonds have maturity dates in March and June 2009 (2007: March and June 2008) and yield to maturity from 8.1% to 8.8% (2007: from 5.0% to 5.4%), depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity date in April 2009 (2007: from March 2008 to April 2008), coupon rate of 5.8% (2007: 10.0%) and yield to maturity at 7.3% (2007: 6.0%).

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian regional authorities and are freely tradable in the Russian Federation. These bonds have maturity dates from March 2009 to August 2011 (2007: from June 2008 to October 2016), interest rates from 6.0% to 12.3% (2007: from 5.1% to 11.0%) and yield to maturity from 8.2% to 20.0% (2007: from 5.5% to 8.9%), depending on the type of bond issue.

VEB bonds are interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and have coupon rate of 3.0% (2007: 3.0%). These bods have maturity date in May 2011 (2007: in May 2008) and yield to maturity at 4.9% (2007: 5.6%).

Corporate shares are shares of Russian companies.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Trading securities are used by the Bank basically for managing liquidity risk.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 29.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

9 Due from Other Banks

In millions of Russian Roubles	2008	2007
Short-term placements with other banks	1 515	5 542
Deposits with CBRF	300	1 500
Insurance deposits with non-resident banks	217	194
Total due from other banks	**2 032**	**7 236**

As at 31 December 2008 the Bank had short-term deposits in the amount of RR 1 515 million with maturity dates in January 2009 and contractual interest rate from 5.0% to 24.0% placed with top 50 banks of Russia in terms of equity (2007: RR 5 542 million with maturity date in January 2008 and contractual interest rate from 3.3% to 12.0% placed with top 50 banks of Russia in terms of equity). All amounts due from other banks are neither past due nor impaired. Amounts due from other banks are not collateralised.

As at 31 December 2008 the Bank had short-term deposit placed with CBRF in the amount of RR 300 million (2007: RR 1 500 million) with maturity date in January 2009 (2007: January 2008) and contractual interest rate of 7.3% (2007: 3.3%). Deposits with the CBRF are not collateralised.

The Bank has a significant concentration of credit risk with the CBRF. In total, credit risk exposure to the CBRF is estimated to have amounted to RR 12 306 million (2007: RR 9 271 million) comprising cash and cash equivalents, mandatory reserve deposits with the CBRF and other amounts due from other banks and trading securities. At the same time, at 31 December 2008 the Bank attracted deposits from the CBRF in the amount of RR 20 145 million (2007: RR 2 005 million). Refer to Note 14.

As at 31 December 2008 in accordance with the requirements of Visa International payment system, the Bank placed an insurance deposit in the amount of RR 217 million at LIBOR rate with a non-resident bank located in the United Kingdom for the purpose of banking card settlements (2007: 2 insurance deposits, in accordance with the requirements of Visa International and MasterCard International, in the amount of RR 194 million at LIBOR rate with non-resident banks located in the United Kingdom).

At 31 December 2008 the estimated fair value of due from other banks was RR 2 032 million (2007: RR 7 236 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

10 Loans and Advances to Customers

In millions of Russian Roubles	2008	2007
Corporate loans - large	21 852	15 695
Corporate loans - medium	35 599	25 144
Corporate loans - small	22 702	23 347
Mortgage loans	9 372	8 835
Other loans to individuals	9 807	7 930
Total loans and advances to customers (before impairment)	**99 332**	**80 951**
Less: Provision for loan impairment	(4 757)	(2 802)
Total loans and advances to customers	**94 575**	**78 149**

In accordance with its annually approved Credit policy the loans issued by the Bank are divided into corporate and retail. Taking into consideration the Bank's customer policy requirements for 2008 the corporate portion of borrowers is further divided on the basis of total amount owed by the customer into the following categories: large – in excess of RR 750 million, medium – from RR 100 million to RR 750 million, small – less than RR 100 million (2007: large - in excess of RR 500 million, medium – from RR 100 million to RR 500 million, small – less than RR 100 million). No recategorisation of 2007 numbers was made. Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans.

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 31 December 2007	**303**	**1 017**	**1 150**	**144**	**188**	**2 802**
Provision for impairment during the year	429	817	678	48	227	2 199
Amounts written off during the year as uncollectible	-	(134)	(106)	-	(4)	(244)
Provision for loan impairment at 31 December 2008	**732**	**1 700**	**1 722**	**192**	**411**	**4 757**

Movements in the provision for loan impairment during 2007 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 31 December 2006	**250**	**693**	**1 008**	**-**	**3**	**1 954**
Provision for impairment during the year	53	324	179	144	185	885
Amounts written off during the year as uncollectible	-	-	(37)	-	-	(37)
Provision for loan impairment at 31 December 2007	**303**	**1 017**	**1 150**	**144**	**188**	**2 802**

10 Loans and Advances to Customers (Continued)

Analysis of the structure of the provision for loan impairment at 31 December 2008 is as follows:

In millions of Russian Roubles	**Gross loans and advances to customers**	**Impairment loss provisions**	**Total loans and advances to customers (after impairment)**	**Ratio of impairment loss provisions to gross loans and advances to customers**
Loans and advances to legal entities:				
Individually evaluated for impairment, not impaired loans	652	-	652	0.0%
Collectively evaluated for impairment				
- standard loans	75 240	(2 139)	73 101	2.8%
- watch loans	921	(448)	473	48.6%
Individually evaluated for impairment				
-doubtful loans	2 477	(704)	1 773	28.4%
- uncollectible loans	863	(863)	-	100.0%
Total loans and advances to legal entities	**80 153**	**(4 154)**	**75 999**	**5.2%**
Loans and advances to individuals:				
Collectively evaluated for impairment				
- standard loans	18 540	(246)	18 294	1.3%
- watch loans	350	(68)	282	19.4%
Individually evaluated for impairment, uncollectible loans	289	(289)	-	100.0%
Total loans and advances to individuals	**19 179**	**(603)**	**18 576**	**3.1%**
Total loans and advances to customers	**99 332**	**(4 757)**	**94 575**	**4.8%**

10 Loans and Advances to Customers (Continued)

Analysis of the structure of the provision for loan impairment at 31 December 2007 is as follows:

In millions of Russian Roubles	Gross loans and advances to customers	Impairment loss provisions	Total loans and advances to customers (after impairment)	Ratio of impairment loss provisions to gross loans and advances to customers
Loans and advances to legal entities:				
Individually evaluated for impairment, not impaired loans	2 850	-	2 850	0.0%
Collectively evaluated for impairment				
- standard loans	59 193	(1 301)	57 892	2.2%
- watch loans	852	(469)	383	55.0%
Individually evaluated for impairment				
-doubtful loans	753	(162)	591	21.5%
- uncollectible loans	538	(538)	-	100.0%
Total loans and advances to legal entities	**64 186**	**(2 470)**	**61 716**	**3.9%**
Loans and advances to individuals:				
Collectively evaluated for impairment, standard loans	16 598	(165)	16 433	1.0%
Individually evaluated for impairment, uncollectible loans	167	(167)	-	100.0%
Total loans and advances to individuals	**16 765**	**(332)**	**16 433**	**2.0%**
Total loans and advances to customers	**80 951**	**(2 802)**	**78 149**	**3.5%**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2008		2007	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	20 997	21	19 564	24
Manufacturing	19 212	19	17 693	22
Individuals	19 179	19	16 765	21
Construction	9 938	10	6 163	8
Transport	7 948	8	5 018	6
Finance	5 323	6	2 942	4
Agriculture	4 091	4	3 603	4
State and public organisations	1 804	2	1 952	2
Other	10 840	11	7 251	9
Total loans and advances to customers (before impairment)	**99 332**	**100**	**80 951**	**100**

10 Loans and Advances to Customers (Continued)

State and public organisations exclude government owned profit orientated businesses.

At 31 December 2008 the Bank had 17 borrowers with aggregated loan amounts equal or above RR 500 million. The total aggregate amount of these loans was RR 23 368 million or 23.5% of the gross loan portfolio.

At 31 December 2007 the Bank had 17 borrowers with aggregated loan amounts equal or above RR 500 million. The total aggregate amount of these loans was RR 15 695 million or 19.4% of the loan portfolio.

The Bank normally issues loans on the condition of provision by the borrowers of liquid and sufficient collateral that is documented in accordance with the legally established procedure. Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- goods in turnover;
- guarantee deposit;
- third parties' guarantee;
- banking guarantee; and
- state (municipal) guarantee.

Loans to individuals may be collateralised by the following:

- residential property purchased under mortgage agreement;
- car purchased under auto loan agreement;
- guarantees of third parties, in particular of employers of an individual borrower;
- pledge of right of claim on the individual's deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk the Bank requires from its individual borrowers the insurance of the subject of pledge, the individual borrower's life and disability or accident insurance.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Bank's potential expenses associated with the fulfilment of debtor's obligations. The liquidity of the collateral is assessed on the basis of the term during which it can be realised.

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Unsecured loans	-	1 216	884	-	1 248	3 348
Loans collateralised by:						
residential real estate	-	-	-	7 699	1 991	9 690
other real estate	9 563	19 779	9 392	-	-	38 734
equipment and commodities and materials, motor vehicles	9 193	8 489	8 295	-	877	26 854
securities (promissory notes, shares)	1 520	2 270	557	468	96	4 911
cash deposits	-	-	12	-	52	64
state guarantees and guarantees of the RF constituents	1 400	195	370	-	-	1 965
other guarantees and third parties' warranties	-	1 077	1 511	239	5 531	8 358
Other assets (other types of property, rights)	176	2 573	1 681	966	12	5 408
Total loans and advances to customers (before impairment)	**21 852**	**35 599**	**22 702**	**9 372**	**9 807**	**99 332**

In 2007 the Bank provided only a description of types of collateral held.

The collateral value of the property is determined at the moment when the loan is issued in accordance with the effective Bank's procedure with the use of the system of discounts or on the basis of the cost of similar property.

Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of the property is confirmed by the report on real estate market valuation prepared by a valuation company not earlier than two months prior to execution of pledge contract, transaction price of the acquired property or transaction price of similar property. If there is more than one transaction with identical property, market value is determined on the basis of the lowest transaction price.

When industrial, technological or other equipment is pledged as collateral the Bank applies a discount of 15-30% depending upon the industry and the region. Motor vehicles are discounted at 20-25%.

Bank card loans are secured by guarantees (except for credits with limit up to thirty thousand roubles where collateral is not required), life and disability insurance. If required and depending upon the amount of credit limit, profession and place of employment the Bank can request additional collateral in the form of a pledge.

As additional collateral for corporate loans the Bank accepts guarantees of legal entities and pledges of rights of claim.

Loans collateralised only by the guarantee of third parties can be issued if the financial position of the legal entity guarantor is estimated no worse than "average" in accordance with Bank's internal evaluation methodologies.

Starting from 1 December 2008 a unified discount of 40% was established to determine collateral value of property (except for promissory notes and shares of the Bank).

Property received as collateral (except for promissory notes and shares of the Bank) under loans to legal entities, including pledged property, was inspected at the end of the reporting period and its market value estimated by expert valuers. In certain cases specialised valuation companies were engaged to carry out an expertise of the existing valuation of collateral.

10 Loans and Advances to Customers (Continued)

As a result of mentioned above valuations, if the market value of collateral given the economic situation in the region did not meet the Bank's requirements, borrowers/ pledgers were requested to provide additional collateral. Only liquid property, i.e. equipment (including motor vehicles), real estate and promissory notes of the Bank, was accepted as additional collateral.

In addition, the Bank has a right for acceptance-free write-off from borrower's current accounts in the Bank in case of non-fulfilment of loan contract obligations by the borrower,

In the end of 2008 the Bank cancelled the ability of its branches to issue retail loans and transferred to the Central Office of the Bank the authorisation rights to issue new loans, and stopped issuing loans for construction of cottages and for purchase of residential real estate in the primary market. The Bank also tightened the requirements of the analysis of borrowers' creditworthiness.

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired						
- Large borrowers with credit history over two years	13 501	-	-	-	-	13 501
- Large new borrowers	7 851					7 851
- Corporate loans - medium	-	4 212	-	-	-	4 212
- Collectively evaluated loans	-	29 140	19 983	9 003	9 330	67 456
- Loans renegotiated in 2008	500	1 413	921	3	92	2 929
Total neither past due nor impaired	**21 852**	**34 765**	**20 904**	**9 006**	**9 422**	**95 949**
Past due but not impaired						
- less than 30 days overdue	-	190	263	193	93	739
- 30 to 90 days overdue	-	135	-	89	12	236
- 90 to 180 days overdue	-	-	-	1	-	1
- 180 to 360 days overdue	-	-	-	-	-	-
- over 360 days overdue	-	260	-	-	-	260
Total past due but not impaired	**-**	**585**	**263**	**283**	**105**	**1 236**
Loans collectively determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	240	-	32	272
- 90 to 180 days overdue	-	125	181	-	29	335
- 180 to 360 days overdue	-	124	256	-	34	414
- over 360 days overdue	-	-	768	-	20	788
Loans collectively determined to be impaired (gross)	**-**	**249**	**1 445**	**-**	**115**	**1 809**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	13	9	22
- 90 to 180 days overdue	-	-	-	23	43	66
- 180 to 360 days overdue	-	-	-	40	31	71
- over 360 days overdue	-	-	90	7	82	179
Total individually impaired loans (gross)	**-**	**-**	**90**	**83**	**165**	**338**
Less impairment provisions	(732)	(1 700)	(1 722)	(192)	(411)	(4 757)
Total loans and advances to customers	**21 120**	**33 899**	**20 980**	**9 180**	**9 396**	**94 575**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Neither past due nor impaired						
- Large borrowers with credit history over two years	6 842	-	-	-	-	6 842
- Large new borrowers	7 897					7 897
- Loans renegotiated in 2007	956	1 762	613	-	-	3 331
- Corporate loans - medium	-	22 746	-	-	-	22 746
- Corporate loans - small	-	-	21 567	-	-	21 567
- Collectively evaluated loans	-	-	-	8 755	7 790	16 545
Total neither past due nor impaired	**15 695**	**24 508**	**22 180**	**8 755**	**7 790**	**78 928**
Past due but not impaired						
- less than 30 days overdue	-	-	156	6	31	193
- 30 to 90 days overdue	-	-	126	-	3	129
- 90 to 180 days overdue	-	332	95	4	4	435
- 180 to 360 days overdue	-	170	149	-	5	324
- over 360 days overdue	-	-	470	-	-	470
Total past due but not impaired	**-**	**502**	**996**	**10**	**43**	**1 551**
Loans individually determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	-	-	30	30
- 90 to 180 days overdue	-	-	-	70	20	90
- 180 to 360 days overdue	-	-	-	-	41	41
- over 360 days overdue	-	134	171	-	6	311
Total individually impaired loans (gross)	**-**	**134**	**171**	**70**	**97**	**472**
Less impairment provisions	(303)	(1 017)	(1 150)	(144)	(188)	(2 802)
Total loans and advances to customers	**15 392**	**24 127**	**22 197**	**8 691**	**7 742**	**78 149**

The primary factors that the Bank considers in determining whether a loan is impaired is its overdue status and realisability of related collateral, if any. In 2008 the Bank amended the methodology of credit quality analysis on loans and segregated “Loans collectively determined to be impaired” in a separate group.

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank’s policy is to classify each loan as ‘neither past due nor impaired’ until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

10 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans collectively and individually determined to be impaired at 31 December 2008 was as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Fair value of collateral - loans past due but not impaired						
- residential real estate	-	-	-	318	9	327
- production real estate	-	-	101	-	-	101
-equipment and commodities and materials	-	1 163	483	-	-	1 646
- motor vehicles	-	-	-	-	18	18
- third parties' guarantees	-	160	438	57	151	806
Fair value of collateral - collectively impaired loans						
- production real estate	-	180	241	-	-	421
-equipment and commodities and materials	-	43	1 476	-	-	1 519
- third parties' guarantees	-	-	-	-	76	76
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	110	17	127
- production real estate	-	-	-	-	-	-
-equipment and commodities and materials	-	-	-	-	-	-
- motor vehicles	-	-	-	-	36	36
Total	**-**	**1 546**	**2 739**	**485**	**307**	**5 077**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Fair value of collateral - loans past due but not impaired						
- residential real estate	-	-	-	11	1	12
- production real estate	-	124	-	-	-	124
-equipment and commodities and materials	-	404	1 018	-	-	1 422
- motor vehicles	-	-	-	-	23	23
- third parties' guarantees	-	184	-	-	23	207
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	-	-
- production real estate	-	-	-	-	-	-
-equipment and commodities and materials	-	-	-	-	-	-
- motor vehicles	-	-	-	-	-	-
- third parties' guarantees	-	-	-			-
Total	**-**	**712**	**1 018**	**11**	**47**	**1 788**

10 Loans and Advances to Customers (Continued)

At 31 December 2008 the estimated fair value of loans and advances to customers was RR 91 313 million (2007: RR 77 542 million). Refer to Note 33.

During 2008 a loss on initial recognition of loans at rates below market in the amount of RR 14 million (2007: RR 7 million) has been recorded in the income statement.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

In millions of Russian Roubles	2008	2007
Corporate bonds	1 907	202
Total debt securities	1 907	202
Corporate shares	457	442
Total investment securities available for sale	**2 364**	**644**

Corporate bonds are represented by bonds denominated in Russian Roubles issued by two Russian companies. These bonds have maturity dates in June 2011 and December 2012 respectively (2007: May 2010), coupon rates from 9.3% to 12.8% (2007: 12.5%) and yield to maturity from 13.6% to 22.5% (2007: 12.5%), depending on the type of bond issue.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. In February 2009 a part of the bonds were sold under an offer agreement. Refer to Note 36.

Debt investment securities available for sale are carried at fair value which also reflects any credit risk related write-downs. As debt investment securities available for sale are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. The debt investment securities available for sale are not collateralised.

Equity investment securities available for sale in the amount of RR 56 million are traded in active markets and their fair value is determined by reference to the current market value at the close of business in the end of the reporting period. The remaining debt investment securities available for sale with a carrying value of RR 401 million (2007: RR 442 million) are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by comparison with the fair value of assets of similar companies.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	Note	2008	2007
Carrying amount at 1 January		**644**	**159**
Fair value gains less losses		68	-
Interest income accrued		6	-
Purchases		1 886	485
Disposals of investment securities available for sale		(225)	-
Other		(15)	-
Carrying amount at 31 December		**2 364**	**644**

Geographical, currency, interest rate and maturity analyses of securities available for sale are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

12 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Construc-tion in progress	Total tangible assets	Computer software licences	Total
Carrying amount at 31 December 2006		**1 198**	**1 030**	**304**	**2 532**	**65**	**2 597**
Cost at 31 December 2006							
Balance at the beginning of the year		1 471	2 189	304	3 964	81	4 045
Additions		283	412	79	774	26	800
Transfers		359	-	(359)	-	-	-
Disposals		(53)	(122)	(7)	(182)	-	(182)
Cost at the end of the year		**2 060**	**2 479**	**17**	**4 556**	**107**	**4 663**
Accumulated depreciation							
Balance at the beginning of the year		273	1 159	-	1 432	16	1 448
Depreciation charge	24	35	286	-	321	19	340
Disposals		(9)	(108)	-	(117)	-	(117)
Balance at the end of the year		**299**	**1 337**	**-**	**1 636**	**35**	**1 671**
Carrying amount at 31 December 2007		**1 761**	**1 142**	**17**	**2 920**	**72**	**2 992**
Cost at 31 Decemebr 2007							
Balance at the beginning of the year		2 060	2 479	17	4 556	107	4 663
Additions		119	534	85	738	11	749
Transfers		87	-	(87)	-	-	-
Disposals		(44)	(117)	(4)	(165)	-	(165)
Cost at the end of the year		**2 222**	**2 896**	**11**	**5 129**	**118**	**5 247**
Accumulated depreciation							
Balance at the beginning of the year		299	1 337	-	1 636	35	1 671
Depreciation charge	24	42	376	-	418	22	440
Disposals		(5)	(93)	-	(98)	-	(98)
Balance at the end of the year		**336**	**1 620**	**-**	**1 956**	**57**	**2 013**
Carrying amount at 31 December 2008		**1 886**	**1 276**	**11**	**3 173**	**61**	**3 234**

Construction in progress consists of construction and refurbishment of Head Office and branch premises. Upon completion, assets are transferred to premises and equipment.

13 Other Financial Assets

In millions of Russian Roubles	2008	2007
Credit and debit cards receivables	469	452
Receivables and advance payments	261	364
Settlements with currency and stock exchanges	132	33
Other	17	-
Total other financial assets	**879**	**849**

Other financial assets are not impaired and are not collateralised.

At 31 December 2008 the estimated fair value of other financial assets was RR 879 million (2007: RR 849 million). Refer to Note 33.

Geographical, currency and maturity analyses of financial assets are disclosed in Note 29.

14 Due to Other Banks

In millions of Russian Roubles	2008	2007
Short-term placements of CBRF	20 145	2 005
Placements of other banks	1 156	2 790
Correspondent accounts of other banks	59	50
Total due to other banks	**21 360**	**4 845**

At 31 December 2008 the Bank had short-term placements of the CBRF in the amount of RR 20 145 million (2007: RR 2 005 million) with maturity dates in January-June 2009 and contractual interest rates from 9.3% to 13.0% (2007: with maturity date in May 2008 and contractual interest rate 8.0%) .

At 31 December 2008, included in placements of other banks are deposits of non-resident banks in the amount of RR 1 156 million with maturity from January 2009 to December 2014 and contractual interest rates from 5.0% to 8.4% As at 31 December 2007, included in placements of other banks are short-term deposits of a large Russian bank in the amount of RR 2 009 million with maturity dates in January-March 2008 and contractual interest rates from 6.8% to 7.3%.

At 31 December 2008 the estimated fair value of due to other banks was RR 21 496 million (2007: RR 4 931 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29.

15 Customer Accounts

In millions of Russian Roubles	2008	2007
State and public organisations		
- Current/settlement accounts	440	218
- Term deposits	207	-
Other legal entities		
- Current/settlement accounts	21 279	22 651
- Term deposits	16 573	8 947
Individuals		
- Current/demand accounts	11 637	13 446
- Term deposits	40 200	36 350
Total customer accounts	**90 336**	**81 612**

15 Customer Accounts (Continued)

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	51 837	57	49 796	61
Finance	12 776	14	3 789	5
Trade	6 635	7	7 602	9
Manufacturing	5 209	6	7 209	9
Construction	3 098	3	3 156	4
Transport and communications	2 646	3	2 954	4
State and public organisations	647	1	218	-
Agriculture	637	1	1 098	1
Other	6 851	8	5 790	7
Total customer accounts	**90 336**	**100**	**81 612**	**100**

At 31 December 2008 the Bank had 28 customers with balances above RR 200 million. The aggregate balance of these customers was RR 16 237 million or 18.0% of total customer accounts.

At 31 December 2007 the Bank had 15 customers with balances above RR 200 million. The aggregate balance of these customers was RR 8 527 million or 10.4% of total customer accounts.

At 31 December 2008 the estimated fair value of customer accounts was RR 88 781 million (2007: RR 80 457 million). Refer to Note 33.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

16 Debt Securities in Issue

In millions of Russian Roubles	**2008**	**2007**
Promissory notes	2 528	3 540
Bonds	3 085	3 085
Deposit certificates	300	478
Total debt securities in issue	**5 913**	**7 103**

At 31 December 2008 promissory notes have maturity dates from January 2009 to November 2011 (2007: from January 2008 to November 2011) and effective interest rate from 1.0% to 12.5% p.a. (2007: from 1.8% to 10.7% p.a.).

At 31 December 2008 and 31 December 2007, the Bank’s debt securities in issue included bonds issued on domestic market in the amount of RR 3 085 million and a nominal value of RR 3 000 million. These bonds mature in March 2010, have a coupon rate of 8.95% (2007: 8.95%) and a yield to maturity at 36.2% (2007: 10.0%).

At 31 December 2008 deposit certificates have maturity dates from January 2009 to December 2009 (2007: from January 2008 to December 2008) and effective interest rate from 5.2% to 11.5% (2007: from 4.1% to 9.0%).

At 31 December 2008 the estimated fair value of debt securities in issue was RR 5 152 million (2007: RR 7 040 million). Refer to Note 33.

Under the terms of bonds issued, the Bank should comply with the CBRF economic ratios. As at 31 December 2008 and 31 December 2007 the Bank was in compliance with these ratios.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 29. The information on debt securities in issue held by related parties is disclosed in Note 35.

17 Subordinated Loans

Subordinated loans represent long-term deposits of customers of the Bank, which mature from 2010 to 2018 and bear contractual interest rates ranging from 2.3% to 13.0%. In July 2008 the Bank received one additional subordinated loan (2007: one new subordinated loan). The details of subordinated loans attracted by the Bank are disclosed in the table below:

	Start date	Maturity date	Contractual interest rate, %	Currency	Nominal value, RR million
Subordinated loan 1	May 2000	April 2011	2,25	USD	213
Subordinated loan 2	June 2002	June 2010	8,0	USD	88
Subordinated loan 3	July 2004	July 2012	8,0	USD	294
Subordinated loan 4	June 2005	June 2013	5,75	USD	294
Subordinated loan 5	December 2005	December 2013	8,0	USD	206
Subordinated loan 6	March 2006	March 2014	6,5	USD	147
Subordinated loan 7	May 2006	May 2014	6,5	USD	88
Subordinated loan 8	June 2006	June 2014	6,5	USD	147
Subordinated loan 9	December 2006	December 2013	13,0	RR	1 000
Subordinated loan 10	April 2007	April 2014	13.0	RR	500
Subordinated loan 11	July 2008	August 2018	9.21	USD	1 487
Total subordinated loans					**4 464**

Under the terms of the agreement of subordinated loan №11, the Bank should comply with a number of covenants. As at 31 December 2008, the Bank breached a covenant on total exposure to a single borrower as a percentage of equity. The actual value of this covenant amounted to 16%. The maximum limit for the covenant was 15%. As confirmed by the creditors on 26 March 2009, they agreed to waive the breach with respect to the aforementioned covenant. The waiver is limited till 30 June 2009.

At 31 December 2008 the estimated fair value of subordinated loans was RR 4 602 million (2007: RR 2 892 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 29.

Subordinated loans №6, 7, 8 were received by the Bank from a related party. Refer to Note 35.

18 Syndicated loans

At 31 December 2008 syndicated loans are represented by a syndicated loan attracted in March 2007 in the amount of USD 50 million increased by USD 9.75 million in March 2008 with a maturity date in March 2009, with an interest rate of 5.1%, and a loan received in November 2007 in the amount of USD 53 million with maturity date in October 2009 and an interest rate of 4.2%. The syndicated loans are attracted from a group of foreign and Russian banks. The agents of the syndicated loans were Bank Austria Creditanstalt AG and Landesbank Berlin AG.

The Bank repaid a syndicated loan in the amount of USD 59.75 million in March 2009. Refer to Note 36.

Under the terms of syndicated loan agreements, the Bank should comply with the following covenants:

- capital adequacy;
- tangible net worth;
- financial indebtedness; and
- CBRF economic ratios.

As at 31 December 2008 and 31 December 2007 the Bank was in compliance with these covenants.

At 31 December 2008 the estimated fair value of syndicated loans was RR 3 361 million (2007: RR 2 547 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of syndicated loans are disclosed in Note 29.

19 Other Financial Liabilities

Other financial liabilities comprise the following:

In millions of Russian Roubles	2008	2007
Debit or credit card payables	254	156
Trade payables	183	160
Settlements on conversion operations	10	-
Other	20	-
Total other financial liabilities	**467**	**316**

At 31 December 2008 the estimated fair value of other financial liabilities was RR 467 million (2007: RR 316 million). Refer to Note 33.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 29.

20 Share Capital

In millions of Russian Roubles	Number of outstanding shares	Ordinary shares	Preference shares with determined dividend amount	Share premium	Total
At 31 December 2006	**22 043 199**	**4 337**	**60**	**3 162**	**7 559**
New shares issued	3 000 000	30	-	4 460	4 490
Elimination of adjustments for hyperinflation	-	(4 130)	(47)	(316)	(4 493)
At 31 December 2007	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2008	**25 043 199**	**237**	**13**	**7 306**	**7 556**

Nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions to the purchasing power of the Russian Rouble at 31 December 2008 is RR 250 million (2007: RR 250 million). At 31 December 2008, all of the Bank's outstanding shares were authorised, issued and fully paid in.

In May 2007 at the decision of the Bank's Board of Directors the restatement of capital contributions received before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 was eliminated with a simultaneous adjustment of the accumulated deficit. Following the elimination, the nominal registered amount of the Bank's issued share capital corresponds to the amount reported in these financial statements. Refer to Note 21.

All ordinary shares have a nominal value of RR 10 per share (2007: RR 10 per share) and rank equally. Each share carries one vote.

The preference shares have a nominal value of RR 10 (2007: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2007: 20% p.a.) and rank above ordinary dividends. Dividends of preference shares are not cumulative. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time as the dividend is paid.

In May 2007 the Central Bank of the Russian Federation registered an additional issue of 3 000 000 ordinary shares of the Bank with a nominal value of RR 10 per share.

20 Share Capital (Continued)

The Bank's ordinary shares were included into A quotation list of the second level of Open Joint Stock Company RTS Stock Exchange and into A quotation list of the second level of Closed Joint Stock Company MICEX Stock Exchange.

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

As at 31 December 2008 541 165 (2007: 550 000) ordinary shares of the Bank were circulating on international over-the-counter markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with nominal value of RR 10.

21 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's funds under Russian Accounting Rules at 31 December 2008 amount to RR 6 699 million (2007: RR 3 734 million).

At 31 December 2006 within the accumulated deficit calculated in accordance with IFRS there was RR 3 968 million related to revaluation of non-monetary items as required by IAS 29 Financial Reporting in Hyperinflationary Economies. This revaluation was done before 1 January 2003. In May 2007 at the decision of the Bank's Board of Directors the restatement of capital contributions received before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 was eliminated with a simultaneous adjustment of the accumulated deficit. This adjustment resulted in comparability of capital components under Russian Accounting Regulations and IFRS.

22 Interest Income and Expense

In millions of Russian Roubles	**2008**	**2007**
Interest income		
Loans and advances to customers – legal entities	10 872	7 279
Loans and advances to customers – individuals	2 565	1 990
Trading securities	571	200
Correspondent accounts and due from other banks	394	273
Investment securities available for sale	109	3
Total interest income	**14 511**	**9 745**
Interest expense		
Term deposits of individuals	3 039	2 586
Term deposits of legal entities	1 402	576
Debt securities in issue	557	524
Due to other banks	509	120
Subordinated loans	299	248
Syndicated loans	177	45
Current/settlement accounts of legal entities	34	76
Total interest expense	**6 017**	**4 175**
Net interest income	**8 494**	**5 570**

Information on related party balances is disclosed in Note 35.

23 Fee and Commission Income and Expense

In millions of Russian Roubles	2008	2007
Fee and commission income		
Cash transactions	1 223	906
Settlement transactions	1 135	916
Credit/debit cards and cheques settlements	742	548
Payroll projects	562	421
Cash collection	181	93
Guarantees issued	104	89
Other	429	229
Total fee and commission income	**4 376**	**3 202**
Fee and commission expense		
Credit/debit cards and cheques settlements	166	113
Settlement transactions	24	22
Settlements with currency and stock exchanges	20	18
Cash transactions	12	14
Other	26	24
Total fee and commission expense	**248**	**191**
Net fee and commission income	**4 128**	**3 011**

24 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2008	2007
Staff costs		4 144	3 295
Administrative expenses		891	764
Depreciation of premises, equipment and intangible assets	12	440	340
Other costs related to premises, equipment and intangible assets		395	212
Taxes other than income tax		256	238
Contributions to the State Deposit Insurance Agency		252	281
Rent		243	227
Other		408	375
Total administrative and other operating expenses		**7 029**	**5 732**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 559 million (2007: RR 463 million).

25 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2008	2007
Current tax	972	647
Deferred tax	(7)	(21)
Income tax expense for the year	**965**	**626**

25 Income Taxes (Continued)

The income tax rate applicable to the majority of the Bank's income is 24% (2007: 24%). A reconciliation between the expected and the actual taxation charge is provided below:

In millions of Russian Roubles	2008	2007
IFRS profit before tax	**4 102**	**2 530**
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	984	607
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(46)	(13)
- Non deductible expenses	50	32
- Impact of change in tax rate to 20% effective from 1 January 2009	(23)	-
Income tax expense for the year	**965**	**626**

Deferred taxation relating to the fair value remeasurement of investment securities available-for-sale is charged or credited directly to equity and is subsequently recorded in the statement of income when the gain or loss on the securities is realised.

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%), except for income on state securities, which is taxed at 15% (2007: 15%).

In millions of Russian Roubles	2006	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	2007	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	2008
Tax effect of deductible temporary differences							
Loan impairment provision	117	(9)	--	108	(75)	-	33
Fair valuation of trading securities	-	2	--	2	11	-	13
Accruals	38	23	--	61	64	-	125
Deferred fee and commission income	27	9	--	36	7	-	43
Other	-	1	--	1	1	-	2
Gross deferred tax asset	**182**	**26**	**--**	**208**	**8**	**-**	**216**
Tax effect of taxable temporary differences							
Premises, equipment and intangible assets	(54)	(6)	--	(60)	-	-	(60)
Fair valuation of investment securities available for sale	-	-	--	-	-	(16)	(16)
Other	(11)	1	--	(10)	(1)	-	(11)
Gross deferred tax liability	**(65)**	**(5)**	**-**	**(70)**	**(1)**	**(16)**	**(87)**
Total net deferred tax asset	**117**	**21**	**-**	**138**	**7**	**(16)**	**129**

The net deferred tax asset represents income taxes recoverable through future income and is recorded on the balance sheet within other assets.

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2008	2007
Profit attributable to ordinary shareholders of the Bank	2 973	1 803
Profit attributable to preference shareholders of the Bank	164	101
Profit for the year	**3 137**	**1 904**
Weighted average number of ordinary shares in issue (million)	23.7487	22.5816
Weighted average number of preference shares in issue (million)	1.2945	1.2945
Basic and diluted earnings per ordinary share (expressed in RR per share)	**125**	**80**
Basic and diluted earnings per preference share (expressed in RR per share)	**127**	**78**

Profit for the year attributable to ordinary and preference shareholders is calculated as follows:

In millions of Russian Roubles	Note	2008	2007
Profit for the year		3 137	1 904
Less dividends on ordinary and preference shares	27	(14)	(13)
Undistributed profit for the year		**3 123**	**1 891**
Undistributed profit for the year attributable to preference shareholders based on terms of the shares		161	98
Preference dividends declared during the year	27	3	3
Profit for the year allocated to preference shareholders		**164**	**101**
Undistributed profit or loss for the year attributable to ordinary shareholders based on terms of the shares		2 962	1 793
Ordinary dividends declared during the year	27	11	10
Profit for the year allocated to ordinary shareholders		**2 973**	**1 803**

27 Dividends

	2008		2007	
In millions of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	11	3	10	3
Dividends paid during the year	(11)	(3)	(10)	(3)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2.0**	**0.5**	**2.0**

All dividends are declared and paid in Russian Roubles.

28 Segment Analysis

The Bank's primary format for reporting segment information is operating segments and the secondary format is geographical segments.

Operating segments. For managing purposes the Bank is organised by type of products and services, as well as categories of customers that purchase these products and services, into the following operating segments:

- Corporate business – representing direct debit facilities, current accounts, deposits, overdrafts, credit lines and other credit facilities, foreign currency and derivative products.
- Retail business – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, consumer loans and mortgages.
- Bank cards business – representing settlement services to individuals with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll projects services.

Reporting segments. For financial reporting purposes, the following operating segments are identified as reporting segments:

- "Corporate banking" – includes the corporate business;
- "Retail banking" – Retail business;
- "Bank cards transactions" – Bank cards business;
- Other – includes interbank operations, trading with securities and transactions between operating segments.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are calculated based on market indicators.

Segment assets and liabilities include operating assets and liabilities representing a major part of the balance sheet, as well as funds reallocated between operating segments, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

Geographical segments of the Bank have been reported separately within these financial statements based on the domicile of the parent company of the corresponding group, e.g. based on economic risk rather than legal risk of the counterparty.

28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2008 and 2007 is set out below:

In millions of Russian Roubles	Retail banking	Corporate banking	Bank card transactions	Other	Total
2008					
External revenues	3 047	12 942	1 823	1 213	19 025
Revenues from other segments	2 693	(5 152)	13	2 446	-
Total revenues	**5 740**	**7 790**	**1 836**	**3 659**	**19 025**
Total revenues comprise:					
- Interest income	2 053	10 872	512	1 074	14 511
- Fee and commission income	994	2 070	1 311	1	4 376
- Other operating income	-	-	-	138	138
Total revenues					**19 025**
Segment result	2 387	2 687	1 670	4 387	11 131
Unallocated costs	-	-	-	-	(7 029)
Profit before tax	**-**	**-**	**-**	**-**	**4 102**
Income tax expense	-	-	-	-	(965)
Profit	**-**	**-**	**-**	**-**	**3 137**
Segment assets	15 517	75 999	3 528	13 434	108 478
Deferred tax asset	-	-	-	-	129
Other unallocated assets	-	-	-	-	32 604
Total assets	**-**	**-**	**-**	**-**	**141 211**
Segment liabilities	41 596	44 412	10 241	24 697	120 946
Other unallocated liabilities	-	-	-	-	5 200
Total liabilities	**-**	**-**	**-**	**-**	**126 146**
Other segment items					
Capital expenditure	324	345	80	-	749
Depreciation and amortisation expense	(72)	(352)	(16)	-	(440)
Provision for loan impairment during the year	(172)	(1 924)	(103)	-	(2 199)

28 Segment Analysis (Continued)

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Bank card transactions**	**Other**	**Total**
2007					
External revenues	2 279	8 860	1 332	701	13 172
Revenues from other segments	1 654	(2 209)	237	318	-
Total revenues	**3 933**	**6 651**	**1 569**	**1 019**	**13 172**
Total revenues comprise:					
- Interest income	1 627	7 371	363	384	9 745
- Fee and commission income	744	1 489	969	-	3 202
- Other operating income	-	-	-	225	225
Total revenues					**13 172**
Segment result	1 345	4 103	1 456	1 358	8 262
Unallocated costs	-	-	-	-	(5 732)
Profit before tax	**-**	**-**	**-**	**-**	**2 530**
Income tax expense	-	-	-	-	(626)
Profit	**-**	**-**	**-**	**-**	**1 904**
Segment assets	14 015	64 186	2 750	11 780	92 731
Current and deferred tax assets	-	-	-	-	138
Other unallocated assets	-	-	-	-	18 535
Total assets	**-**	**-**	**-**	**-**	**111 404**
Segment liabilities	37 294	38 918	12 502	7 396	96 110
Other unallocated liabilities	-	-	-	-	3 404
Total liabilities	**-**	**-**	**-**	**-**	**99 514**
Other segment items					
Capital expenditure	336	351	113	-	800
Depreciation and amortisation expense	(60)	(266)	(14)	-	(340)
Provision for loan impairment during the year	(323)	(556)	(6)	-	(885)

28 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below for the years ended 31 December 2008 and 2007.

In millions of Russian Roubles	Note	Russia	OECD	Other countries	Total
2008					
Segment assets		136 665	4 077	469	141 211
External revenues		18 947	78	-	19 025
Capital expenditure		749	-	-	749
Credit related commitments	31	18 696	-	-	18 696
2007					
Segment assets		109 911	1 239	254	111 404
External revenues		13 148	24	-	13 172
Capital expenditure		800	-	-	800
Credit related commitments	31	13 346	-	10	13 356

External revenues, segment assets and credit related commitments have generally been allocated based on domicile of the counterparty. Premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

29 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and geography risk. 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 operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contractual obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Notes 10.

The Bank has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Bank might incur as a result of exposure to credit risk.

Thus, within the Bank there is a Credit and Investments Committee (CIC) with a system of subcommittees. For credit risk management purposes the CIC of the Bank has the following members and subcommittees:

- Senior members of CIC – review general issues of managing credit risk, determining and implementing the credit policy within the scope of the Bank's approved development strategy;

- Junior members of CIC – review issues related to implementing the credit policy within the scope of delivery of products with inherent credit risk to customers of the Bank within established authority;

- Subcommittee for coprporate clients – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to corporate customers of the Bank within established authority;

29 Financial Risk Management (Continued)

- Subcommittee for retail loans – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to retail customers of the Bank (except bank cards) within established authority; and
- Subcommittee for bank cards – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk using bank cards to retail customers of the Bank within established authority.

Key functions and objectives of CIC:

- review and development of the credit policy of the Bank within the approved development strategy;
- operational decisions on the diversification of credit risks;
- within the authority set by the Management Board, decisions on the following issues:
  - delivery of Russian Rouble or US Dollars denominated products with inherent credit risk to the Bank's borrowers;
  - purchasing or acceptance of external issuers' promissory; and
  - setting limits for counterparty banks.
- taking decisions focused at strengthening and modernising the methodological basis of the Bank;
- taking decisions on developing and implementing new types of lending and services in order to expand capabilities and enhance the competitive advantages of the Bank on the credit market;
- reviewing and approving new products and services;
- issues relating to writing off uncollectible loans and interest thereon against loan loss provision, overdue loans and debt equivalent to overdue loans, subject to approval by the relevant authorised body of the Bank;
- identifying the level of authority of CIC subcommittees, structural business units of the Central Office of the Bank (hereafter - "CO"), managers and individual specialists in business units of the CO, and independent crediting by branches with subsequent approval by the Management Board;
- approving the total number of members and membership in the branch credit committees; and
- setting limits for the CIC subcommittees, structural business units of the CO, heads and individual specialists from CO business units on implementing credit programs with subsequent approval by the Management Board.

The Credit and Investment Committee of the Bank reviews and approves limits of up to RR 500 million on Rouble loans and Rouble equivalent on currency loans to legal entities, up to RR 30 million for individuals and from RR 3 to 5 million on bank card loans. CIC holds its meetings at least twice a month. Loan applications in excess of the above maximum limits are approved by the Management Board of the Bank.

The managers of the Bank in charge of corresponding credit business lines (loans to corporates, individuals, bank card loans) are assigned individual authority on taking credit risks limiting the amount of obligations of one borrower (guarantor).

The CIC subcommittees operate with corresponding credit units of the Central Office within their authority on loan issuance documented by the Regulation on Major Principles of the Bank's Rouble and Currency Resource Management:

- The CIC subcommittee for corporate clients – up to RR 150 million on rouble loans and rouble equivalent on currency loans when issuing loans and guarantees to legal entities and individual entrepreneurs and setting guarantee limits on individual loans;

29 Financial Risk Management (Continued)

- The CIC subcommittee for retail loans – up to RR 15 million when issuing loans to individuals; and
- The CIC subcommittee for bank cards – up to RR 750 million when issuing bank card loans.

Following the Regulation on Authority Assessment, the Bank’s branches and regional centres have their own approved maximum authority for issuing loans to legal entities and individual entrepreneurs and for independent assessment of credit risk on bank guarantees issued on behalf of legal entities and setting guarantee limits for loans to individuals and issuance of loans to individuals and bank card loans.

The authority and certain types of limits, terms and conditions for issuing loans within corresponding authority are subject to mandatory approval by the Management Board of the Bank and quarterly review within the scope of Regulations on Major Principles of the Bank’s Rouble and Currency Resource Management.

Credit risk management techniques (beside the system of authority and decision taking) also include:

- a centralised system for applying and adjusting interest rates and tariffs (approved quarterly by the Management Board in accordance with the Regulations on Major Principles of the Bank’s Rouble and Currency Resource Management which establish underlying interest rates by loan types and borrowers' categories);
- a system of credit risk limits. General limits-restrictions aimed at reducing the concentration risk and the related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are approved annually by the Management Board in accordance with the Credit Policy of the Bank:
  - the maximum loan amount issued by the Bank to one borrower (a group of related borrowers) – 25% of the Bank’s equity calculated in accordance with CB RF Instruction No. 110-I as of 16 January 2004 “On Obligatory Normatives for Banks” (hereinafter – “the Bank’s equity”);
  - the maximum amount of all large loans (the amount of loans issued to one borrower exceeding 5% of the Bank's equity) – 800% of the Bank’s equity;
  - the maximum amount of all loans issued by the Bank to shareholders of the Bank – 50% of the Bank’s equity; and
  - the maximum amount of all loans issued by the Bank to insiders of the Bank – 3% of the Bank’s equity.

The CIC of the Bank sets annually the overall limits by the borrowers categories, industries, terms, currencies and regions. The credit risk limits within the authority to take decisions on loan issuance by authorised bodies and structural units responsible for providing the Bank’s clients with its products exposed to credit risk are quarterly updated and approved by the Bank’s Management Board taking into consideration the changes in the economic situation and the working practice of the credit institution.

The responsible units of the Head Office monitor the actual compliance with limits relating to accepted risk as a whole and by each branch on a daily basis.

The Bank also manages credit risk through establishing and fixing requirements to the borrower on securing its credit obligation, pledge assessment, insurance of pledge or the borrower, levy of execution upon pledge in normative, instructive and functional-technological documents approved by the Management Board of the Bank.

Classification of collateral into various groups and its assessment is exercised based on the Regulation on Ensuring Performance of Obligations by Borrowers of the Bank on Products Exposed to Credit Risk and also on the basis of an expert opinion based on the market situation existing as at the credit risk assessment date.

Analytical reports on credit quality containing information on non-performing loans by client, credit programs, days and amounts overdue are summarised on a regular basis by responsible divisions of the Central Office and communicated to the Bank’s Management on a monthly basis for corporate loans and on a weekly basis for retail loans. The materials of analytical reports are further used when reviewing credit applications.

29 Financial Risk Management (Continued)

Loans are transferred from under control of the Lending Department in the following cases:

- assignment of overdue status of principal loan amount;
- second change of the end date of contract;
- more than twofold decrease in arrival of funds on the borrower's settlement account as compared to the monthly average amount;
- decrease in the cost of collateral exceeding 10%;
- receiving negative information on the borrower or its management;
- change of the principal owner; and
- interest overdue during the period by more than 1 month.

As a result of further deterioration of servicing, loans are transferred to the Credit Monitoring Department for control and supporting the collection by enforcement procedures. The Credit Department procedure for monitoring issued loans and the procedure for transferring loans to the Credit Monitoring Department outline the terms and criteria for transferring non-performing loans, as well as the Regulation on monitoring the retail loan portfolio. Activities aimed at disposing loans overdue may include the following:

- negotiations and claims administration with respect to the borrower, guarantors and pledgers;
- initiating and participating in insolvency (bankruptcy) proceedings;
- restructuring the debtors' assets with the aim of realigning or establishing current business activities and/or out-of-court levying of execution upon their property and rights;
- resorting to law enforcement authorities for criminal proceedings against the debtor's management, guarantors, pledgers;
- sale (assignment) of debt to an external organisation; or
- transferring the case to a debt collection agency that renders services on collecting overdue debt.

A loan is considered to be uncollectible in the following cases:

- the time allowed for claims has expired;
- the obligation is cancelled in accordance with the Civil Law as its fulfilment is not possible;
- the obligation has been cancelled pursuant to an act from government authorities; or
- the obligation has been cancelled following the liquidation of the borrower;
- the fact the borrower failed to fulfil its obligations to creditors within the period of at least one year from the date of the decision to write-off the loan is confirmed by documents. In addition to that, all required and sufficient legal and practical measures to collect this loan have been taken and any further action is legally impossible and/or the expected expenses will exceed the result.

Uncollectible loans are written-off from the balance sheet against the loan loss provision in accordance with the Regulations approved by the Board of Directors. Uncollectible loans are written-off to the off-balance sheets accounts as follows:

- on the basis of the decision of the Management Board if the amount of the loan is less than 1% of equity as at the latest balance sheet date prior to taking the decision; or
- on the basis of the decision of the Board of Directors if the amount of the loan is equal or exceeds 1% of equity as at the latest balance sheet date before the decision; or the loan is issued to a shareholder or affiliate of the Bank and/or an affiliate thereof.

29 Financial Risk Management (Continued)

The amount of uncollectible loans written off from the Bank's balance sheet as well as related interest are recognised on off-balance sheet accounts during at least five years in order to monitor the possibility to collect them if the situation changes.

The Credit Risk Monitoring Department monitors the credit risk of the Bank and its main objectives are as follows:

- prevention, detection and mitigation of the damage that the Bank might incur as a result of exposure to credit risk;
- determining the aggregate credit risk taking into account all financial instruments;
- forecasting future credit risks arising; and
- an objective assessment of credit risks, monitoring the loan loss provisions adequacy and communicating to Management with a view to taking appropriate management decisions.

These issues are resolved based on current information on the level of credit risk, as well as compliance with procedures for decision-making on the delivery of products with inherent credit risk both in the Central Office and branches.

The Internal Control and Audit Function follows up credit transactions of branches during internal audits performed in accordance with six months internal audit plans for branches approved by the Board of Directors of the Bank.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The Board of Directors and the Assets and Liabilities Management Committee set limits on the volume of risk exposure and monitor it on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Bank is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Bank manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2008:

In millions of Russian Roubles	RR	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	13 842	9 459	5 164	25	28 490
Mandatory cash balances with CBRF	155	-	-	-	155
Trading securities	6 223	1 238	1 570	-	9 031
Due from other banks	1 815	217	-	-	2 032
Loans and advances to customers	84 514	8 899	1 162	-	94 575
Investment securities available for sale	1 907	-	-	-	1 907
Other financial assets	695	92	75	-	862
Total monetary financial assets	**109 151**	**19 905**	**7 971**	**25**	**137 052**
Monetary financial liabilities					
Due to other banks	20 152	237	971	-	21 360
Customer accounts	70 794	12 704	6 837	1	90 336
Debt securities in issue	4 897	666	350	-	5 913
Subordinated loans	1 540	2 924	-	-	4 464
Syndicated loans	-	3 337	-	-	3 337
Other financial liabilities	447	20	-	-	467
Total monetary financial liabilities	**97 830**	**19 888**	**8 158**	**1**	**125 877**
Net balance sheet position	**11 321**	**17**	**(187)**	**24**	**11 175**
Credit related commitments	**17 765**	**540**	**391**	**-**	**18 696**

29 Financial Risk Management (Continued)

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any material currency risk.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2007:

In millions of Russian Roubles	RR	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	11 619	1 166	408	40	13 233
Mandatory cash balances with the CBRF	1 305	-	-	-	1 305
Trading securities	4 617	1 875	204	-	6 696
Due from other banks	7 236	-	-	-	7 236
Loans and advances to customers	69 554	6 756	1 839	-	78 149
Investment securities available for sale	202	-	-	-	202
Other financial assets	677	145	27	-	849
Total monetary financial assets	**95 210**	**9 942**	**2 478**	**40**	**107 670**
Monetary financial liabilities					
Due to other banks	4 085	13	747	-	4 845
Customer accounts	74 062	5 481	2 068	1	81 612
Debt securities in issue	6 468	615	20	-	7 103
Subordinated loans	1 501	1 373	-	-	2 874
Syndicated loans	-	2 550	-	-	2 550
Other financial liabilities	316	-	-	-	316
Total monetary financial liabilities	**86 432**	**10 032**	**2 835**	**1**	**99 300**
Net balance sheet position	**8 778**	**(90)**	**(357)**	**39**	**8 370**
Credit related commitments	**12 489**	**295**	**572**	**-**	**13 356**

At 31 December 2008, if US Dollar exchange rate had been 32.7% higher (or 32.7% lower) with all other variables held constant, profit for the year would have been RR 6 million higher (RR 6 million lower), mainly as a result of higher interest income on placements denominated in US Dollars.

At 31 December 2008, if the Euro exchange rate had been 27.9% higher (or 27.9% lower) with all other variables held constant, profit for the year would have been RR 52 million lower (RR 52 million higher), mainly as a result of higher interest expense on client accounts denominated in Euros.

At 31 December 2007, if the US Dollar exchange rate had been 4.0% lower (or 4.0% higher) with all other variables held constant, profit for the year would have been RR 2 million higher (RR 2 million lower), mainly as a result of lower interest expense on customer accounts denominated in US Dollars.

At 31 December 2007, if Euro exchange rate had been 2.6% higher (or 2.6% lower) with all other variables held constant, profit for the year would have been RR 9 million lower (RR 9 million higher), mainly as a result of higher interest expense on customer accounts denominated in Euro.

In 2008, the Bank estimated a reasonably possible change of USD and Euro currency rates based on the forward exchange rates in foreign currencies for the next twelve months period in calculation of sensitivity to changes in foreign currency rates. In 2007, expected change in currency rates of USD and Euro was based on the actual change in currency rates for the prior year.

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

29 Financial Risk Management (Continued)

Assessment of the Bank's exposure to interest rate risk is managed upon gap analysis of financial instruments sensitive to changes in interest rates (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amounts. These carrying amounts are broken down by the earlier of contractual interest repricing or maturity dates.

Changes in net interest income resulting from changes in the value of SFI at the date of their redemption or interest repricing determine the amount of interest rate risk exposure. Changes in the amount of net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the annual reporting period.

For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed interval.

The table below summarises the Bank's exposure to interest rate risks at the annual reporting dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2008						
Total financial assets exposed to interest rate changes	40 853	32 343	25 249	28 622	-	**127 067**
Total financial liabilities exposed to interest rate changes	41 275	38 309	24 842	20 984	-	**125 410**
Net interest sensitivity gap at 31 December 2008	**(422)**	**(5 966)**	**407**	**7 638**	**-**	**1 657**
Gap coefficient (aggregate relative cumulative gap)	**0.99**	**0.92**	**0.94**	**1.01**		
31 December 2007						
Total financial assets exposed to interest rate changes	**31 429**	**23 233**	**20 774**	**23 839**	**-**	**99 275**
Total financial liabilities exposed to interest rate changes	**41 810**	**22 927**	**19 413**	**14 834**	**-**	**98 984**
Net interest sensitivity gap at 31 December 2007	**(10 381)**	**306**	**1 361**	**9 005**	**-**	**291**
Gap coefficient (aggregate relative cumulative gap)	**0.75**	**0.84**	**0.90**	**1.00**		

At 31 December 2008, if interest rates at that date had been 200 basis points higher (200 basis points lower) with all other variables held constant, profit for the year would have been RR 102 million lower (RR 102 million higher), mainly as a result of higher interest expense on term deposits of individuals and legal entities and due to other banks.

At 31 December 2008, if interest rates at that date had been 100 basis points higher (100 basis points lower) with all other variables held constant, profit for the year would have been RR 94 million higher (RR 94 million lower), mainly as a result of higher interest expense on term deposits of individuals and legal entities and due to other banks.

Risk management comprises minimising the net gap resulting from the analysis of assets and liabilities sensitive to interest rate changes. Depending upon the net gap amount the Bank takes the decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of changes in the market interest rate.

29 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports revieswed by key management personnel:

	2008				2007			
In % p.a.	RR	USD	EUR	Other	RR	USD	EUR	Other
Assets								
Cash and cash equivalents	1%	3%	2%	0%	1%	3%	2%	0%
Trading securities	9%	6%	10%	-	6%	6%	7%	-
Due from other banks	13%	0%	-	-	4%	-	-	-
Loans and advances to customers	17%	14%	9%	-	14%	12%	10%	-
Investment securities available for sale	12%	-	-	-	13%	-	-	-
Liabilities								
Due to other banks	12%	6%	7%	-	7%	6%	6%	-
Customer accounts								
- current and settlement accounts	1%	0%	0%	1%	0%	0%	0%	0%
- term deposits	10%	8%	5%	-	9%	7%	6%	-
Debt securities in issue	9%	7%	6%	-	8%	6%	6%	-
Subordinated loans	13%	8%	-		10%	6%	-	-
Syndicated loans	-	5%	-	-	-	7%	-	-

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

Other price risk. This risk is not significant for the Bank as the Bank has limited exposure to equity price risk.

The Bank is exposed to prepayment risk as it provides fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2008 is set out below:

In millions of Russian Roubles	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	27 219	1 252	19	28 490
Mandatory cash balances with the CBRF	155	-	-	155
Trading securities	6 278	2 759	-	9 037
Due from other banks	1 815	217	-	2 032
Loans and advances to customers	94 332	10	233	94 575
Investment securities available for sale	2 308	56	-	2 364
Other financial assets	879	-	-	879
Total financial assets	**132 986**	**4 294**	**252**	**137 532**
Non-financial assets	**3 679**	**-**	**-**	**3 679**
Total assets	**136 665**	**4 294**	**252**	**141 211**
Liabilities				
Due to other banks	20 200	1 156	4	21 360
Customer accounts	85 872	664	3 800	90 336
Debt securities in issue	5 708	-	205	5 913
Subordinated loans	2 007	1 486	971	4 464
Syndicated loans	379	2 810	148	3 337
Other financial liabilities	467	-	-	467
Total financial liabilities	**114 633**	**6 116**	**5 128**	**125 877**
Non-financial liabilities	**269**	**-**	**-**	**269**
Total liabilities	**114 902**	**6 116**	**5 128**	**126 146**
Net balance sheet position	**21 763**	**(1 822)**	**(4 876)**	**15 065**
Credit related commitments (Note 31))	**18 373**	**199**	**124**	**18 696**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, premises and equipment and intangible assets have been allocated based on the country in which they are physically held.

29 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	12 365	856	12	13 233
Mandatory cash balances with the CBRF	1 305	-	-	1 305
Trading securities	6 320	382	-	6 702
Due from other banks	7 236	-	-	7 236
Loans and advances to customers	77 932	-	217	78 149
Investment securities available for sale	618	1	25	644
Other financial assets	849	-	-	849
Total financial assets	**106 625**	**1 239**	**254**	**108 118**
Non-financial assets	**3 286**	**-**	**-**	**3 286**
Total assets	**109 911**	**1 239**	**254**	**111 404**
Liabilities				
Due to other banks	4 093	746	6	4 845
Customer accounts	80 267	553	792	81 612
Debt securities in issue	6 682	-	421	7 103
Subordinated loans	2 063	-	811	2 874
Syndicated loans	403	2 027	120	2 550
Other financial liabilities	316	-	-	316
Total financial liabilities	**93 824**	**3 326**	**2 150**	**99 300**
Non-financial liabilities	**214**	**-**	**-**	**214**
Total liabilities	**94 038**	**3 326**	**2 150**	**99 514**
Net balance sheet position	**15 873**	**(2 087)**	**(1 896)**	**11 890**
Credit related commitments (Note 31)	**13 346**	**-**	**10**	**13 356**

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The overall liquidity management is carried out by the Management Board of the Bank, which may delegate some functions to the Asset and Liability Committee.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

29 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 90.7% at 31 December 2008 (2007: 33.0%). As at 31 December 2008 and 31 December 2007 the minimum required level for N2 ratio was 15%.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 106.8% at 31 December 2008 (2007: 68.3%). As at 31 December 2008 and 31 December 2007 the minimum required level for N3 ratio was 50%.

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to Bank's regulatory capital and liabilities maturing after one year. The ratio was 82.8% at 31 December 2008 (2007: 93.2%). As at 31 December 2008 and 31 December 2007 the maximum allowed level for N4 ratio was 120%.

The Treasury receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

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

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The undiscounted maturity analysis of financial liabilities at 31 December 2008 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 2 years**	**From 2 to 3 years**	**Over 3 years**	**Total**
Liabilities							
Due to other banks	2 673	18 894	172	328	230	245	22 542
Customer accounts	37 909	18 126	24 687	12 850	1 970	-	95 542
Debt securities in issue	764	1 474	819	3 248	69	-	6 374
Subordinated loans	-	114	310	509	648	5 623	7 204
Syndicated loans	-	1 838	1 602	-	-	-	3 440
Other financial liabilities	467	-	-	-	-	-	467
Financial guarantees	339	7 342	413	1 701	138	3	9 936
Other credit related commitments	7 715	672	230	13	82	48	8 760
Total potential future payments for financial obligations	**49 867**	**48 460**	**28 233**	**18 649**	**3 137**	**5 919**	**154 265**

29 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial liabilities at 31 December 2007 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 2 years	From 2 to 3 years	Over 3 years	Total
Liabilities							
Due to other banks	1 119	3 169	164	103	104	503	5 162
Customer accounts	40 103	18 343	18 461	7 931	166	7	85 011
Debt securities in issue	715	1 236	2 466	282	3 131	20	7 850
Subordinated loans	1	43	196	239	309	3 469	4 257
Syndicated loans	-	1 307	40	1 378	-	-	2 725
Other financial liabilities	316	-	-	-	-	-	316
Financial guarantees	403	3 272	549	12	17	-	4 253
Other credit related commitments	8 197	22	188	75	179	327	8 988
Total potential future payments for financial obligations	**50 854**	**27 392**	**22 064**	**10 020**	**3 906**	**4 326**	**118 562**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2008:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	28 490	-	-	-	28 490
Mandatory cash balances with the CBRF	62	30	37	26	155
Trading securities	9 037	-	-	-	9 037
Due from other banks	1 815	-	-	217	2 032
Loans and advances to customers	10 485	32 152	23 533	28 405	94 575
Investment securities available for sale	457	191	1 716	-	2 364
Other financial assets	879	-	-	-	879
Total financial assets	**51 225**	**32 373**	**25 286**	**28 648**	**137 532**
Liabilities					
Due to other banks	2 649	17 878	162	671	21 360
Customer accounts	37 873	17 282	22 487	12 694	90 336
Debt securities in issue	753	1 368	637	3 155	5 913
Subordinated loans	-	-	-	4 464	4 464
Syndicated loans	-	1 781	1 556	-	3 337
Other financial liabilities	467	-	-	-	467
Total financial liabilities	**41 742**	**38 309**	**24 842**	**20 984**	**125 877**
Net liquidity gap at 31 December 2008	**9 483**	**(5 936)**	**444**	**7 664**	**11 655**
Cumulative liquidity gap at 31 December 2008	**9 483**	**3 547**	**3 991**	**11 655**	

29 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The expected maturity of investment securities available for sale is based on offer agreement date.

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	13 233	-	-	-	13 233
Mandatory cash balances with the CBRF	599	274	283	149	1 305
Trading securities	6 702	-	-	-	6 702
Due from other banks	7 042	-	-	194	7 236
Loans and advances to customers	10 699	23 233	20 572	23 645	78 149
Investment securities available for sale	442	-	202	-	644
Other financial assets	849	-	-	-	849
Total financial assets	**39 566**	**23 507**	**21 057**	**23 988**	**108 118**
Liabilities					
Due to other banks	1 116	3 059	154	516	4 845
Customer accounts	40 004	17 571	17 012	7 025	81 612
Debt securities in issue	690	1 050	2 247	3 116	7 103
Subordinated loans	-	-	-	2 874	2 874
Syndicated loans	-	1 247	-	1 303	2 550
Other financial liabilities	316	-	-	-	316
Total financial liabilities	**42 126**	**22 927**	**19 413**	**14 834**	**99 300**
Net liquidity gap at 31 December 2007	**(2 560)**	**580**	**1 644**	**9 154**	**8 818**
Cumulative liquidity gap at 31 December 2007	**(2 560)**	**(1 980)**	**(336)**	**8 818**	

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

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

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

30 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The Bank considers total capital under management to be equity in accordance with Russian Accounting Rules as shown in the balance sheet. The statutory amount of capital that the Bank managed as of 31 December 2008 was RR 18 907 million (2007: RR 14 425 million). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily with monthly reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant.

The Bank maintains a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%: as at 31 December 2008 this ratio was 15.7% (2007: 15.2%). Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2008**	**2007**
Tier 1 capital		
Share capital formed from ordinary shares	164	164
Share premium	7 399	7 399
Retained earnings	3 741	2 882
Less intangible assets	(1)	(1)
Less the Bank's investments in interest held	(31)	(31)
Total tier 1 capital	**11 272**	**10 413**
Tier 2 capital		
Revaluation reserve for premises and equipment	464	464
Capitalisation of property revaluation	76	76
Share capital formed from preference shares	11	11
Current year profit	3 005	755
Subordinated loans	4 079	2 706
Total tier 2 capital	**7 635**	**4 012**
Total capital	**18 907**	**14 425**

The Bank has complied with all externally imposed capital requirements throughout 2007 and 2008.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

31 Contingencies and Commitments (Continued)

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

At 31 December 2008 the Management has not created any provision for potential tax liabilities (31 December 2007: nil), as the Management of the Bank believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2008 the Bank has contractual capital expenditure commitments in respect of premises and equipment and in respect of software and premises renovation totalling RR 8 million (2007: RR 17 million). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Russian Roubles	**2008**	**2007**
Not later than 1 year	171	144
Due between 1 and 5 years	334	310
Later than 5 years	414	415
Total operating lease commitments	**919**	**869**

Compliance with covenants. The Bank is subject to certain covenants related to bonds, subordinated loans and syndicated loans. Refer to Notes 16, 17 and 18. These covenants include capital adequacy, single borrower concentration and USD equity equivalent requirements. Non-compliance with such covenants may result in creditor's demand for early repayment of provided funds. Except as mentioned below, the Bank is in compliance with such covenants related to bonds and syndicated loans as at 31 December 2008 and 31 December 2007.

As at 31 December 2008, the Bank breached a covenant under one subordinated loan with respect to the total exposure to a single borrower as a percentage of equity. The actual value of this covenant amounted to 16%. The maximum limit for the covenant was 15%. As confirmed by the creditors on 26 March 2009, they agreed to waive the breach with respect to the aforementioned covenant. The waiver is limited till 30 June 2009. Refer to Note 17.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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.

31 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank 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. Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2008**	**2007**
Unused limits on overdraft loans	7 656	8 196
Guarantees issued	9 936	4 165
Undrawn credit lines	532	797
Import letters of credit	323	82
Letters of credit for payments in the Russian Federation	249	116
Total credit related commitments	**18 696**	**13 356**

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

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2008**	**2007**
Russian Roubles	17 765	12 489
Euros	540	572
US Dollars	391	295
Total	**18 696**	**13 356**

Assets pledged and restricted. At 31 December 2008 the Bank had no assets pledged as collateral.

Mandatory cash balances with the CBRF in the amount of RR 155 million (2007: RR 1 305 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	**2008 Nominal value**	**2007 Nominal value**
Corporate shares held on behalf of the Bank's customers	151	285
OFZ held on behalf of the Bank's customers	-	150
Mortgage held on behalf of the Bank's customers	238	120
Corporate bonds held on behalf of the Bank's customers	89	99
Promissory notes held on behalf of the Bank's customers	43	43
Deposit certificates held on behalf of the Bank's customers	-	40
VEB securities held on behalf of the Bank's customers	-	23

32 Derivative Financial Instruments

Derivative financial instruments entered into by the Bank include foreign exchange contracts and forward agreements with precious metals traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2008 the Bank did not have outstanding derivative contracts, except outstanding obligations from unsettled spot transactions with foreign currencies and forward agreements with precious metals. The fair value of these derivative contracts at 31 December 2008 is RR 5 million (2007: RR 5 million). The contracts are short term in nature.

33 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets.

Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities and investment securities available for sale are carried on the balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale (Note 11) for which there were no available external independent market price quotations. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Cash and cash equivalents are carried at amortized cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments approximates their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In millions of Russian Roubles	**2008**	**2007**
Due from other banks – Note 9		
Short-term placements with other banks	5% - 24 % p.a.	4 % - 12 % p.a.
Loans and advances to customers -Note 10		
Corporate loans - large	12 % - 20 % p.a.	9 % - 16 % p.a.
Corporate loans - medium	8 % - 20 % p.a.	8 % - 21 % p.a.
Corporate loans - small	8 % - 24 % p.a.	8 % - 20 % p.a.
Mortgage loans	8 % - 21 % p.a.	8 % - 20 % p.a.
Other loans to individuals	9 % - 25 % p.a.	9 % - 23 % p.a.
Other financial assets – Note 13		
Receivables and advance payments	0 % p.a.	0 % p.a.
Credit and debit cards receivables	0 % p.a.	0 % p.a.

Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 5% p.a. to 12% p.a. (2007: from 5% p.a. to 11% p.a.). The discount rates used for the calculation of the fair value of liabilities reflect the Bank's credit risks.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices.

Fair values of financial instruments are as follows:

	31 December 2008		**31 December 2007**	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- Cash on hand	8 968	8 968	6 241	6 241
- Cash balances with the CBRF	9 227	9 227	5 424	5 424
- Correspondent accounts and overnight placements	10 295	10 295	1 568	1 568
Mandatory cash balances with CBRF	155	155	1 305	1 305
Due from other banks				
- Short-term placements with other banks	1 515	1 515	5 542	5 542
- Deposits with the CB RF	300	300	1 500	1 500
- Insurance deposits with non-resident banks	217	217	194	194
Loans and advances to customers				
- Corporate loans - large	21 120	20 770	15 392	15 177
- Corporate loans - medium	33 899	33 311	24 127	24 138
- Corporate loans - small	20 980	20 760	22 197	22 062
- Mortgage loans	9 180	7 441	8 691	8 542
- Other loans to individuals	9 396	9 031	7 742	7 623
Other financial assets				
Credit and debit cards receivables	469	469	452	452
Receivables and advance payments	261	261	364	364
Settlements with currency and stock exchanges	132	132	33	33
Other	17	17	-	-
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Trading securities	9 037	9 037	6 702	6 702
Investment securities available for sale	2 364	2 364	644	644
TOTAL FINANCIAL ASSETS	**137 532**	**134 270**	**108 118**	**107 511**

33 Fair Value of Financial Instruments (Continued)

In millions of Russian Roubles	31 December 2008 Carrying value	31 December 2008 Fair value	31 December 2007 Carrying value	31 December 2007 Fair value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Short-term placements of CBRF	20 145	20 237	2 005	2 000
- Placements of other banks	1 156	1 200	2 790	2 881
- Correspondent accounts of other banks	59	59	50	50
Customer accounts				
- Current/settlement accounts of state and public organisations	440	440	218	218
- Term deposits of state and public organisations	207	207		
- Current/settlement accounts of other legal entities	21 279	21 279	22 651	22 651
- Term deposits of other legal entities	16 573	16 590	8 947	8 721
- Current/demand accounts of individuals	11 637	11 637	13 446	13 446
- Term deposits of individuals	40 200	38 628	36 350	35 421
Debt securities in issue				
- Promissory notes	2 528	2 530	3 540	3 468
- Deposit certificates	300	291	478	473
- Debentures	3 085	2 331	3 085	3 099
Subordinated loans	4 464	4 602	2 874	2 892
Syndicated loans	3 337	3 361	2 550	2 547
Other financial liabilities				
- Trade payables	183	183	160	160
- Debit or credit card payables	254	254	156	156
- Settlements on conversion operations	10	10	-	-
- Other	20	20	-	-
TOTAL FINANCIAL LIABILITIES	**125 877**	**123 859**	**99 300**	**98 183**

34 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments*: *Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008.

	Loans and receivables	Available for sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	28 490	-	-	28 490
Mandatory cash balances with CBRF	155	-	-	155
Trading securities	-	-	9 037	9 037
Investment securities available for sale	-	2 364	-	2 364
Due from other banks	2 032	-	-	2 032
Loans and advances to customers	94 575	-	-	94 575
Other financial assets	879	-	-	879
TOTAL FINANCIAL ASSETS	**126 131**	**2 364**	**9 037**	**137 532**
NON-FINANCIAL ASSETS	-	-	-	3 679
TOTAL ASSETS	**126 131**	**2 364**	**9 037**	**141 211**

34 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007.

	Loans and receivables	Available for sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	13 233	-	-	13 233
Mandatory cash balances with CBRF	1 305	-	-	1 305
Trading securities	-	-	6 702	6 702
Investment securities available for sale	-	644	-	644
Due from other banks	7 236	-	-	7 236
Loans and advances to customers	78 149	-	-	78 149
Other financial assets	849	-	-	849
TOTAL FINANCIAL ASSETS	**100 772**	**644**	**6 702**	**108 118**
NON-FINANCIAL ASSETS	-	-	-	3 286
TOTAL ASSETS	**100 772**	**644**	**6 702**	**111 404**

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

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

	31 December 2008		31 December 2007	
In millions of Russian Roubles	Shareholders	Directors and related companies	Shareholders	Directors and related companies
Loans and advances to customers				
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2008: 4.0%-14.5%; 31 December 2007: 4.0%-18.0%)	-	100	-	250
Impairment provisions for loans and advances to customers at 31 December 2008	-	(5)	-	(7)
Investment securities available for sale	-	31	-	46
Customer accounts				
Current / settlement accounts (contractual interest rate: 31 December 2008: 0.0%; 31 December 2007: 0.0%-0.3%)	48	49	2	48
Term deposits (contractual interest rate: 31 December 2008: 7.0%-14.0%; 31 December 2007: 6.8%-9.1%)	173	1 438	253	1 018
Debt securities in issue (contractual interest rate: 31 December 2008: 7.0%-7.25%; 31 December 2007: 5.8%-7.8%)	24	7	20	9
Subordinated deposits (contractual interest rate: 31 December 2008: 6.5%; 31 December 2007: 6.5%-9.1%)	382	-	319	-

35 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2008 and 2007 were as follows:

	2008		2007	
In millions of Russian Roubles	**Shareholders**	**Directors and related companies**	**Shareholders**	**Directors and related companies**
Interest income:				
Loans and advances to customers	-	10	-	12
Interest expense:				
Term deposits of legal entities	15	156	12	133
Debt securities in issue	2	-	1	-
Subordinated loans	25	-	21	-

Aggregate amounts lent to and repaid by related parties during 2008 and 2007 were:

	2008		2007	
In millions of Russian Roubles	**Shareholders**	**Directors and related companies**	**Shareholders**	**Directors and related companies**
Amounts lent to related parties during the period	-	3	-	182
Amounts repaid by related parties during the period	-	4	-	-

In 2008, the remuneration of members of the Executive Board comprised salaries, discretionary bonuses and other short-term benefits totalling to RR 242 million (2007: RR 253 million).

36 Events After the Balance Sheet Date

In February 2009 the Bank sold the bonds of OOO Mostransauto-Finance to a third party under an offer agreement for RR 1 751 million and recorded a gain on the sale of securities in the amount of RR 18 million for the year 2009.

In March 2009 the Bank repaid one syndicated loan in the amount of USD 59.75 million.