Hlynov Commercial Bank
(Open Joint Stock Company)
Non-Consolidated Financial Statements
31 December 2008
and Independent Auditor's Report

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of OJSC CB Hlynov ('the Bank') has prepared and is responsible for the contents of the accompanying financial statements of the Bank and its related notes The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates made by the Bank's management.

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

N.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

6 April 2009

AUDITOR'S REPORT

To the Board of Directors of OJSC CB Hlynov

Report on the financial statements

We have audited the accompanying financial statements of OJSC CB Hlynov ("the Bank"), which comprise the balance sheet as at 31 December 2008, and the relevant income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 52.

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

Management's responsibility for preparation of financial statements

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

Auditor's responsibility

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

An audit involves performing necessary procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' professional 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 the internal control system 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 Bank's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditor's opinion

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

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 113093
6 April 2009

OJSC CB Hlynov
Non-Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Assets			
Cash and Cash Equivalents	**5**	1,192,895	698,459
Mandatory Balances with the CBRF	**6**	7,397	47,079
Due from Banks	**7**	430,000	162,273
Securities at Fair Value through Profit or Loss	**8**	95,541	274,565
Loans and Advances to Customers	**9**	4,580,973	3,651,471
Investment in Subsidiary	**10**	24,513	3,965
Accrued Interest and Other Assets	**11**	38,189	28,496
Fixed Assets	**12**	259,461	190,407
Total Assets		**6,628,969**	**5,056,715**
Liabilities			
Due to Banks	**13**	96,000	74,573
Customer Accounts	**14**	5,265,371	4,027,826
Debt Securities Issued	**15**	11,017	46,772
Deferred Tax Liability	**16**	55,804	48,340
Other Liabilities	**17**	9,456	14,453
Total Liabilities		**5,437,648**	**4,211,964**
Equity			
Share Capital	**18**	627,198	507,198
Retained Earnings		494,426	307,271
Revaluation Reserve		69,697	30,282
Total Equity		**1,191,321**	**844,751**
Total Liabilities and Equity		**6,628,969**	**5,056,715**
Credit Related Commitments	**19**	**234,234**	**128,830**

Signed and authorised for release on behalf of the Executive Board of the Bank on 6 April 2009

I.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

OJSC CB Hlynov
Non-Consolidated Income Statement
for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Interest income			
Loans and advances to legal entities		561,207	301,872
Loans and advances to individuals		159,187	90,219
Securities		23,368	8,286
Due from banks		6,613	7,572
		750,375	**407,949**
Interest expense			
Term deposits of individuals		(270,942)	(118,847)
Term deposits of legal entities		(37,132)	(10,244)
Debt securities issued		(46)	(4,324)
Current/settlement account balance		(20,476)	(16,294)
Due to banks		(12,941)	(6,385)
		(341,537)	**(156,094)**
Net interest income		**408,838**	**251,855**
Allowance for impairment	**20**	(119,402)	(24,761)
Net interest income less allowance for losses		**289,436**	**227,094**
Gains less losses from trading with securities	**21**	(25,341)	9,472
Gains less losses from transactions with foreign currencies		20,139	5,860
Gains less losses from revaluation of items denominated in foreign currencies		(4,627)	(1,876)
Gains less losses from disposal of fixed assets		(17)	80
Commission income and expense	**22**	196,921	187,246
Income from investment in subsidiary		20,548	4,218
Other operating income		5,764	3,274
Operating income		**502,823**	**435,368**
Staff costs	**23**	(137,643)	(92,803)
Administrative and other operating costs	**23**	(106,792)	(59,351)
Depreciation and amortisation	**12**	(13,430)	(10,793)
Operating expenses		**(257,865)**	**(162,947)**
Transfer value on loans issued at less than commercial rates		(386)	(661)
Profit before tax		**244,572**	**271,760**
Income tax charge	**16**	(57,417)	(62,954)
Profit for the period		**187,155**	**208,806**

OJSC CB Hlynov
Non-Consolidated Statement of Cash Flows
for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Cash flows from operating activities			
Interest received on credits		713,628	394,026
Interest paid		(341,142)	(152,033)
Income from securities trading		23,322	3,962
Income from trading in foreign currencies		20,139	5,860
Commissions received		217,422	199,751
Commissions paid		(20,501)	(9,498)
Gain from sale of fixed assets		(17)	80
Other operating incomes received		5,764	3,274
Other operating expenses paid		(270,556)	(155,161)
Income tax paid		(49,953)	(40,327)
Cash flows from operating activities received before changes in operating assets and liabilities		**298,106**	**249,934**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		39,682	(10,685)
Securities at fair value through profit or loss		153,683	(152,817)
Due from banks		(471,971)	(132,273)
Loans and advances to customers		(814,630)	(1,832,886)
Other assets		1,770	(10,188)
Net increase /(decrease) in operating liabilities			
Due to banks		21,427	26,220
Customer accounts		1,237,545	1,784,623
Debt securities issued		(35,755)	(7,372)
Other liabilities		(4,602)	2,462
Net cash (paid)/received from operating activities		**425,255**	**(82,982)**
Cash flows from investing activities			
Acquisition of fixed assets	**12**	(46,192)	(60,885)
Sale of fixed assets		-	6
Net cash paid in investing activities		**(46,192)**	**(60,879)**
Cash flows from financing activities			
Proceeds from shares issued	**18**	120,000	260,000
Dividends paid	**18**	-	(22,497)
Net cash received from financing activities		**120,000**	**237,503**
Effect of exchange rate on cash and cash equivalents		(4,627)	(1,876)
Net increase of cash and cash equivalents		**494,436**	**91,766**
Cash and cash equivalents at the beginning of the year	**5**	**698,459**	**606,693**
Cash and cash equivalents at the end of the year	**5**	**1,192,895**	**698,459**

(in thousands of Russian Roubles)

	Share Capital	Revaluation Reserve	Retained Earnings	Total Equity
Balance as at 31 December 2006	**247,198**	**37,286**	**120,965**	**405,449**
Net profit	-	-	208,806	**208,806**
Declared dividends (Note 18)	-	-	(22,500)	**(22,500)**
Issue of shares at nominal value	260,000	-	-	**260,000**
Depreciation of revalued fixed assets	-	(539)	-	**(539)**
Deferred tax on revalued part of fixed assets	-	(6,465)	-	**(6,465)**
Balance as at 31 December 2007	**507,198**	**30,282**	**307,271**	**844,751**
Net profit	-	-	187,155	**187,155**
Issue of shares at nominal value	120,000	-	-	**120,000**
Revaluation of fixed assets	-	39,415	-	**39,415**
Balance as at 31 December 2008	**627,198**	**69,697**	**494,426**	**1,191,321**

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Bank's reserves.

As at 31 December 2008, retained earnings of the Bank calculated in accordance with Russian accounting standards were 349,906 (2007: 177,344).

1. Principal Activities

On 6 March 1990, the Bank "KirovCoopBank" was registered with the Central Bank of the Russian Federation ("CBRF"). In the year 1991 it was renamed as "Commercial Bank Hlynov" (Open Joint Stock Company).

The Bank conducts its business under general license № 254 issued by the CBRF on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank has also been granted with licenses as professional participant of the Securities Market allowing it to carry out depository functions, and to act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the population and legal entities on the territory of the Kirov district.

The structure of the Bank comprises a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 24 supplementary offices and 7 cash in offices. The Bank does not have any branches.

During 2008 the Bank has had an average of 387 members of staff (2007: 283).

In opinion of Bank's management, and considering the structure and nature of the shareholders, described in Note 18, the Bank does not have a single ultimate controlling party.

2. Operating Environment of the Bank

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

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

In response to this the CBRF (and Russian Governmental bodies also) took a number of steps to lessen the impact of the crisis in Russia. Vnesheconombank ('VEB') was provided with funds from the National Wealth Fund to lend to larger banks in order to provide liquidity to the overall banking system, although there were later criticisms that this did not occur. The CBRF continued its policy of managing exchange rates in order to have a managed decline, and also open market operations, including those in order to support securities prices, have been conducted. In addition mandatory reserve ratios were substantially reduced in order to provide banks with ability to use liquidity that

Operating Environment of the Bank (continued)

they were already holding on their balance sheets. To increase the confidence of customers the limits of coverage of deposit insurance were also increased, and requirements of Banks entry to the system were made stricter. Many banks also have access to borrow CBRF funds if they are able to pledge satisfactory securities collateral.

2009
The macroeconomic picture remains weak, Russia's economy contracted 8.8% in January and industrial production fell 16% in the year to January, although within sectors there were variations for example between a 17% decline in construction and a 2.4% rise in retail trade. Arrears of business' payments to each other and on loans have risen sharply. Liquidity remains very short in the banking system and defaults on loans are expected to rise substantially throughout the year.

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

3. Basis of Presentation

a) General

The non-consolidated financial statements of the Bank have been prepared on the going concern basis in accordance with International Financial Reporting Standards ("IFRS") which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

These financial statements are based on the Bank's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

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

These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

b) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements' preparation, and although are based on Management's best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

Basis of Presentation (continued)

(i) Impairment losses on loans to customers
The Bank reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. The credits exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairments is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

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

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

(iii) Fair values
For assets and liabilities estimated at fair value the Bank applies the latest market bid prices where possible. In case this is not it uses evaluation techniques or conventions.

(iv) Related party transactions
In the normal course of business the Bank enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

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

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

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

During the reporting year no new standards became effective; and the following Interpretations have come into force:
International Financial Reporting Interpretations Committee (IFRIC) Interpretations:

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

(in thousands of Russian Roubles)

Basis of Presentation (continued)

International Financial Reporting Standards

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

IFRS 8	Operating Segments (from 1 January 2009)
IAS 1 (amended)	Presentation of Financial Statements (effective from 1 January 2009)
IAS 23 (amended)	Borrowing Costs (effective from 1 January 2009)
IAS 27 (amended)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
IFRS 3(amended)	Business Combinations (effective from 1 July 2009)
IFRS 2 (amended)	Vesting Conditions and Cancellations (effective from 1 January 2009)
IAS 32 & IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009)
IFRS 1 & IAS 27 (amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 (amended)	Eligible Hedge Items (effective from 1 July 2009)
IAS 39 & IFRS 7 (amended)	Reclassification of Financial Assets (effective from July 2008)
IFRS 1 (amended)	First-time Adoption of Financial Reporting Standards (effective from 1 July 2009)
IFRIC 13	Customer Loyalty Programmes (effective from 1 July 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)

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

Reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the trading category if they are no longer held for the purpose of selling or repurchasing them on the near term to either the held to maturity, loans and receivables or available for sale categories. Reclassifications of financial assets from the available for sale category to the loans and receivables category in particular rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur to the near term.

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

As the Bank has not reclassified financial assets in accordance with the amendments to IAS 39 there has been no impact resulting from amendments described above.

(in thousands of Russian Roubles)

Basis of Presentation (continued)

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

d) *Inflation accounting*

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *“Financial Reporting in Hyperinflationary Economies”*, and therefore, the Bank ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations for 2007 and 2008 are reported in actual, nominal amounts.

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

e) *Reconciliation of RAS and IFRS equity and net income*

	31 December 2008		31 December 2007	
	Equity	**Net profit**	**Equity**	**Net profit**
RAS	**1,003,982**	**178,271**	**678,808**	**122,023**
Transfer value of loans	(585)	169	(754)	(260)
Additional allowance for loans and correspondent accounts	194,939	(8,756)	203,234	125,096
Accrued discount/interest on securities at fair value through profit or loss	-	687	(1,260)	(2,469)
Accrued interest/discount on issued promissory notes	-	-	-	1,517
Interest expense/income	2,530	2,226	304	(5,786)
Allowance for other assets	-	(103)	564	(8,221)
Write off low value assets	(460)	1,577	(2,037)	(1,890)
Expenses on purchased promissory notes	-	2,933	(2,933)	-
Charge of expenses recorded through capital reserves	-	(5,699)	-	(3,534)
Additional depreciation	(4,494)	(92)	(3,203)	(142)
Revaluation of securities	-	-	507	584
Expenses on investment in subsidiary	24,513	20,548	3,965	4,218
Adjustments of fixed assets	12,844	3,487	8,158	1,389
Deferred tax	(55,804)	(7,464)	(48,340)	(23,333)
Deposit insurance system	(3,189)	(705)	(2,484)	(602)
Revaluation of fixed assets	8,858	-	-	-
Other	8,187	76	10,222	216
IFRS	**1,191,321**	**187,155**	**844,751**	**208,806**

Basis of Presentation (continued)

f) *Fair value of financial instruments*

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their measured fair values in accordance with IAS 39 *“Financial Instruments: Recognition and Measurement”*. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm’s length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

4. Significant Accounting Policies

a) *Consolidation*

These financial statements present the Bank’s activities and balances on a non-consolidated basis. The Bank has produced separate financial statements presenting the consolidated financial results and balances of the Bank and its subsidiary.

b) *Recognition of Financial Instruments*

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

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

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

c) *Cash and Cash Equivalents*

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

d) *Mandatory Balances with the CBRF*

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

e) *Due from Banks*

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

Significant Accounting Policies (continued)

f) Securities at Fair Value through Profit or Loss (“FVPL”)

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the income statement for the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income on securities. All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Investment in subsidiary

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in Note 3 (f) above.

h) Securities Available for Sale (“AFS”)

AFS securities are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Investment securities available for sale are initially recognised at cost (which includes transaction costs).

AFS securities are subsequently valued at market value with gains and losses taken through the statement of changes in shareholders equity except for losses arising from impairment. When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

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

i) Sale and Repurchase Agreements

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

Significant Accounting Policies (continued)

j) Promissory Notes Purchased

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

k) Loans and Advances to Customers

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

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

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

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

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

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

l) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

Significant Accounting Policies (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers’ competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank’s grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). 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 in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Significant Accounting Policies (continued)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. 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 the income statement.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

m) Financial Guarantee Contracts

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

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

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

n) Fixed Assets

Premises are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Significant Accounting Policies (continued)

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicle	3 – 7

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the income statement.

o) Operating Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

p) Due to Banks and Customers Accounts

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

q) Debt Securities Issued

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

Significant Accounting Policies (continued)

r) Provisions

Provisions for legal claims or other purposes are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

s) Retirement and Other Benefit Obligations

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

t) Share Capital

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

u) Dividends

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

v) Taxation

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

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Significant Accounting Policies (continued)

w) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

x) Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

y) Foreign Currency Translation

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

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

(in thousands of Russian Roubles)

5. Cash and Cash Equivalents

	2008	2007
Cash on hand	428,932	342,868
Other market placements	13,677	16,488
Cash balances with the CBRF (other than mandatory reserve deposits)	396,938	193,855
Correspondent accounts with other banks		
Russian Federation	243,544	134,188
Other countries	109,804	11,060
	1,192,895	**698,459**

As at 31 December 2008 the aggregate amount of NOSTRO accounts with the two biggest counterparties (CBRF and Sberbank) amounted to 837,382 or 86.86% of total NOSTRO accounts (2007: 322,488 or 90.67%).

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

6. Mandatory Balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

The ratio of such deposits required to be held has been reduced by the CBRF as a measure to assist Russian banks in times of crisis.

7. Due from Banks

	2008	2007
Interbank loans	434,144	162,273
	434,144	**162,273**
Less: Allowance for impairment	(4,144)	-
	430,000	**162,273**

As at 31 December 2008 53.5% of due from banks balances are represented by deposits in CBRF (2007: nil).

Geographical, currency and maturity analyses of the balances due from banks are detailed in Note 24.

(in thousands of Russian Roubles)

8. Securities at Fair Value through Profit or Loss

	2008	2007
Promissory notes	45,298	148,952
Government and municipal bonds	32,078	30,208
Bank bonds	16,536	35,295
Corporate equity securities	819	3,885
Shares of credit organisations	469	1,244
Corporate Bonds	341	54,981
	95,541	**274,565**

Promissory notes includes promissory notes of OAO "Kirovsky myasokombinat" and the total value is 34,101 or 36%. Govermant and municipal bonds includes bonds of Moscow region with total value 15,406 or 16%.

Geographical, currency, maturity and interest rate analyses of the securities at fair value through profit or loss are disclosed in Note 24.

9. Loans and Advances to Customers

Loans and advances to customers include:

	2008	2007
Loans and advances to customers	4,595,495	3,605,970
Mortgage loans for sale	212,544	154,503
Factoring	6,680	9,486
	4,814,719	**3,769,959**
Less: Allowance for impairment	(233,746)	(118,488)
	4,580,973	**3,651,471**

The aggregate value of collateral received by the Bank in respect of its lending operations amounts to 6,074,865 (2007: 4,289,868).

In the normal course of business the Bank sells mortgage loans to JSC "Kirov Regional Real Estate Mortgage Corporation" (77% of total sales in 2008) and other financial organisations. These loans are therefore held on the balance sheet for a relatively short period of time and have been described as mortgage loans for sale in these notes.

(in thousands of Russian Roubles)

Loans and Advances to Customers (continued)

The loan portfolio has been assigned to finance the following economic sectors:

	2008		2007	
	Amount	**Allowance**	**Amount**	**Allowance**
Trade	2,796,829	136,286	2,093,165	65,634
Individuals	744,478	29,023	518,387	15,691
Operations with immovable property, lease	263,400	23,499	236,725	6,855
Manufacturing industry	228,284	16,943	177,414	7,674
Construction	201,211	6,737	118,316	1,654
Agriculture	140,390	4,101	126,599	7,583
Timber industry	88,789	6,222	55,118	2,909
Municipal operation organs	38,583	744	18,271	-
Transport and communication	37,313	789	40,427	461
Chemical	26,000	3,900	50,901	509
Hotels	7,340	367	5,984	54
Other	6,699	461	6,252	362
Medicine and tourism	5,615	281	2,575	129
Publishing	5,560	608	1,613	81
Light industry	4,332	340	71,175	181
Sport	3,855	770	7,854	1,571
Engineering	1,467	220	2,000	20
Social and personal services, culture	1,230	62	4,560	101
Finance	800	120	2,242	318
Public administration, defense, social security	-	-	46,075	686
Energy, gas and water	-	-	29,803	4,470
	4,602,175	**231,473**	**3,615,456**	**116,943**
Mortgage loans for sale	212,544	2,273	154,503	1,545
	4,814,719	**233,746**	**3,769,959**	**118,488**

In the income statement for the year ended 31 December 2008 the Bank reflected the value transfer on loans granted at less than commercial rates in the amount of 386 (2007: 661).

Movements in the allowance for impairment on loans to customer are disclosed in Note 20.

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

Loans granted to related parties are disclosed in Note 25.

(in thousands of Russian Roubles)

10. Investment in Subsidiary

Investment in subsidiary comprises:

	2008	2007
Share capital investment cost	100	100
Adjustment to reflect fair value	24,413	3,865
	24,513	**3,965**

In 2004 the Bank acquired "Leasing-Hlynov" OOO a company specialising in leasing services. As at 31 December 2008 the Bank owned 100% of its share capital.

The Bank has produced separate consolidated financial statements with the financial statements of "Leasing-Hlynov" OOO.

11. Accrued Interest and Other Assets

Accrued interest and other assets include:

	2008	2007
Accrued interest income	26,464	13,586
Debtors and prepayments	10,137	13,516
Settlements with the budget	743	964
Other	845	430
	38,189	**28,496**

Debtors and prepayments include accounts receivable on transactions of credit cards.

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

(in thousands of Russian Roubles)

12. Fixed Assets

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost of Valuation							
At 31 December 2006	**3,542**	**109,374**	**1,949**	**12,875**	**20,485**	**16,254**	**164,479**
Additions	110	1,171	225	8,390	8,540	42,449	60,885
Transfer	-	7,373	-	-	84	(7,457)	-
Disposals	-	-	(207)	(339)	(1,366)	-	(1,912)
At 31 December 2007	**3,652**	**117,918**	**1,967**	**20,926**	**27,743**	**51,246**	**223,452**
Additions	-	5,263	430	7,779	10,994	21,726	46,192
Transfer	-	57,727	-	68	(68)	(57,727)	-
Disposals	-	(275)	-	(1,158)	(3,094)	-	(4,527)
Revaluation	-	31,104	-	-	-	-	31,104
At 31 December 2008	**3,652**	**211,737**	**2,397**	**27,615**	**35,575**	**15,245**	**296,221**
Depreciation							
At 31 December 2006	-	**(5,376)**	**(1,404)**	**(6,503)**	**(9,832)**	-	**(23,115)**
Charge for the year	-	(1,149)	(117)	(3,965)	(5,562)	-	(10, 793)
Depreciation of revalued part	-	(539)	-	-	-	-	(539)
Disposals	-	-	195	340	867	-	1,402
At 31 December 2007	-	**(7,064)**	**(1,326)**	**(10,128)**	**(14,527)**	**-**	**(33,045)**
Charge for the year	-	(2,090)	(174)	(5,568)	(5,598)	-	(13,430)
Depreciation of revalued part	-	9,154	-	-	-	-	9,154
Disposals	-	-	-	522	39	-	561
At 31 December 2008	-	**-**	**(1,500)**	**(15,174)**	**(20,086)**	**-**	**(36,760)**
Net Book Values							
At 31 December 2008	**3,652**	**211,737**	**897**	**12,441**	**15,489**	**15,245**	**259,461**
At 31 December 2007	**3,652**	**110,854**	**641**	**10,798**	**13,216**	**51,246**	**190,407**
At 31 December 2006	**3,542**	**103,998**	**545**	**6,372**	**10,653**	**16,254**	**141,364**

Fixed assets are insured to the value of 2,500 (2007: 2,100).

On 31 December 2008 the Bank revalued buildings held by and used by the Bank. The valuation was performed by independent appraisers Kirov Branch of FGUP "Rostechinventarizatsiya – Federalnoe BTI" on the basis of open market value.

If buildings had been carried at cost the carrying value of those assets would be 54,946 (2007: 54,946).

(in thousands of Russian Roubles)

13. Due to Banks

:

	2008	2007
Short-term loans and deposits from other banks	96,000	74,573
	96,000	**74,573**

All interbank loans are represented by loans received from the JSC "Rossisskiy Bank Razvitiya" at the interest rate of 11.5% (2007: 63.4% at the interest rate 10.9%).

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 24.

14. Customer Accounts

	2008	2007
Individuals		
Current accounts	424,866	404,241
Term deposits	2,917,357	1,905,632
	3,342,223	2,309,873
Other legal entities		
Current accounts	1,179,582	1,160,602
Term deposits	278,913	441,430
	1,458,495	1,602,032
State and budgetary organisations		
Current accounts	149,771	115,921
Term deposits	314,882	-
	464,653	115,921
	5,265,371	**4,027,826**

The breakdown of customer accounts per sector is presented in the following table:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Individuals	3,324,660	63.1	2,304,665	57.2
Trade	843,485	16.0	797,589	19.8
Fuel and energy	355,638	6.8	4,909	0.1
Financial	179,842	3.4	204,855	5.1
Services	150,274	2.9	57,690	1.4
Construction	143,666	2.7	216,425	5.4
Insurance	97,075	1.8	121,121	3.0
Industry	64,278	1.2	211,120	5.2
Transport and telecommunication	41,736	0.8	47,182	1.2
Other	25,947	0.5	26,377	0.7
Education	20,326	0.4	15,506	0.4
Health facilities	10,199	0.2	12,773	0.3
Agriculture	8,245	0.2	7,614	0.2
Total customer accounts	**5,265,371**	**100.0**	**4,027,826**	**100.0**

(in thousands of Russian Roubles)

Customer Accounts (continued)

Balances of term deposits and current accounts of related parties is disclosed in Note 25.

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 24.

15. Debt Securities Issued

	2008	2007
Promissory notes	11,017	46,772
	11,017	**46,772**

As at 31 December 2008, promissory notes issued by the Bank were held by nine investors, the maximum share of one investor in total amount of issued promissory notes is 63.26% (2007: 30% of issued promissory notes were purchased by 1 investor).

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

16. Deferred Tax Liability

The corporate income tax expense comprises:

	2008	2007
Current tax charge	49,953	39,621
Deferred tax charge relating to the origination and reversal of temporary differences	7,464	23,333
Income tax expense	**57,417**	**62,954**

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

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

	2008	2007
Profit before tax	**244,572**	**271,760**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	58,697	62,222
Tax on state securities income taxable at different rates	(457)	(41)
Tax on dividends paid	-	(2,295)
Non taxable items	(8,287)	(20,265)
Income tax expense	**49,953**	**39,621**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes.

(in thousands of Russian Roubles)

Deferred Tax Liability (continued)

The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2007: 24%).

Deferred tax assets and (liabilities) comprise:

Tax effect of deductible temporary differences	**31 Dec 08**	**Taken to equity**	**Movement in IS**	**31 Dec 07**
Accrued discount on securities	-	-	9,584	(9,584)
Allowance for losses on loans and promissory notes	(38,988)	-	(3,070)	(35,918)
Debtors and prepayments	391	-	(9,041)	9,432
Accrued interest income	-	-	4,998	(4,998)
Premises and equipment	(12,084)	-	(4,170)	(7,914)
Debt securities issued	-	-	(7)	7
Investments in subsidiary	(4,883)	-	(5,835)	952
Other assets	(240)	-	77	(317)
	(55,804)	**-**	**(7,464)**	**(48,340)**

The effect due to tax change from 24% to 20% is 2,232.

17. Other Liabilities

	2008	**2007**
Accounts payable	5,920	11,755
Accrued interest	1,539	1,042
Operating taxes payable	1,649	1,416
Dividends payable	109	224
Other	239	16
	9,456	**14,453**

Geographical, currency and maturity analyses of other liabilities are detailed in Note 24.

18. Share Capital

Statutory share capital authorised, issued and fully paid comprises:

	2008			**2007**		
	Number of shares ('000)	**Par value**	**Value**	**Number of shares ('000)**	**Par value**	**Value**
Common shares	12,100	0.05	605,000	9,700	0.05	485,000
IAS 29 adjustments			22,198			22,198
			627,198			**507,198**

(in thousands of Russian Roubles)

Share Capital (continued)

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. No dividends were declared in 2008 (2007: RUR 5 (not thousands) per share).

In 2008 the Bank increased share capital by issuing 2,400,000 ordinary shares of nominal value RUR 50 (not thousands) (2007: 5,200,000 of nominal value RUR 50 (not thousands)). All shares were allocated to investors in the existing proportions.

	2008	**2007**
Dividends payable as at 1 January	224	221
Dividends declared during the year	-	22,500
Dividends paid during the year	(115)	(22,497)
Dividends payable as at 31 December	**109**	**224**

All dividends are paid and declared in Russian Roubles.

As at 31 December 2008 shareholders of the Bank were as follows:

Shareholder	**2008 %**	**2007 %**
Rekha Holdings Limited	20.0	20.0
OOO «Monolit»	11.1	8.4
OOO «Norma»	10.0	7.7
OOO «Konkurent»	8.8	7.3
OOO «Strike»	8.4	6.7
OOO «Avangard»	7.3	6.7
OOO «Standart»	6.0	5.0
Individuals with less than 5% each (156)	20.1	32.5
Legal entities with less than 5% each (19)	8.3	5.7
	100.0	**100.0**

19. Commitments and Contingencies

Legal actions

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

Operating lease commitments

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Bank acts as a tenant:

	2008	**2007**
Not later than 1 year	3,989	11,244
Later than 1 year and not later than 5 years	24,381	40,506
Later than 5 years	28,762	12,061
	57,132	**63,811**

(in thousands of Russian Roubles)

Commitments and Contingencies (continued)

Capital commitments

As at 31 December 2008 and 31 December 2007 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

Credit related commitments

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

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

Credit related commitments comprise:

	2008	**2007**
Undrawn loan commitments	45,196	71,287
Unused limits of overdrafts	20,877	50,955
Guaranties	168,161	6,588
	234,234	**128,830**

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2008 and 31 December 2007 the Bank had no derivative financial instruments.

(in thousands of Russian Roubles)

20. Allowance for Impairment

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

	Correspondent accounts	Loans and advances to customers	Total
Balance as at 31 December 2006	**-**	**94,276**	**94,276**
Charge	-	24,761	24,761
Written off	-	(549)	(549)
Balance as at 31 December 2007	**-**	**118,488**	**118,488**
Charge	4,144	115,258	119,402
Balance as at 31 December 2008	**4,144**	**233,746**	**237,890**

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

21. Gains less Losses from Trading with Securities

	2008	2007
Fair value adjustments	(25,831)	(1,887)
Gains less losses from sales and redemptions	452	11,420
Other losses from trading with securities	38	(61)
	(25,341)	**9,472**

(in thousands of Russian Roubles)

22. Commission Income and Expenses

	2008	2007
Commission income		
Cash operations	141,543	143,698
Settlements and foreign currency exchange transactions	60,952	43,136
Commission from loans to customers	7,418	7,158
Commission on guarantees	3,267	1,832
Commission from transaction with plastic cards	2,360	2,337
Commission on other operations	1,882	1,590
	217,422	**199,751**
Commission expense		
Settlements and foreign currency exchange transactions	(8,831)	(3,505)
Commission from transaction with plastic cards	(5,355)	(6,053)
Commission on collection	(3,634)	(2,941)
Cash operations	(1,736)	(6)
Other commissions	(945)	-
	(20,501)	**(12,505)**
	196,921	**187,246**

23. Staff, Administrative and Other Operating Costs

	2008	2007
Salaries	64,434	44,163
Bonuses	50,265	32,722
Social security costs	22,944	15,918
	137,643	**92,803**

(in thousands of Russian Roubles)

Staff, Administrative and Other Operating Costs (continued)

	2008	2007
Taxes other than income tax	18,129	8,343
Deposit insurance system payment	14,195	8,874
Rent	11,269	5,240
Stationery	9,564	5,755
Advertising and marketing	8,459	4,549
Repair of fixed assets	7,532	3,406
Security	6,470	4,026
Software expenses	5,624	1,901
Postage	4,353	3,341
Maintenance of building	4,306	2,369
Related to computers, vehicles and information service	3,474	2,698
Printing expenses, document processing	2,451	3,291
Personnel training, travel and representative expenses	1,482	898
Personnel insurance	975	113
Assigning of credit rating	885	-
Statutory Duty	534	-
Other	7,090	4,547
	106,792	**59,351**

24. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. 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 is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Bank's business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

Financial Risk Management (continued)

a) Credit Risk Measurement

(i) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The “probability of default” by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Bank derive the “exposure at default”; and
- The likely recovery ratio on the defaulted obligations (the “loss given default”)

These credit risk measurements, which reflect expected losses (the “expected loss model”), are applied following the normative and instructions issued by the Central Bank of the Russian Federation and are embedded in the Bank’s daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the “incurred loss model”) rather than expected losses.

(ii) Debt securities

For debt securities and other equity instruments, external ratings or equivalents are used by the Bank for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

b) Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

Financial Risk Management (continued)

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

(ii) 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 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 and therefore carry less risk than a direct loan.

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, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Impairment policies

Impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the balance sheet under IFRS at year-end is derived from each of the five statutory risk categories. Although the categories with higher impairment rate are the bottom two grading, in absolute terms, the majority of the impairment allowance comes from the second and third grading in direct correlation to the volume of impaired loans and the loans assessed on a pool basis.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The table below shows the percentage of the Bank’s on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank’s CBRF rating categories:

	2008			2007		
Risk category	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**
I	6.18	-	-	13.38	-	-
II	69.73	15.63	1.91	71.05	42.26	4.48
III	20.21	53.21	22.48	14.63	48.78	25.11
IV	2.67	17.02	54.50	0.56	3.77	51.00
V	1.21	14.14	99.82	0.39	5.19	100.00
	100.00	**100.00**	**8.54**	**100.00**	**100.00**	**7.53**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower’s competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank’s policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Bank’s maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the balance sheet. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Loans and advances to customers include the following portfolios:

	2008	2007
Individuals (retail customers)		
Overdrafts	1,185	984
Term loan	743,293	517,403
Mortgage loan	212,544	154,503
Legal entities		
Large corporate customers	485,469	385,946
SMEs	3,326,965	2,637,291
Federal and governmental organizations; local authorities	38,583	64,346
Factoring	6,680	9,486
	4,814,719	**3,769,959**
Less allowance for impairment	(233,746)	(118,488)
	4,580,973	**3,651,471**

The loan portfolio of the Bank is summarised as follows:

	2008		2007	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	4,732,296	430,000	3,736,960	162,273
Past due but not impaired	77,235	-	32,951	-
Impaired	5,188	4,144	48	-
	4,814,719	**434,144**	**3,769,959**	**162,273**
Less allowance for impairment	(233,746)	(4,144)	(118,488)	-
	4,580,973	**430,000**	**3,651,471**	**162,273**

a) *Loans and advances neither past due nor impaired*

As at December 2008 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	7,167	17,390	**24,557**
II	1,185	647,593	183,774	**832,552**
III	-	27,580	-	**27,580**
IV	-	9,620	7,392	**17,012**
V	-	3,301	-	**3,301**
	1,185	**695,261**	**208,556**	**905,002**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

As at December 2008 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Major corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Total
I	13,750	258,967	-	-	**272,717**
II	398,019	2,071,391	34,600	4,037	**2,508,047**
III	73,700	863,719	3,983	-	**941,402**
III	-	86,410	-	-	**86,410**
IV	-	18,718	-	-	**18,718**
	485,469	**3,299,205**	**38,583**	**4,037**	**3,827,294**

In summary:

Risk category	Individuals	Legal entities	Total
I	24,557	272,717	**297,274**
II	832,552	2,508,047	**3,340,599**
III	27,580	941,402	**968,982**
IV	17,012	86,410	**103,422**
V	3,301	18,718	**22,019**
	905,002	**3,827,294**	**4,732,296**

As at December 2007 loans and advances neither past due not impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	-	10,953	**10,953**
II	984	487,985	136,080	**625,049**
III	-	19,837	7,470	**27,307**
IV	-	449	-	**449**
	984	**508,271**	**154,503**	**663,758**

As at December 2007 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Major corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Total
I	162,946	312,129	18,271	-	**493,346**
II	223,001	1,774,577	43,575	1,898	**2,043,051**
III	-	520,813	2,500	-	**523,313**
IV	-	13,172	-	-	**13,172**
V	-	320	-	-	**320**
	385,947	**2,621,011**	**64,346**	**1,898**	**3,073,202**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In summary:

Risk category	Individuals	Legal entities	Total
I	10,953	493,346	**504,299**
II	625,049	2,043,051	**2,668,100**
III	27,307	523,313	**550,620**
IV	449	13,172	**13,621**
V	-	320	**320**
	663,758	**3,073,202**	**3,736,960**

b) *Loans and Advances Past due but Not Impaired:*

As at 31 December 2008 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	17,417	10,747	10,137	5,993	**44,294**	39,631
Mortgage loans	3,503	485			**3,988**	4,636
Legal entities						
SMEs	-	243	6,047	21,470	**27,760**	23,890
Factoring	761	-	-	432	**1,193**	
	21,681	**11,475**	**16,184**	**27,895**	**77,235**	**68,157**

As at 31 December 2007 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	7,579	-	-	1,505	**9,084**	3,107
Legal entities						
SMEs	3,359	43	38	12,840	**16,280**	34,439
Factoring	4,445	1,971	877	294	**7,587**	
	15,383	**2,014**	**915**	**14,639**	**32,951**	**37,546**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

c) *Loans and Advances Individually Impaired*

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2008		2007	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Term loans	3,738	883	48	-
Legal entities				
SMEs	1,450	-	-	-
	5,188	**883**	**48**	**-**

In 2008 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at January 2008	30	15,661	1,545	**17,236**
Charge for the period	6	13,326	728	**14,060**
Loans written off	-	-	-	**-**
Amounts recovered	-	-	-	**-**
As at December 2008	**36**	**28,987**	**2,273**	**31,296**

In 2008 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Total
As at January 2008	3,087	93,765	686	3,714	**101,252**
Charge for the period	15,194	88,071	58	-	**103,323**
Amounts recovered	-	-	-	(2,125)	**(2,125)**
As at December 2008	**18,281**	**181,836**	**744**	**1,589**	**202,450**

In summary:

	Individuals	Legal entities	Total
As at January 2008	17,236	101,252	**118,488**
Charge for the period	14,060	103,323	**117,383**
Amounts recovered	**-**	(2,125)	**(2,125)**
As at December 2008	**31,296**	**202,450**	**233,746**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In 2007 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at January 2007	2	7,997	**-**	**7,999**
Charge for the period	28	7,664	1,545	**9,237**
Amounts recovered	-	-	-	**-**
As at December 2007	**30**	**15,661**	**1,545**	**17,236**

In 2007 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Total
As at January 2007	2,070	83,067	1,140	-	**86,277**
Charge for the period	1,017	11,247	-	3,714	**15,978**
Loans written off	-	(549)	-	-	**(549)**
Amounts recovered	-	-	(454)	-	**(454)**
				-	
As at December 2007	**3,087**	**93,765**	**686**	**3,714**	**101,252**

In summary:

	Individuals	Legal entities	Total
As at January 2007	7,999	86,277	**94,276**
Charge for the period	9,237	15,978	**25,215**
Loans written off	-	(549)	**(549)**
Amounts recovered	-	(454)	**(454)**
As at December 2007	**17,236**	**101,252**	**118,488**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Geographical risk

Geographical risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk associated with the Russian tax are set out in Note 15. The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible

The geographical concentration of the Bank's assets and liabilities as at 31 December 2008 is set out below:

	Russia	**OECD**	**Non - OECD**	**Total**
Assets				
Cash and cash equivalents	1,083,091	109,804	**-**	1,192,895
Mandatory balances with the CBRF	7,397	-	-	7,397
Due from banks	430,000	-	-	430,000
Securities at fair value through profit or loss	95,541	-	-	95,541
Loans and advances to customers	4,580,973	-	-	4,580,973
Accrued interest and other assets	38,189	-	-	38,189
Investments in subsidiary	24,513	-	-	24,513
Fixed assets	259,461		-	259,461
	6,519,165	**109,804**	**-**	**6,628,969**
Liabilities				
Due to banks	96,000	-	-	**96,000**
Customer accounts	5,090,371	-	175,000	**5,265,371**
Debt securities issued	11,017	-	**-**	**11,017**
Deferred tax liability	55,804	-	**-**	**55,804**
Other liabilities	9,456	-	**-**	**9,456**
	5,262,648	**-**	**175,000**	**5,437,648**
Net balance sheet position	**1,256,517**	**109,804**	**(175,000)**	**1,191,321**

Market Risk

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

Currency risk

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

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. However, its real target is more conservative, and that is to reach only 1%, or 2% for overnight exposure. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately. A review of the currency exposure is also conducted by the Asset and Liability Committee which normally meets weekly.

This committee has representatives from senior management, treasury, finance and other key departments. The Bank takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market which currently comprises related parties.

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia.

As at 31 December 2008, the Bank had the following positions in currencies:

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	1,064,098	50,663	78,134	**1,192,895**
Mandatory balances with the CBRF	7,397	-	-	**7,397**
Due from banks	430,000	-	-	**430,000**
Securities at fair value through profit or loss	95,541	-	-	**95,541**
Loans and advances to customers	4,568,303	11,012	1,658	**4,580,973**
Investment in subsidiary	24,513	-	-	**24,513**
Accrued interest and other assets	38,036	133	20	**38,189**
Fixed assets	259,461	-	-	**259,461**
	6,487,349	**61,808**	**79,812**	**6,628,969**
Liabilities				
Due to banks	96,000	-	-	**96,000**
Customer accounts	5,120,500	61,988	82,883	**5,265,371**
Debt securities issued	11,017	-	-	**11,017**
Deferred tax liability	55,804	-	-	**55,804**
Other liabilities	9,237	160	59	**9,456**
	5,292,558	**62,148**	**82,942**	**5,437,648**
Net on-balance sheet position	**1,194,791**	**(340)**	**(3,130)**	**1,191,321**

As at 31 December 2007, the Bank had the following positions in currencies:

	RUR	USD	EUR	Total
Net on-balance sheet position	**787,354**	**46,618**	**10,779**	**844,751**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The table below analyses the risk of foreign currency rate as to Russian Federation Rouble:

	As at 31 December 2008		As at 31 December 2007	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Strengthening of USD for 5%	n/a	n/a	1,727	1,727
Weakening of USD for 5%	n/a	n/a	(1,727)	(1,727)
Strengthening of Euro for 5%	n/a	n/a	548	548
Weakening of Euro for 5%	n/a	n/a	(548)	(548)
Strengthening of Euro for 30%	304	304	n/a	n/a
Weakening of Euro for 30%	(304)	(304)	n/a	n/a

Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk. The table below shows assets and liabilities as at 31 December 2008 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide a relatively long-term and stable source of funding for the Bank, although under crisis conditions this could change.

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year

(in thousands of Russian Roubles)

Financial Risk Management (continued)

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

	Requirement	31 December 2008	31 December 2007
Instant liquidity ratio (N2)	Minimum 15%	77.6%	39.3%
Current liquidity ratio (N3)	Minimum 50%	109.9%	53.3%
Long-term liquidity ratio (N4)	Maximum 120%	35.8%	46.3%

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

The tables below provide an analysis of the Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	1,192,895	-	-	-	-	**1,192,895**
Mandatory balances with CBRF	-	-	-	-	7,397	**7,397**
Due from banks	430,000	-	-	-	-	**430,000**
Securities at fair value through profit or loss	95,541	-	-	-	-	**95,541**
Loans and advances to customers	207,383	1,290,422	1,347,210	1,721,284	14,674	**4,580,973**
Investments in subsidiary	-	-	-	-	24,513	**24,513**
Accrued interest and other assets	29,837	1,252	608	4,597	1,895	**38,189**
Fixed assets	-	-	-	-	259,461	**259,461**
Total assets	**1,955,656**	**1,291,674**	**1,347,818**	**1,725,881**	**307,940**	**6,628,969**
Liabilities						
Due to banks	-	6,100	24,100	65,800	-	**96,000**
Customer accounts	1,897,010	1,021,071	1,409,990	937,300	-	**5,265,371**
Debt securities issued	11,017	-	-	-	-	**11,017**
Deferred tax liability	-	-	-	-	55,804	**55,804**
Other liabilities	8,210	1,101	-	-	145	**9,456**
Total liabilities	**1,916,237**	**1,028,272**	**1,434,090**	**1,003,100**	**55,949**	**5,437,648**
Net liquidity gap	**39,419**	**263,402**	**(86,272)**	**722,781**	**251,991**	**1,191,321**
Accumulated gap as at 31 December 2008	**39,419**	**302,821**	**216,549**	**939,330**	**1,191,321**	
Accumulated gap as at 31 December 2007	**(802,440)**	**(514,361)**	**(125,318)**	**634,898**	**844,751**	

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

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

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Bank's assets and liabilities are priced on a fixed rate basis.

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2008 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	7.71	-	-	-	-
Securities at a fair value through profit or loss	8.75	16.00	-	-	-
Loans and advances to customers	15.22	17.12	16.97	15.80	21.51
Liabilities					
Due to banks	-	11.50	11.50	11.50	-
Customer accounts	2.57	12.13	13.02	11.99	-
Debt securities issued	-	-	-	-	-

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2007 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	8.55	-	-	-	-
Securities at a fair value through profit or loss	10.52	10.85	-	-	-
Loans and advances to customers	12.24	11.92	13.39	13.82	20.53
Liabilities					
Due to banks	8.82	10.90	-	10.90	-
Customer accounts	2.56	10.60	10.10	10.80	-
Debt securities issued	-	6.51	-	-	-

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Assuming the financial assets and liabilities as at 31 December 2008 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 3% in market interest rates across all maturities and currencies would increase profit for the current year by approximately 31,293 (2007: 1% or 8,243) as a result of higher interest income from interest bearing assets.

In the table below given is the analysis of the interest rate fluctuation risk to which the Bank is exposed as at 31 December 2008. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	430,000	-	-	-	-	**430,000**
Securities at a fair value through profit or loss	94,253	-	-	-	-	**94,253**
Loans and advances to customers	207,383	1,290,422	1,347,210	1,721,284	14,674	**4,580,973**
Total assets	**731,636**	**1,290,422**	**1,347,210**	**1,721,284**	**14,674**	**5,105,226**
Liabilities						
Due to banks	-	6,100	24,100	65,800	-	**96,000**
Customer accounts	1,397,348	1,021,071	1,409,990	937,300	-	**4,765,709**
Total liabilities	**1,397,348**	**1,027,171**	**1,434,090**	**1,003,100**	**-**	**4,861,709**
Net liquidity	**(665,712)**	**263,251**	**(86,880)**	**718,184**	**14,674**	**243,517**
Accumulated gap as at 31 December 2008	**(665,712)**	**(402,461)**	**(489,341)**	**228,843**	**243,517**	
Accumulated gap as at 31 December 2007	**(946,311)**	**(645,747)**	**(257,471)**	**498,268**	**514,910**	

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2008			2007		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Interest bearing assets						
Due from banks	7.71	-	-	8.51	9.00	-
Securities at a fair value through profit or loss	11.38	-	-	10.66	-	-
Loans and advances to customers	16.51	11.69	14.00	13.48	11.35	9.80
Interest bearing liabilities						
Due to banks	11.50	-	-	10.56	8.00	-
Customer accounts	9.63	8.01	7.23	7.26	5.47	6.09
Debt securities issued	-	-	-	6.51	-	-

25. Related Party Transactions

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

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

Related Party Transaction (continued)

At 31 December 2008 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
REKHA HOLDINGS LIMITED	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
Other, including Management of the Bank	
Berezin Oleg Yuryevich	
Popov Nikolay Vasilyevich	
Nazarov Sergey Petrovich	
Zhuravlev Mikhail Vldimirovich	
Filipchenko Alexey Viktorovich	
Repnyakov Vladimir Anatolyevich	
Vtyurin Alexander Yuryevich	
Skobeleva Irina Anatolyevna	
Anisimova Galina Nikolayevna	
Prosvirina Lyubov Nikolayevna	
Pestov Oleg Vladimirovich	

Related Party Transaction (continued)

At 31 December 2007 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
REKHA HOLDINGS LIMITED	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
Other, including Management of the Bank	
Berezin Oleg Yuryevich	
Popov Nikolay Vasilyevich	
Nazarov Sergey Petrovich	
Zhuravlev Mikhail Vldimirovich	
Filipchenko Alexey Viktorovich	
Repnyakov Vladimir Anatolyevich	
Vtyurin Alexander Yuryevich	
Skobeleva Irina Anatolyevna	
Anisimova Galina Nikolayevna	
Prosvirina Lyubov Nikolayevna	
Pestov Oleg Vladimirovich	

(in thousands of Russian Roubles)

Related Party Transaction (continued)

The total outstanding balances as at 31 December 2008 and the related income and expense transactions during 2008 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Balance Sheet					
Loans and advances to customers					
At beginning of year	-	289,994	452	**290,446**	**3,651,471**
Granted during year	-	596,220	4,506	**600,726**	**n/a**
Repaid during the year	-	(618,182)	(2,284)	**(620,466)**	**n/a**
At the end of the year	**-**	**268,032**	**2,674**	**270,706**	**4,814,719**
Allowance for losses	-	(21,626)	(77)	**(21,703)**	**(233,746)**
Other assets (accrued interest income)	**-**	**1,162**	**27**	**1,189**	**38,189**
Current accounts					
At beginning of year	31	344	1,022	**1,397**	**1,680,764**
Opened during year	190,695	3,705,155	22,031	**3,917,881**	**n/a**
Repaid during the year	(189,840)	(3,705,413)	(21,506)	**(3,916,759)**	**n/a**
At the end of the year	**886**	**86**	**1,547**	**2,519**	**1,754,219**
Term deposits					
At beginning of year	200,000	-	6,739	**206,739**	**2,347,062**
Received during year	400,000	-	14,252	**414,252**	**n/a**
Repaid during the year	(425,000)	-	(15,945)	**(440,945)**	**n/a**
At the end of the year	**175,000**	**-**	**5,046**	**180,046**	**3,511,152**
Income Statement					
Interest Income on loans	**-**	**41,681**	**111**	**41,792**	**720,394**
Interest expenses					
On term deposits	20,119	-	627	**20,746**	**308,074**
On current accounts	-	14	59	**73**	**20,476**
Commission income					
From settlement operations	**104**	**143**	**-**	**247**	**60,952**
From operations with plastic cards	14	38	-	**52**	**2,360**
Salary and bonuses	-	-	19,559	**19,559**	**137,643**
Off-balance Sheet					
Credit related commitments	-	285	-	**285**	**234,234**

(in thousands of Russian Roubles)

Related Party Transaction (continued)

The total outstanding balances as at 31 December 2007 and the related income and expense transactions during 2007 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Balance Sheet					
Loans and advances to customers					
At beginning of year	52,624	144,767	834	**198,225**	**1,842,797**
Granted during year	-	795,009	6,362	**801,371**	**n/a**
Repaid during the year	(52,624)	(649,782)	(6,744)	**(709,150)**	**n/a**
At the end of the year	**-**	**289,994**	**452**	**290,446**	**3,769,959**
Allowance for losses	-	(4,185)	-	**(4,185)**	**(118,488)**
Securities					
At beginning of year	-	-	**-**	**-**	**112,276**
Purchased during year	-	2,001	**-**	**2,001**	**-**
Sold during the year	-	(2,001)	**-**	**(2,001)**	**-**
At the end of the year	**-**	**-**	**-**	**-**	**274,565**
Other assets	**-**	**1,053**	**-**	**1,053**	**28,496**
Current accounts					
At beginning of year	2,280	83	1,128	**3,491**	**1,166,449**
Opened during year	423,926	4,270,894	24,137	**4,718,957**	**n/a**
Repaid during the year	(426,175)	(4,270,633)	(24,243)	**(4,721,051)**	**n/a**
At the end of the year	**31**	**344**	**1,022**	**1,397**	**1,680,764**
Term deposits					
At beginning of year	-	-	3,518	**3,518**	**1,076,704**
Received during year	200,000	-	17,754	**217,754**	**n/a**
Repaid during the year	-	-	(14,533)	**(14,533)**	**n/a**
At the end of the year	**200,000**	**-**	**6,739**	**206,739**	**2,347,062**
Debt securities issue					
At beginning of year	-	-	-	**-**	**54,144**
Issued during the year	-	14,000	-	**14,000**	**n/a**
Redeemed during year	-	(14,000)	-	**(14,000)**	**n/a**
At the end of the year	**-**	**-**	**-**	**-**	**46,772**
Income Statement					
Interest Income on loans	**-**	**27,885**	**177**	**28,062**	**392,091**
Interest expenses					
On term deposits	2,904	-	670	**3,574**	**129,091**
On current accounts	-	5	-	**5**	**16,294**
Commission income	**-**	**17**	**-**	**17**	**217,422**
Salary and bonuses	-	-	14,297	**14,297**	**90,675**
Dividends declared	12,601	120	21	**12,742**	**22,500**

Related Party Transaction (continued)

In 2008 salaries and other short term payment to the 11 members of Council and members of the Executive Board amounted to 19, 029 (2007: 13,888), including 6,651 (2007: 5,103) salaries, other short term payments 12,378 (2007: 8,785). Other short term payments to the members of the Executive Board, who are not employed with the Bank, amounted to 530. (2007: 409).

26. Capital Management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheets, are:

- To comply with the capital requirements set by the CBRF
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the CBRF for supervisory purposes.

The compliance with the capital adequacy ratio required by the Central Bank of the Russian Federation is monitored through monthly reports, containing the related calculations, checked and approved by the General Director and the Chief Accountant of the Bank. The evaluation of other targets of capital management is monitored daily.

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

The CBRF sets and monitors capital requirements for the Bank. Currently banks have to maintain a ratio of capital to risk weighted assets, the total capital ratio, above the prescribed minimum of 10% (2007: 10%). Further, the State Deposit Insurance Scheme requires banks to maintain a total capital ratio of 11%. The Bank complied with these limits during the period and preceding year. The capital ratio of the Bank was, at 31 December 2008 19.06% (2007: 15.99%). The Bank's primary aim with regard to capital is to meet these requirements.

(in thousands of Russian Roubles)

Capital management (continued)

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1998, as of 31 December 2008 was 22.35% (2007: 20.00%). This ratio exceeded the minimum ratio of 8% recommended by Basel Accord.

The structure of the Bank's capital calculated in accordance with Basle Agreement is presented below:

	2008	2007
Tier One capital		
Share capital	627,198	507,198
Inflated portion of share capital	(14,773)	(14,773)
Retained earnings	494,426	307,271
Total Tier One capital	**1,106,851**	**799,696**
Tier Two Capital		
Fixed assets revaluation reserve	69,697	30,282
Inflated portion of share capital	14,773	14,773
Total Tier Two capital	**84,470**	**45,055**
Risk weighted assets	**5,331,185**	**4,220,294**
Total Capital ratio	**22.35%**	**20.00%**
Tier 1 Capital ratio	**20.76%**	**18.95%**

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

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

27. Events after the balance sheet date

Loan arrears and impairment

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