Open Joint Stock Company “BANK URALSIB”
Consolidated Financial Statements

Year ended December 31, 2008

Together with Independent Auditors’ Report

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Independent Auditors' Report

To the Shareholders and the Board of Directors
Open Joint Stock Company "Bank URALSIB"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Bank URALSIB" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
April 30, 2009

CONSOLIDATED BALANCE SHEET

As of December 31, 2008

(Millions of Russian Rubles)

	Notes	*2008*	*2007*
Assets			
Cash and cash equivalents	6	71,975	47,847
Obligatory reserves with the Central Bank		624	4,112
Amounts due from credit institutions	7	4,458	2,080
Trading securities, unpledged	8	*20,982*	*40,554*
Trading securities pledged under repurchase agreements	8	*4,054*	*3,533*
Available-for-sale securities	9	*10,040*	*3,292*
Held-to-maturity securities	10	*6,216*	-
Total securities		41,292	47,379
Derivative financial assets	11	104	1,130
Loans to corporate entities (gross)		*193,397*	*175,588*
less: Impairment allowance		*(11,586)*	*(7,438)*
Loans to corporate entities (net)		181,811	168,150
Loans to individuals (gross)		*84,597*	*63,816*
less: Impairment allowance		*(4,305)*	*(2,865)*
Loans to individuals (net)		80,292	60,951
Total loans to customers (net)	12	262,103	229,101
Net investment in finance leases	13	31,881	20,480
Property and equipment	14	8,833	8,780
Goodwill	15	4,527	4,527
Other assets	17	20,471	9,278
Total assets		**446,268**	**374,714**
Liabilities			
Derivative financial liabilities	11	143	836
Amounts due to credit institutions	20	140,499	85,966
Current accounts of corporate clients		*63,962*	*73,739*
Time deposits of corporate clients and repurchase agreements		*97,641*	*70,638*
Total amounts due to corporate clients		161,603	144,377
Current accounts of individuals		*15,199*	*23,251*
Time deposits of individuals		*49,558*	*47,384*
Total amounts due to individual clients		64,757	70,635
Total amounts due to customers	21	226,360	215,012
Promissory notes and certificates of deposit issued	22	9,155	14,682
Other borrowed funds	23	17,423	5,031
Other liabilities	17	4,479	4,945
Total liabilities		**398,059**	**326,472**
Equity	24		
Share capital		32,607	32,607
Additional paid-in capital		7,681	7,681
Revaluation reserve for available-for-sale securities		(1,617)	55
Revaluation surplus for property		2,661	2,420
Retained earnings		6,044	4,902
Total equity attributable to shareholders of the parent		**47,376**	**47,665**
Minority interest		833	577
Total equity		**48,209**	**48,242**
Total equity and liabilities		**446,268**	**374,714**

Signed and authorised for release on behalf of the Management Board of the Bank

Andrey M. Donskikh — Chairman of the Board

Yury V. Petukhov — Chief Accountant

April 30, 2009

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

(Millions of Russian Rubles)

	Notes	2008	2007
Interest income			
Loans to customers		33,088	23,999
Net investment in finance leases		5,593	2,919
Amounts due from credit institutions		4,283	827
Securities		3,608	2,081
Factoring		-	26
		46,572	**29,852**
Interest expense			
Amounts due to customers		(11,510)	(8,041)
Amounts due to credit institutions		(6,969)	(4,177)
Other borrowed funds		(983)	(241)
Promissory notes and certificates of deposit issued		(776)	(713)
		(20,238)	**(13,172)**
Net interest income		**26,334**	**16,680**
Impairment of interest earning assets	7, 9, 12, 13	(10,131)	(1,204)
Net interest income after impairment of interest earning assets		**16,203**	**15,476**
Fee and commission income		7,477	6,046
Fee and commission expense		(1,832)	(1,054)
Net fee and commission income	26	**5,645**	**4,992**
Net losses from trading securities	27	(3,148)	(3,754)
Net realized gains from available-for-sale securities		86	1,252
Net (losses)/gains from derivatives	28	(226)	1,177
Net gains from foreign currencies	29	1,477	411
Net losses from operations with precious metals		(134)	(101)
Net (losses)/gains from revaluation of buildings and investment property		(343)	367
Other income	30	1,144	823
Other non interest (loss)/income		**(1,144)**	**175**
Personnel expenses	31	(9,020)	(9,494)
Administrative and operating expenses	31	(8,544)	(6,708)
Depreciation and amortisation		(746)	(765)
(Charge for)/reversal of impairment of other assets	17	(254)	33
Other non interest expense		**(18,564)**	**(16,934)**
Profit before income tax expense		**2,140**	**3,709**
Income tax expense	16	(939)	(1,419)
Profit for the year		**1,201**	**2,290**
Attributable to:			
- shareholders of the Parent		1,126	2,190
- minority interest		75	100
		1,201	**2,290**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2008
(Millions of Russian Rubles)

	Attributable to shareholders of the Parent							
	Share capital	*Additional paid-in capital*	*Revaluation reserve for available-for-sale securities*	*Revaluation surplus for property*	*Retained earnings*	*Total equity attributable to shareholders of the Parent*	*Minority interest*	*Total equity*
December 31, 2006	**32,607**	**7,681**	**281**	**738**	**3,908**	**45,215**	**1,036**	**46,251**
Net unrealised gains on available-for-sale securities	-	-	955	-	-	**955**	-	**955**
Realised gains on available-for-sale securities reclassified to the statement of income	-	-	(1,252)	-	-	**(1,252)**	1	**(1,251)**
Deferred tax related to net unrealised gain on available-for-sale securities and to net realised gain on available-for-sale securities reclassified to the statement of income	-	-	71	-	-	**71**	-	**71**
Transfer of revaluation reserve on disposal of property previously revalued, net of tax	-	-	-	(1)	1	**-**	-	**-**
Revaluation of property, net of tax	-	-	-	1,683	-	**1,683**	6	**1,689**
Total income and expense recognized directly in equity						**1,457**	**7**	**1,464**
Profit for the year	-	-	-	-	2,190	**2,190**	100	**2,290**
Total income and expense for the year						**3,647**	**107**	**3,754**
Change of minority share in subsidiaries	-	-	-	-	(145)	**(145)**	(448)	**(593)**
Disposal of subsidiary	-	-	-	-	-	**-**	(118)	**(118)**
Dividends to shareholders of the Bank	-	-	-	-	(1,052)	**(1,052)**	-	**(1,052)**
December 31, 2007	**32,607**	**7,681**	**55**	**2,420**	**4,902**	**47,665**	**577**	**48,242**
Effect of change in income tax rate	-	-	2	127	-	**129**	-	**129**
Net unrealised losses on available-for-sale securities	-	-	(2,059)	-	-	**(2,059)**	-	**(2,059)**
Realised gains on available-for-sale securities reclassified to the statement of income	-	-	(34)	-	-	**(34)**	-	**(34)**
Deferred tax related to net unrealised gain on available-for-sale securities and to net realised gain on available-for-sale securities reclassified to the statement of income	-	-	419	-	-	**419**	-	**419**
Transfer of revaluation reserve on disposal of property previously revalued, net of tax	-	-	-	(16)	16	-	-	**-**
Revaluation of property, net of tax	-	-	-	130	-	**130**	-	**130**
Total income and expense recognized directly in equity						**(1,415)**	**-**	**(1,415)**
Profit for the year	-	-	-	-	1,126	**1,126**	75	**1,201**
Total income and expense for the year						**(289)**	**75**	**(214)**
Change of minority share in subsidiaries	-	-	-	-	-	-	71	**71**
Purchase of minority stakes in subsidiaries	-	-	-	-	-	**-**	319	**319**
Dividends paid	-	-	-	-	-	**-**	(209)	**(209)**
December 31, 2008	**32,607**	**7,681**	**(1,617)**	**2,661**	**6,044**	**47,376**	**833**	**48,209**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

(Millions of Russian Rubles)

	Notes	*2008*	*2007*
Cash flows from operating activities			
Interest received		46,381	29,597
Interest paid		(18,480)	(13,481)
Fees and commissions received		7,236	5,935
Fees and commissions paid		(1,859)	(1,051)
Net losses from trading securities		(3,072)	(4,246)
Net gains from derivatives		240	693
Realised gains less losses from dealing in foreign currencies		1,940	1,266
Realised gains less losses from dealing in precious metals		(197)	25
Dividends received		70	215
Other income received		1,074	585
Personnel expenses paid		(10,056)	(10,159)
Operating and administrative expenses paid		(9,573)	(6,394)
Cash flows from operating activities before changes in operating assets and liabilities		**13,704**	**2,985**
Net (increase)/decrease in operating assets			
Trading securities and securities pledged under repurchase agreement		13,249	7,787
Amounts due from credit institutions		2,602	8,985
Loans to customers		(30,380)	(74,779)
Net investment in finance leases		(11,448)	(9,542)
Other assets, excluding investment property		(4,779)	(2,875)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions, other than subordinated and syndicated loans		49,654	18,228
Amounts due to customers		6,861	33,747
Promissory notes and certificates of deposit issued		(5,782)	3,732
Other liabilities		739	873
Net cash flows from operating activities before income tax		**34,420**	**(10,859)**
Income tax paid		(2,439)	(4,236)
Net cash from operating activities		**31,981**	**(15,095)**
Cash flows from investing activities			
Purchase of available-for-sale securities		(5,829)	(2,416)
Proceeds from sale of available-for-sale securities		718	1,827
Purchase of securities held to maturity		(2,684)	-
Purchase of property and equipment		(1,101)	(1,275)
Proceeds from sale of property and equipment		591	201
Purchase of investment property		(3,689)	(45)
Proceeds from disposal of subsidiaries		62	40,387
Purchase of subsidiaries		(1,655)	(23,540)
Net cash flows from investing activities		**(13,587)**	**15,139**
Cash flows from financing activities			
Proceeds from syndicated loans		9,496	25,157
Syndicated loans repaid		(20,300)	(13,840)
Eurobonds repaid		-	(3,492)
Proceeds from subordinated loan and deposit		6,000	6,475
Proceeds from Credit Linked Notes and bonds issued		7,249	2,944
Dividends paid to shareholders of the Bank		(209)	(1,052)
Sale of minority stakes in subsidiaries		72	-
Purchase of minority stakes in subsidiaries		-	(596)
Net cash from financing activities		**2,308**	**15,596**
Effect of exchange rates changes on cash and cash equivalents		3,426	(261)
Net increase in cash and cash equivalents		**24,128**	**15,379**
Cash and cash equivalents, beginning		**47,847**	**32,468**
Cash and cash equivalents, ending	6	**71,975**	**47,847**

The accompanying notes are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

The accompanying consolidated financial statements comprise the accounts of Open joint stock company "BANK URALSIB" and its subsidiaries (together the "Bank"). Open joint stock company "BANK URALSIB" was established in January 1993 by a decree of the Supreme Soviet of the Bashkortostan Republic as an open joint stock company. The Bank previously operated as Republican Investment and Credit Bank "BashCreditBank". In December 2001, the Bank changed its name to Open joint stock company "Uralo - Sibirsky Bank".

On September 20, 2005, the reorganisation in the form of merger with OJSC AKB "AVTOBANK-NIKoil", OJSC AB "IBG NIKoil", OJSC "Bryansky Narodny Bank" and OJSC AKB "Kuzbassugolbank" was completed and the Bank changed its name to "Open joint stock company "BANK URALSIB". All merged banks were members of Financial Corporation URALSIB, parent entity of a group of companies (the "Group") whose principal subsidiaries are engaged in the provision of financial services in Russia, UK, Cyprus, and other jurisdictions.

Open joint stock company "BANK URALSIB" possesses a general banking license from the Central Bank of Russia (the "CBR") granted on September 20, 2005. Furthermore, Open joint stock company "BANK URALSIB" also possesses licenses for securities operations and custody services from the Federal Service for the Securities Market, as well as a license for precious metals operations granted by the CBR.

Its main office is in Moscow and it has 43 branches in Ufa, Saint-Petersburg, Krasnoyarsk, Nizhniy Novgorod, Omsk and other regions. The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered legal address is Moscow, 119048, Efremova Street, 8.

Starting January 20, 2004, the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". From October 1, 2008, insurance covers the Bank's liabilities to individual depositors for the amount up 700 thousand of Russian Rubles for each individual in case of business failure and revocation of the CBR banking license.

As of December 31, the following shareholders held the issued shares of Open joint stock company "BANK URALSIB":

Shareholder	*2008* %	*2007* %
OJSC "Financial Corporation URALSIB" (former LLC "Complex investments")	53.06	48.92
LLC "Active-holding"	33.62	33.62
OJSC "URALSIB – Wealth Management"	5.00	5.00
CJSC "UralSib Business Centre"	2.57	2.57
Deutsche Bank, London Branch	2.10	-
Morgan Stanley	2.10	-
CJSC "Depository Clearing Company"	0.71	-
Government of Republic of Bashkortostan	-	7.41
Other	0.84	2.48
Total	**100.00**	**100.00**

The Bank is ultimately controlled by Mr. Nickolai A. Tsvetkov.

Russian business environment

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

(Millions of Russian Rubles)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Russian Rubles, which is the functional currency of the Bank, in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the RAL books and records, as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements have been prepared under the historical cost convention except that land and buildings, trading and available-for-sale securities, derivative financial instruments and investment property have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless indicated otherwise.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble. Management have determined the Russian Rouble as the functional currency for the Bank, because it reflects the economic substance of the underlying events and circumstances. The Russian Rouble is also the Bank's presentation currency for the purpose of these consolidated financial statements.

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at December 31, 2002 by applying the relevant inflation indices to the historical cost or revalued amount, and that these restated values were used as a basis for accounting in subsequent periods.

Subsidiaries

The consolidated financial statements include the following main incorporated subsidiaries:

2008

Subsidiary	*Ownership, %*	*Country*	*Date of establishment*	*Industry*	*Date of receiving control*
OJSC AKB "Stroyvestbank"	86.77%	Russia	January 24, 1992	Banking	September 28, 2001
LLC "Operating Factoring Company URALSIB-Factoring"	100%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "UralSib Electronic Technologies"	100%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100%	Russia	April 29, 2002	Construction	May 13, 2002
Members of Leasing Group Uralsib					
LLC "URALSIB Leasing company"	87.61%	Russia	October 9, 1990	Leasing	December 22, 2006
LLC "Region- Leasing- Ufa"	99%	Russia	November 10, 2000	Leasing	December 22, 2006
LLC "Region- Leasing- Consult"	99%	Russia	November 12, 2001	Leasing	December 22, 2006
NIKOIL Leasing company LLC	100%	Azerbaijan	December 11, 2007	Leasing	December 11, 2007

2007

Subsidiary	*Ownership, %*	*Country*	*Date of establishment*	*Industry*	*Date of receiving control*
OJSC AKB "Stroyvestbank"	91.5%	Russia	January 24, 1992	Banking	September 28, 2001
CJSC "Stock Agency"	100%	Russia	June 6, 1996	Investment	June 6, 1996
LLC "Operating Factoring Company URALSIB-NIKoil"	100%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "UralSib Electronic Technologies"	100%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100%	Russia	April 29, 2002	Construction	May 13, 2002
Members of Leasing Group Uralsib					
LLC "URALSIB Leasing Company"	87.61%	Russia	October 9, 1990	Leasing	December 22, 2006
LLC "Region- Leasing- Ufa"	86.73%	Russia	November 10, 2000	Leasing	December 22, 2006
LLC "Region- Leasing- Consult"	86.73%	Russia	November 12, 2001	Leasing	December 22, 2006
NIKOIL Leasing company LLC	100%	Azerbaijan	December 11, 2007	Leasing	December 11, 2007

(Millions of Russian Rubles)

The consolidated financial statements include also the following unincorporated subsidiaries:

2008

Subsidiary	*Ownership, %*	*Country*	*Date of establishment*	*Industry*	*Date of receiving control*
Closed Unit Investment Fund of stock "Strategic management"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - REGION"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - ARENDA"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of real estate "URALSIB real estate"	100%	Russia	February 26, 2008	Investment	February 26, 2008
Closed Unit Investment Fund of real estate "URALSIB –Investment in real estate"	100%	Russia	August 5, 2008	Investment	August 5, 2008
Closed Unit Investment Fund of real estate "Construction Investments"	95.01%	Russia	October 13, 2004	Investment	November 12, 2008
Closed Unit Investment Fund of real estate "URALSIB – Land investments"	88.92%	Russia	February 18, 2008	Investment	August 13, 2008

2007

Subsidiary	*Ownership, %*	*Country*	*Date of establishment*	*Industry*	*Date of receiveing control*
Closed Unit Investment Fund of stock "Strategic management"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - REGION"	100%	Russia	November 1, 2007	Investment	November 1, 2007
Closed Unit Investment Fund of property "URALSIB - ARENDA"	100%	Russia	November 1, 2007	Investment	November 1, 2007

During 2008 the Bank acquired 100%, 100%, 95.01% and 88.92% of units in newly established Closed Unit Investment Funds of real estate "URALSIB real estate", "URALSIB – Investment in real estate", "Construction Investments" and "URALSIB – Land investments" respectively, at their nominal amount.

During 2008 the Bank also acquired 86.56% and 88.58% of units in newly established Interval Unit Investment Funds of stock "URALSIB Connection and Information technologies" and "URALSIB Russian finances" respectively, at their nominal amount, and later during 2008 sold part of their investments in these funds reducing its share to a non-controlling stake.

During 2008 the Bank liquidated its 100% subsidiary CJSC "Stock Agency".

3. Summary of accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied. Changes in accounting policy are described below.

Changes in accounting policies

On 1 January 2008 the Bank early adopted IFRS 8 "Operating segments". IFRS 8 "Operating Segments", which is effective for annual periods beginning on or after 1 January 2009, and specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

On 1 January, 2008 the Bank early adopted the amendments to IAS 32 "Financial instruments: Presentation" and IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". These amendments are effective for annual periods beginning on or after 1 January 2009. They require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

On 1 January 2008 the Bank early adopted amendments to IAS 40 "Investment property", which introduces the concept that the property that is being constructed or developed for future use as investment property is, in fact, an example of investment property itself. Earlier, the investment properties under construction were accounted for under IAS 16 "Property, Plant and Equipment".

(Millions of Russian Rubles)

In October 2008 the IASB issued "Reclassification of Financial Assets" (Amendments to IAS 39 and IFRS 7). The amendments permit an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit and loss "FVTPL" upon initial recognition and derivatives, out of the FVTPL and available-for-sale categories as follows:

- transfer from the available-for-sale category into the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.
- transfer a financial asset out of the FVTPL category (only in rare circumstances) into the loans and receivables, held-to-maturity or available-for-sale categories, depending on circumstances and intentions.

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

According to these amendments, the Bank reclassified certain non-derivative financial assets out of trading assets into available-for-sale and held-to-maturity assets. For detailes on impact of these reclassifications, refer to Note 9 "Available-for-sale securities" and Note 10 "Held-to-maturity securities" of the consolidated financial statement.

New standards and interpretations not yet adopted

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

- Revised IAS 1 "Presentation of Financial Statements (2007)" which becomes mandatory for the Bank's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 "Borrowing Costs" removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- Amended IAS 27 "Consolidated and Separate Financial Statements (2008)" which become mandatory for the Bank's 2010 consolidated financial statements requires accounting for changes in ownership interests by the Bank in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement Eligible Hedged Items" clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment becomes mandatory for the Bank's 2010 financial statements, with retrospective application required.
- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a subsidiary, jointly controlled entity or Associate" which came into effect on 1 January 2009.
- Revised IFRS 3 "Business Combinations (2008)" and amended IAS 27 "Consolidated and Separate Financial Statements (2008)", which will come into effect on 1 July 2009 (i.e. becomes mandatory for the Bank's 2010 financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to account for effects of transactions with non-controlling interest directly in equity.
- IFRIC 13 "Customer Loyalty Programmes" addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 financial statements.

(Millions of Russian Rubles)

- IFRIC 15 "Agreements for the Construction of Real Estate" addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 becomes mandatory for the Bank's 2009 financial statements.

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between consolidated entities are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

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

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of subsidiaries from parties under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within Bank equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is debited to equity.

Investments in associates

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

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Millions of Russian Rubles)

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,

- upon initial recognition, designated by the Bank as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Bank intends to sell immediately or in the near term;

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank upon initial recognition designates as available-for-sale; or

- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank designates as available-for-sale; or

- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of initial recognition.

Recognition

Financial assets and liabilities are recognized in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;

- held-to-maturity investments which are measured at amortized cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

(Millions of Russian Rubles)

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;

- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the consolidated income statement

(Millions of Russian Rubles)

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

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

Financial assets and liabilities are offset and the net amount 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, nostro at account and amounts due from credit institutions that mature within ninety days from the date of acquisition by the Bank and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in the consolidated income statement as gains less losses from precious metals.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. Finance - Bank as lessor

The Bank recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating - Bank as lessee

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

iii. Operating - Bank as lessor

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

(Millions of Russian Rubles)

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For amounts due from credit institutions, held-to-maturity securities, loans to customers and net investment in finance leases carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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, it includes the asset in a group of financial assets with similar credit risks 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.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a 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 purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

(Millions of Russian Rubles)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Non financial assets

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

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

Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions and of the municipal districts in which the Bank has offices and branches and where its subsidiaries are located.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Investment property

Following initial recognition at cost, investment property is carried at a revalued amount, which is the fair value at the date of the revaluation. The gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises. Investment property is not subject to depreciation.

Property and equipment

Equipment is carried at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

(Millions of Russian Rubles)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except when such a deficit directly offsets a previous surplus on the same asset that was originally recognised in equity.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	7
Computers and office equipment	4-6
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the parent's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Bank are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Indefinite life intangible assets are not subject to amortisation, but are assessed for impairment annually or whenever there is an indication that they may be impaired.

Provisions

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

(Millions of Russian Rubles)

Retirement and other employee benefit obligations

The Bank has pension arrangements with 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. Other than the above, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, including those issued in a business combination, are deducted from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Interest income on trading securities comprise coupon interest only.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(Millions of Russian Rubles)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at December 31, 2008 and December 31, 2007, were 29.38 Rubles and 24.55 Rubles to 1 USD, respectively.

4. Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in these consolidated financial statements include:

- Loan impairment estimates - Note 12;
- Building revaluation estimates - Note 14;
- Goodwill impairment estimates – Note 15;
- Investment property revaluation estimates – Note 18.

(Millions of Russian Rubles)

5. Segment analysis

The Bank is organized into eight main reportable segments:

1 **Corporate banking**: commercial lending and deposit taking, settlements and cash operations, as well as trade finance and operations with precious metals.

2 **Retail banking**: full range of banking services to individuals, such as deposit taking and lending to individuals, money transfer and foreign exchange services and a range of banking card products.

3 **Leasing**: a separate division of the Bank solely responsible for its all leasing activities.

4 **Investment banking**: primary and secondary equity and debt capital markets activities, brokerage services and securities trading, including repo transactions and derivative operations.

5 **Private banking and asset management**: full range of banking services to high net worth individuals, including their savings management and financial consulting; trust management, services to corporate and private clients through fiduciary and collective investment schemes including closed-end investment funds and open-end mutual funds which are distributed through the Bank's regional network.

6 **Treasury and asset-liability management ("ALM") unit**: treasury, which lends and borrows funds on money market, undertakes the Bank's funding through issue of debt securities and attraction of syndicated facilities and conducts foreign exchange operations. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.

7 **Corporate investments and other operations**: corporate operations that are not conducted by and attributed to any business segment. This segment is responsible for operations with related parties of the Bank and certain securities operations. In the Bank's transfer pricing system, this segment is responsible for the Bank's capital. It also carries out service operations that are not related to the main business activity of the Bank, such as management of real estate.

8 **Head office and shared services**: expenses incurred by the central administrative divisions of the Bank. This category also includes other Head Office expenditures and indirect overhead expenses such as the advertisement of the Bank's brand, which is common to all reportable segments.

The segmented reporting is submitted to the Management Board of the Bank on a regular basis as part of the management reporting. It is used to assess the efficiency of the segments and taking decision on allocation of resources.

A reconciliation of total segmental profit before income tax expense as measured in the management accounting to the total IFRS profit before income tax expense as presented in these consolidated financial statements is provided below.

	2008	***2007***
Profit before income tax expense per management accounting	**5,734**	**2,741**
Consolidation adjustments	676	(5,612)
Interest and commission accrued	(174)	(451)
Conversion to finance lease accounting	494	(261)
Fair value and other adjustments to securities	(968)	6,508
Fair value adjustment to derivative financial instruments	(978)	940
Personnel, administrative and operating expenses accrued	(1,125)	(879)
Rent expenses not recognized in management accounting	38	16
Adjustments to impairment allowances	(1,380)	625
Other adjustments	(177)	82
Profit before income tax expense per IFRS financials	**2,140**	**3,709**

(Millions of Russian Rubles)

A reconciliation of total segmental assets/liabilities as measured in the management accounting to the total IFRS assets/liabilities as presented in these consolidated financial statements is provided below.

	2008		2007	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Total assets/liabilities per management accounting	**450,790**	**406,523**	**373,760**	**328,856**
Netting of accounts receivable and payable on securities operations in management accounting	(621)	(8)	(1,383)	(801)
Accrual of administrative and operating expenses	1,969	840	1,235	701
Consolidation adjustments	3,919	229	3,820	39
Elimination of intragroup balances	(7,719)	(7,719)	(5,894)	(5,896)
Conversion to finance lease accounting	459	(1,402)	1,007	(577)
Revaluation and other adjustments to property and equipment	733	12	2,522	9
Revaluation and other adjustments to accumulated depreciation on property and equipment	(926)	-	(857)	-
Adjustment of current and deferred tax assets and liabilities	(745)	53	(3,109)	523
Accrual of interests and commissions	(1,106)	(1,423)	(1,661)	(769)
Adjustments to impairment allowances	(1,507)	(528)	(281)	(80)
Fair value adjustment to derivative financial instruments	106	154	297	2,439
Fair value adjustment to securities	319	-	4,403	890
Accrual of employee compensation payable	-	484	-	(30)
Other adjustments	597	844	855	1,168
Total assets/liabilities per IFRS financials	**446,268**	**398,059**	**374,714**	**326,472**

(Millions of Russian Rubles)

Segment breakdown of assets and liabilities of the Bank as of December 31, 2008 is set out below:

	Corporate banking	Retail banking	Leasing	Investment banking	Private banking & asset management	Treasury & ALM unit	Corporate investments & other operations	Intersegmental operations	Total
Assets									
Cash and cash equivalents	1	219	565	498	-	58,520	2	(431)	59,374
Obligatory reserves with the Central Bank	-	-	-	-	-	624	-	-	624
Amounts due from credit institutions	-	-	740	-	-	16,856	-	(700)	16,896
Trading securities	-	-	-	*5,863*	-	*2,799*	*398*	-	*9,060*
Available-for-sale securities	-	-	-	*12,302*	-	*12,428*	-	-	*24,730*
Held-To-Maturity securities	-	-	-	*6,152*	-	-	-	-	*6,152*
Total securities	-	-	-	24,317	-	15,227	398	-	39,942
Loans to corporate entities (gross)	*144,815*	-	*633*	*103*	-	*7,225*	*41,198*	*(7,224)*	*186,750*
less: Impairment allowance	*(10,610)*	-	-	-	-	-	*(419)*	-	*(11,029)*
Loans to corporate entities (net)	134,205	-	633	103	-	7,225	40,779	(7,224)	175,721
Loans to individuals (gross)	-	*82,189*	-	-	*2,053*	-	-	-	*84,242*
less: Impairment allowance	-	*(4,228)*	-	-	*(65)*	-	-	-	*(4,293)*
Loans to individuals (net)	-	77,961	-	-	1,988	-	-	-	79,949
Total loans to customers (net)	134,205	77,961	633	103	1,988	7,225	40,779	(7,224)	255,670
Net investment in finance leases	-	-	27,292	-	-	-	-	-	27,292
Property and equipment	-	-	10	-	-	-	8,923	-	8,933
Other assets	8,909	885	10,168	398	4,739	5,252	14,297	(2,589)	42,059
Total assets	**143,115**	**79,065**	**39,408**	**25,316**	**6,727**	**103,704**	**64,399**	**(10,944)**	**450,790**
Liabilities									
Amounts due to credit institutions	1,745	3,633	-	-	156	122,235	13,345	-	141,114
Current accounts of corporate clients	*53,581*	-	-	-	*2,146*	*431*	*7,149*	*(431)*	*62,876*
Time deposits of corporate clients and repurchase agreements	*90,051*	-	-	-	*873*	*700*	*598*	*(700)*	*91,522*
Total amounts due to corporate clients	143,632	-	-	-	3,019	1,131	7,747	(1,131)	154,398
Current accounts of individuals	-	*15,439*	-	-	*541*	-	-	-	*15,980*
Time deposits of individuals	-	*42,208*	-	-	*6,815*	-	-	-	*49,023*
Total amounts due to individual clients	-	57,647	-	-	7,356	-	-	-	65,003
Total amounts due to customers	143,632	57,647	-	-	10,375	1,131	7,747	(1,131)	219,401
Promissory notes and certificates of deposit issued	3,691	136	-	-	-	3,615	242	-	7,684
Other borrowed funds	-	-	33,674	-	-	-	413	(9,813)	24,274
Other liabilities	1,795	71	3,216	1	-	8,839	128	-	14,050
Total liabilities	**150,863**	**61,487**	**36,890**	**1**	**10,531**	**135,820**	**21,875**	**(10,944)**	**406,523**
Total equity	**-**	**-**	**-**	**-**	**-**	**-**	**44,267**	**-**	**44,267**
Total equity and liabilities	**150,863**	**61,487**	**36,890**	**1**	**10,531**	**135,820**	**66,142**	**(10,944)**	**450,790**

(Millions of Russian Rubles)

Segment breakdown of assets and liabilities of the Bank as of December 31, 2007 is set out below:

	Corporate banking	Retail banking	Leasing	Investment banking	Private banking & asset management	Treasury & ALM unit	Corporate investments & other operations	Intersegmental operations	Total
Assets									
Cash and cash equivalents	-	14	541	240	-	26,334	5	(291)	26,843
Obligatory reserves with the Central Bank	-	-	-	-	-	4,112	-	-	4,112
Amounts due from credit institutions	-	-	33	5	-	18,545	-	-	18,583
Trading securities	-	-	-	*28,719*	*588*	*18,242*	*10*	-	*47,559*
Available-for-sale securities	-	-	-	-	-	-	-	-	-
Held-To-Maturity securities	-	-	-	-	-	-	-	-	-
Total securities	-	-	-	28,719	588	18,242	10	-	47,559
Loans to corporate entities (gross)	*136,310*	-	*481*	*10,903*	-	*2,103*	*26,907*	*(2,103)*	*174,601*
less: Impairment allowance	*(7,168)*	-	-	-	-	-	*(158)*	-	*(7,326)*
Loans to corporate entities (net)	129,142	-	481	10,903	-	2,103	26,749	(2,103)	167,275
Loans to individuals (gross)	-	*62,216*	-	-	*1,073*	-	-	-	*63,289*
less: Impairment allowance	-	*(2,849)*	-	-	*(7)*	-	-	-	*(2,856)*
Loans to individuals (net)	-	59,367	-	-	1,066	-	-	-	60,433
Total loans to customers (net)	129,142	59,367	481	10,903	1,066	2,103	26,749	(2,103)	227,708
Net investment in finance leases	-	-	16,389	-	-	-	-	-	16,389
Property and equipment	-	-	11	-	-	-	9,241	-	9,252
Other assets	5,786	737	6,242	-	391	2,679	9,316	(1,837)	23,314
Total assets	**134,928**	**60,118**	**23,697**	**39,867**	**2,045**	**72,015**	**45,321**	**(4,231)**	**373,760**
Liabilities									
Amounts due to credit institutions	4,682	2,940	-	-	11	76,330	6,147	-	90,110
Current accounts of corporate clients	*57,269*	-	-	-	*1,891*	*291*	*14,737*	*(291)*	*73,897*
Time deposits of corporate clients and repurchase agreements	*53,450*	-	-	-	-	-	*6,824*	-	*60,274*
Total amounts due to corporate clients	110,719	-	-	-	1,891	291	21,561	(291)	134,171
Current accounts of individuals	-	*22,966*	-	-	*616*	-	-	-	*23,582*
Time deposits of individuals	-	*41,130*	-	-	*4,930*	-	-	-	*46,060*
Total amounts due to individual clients	-	64,096	-	-	5,546	-	-	-	69,642
Total amounts due to customers	110,719	64,096	-	-	7,437	291	21,561	(291)	203,813
Promissory notes and certificates of deposit issued	2,572	153	-	-	-	8,451	86	-	11,262
Other borrowed funds	-	-	17,625	596	-	-	-	(3,940)	14,281
Other liabilities	1,410	214	3,435	215	-	3,316	800	-	9,390
Total liabilities	**119,383**	**67,403**	**21,060**	**811**	**7,448**	**88,388**	**28,594**	**(4,231)**	**328,856**
Total equity	**-**	**-**	**-**	**-**	**-**	**-**	**44,904**	**-**	**44,904**
Total equity and liabilities	**119,383**	**67,403**	**21,060**	**811**	**7,448**	**88,388**	**73,498**	**(4,231)**	**373,760**

(Millions of Russian Rubles)

Segment information for the main reportable segments of the Bank for the year ended December 31, 2008 is set out below:

	Corporate banking	Retail banking	Leasing	Investment banking	Private banking & asset management	Treasury & ALM unit	Corporate itnvestments & other operations	Head office & Shared services	Intersegmental operations	Total
Interest income										
Loans to customers	19,317	9,921	130	175	181	25	4,404	-	-	34,153
Net investment in finance leases	-	-	4,807	-	-	-	-	-	-	4,807
Amounts due from credit institutions	-	-	2	-	-	1,226	-	-	-	1,228
Intersegment income	12,583	5,495	31	58	956	41,317	4,494	-	(64,934)	-
	31,900	**15,416**	**4,970**	**233**	**1,137**	**42,568**	**8,898**	**-**	**(64,934)**	**40,188**
Interest expense										
Amounts due to customers	(6,975)	(3,302)	-	-	(750)	(190)	(436)	-	-	(11,653)
Amounts due to credit institutions	(79)	(24)	-	-	-	(4,783)	(560)	-	-	(5,446)
Promissory notes and certificates of deposit issued	(139)	(1)	-	-	-	(634)	(1)	-	-	(775)
Other borrowed funds	-	-	(1,864)	-	-	-	(1)	-	-	(1,865)
Intersegment expense	(15,500)	(8,389)	(684)	(1,883)	(469)	(34,624)	(3,385)	-	64,934	-
	(22,693)	**(11,716)**	**(2,548)**	**(1,883)**	**(1,219)**	**(40,231)**	**(4,383)**	**-**	**64,934**	**(19,739)**
Net interest income/(expense)	**9,207**	**3,700**	**2,422**	**(1,650)**	**(82)**	**2,337**	**4,515**	**-**	**-**	**20,449**
Impairment of interest earning assets	(4,245)	(1,380)	(950)	-	(58)	(12)	(260)	-	-	(6,905)
Net interest income/(expense) after impairment of interest earning assets	**4,962**	**2,320**	**1,472**	**(1,650)**	**(140)**	**2,325**	**4,255**	**-**	**-**	**13,544**
Fee and commission income	4,358	3,200	-	140	37	272	24	-	-	8,031
Fee and commission expense	(180)	(320)	(257)	(95)	(24)	(444)	(20)	-	-	(1,340)
Intersegment fee income	472	323	18	8	226	400	40	-	(1,487)	-
Intersegment fee expense	(601)	(334)	(66)	(1)	(4)	(479)	(2)	-	1,487	-
Net fee and commission income	**4,049**	**2,869**	**(305)**	**52**	**235**	**(251)**	**42**	**-**	**-**	**6,691**
Net gains/(losses) from securities	-	-	-	(400)	(153)	280	-	-	-	(273)
Net gains/(losses) from foreign currency	387	602	10	-	1	1,065	(42)	-	-	2,023
Net gains from operations with precious metals	96	-	-	-	-	-	-	-	-	96
Other income/(expense)	(74)	(210)	(524)	69	147	(28)	2,651	-	(1,974)	57
	409	**392**	**(514)**	**(331)**	**(5)**	**1,317**	**2,609**	**-**	**(1,974)**	**1,903**
Personnel expenses	(865)	(1,138)	(342)	(337)	(217)	(136)	(79)	(6,018)	-	(9,132)
Administrative and operating expenses	(427)	(1,218)	(179)	(59)	(147)	(42)	(870)	(5,088)	1,974	(6,056)
Depreciation and amortisation	(67)	(114)	(5)	(3)	(10)	(5)	(94)	(468)	-	(766)
Impairment of other assets	(425)	-	-	-	-	(1)	(24)	-	-	(450)
	(1,784)	**(2,470)**	**(526)**	**(399)**	**(374)**	**(184)**	**(1,067)**	**(11,574)**	**1,974**	**(16,404)**
Profit/(loss) before income tax expense	**7,636**	**3,111**	**127**	**(2,328)**	**(284)**	**3,207**	**5,839**	**(11,574)**	**-**	**5,734**
Income tax expense	-	-	-	-	-	-	-	(2,514)	-	(2,514)
Profit/(loss) for the year	**7,636**	**3,111**	**127**	**(2,328)**	**(284)**	**3,207**	**5,839**	**(14,088)**	**-**	**3,220**

(Millions of Russian Rubles)

Segment information for the main reportable segments of the Bank for the year ended December 31, 2007 is set out below:

	Corporate banking	Retail banking	Leasing	Investment banking	Private banking & asset management	Treasury & ALM unit	Corporate investments & other operations	Head office & Shared services	Intersegmental operations	Total
Interest income										
Loans to customers	13,714	6,463	134	282	121	4	2,670	-	-	23,388
Net investments in finance leases	-	-	2,653	-	-	-	-	-	-	2,653
Amounts due from credit institutions	-	-	58	-	-	678	-	-	-	736
Intersegment income	7,906	4,638	17	7	434	28,135	2,447	-	(43,584)	-
	21,620	**11,101**	**2,862**	**289**	**555**	**28,817**	**5,117**	**-**	**(43,584)**	**26,777**
Interest expense										
Amounts due to customers	(3,783)	(4,257)	-	-	(285)	-	(142)	-	-	(8,467)
Amounts due to credit institutions	(102)	(11)	-	-	-	(4,077)	(334)	-	-	(4,524)
Promissory notes and certificates of deposit issued	(173)	(1)	-	-	-	(426)	(3)	-	-	(603)
Other borrowed funds	-	-	(704)	-	-	-	(305)	-	-	(1,009)
Intersegment expense	(10,553)	(4,827)	(483)	(3,264)	(189)	(23,073)	(1,195)	-	43,584	-
	(14,611)	**(9,096)**	**(1,187)**	**(3,264)**	**(474)**	**(27,576)**	**(1,979)**	**-**	**43,584**	**(14,603)**
Net interest income/(expense)	**7,009**	**2,005**	**1,675**	**(2,975)**	**81**	**1,241**	**3,138**	**-**	**-**	**12,174**
(Charge for)/reversal of impairment of interest earning assets	(1,982)	1,016	(196)	41	35	(1)	(174)	-	-	(1,261)
Net interest income/(expense) after impairment of interest earning assets	**5,027**	**3,021**	**1,479**	**(2,934)**	**116**	**1,240**	**2,964**	**-**	**-**	**10,913**
Fee and commission income	3,882	2,750	-	41	33	236	134	-	-	7,076
Fee and commission expense	(72)	(161)	(188)	(72)	(5)	(230)	(5)	-	-	(733)
Intersegment fee income	436	256	42	7	-	262	177	-	(1,180)	-
Intersegment fee expense	(437)	(286)	(67)	-	(3)	(387)	-	-	1,180	-
Net fee and commission income	**3,809**	**2,559**	**(213)**	**(24)**	**25**	**(119)**	**306**	**-**	**-**	**6,343**
Net gains/(losses) from securities	-	-	-	(1,300)	60	1,104	-	-	-	(136)
Net gains/(losses) from foreign currency	403	211	13	-	-	444	-	-	-	1,071
Net losses from operations with precious metals	(475)	-	-	-	-	-	-	-	-	(475)
Other income/(expense)	(22)	199	(333)	28	238	(58)	1,660	-	(1,698)	14
	(94)	**410**	**(320)**	**(1,272)**	**298**	**1,490**	**1,660**	**-**	**(1,698)**	**474**
Personnel expenses	(919)	(1,058)	(199)	(514)	(143)	(213)	(117)	(5,653)	-	(8,816)
Administrative and operating expenses	(375)	(978)	(83)	(85)	(199)	(64)	(736)	(4,723)	1,698	(5,545)
Depreciation and amortisation	(9)	(24)	(2)	(1)	(1)	-	(85)	(484)	-	(606)
Impairment of other assets	(22)	-	-	-	-	-	-	-	-	(22)
	(1,325)	**(2,060)**	**(284)**	**(600)**	**(343)**	**(277)**	**(938)**	**(10,860)**	**1,698**	**(14,989)**
Profit/(loss) before income tax expense	**7,417**	**3,930**	**662**	**(4,830)**	**96**	**2,334**	**3,992**	**(10,860)**	**-**	**2,741**
Income tax expense	-	-	-	-	-	-	-	(1,076)	-	(1,076)
Profit/(loss) for the year	**7,417**	**3,930**	**662**	**(4,830)**	**96**	**2,334**	**3,992**	**(11,936)**	**-**	**1,665**

(Millions of Russian Rubles)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	*2007*
Current accounts with the Central Bank	36,276	12,955
Cash on hand	16,796	11,446
Time deposits with credit institutions up to 90 days		
-OECD banks	8,142	2,879
-Other Russian banks	2,355	4,957
-Russian subsidiaries of OECD banks	1,560	2,091
-Largest 30 Russian banks	846	2,364
-Other foreign banks	615	-
Current accounts with other credit institutions		
-OECD banks	4,237	1,477
-Largest 30 Russian banks	354	148
-Other Russian banks	288	628
-Other foreign banks	14	14
-Russian subsidiaries of OECD banks	2	6
Accounts with stock exchanges	490	245
Time deposits with the Central Bank	-	4,501
Reverse repurchase agreements with credit institutions up to 90 days		
-Largest 30 Russian banks	-	2,730
-Other Russian banks	-	1,406
Cash and cash equivalents	**71,975**	**47,847**

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2008	*2007*
Time deposits for more than 90 days or past due		
-Largest 30 Russian banks	2,014	134
-Other foreign banks	1,615	801
-Other Russian banks	842	990
-OECD banks	8	173
Promissory notes		
-Other Russian banks	100	30
	4,579	**2,128**
Less – Allowances for impairment	(121)	(48)
Amounts due from credit institutions	**4,458**	**2,080**

As of December 31, 2008, the gross amount of past due amounts due from credit institutions was RUB 121 (2007 – RUB 48).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2008	*2007*
January 1	**48**	**19**
Charge	73	29
December 31	**121**	**48**

(Millions of Russian Rubles)

8. Trading securities

Trading securities owned comprise:

	2008	*2007*
- Government and municipal bonds		
US Treasury bills	9,289	11,209
Russian State bonds (OFZ)	415	2,292
Municipal and government bonds	139	307
Russian Federation Eurobonds	-	1,458
- Corporate bonds and promissory notes		
Corporate Ruble bonds	6,342	9,868
Rated from BBB- to BBB+	*776*	*1,166*
Rated from BB- to BB+	*401*	*1,308*
Rated below B+	*533*	*1,041*
Not rated	*4,632*	*6,353*
Corporate Promissory notes	1,715	3,814
Rated from BBB- to BBB+	*1,023*	*740*
Rated from BB- to BB+	*30*	*614*
Rated below B+	*440*	*1,401*
Not rated	*222*	*1,059*
Corporate Eurobonds	1,254	1,502
Rated from BBB- to BBB+	*559*	-
Rated from BB- to BB+	*158*	-
Rated below B+	*330*	*88*
Not rated	*207*	*1,414*
- Equity investments		
OJSC “LUKOIL” ordinary shares	1,828	7,918
Corporate shares	-	1,601
Units in LUKoil equity investment funds	-	585
Trading securities	**20,982**	**40,554**

Trading securities pledged under repurchase agreements comprise:

	2008	*2007*
Russian State bonds (OFZ)	4,054	46
Russian Federation Eurobonds	-	2,893
Corporate Eurobonds	-	476
Corporate bonds	-	101
Municipal and government bonds	-	17
Trading securities pledged under repurchase agreements	**4,054**	**3,533**

(Millions of Russian Rubles)

9. Available-for-sale securities

Available-for-sale securities comprise:

	2008	*2007*
Corporate bonds	6,316	672
Rated from BBB- to BBB+	*2,748*	-
Rated from BB- to BB+	*30*	-
Rated below B+	*1,446*	*311*
Not rated	*2,092*	*361*
Municipal and government bonds	2,014	17
Corporate shares	985	1,096
Units in closed unit investment funds	746	1,220
Russian State bonds (OFZ)	409	-
Corporate Eurobonds	149	115
Not rated	*149*	*115*
Share participation in limited liability companies	131	146
Equity investments	-	26
	10,750	3,292
Less allowance for impairment	(710)	-
Available-for-sale securities	**10,040**	**3,292**

As of December 31, 2008 and 2007 available-for-sale financial assets are represented primarily by corporate bonds and other debt instruments. As of December 31, 2008 units in closed unit investment funds included investments in closed unit investment fund of property “Development of South of Russia” in the amount of RUB 719, unit investment fund of shares “URALSIB Communication and Information technology” in the amount of RUB 11, “URALSIB the Russian finance” in the amount of RUB 9 and “URALSIB Energetic Perspectives” in the amount of RUB 7.

The gross amount of impaired available-for-sale securities as of December 31, 2008 was equal to RUB 1,210 for which a RUB 710 impairment allowance was created.

The movements in allowance for impairment of available-for-sale securities were as follows:

	2008	*2007*
January 1	**-**	**-**
Charge	710	-
December 31	**710**	**-**

Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3), the Bank reclassified certain trading securities and available-for-sale securities. The Bank identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Bank determined that the deterioration of the global and Russian financial markets leading up to 1 July 2008 constituted rare circumstances that permit reclassification out of the trading category.

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

	1 July 2008		**31 December 2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Trading securities reclassified to available-for-sale securities	6,909	6,909	3,642	3,642
	6,909	**6,909**	**3,642**	**3,642**

(Millions of Russian Rubles)

The table below sets out the amounts actually recognised in the income statement and equity during 2008 in respect of trading securities reclassified to available-for-sale securities:

	Profit or loss	Equity
Period before reclassification		
Trading securities reclassified to available-for-sale securities:		
Net losses from trading securities	(320)	-
Interest income	144	-
	(176)	**-**
Period after reclassification		
Trading securities reclassified to available-for-sale securities:		
Interest income	187	-
Revaluation reserve for available-for-sale securities	-	(602)
Impairment of available-for-sale securities	(404)	-
Net realised gains from available-for-sale securities	52	-
	(165)	**(602)**

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

	Profit or loss	Equity
Trading securities reclassified available-for-sale securities:		
Net losses from trading securities	(1,105)	-
Interest income	187	-
	(918)	**-**

At 1 July 2008 the effective interest rates on debt trading securities reclassified to available-for-sale securities ranged from 5.8% to 20.23% with gross expected recoverable cash flows of RUB 7,869.

10. Held-to-maturity securities

Held-to-maturity securities comprise:

	2008	*2007*
Corporate bonds	4,825	-
Corporate Eurobonds	1,391	-
Held-to-maturity securities	**6,216**	**-**

Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7 (described Note 3), the Bank reclassified certain to available-for-sale and trading securities to held-to-maturity securities. The Bank identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Bank determined that the deterioration of the global and Russian financial markets leading up to 1 July 2008 constituted rare circumstances that permit reclassification out of the trading category.

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

	1 July 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to held-to-maturity securities	2,554	2,554	2,362	2,021
Available-for-sale securities reclassified to held-to-maturity securities	207	207	187	181
	2,761	**2,761**	**2,549**	**2,202**

(Millions of Russian Rubles)

The table below sets out the amounts actually recognised in the income statement and equity during 2008 in respect of trading and available-for-sale securities reclassified to held-to-maturity securities:

	Profit or loss	Equity
Period before reclassification		
Trading securities reclassified to held-to-maturity securities:		
Net losses from trading securities	(13)	-
Interest income	39	-
	26	**-**
Available-for-sale securities reclassified to held-to-maturity securities:		
Interest income	6	-
	6	**-**
Period after reclassification		
Trading securities reclassified to held-to-maturity securities:		
Interest income	111	-
	111	**-**
Available-for-sale securities to held-to-maturity securities:		
Interest income	13	-
	13	**-**

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

	Profit or loss	Equity
Trading securities reclassified to held-to-maturity securities:		
Net losses from trading securities	(393)	-
Interest income	109	-
	(284)	**-**
Available-for-sale securities to held-to-maturity securities:		
Revaluation reserve for available-for-sale securities	-	(20)
Interest income	13	-
	13	**(20)**

At 1 July 2008 the effective interest rates on trading and available-for-sale securities reclassified to held-to-maturity securities ranged from 5.9% to 20.35% with gross expected recoverable cash flows of RUB 5,201.

11. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate of index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The outstanding deals with derivative financial instruments are as follows:

	2008			*2007*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Precious metals contracts						
Forwards and Swaps – foreign counterparties	2,169	86	139	7,014	605	752
Foreign exchange contracts						
Forwards and Swaps – domestic counterparties	17	-	-	6,063	2	13
Forwards and Swaps – foreign counterparties	-	-	-	9,246	29	61
Equity contracts						
Forwards – foreign counterparties	5,496	11	4	2,407	494	-
Forwards – domestic counterparties	54	7	-	69	-	10
Total derivative assets/liabilities	**7,736**	**104**	**143**	**24,799**	**1,130**	**836**

(Millions of Russian Rubles)

Forwards

Forward contracts are contractual agreements to buy or sell a specified asset and liability at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

12. Loans to customers

Loans to customers comprise:

	2008	*2007*
Loans to corporate entities	193,397	175,588
Loans to individuals:		
Residential mortgages	41,149	27,957
Consumer lending	20,601	17,810
Auto loans	16,683	14,909
Credit cards	1,901	1,468
Other loans to individuals	4,263	1,672
Gross loans to customers	**277,994**	**239,404**
Less – Allowance for impairment	(15,891)	(10,303)
Loans to customers	**262,103**	**229,101**

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Residential mortgages*	*Consumer lending*	*Auto loans*	*Credit cards*	*Other*	*Total*
At January 1, 2008	7,438	52	2,179	431	180	23	**10,303**
Net charge for the year	6,352	453	735	152	92	15	**7,799**
Amounts written off	(2,204)	-	(7)	-	-	-	**(2,211)**
At December 31, 2008	**11,586**	**505**	**2,907**	**583**	**272**	**38**	**15,891**

	Corporate lending	*Residential mortgages*	*Consumer lending*	*Auto loans*	*Credit cards*	*Other*	*Total*
At January 1, 2007	5,824	24	3,109	664	112	44	**9,777**
Net charge/(recovery) for the year	1,884	28	(930)	(233)	68	(21)	**796**
Amounts written off	(270)	-	-	-	-	-	**(270)**
At December 31, 2007	**7,438**	**52**	**2,179**	**431**	**180**	**23**	**10,303**

The Bank has estimated loan impairment for loans to corporate entities based on an analysis of the future cash flows for impaired loans and based on its past experience and considering the current economic conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the level of impairment as of 31 December 2008 would be RUB 1,818 (2007 - RUB 1,682) lower/higher.

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on these types of loans. Management estimated losses based on historic loss migration pattern for the past 36 months and considering the current market environment.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment on loans to individuals as of 31 December 2008 would be RUB 803 (2007 - RUB 610) lower/higher.

The portfolio allowance reflects management's estimate of the losses in the portfolio as at 31 December 2008. Deterioration in the Russian economy after period end may give rise to further deterioration in asset quality.

(Millions of Russian Rubles)

Concentration of loans to customers

As of December 31, 2008, the Bank had a concentration of loans represented by RUB 19,813 due from ten largest third party borrowers (7% of gross loan portfolio) (2007 – RUB 14,223 or 6%). An allowance of RUB 933 (2007 – RUB 268) was recognised against these loans.

As of December 31, 2008, the Bank had unsecured loans amounting to RUB 9,706 and RUB 9,978 due from two international banks, which were the organizers of loans for similar amounts to related parties of the Bank (entities under common control). The obligation of the international banks to repay these loans is dependant on the respective repayment by the related parties of the loans due to those international banks. Repayment of the loans is under the control of the Bank's ultimate controlling party. The loans provided by the Bank are denominated in USD and carry interest rates of 15% per annum; RUB 9,706 matures in September 2009 and RUB 9,978 matures in November 2009. The funds are used by the related parties to finance their business activity. Note 34 discloses the full amount of loans to related parties.

Loans to customers comprise:

	2008	*2007*
Loans to customers	271,488	224,855
Overdrafts	5,429	5,034
Loans granted under reverse repurchase agreements	988	9,401
Factoring	48	67
Promissory notes	41	47
	277,994	**239,404**
Less – Allowance for loan impairment	(15,891)	(10,303)
Loans to customers	**262,103**	**229,101**

Reverse repurchase agreements

The Bank has entered into reverse repurchase agreements with a number of Russian and foreign companies. The subject of these agreements are corporate shares and corporate bonds issued by Russian companies with a fair value of RUB 1,090 (2007 – RUB 10,324). At December 31, 2008, loans granted under reverse repurchase agreements include RUB 885 (2007 – RUB 2,661) placed with related parties.

Loans are made principally within Russia in the following industry sectors:

	2008	*2007*
Individuals	84,597	63,816
Trading enterprises	59,985	63,378
Financial services, other than credit institutions	40,984	36,830
Real estate construction	34,402	23,000
Food processing	11,706	11,113
Manufacturing	10,244	8,524
Machine-building	7,470	5,722
Metallurgy	4,009	1,493
Agriculture	3,000	2,547
Gold mining	2,998	4,386
Oil and gas	2,984	2,412
Chemical	2,149	1,613
Transport	2,028	2,680
Leasing	1,996	1,795
Energy	1,941	1,697
Metal mining and refinery	503	911
Forestry	492	917
Services	435	366
Light industry	420	1,126
Telecommunication	153	342
Government and municipal bodies	149	240
Other	5,349	4,496
	277,994	**239,404**

(Millions of Russian Rubles)

13. Net investments in finance leases

Net investments in finance leases comprise:

	2008	*2007*
Gross investments in finance leases	47,658	29,139
Less – Unearned finance lease income	(13,577)	(8,008)
	34,081	**21,131**
Less – Allowance for impairment	(2,200)	(651)
Net investments in finance leases	**31,881**	**20,480**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

There is no residual value related to lease contracts existing as of December 31, 2008 and 2007. Future minimum lease payments to be received following December 31, 2008 and 2007, are disclosed below:

	2008	*2007*
Within 1 year	18,564	11,502
From 1 to 5 years	24,447	15,454
More than 5 years	4,647	2,183
Minimum lease payments receivable	**47,658**	**29,139**

Gross investment in leases as of December 31, 2008 and 2007, is payable in the following currencies:

	2008	*2007*
RUB	22,671	14,212
USD	14,641	8,910
EUR	10,346	6,017
Gross investments in finance leases	**47,658**	**29,139**

The movements in allowance for impairment of investments in finance leases were as follows:

	2008	*2007*
January 1	**651**	**272**
Charge	1,549	379
December 31	**2,200**	**651**

(Millions of Russian Rubles)

14. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture, computers, office equipment and motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount				
December 31, 2006	**4,053**	**2,580**	**461**	**7,094**
Additions	103	844	328	**1,275**
Disposals	(117)	(324)	(16)	**(457)**
Netting of accumulated depreciation due to revaluation	(92)	-	-	**(92)**
Revaluation	2,582	-	-	**2,582**
Transfer	7	120	(127)	**-**
December 31, 2007	**6,536**	**3,220**	**646**	**10,402**
Additions	68	592	441	**1,101**
Disposals	(81)	(247)	(396)	**(724)**
Netting of accumulated depreciation due to revaluation	(237)	-	-	**(237)**
Revaluation	114	-	-	**114**
Transfer	29	174	(203)	-
December 31, 2008	**6,429**	**3,739**	**488**	**10,656**
Accumulated depreciation				
December 31, 2006	**84**	**1,207**	**-**	**1,291**
Charge for the year	103	581	-	**684**
Disposals	(5)	(256)	-	**(261)**
Netting of accumulated depreciation due to revaluation	(92)	-	-	**(92)**
December 31, 2007	**90**	**1,532**	**-**	**1,622**
Charge for the year	149	464	-	**613**
Disposals	(2)	(173)	-	**(175)**
Netting of accumulated depreciation due to revaluation	(237)	-	-	**(237)**
December 31, 2008	**-**	**1,823**	-	**1,823**
Net book value				
December 31, 2006	**3,969**	**1,373**	**461**	**5,803**
December 31, 2007	**6,446**	**1,688**	**646**	**8,780**
December 31, 2008	**6,429**	**1,916**	**488**	**8,833**

Buildings were independently valued at December 31, 2008. The valuation was carried out by an independent firm of appraisers, OOO "Ernst and Young – Otsenka", who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using income capitalisation and market approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach was based upon an analysis of the results of comparable sales of similar buildings. Final fair value was calculated based on integrated analysis of both approaches.

The following key assumptions were used in applying the income capitalisation approach:

- net income for the base year was calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy and collection losses as a percentage of potential gross rent income were estimated in range from 1% to 15%;
- buildings maintenance and general administrative expenses were estimated in range from 6% to 18% of effective gross rent income;
- capitalisation rates of 9% to 15% were applied to capitalise net income for base year.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information. Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus 5%, the building valuation as of 31 December 31, 2008 would be RUB 321 lower/higher.

(Millions of Russian Rubles)

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2008	*2007*
Cost	3,632	3,699
Accumulated depreciation	559	494
Net carrying amount	**3,073**	**3,205**

15. Goodwill

Goodwill relates to:

	2008	*2007*
URALSIB Banking Group	1,897	1,897
OJSC "AVTOBANK-NIKOIL"	2,630	2,630
Goodwill	**4,527**	**4,527**

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- corporate banking – RUB 3,607
- retail banking – RUB 920.

Key assumptions used in value in use calculations

No impairment of goodwill or any other intangible assets with indefinite lives has been identified as a result of impairment testing.

The recoverable amounts of each of the cash-generating units has been determined based on a "value in use" calculation. The cash flow projections are based on the financial budgets approved by the Bank's senior management. They cover a five year period and factor in current market downturn. The cash flows beyond the five year period are extrapolated based on the profit earned during the fifth year.

The effective discount rate applied to cash flow projections takes into account the forecasted foreign currency exchange rates fluctuations, inflation and risk-free interest rates and, on average, equal to 16% .

The calculation of value in use for both Corporate Banking and Retail Banking units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the budget period;
- Current local Gross Domestic Product (GDP);
- Local inflation rates; and
- Foreign exchange rates.

Interest margins

Interest margins are increased during the first budget year and gradually decreased over the remaining budget period reaching in long term 65 – 80% of the 2009 level.

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each line of business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated using the Weighted Average Cost of Capital (WACC) formula.

(Millions of Russian Rubles)

Market share assumptions

Management assumes that the cash-generating units' positions relative to their competitors will stay unchanged over the budget period. Taking into account the industry outlook for its growth rates and recent market dynamics, the management expects that the Bank's share in the Retail banking and Corporate banking segments will stay stable over the budget period.

Projected growth rates, GDP and local inflation rates

Assumptions are based on published industry research.

Foreign exchange rates

The RUB/US Dollar exchange rate used in the calculation of the goodwill impairment test is set at the level of the beginning of 2009 and is presumed not to fluctuate significantly over the next five years.

Sensitivity to changes in assumptions

Management believes that reasonably unfavorable changes to the above key assumptions used to determine the recoverable segment amounts will also not result in an impairment of goodwill.

16. Taxation

The corporate income tax expense comprises:

	2008	*2007*
Current tax		
Current year	1,761	3,928
Deferred tax		
Origination and reversal of temporary differences	(822)	(2,509)
Total income tax expense in the consolidated income statement	**939**	**1,419**

The Bank is liable to profits tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 24%. Pursuant to Russian profits tax law interest income on certain types of securities is subject to profits tax at a rate of 15%, 9% or 0%.

During November 2008 the Government of Russian Federation announced that the income tax rate will change from 24% to 20% effective from January 1, 2009. Accordingly, as at December 31, 2008 the rate of tax applicable for deferred taxes was 20% (2007 – 24%).

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

	2008		*2007*	
Income before tax	**2,140**	**%**	**3,709**	**%**
Income tax at the applicable tax rate	514	24%	890	24%
Non-deductible costs	275	13%	578	16%
Effect of change in income tax rate	222	10%	-	-
Income taxed at different tax rates	(56)	(2%)	(55)	(2%)
Under/(over) provided in prior years	(16)	(1%)	6	0%
	939	44%	1,419	38%

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of December 31, 2008 and 2007.

(Millions of Russian Rubles)

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Amounts due from credit institutions	-	-	94	93	(94)	(93)
Trading securities	-	-	101	249	(101)	(249)
Available-for-sale securities	493	-	-	42	493	(42)
Held-to-maturity securities	11	-	-	-	11	-
Loans to customers	1,279	518	-	-	1,279	518
Net investment in finance leases	332	155	606	99	(274)	56
Property and equipment	-	-	954	1,036	(954)	(1,036)
Other assets	658	117	515	-	143	117
Prommissory notes and certificates of deposit issued	38	18	-	-	38	18
Other borrowed funds	-	-	34	-	(34)	-
Other liabilities	63	160	-	-	63	160
Tax loss carry-forwards	221	-	-	-	221	-
Net deferred tax assets/(liabilities)	3,095	968	2,304	1,519	791	(551)
Comprising of:						
Deferred tax liabilities					(70)	(616)
Deferred tax assets					861	65

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

	2007	Recognised in income	Recognised in equity	2008
Amounts due from credit institutions	(93)	(1)	-	(94)
Trading securities	(249)	148	-	(101)
Available-for-sale securities	(42)	114	421	493
Held-to-maturity securities	-	11	-	11
Loans to customers	518	761	-	1,279
Net investment in finance leases	56	(330)	-	(274)
Property and equipment	(1,036)	(17)	99	(954)
Other assets	117	26	-	143
Prommissory notes and certificates of deposit issued	18	20	-	38
Other borrowed funds	-	(34)	-	(34)
Other liabilities	160	(97)	-	63
Tax loss carry-forwards	-	221	-	221
	(551)	**822**	**520**	**791**

(Millions of Russian Rubles)

17. Other assets and liabilities

Other assets comprise:

	2008	*2007*
Investment property (Note 18)	6,334	45
Prepaid operating taxes	4,535	2,420
Prepayments	2,136	1,543
Inventory in transit	1,988	431
Current tax assets	1,416	740
Intangible assets	1,236	1,087
Settlements on foreign exchange derivatives	1,112	166
Deferred tax asset (Note 16)	861	65
Settlements under agreements on sale of equipment	301	346
Trade debtors on operations with securities	167	1,475
Investments in associate (Note 19)	126	112
Bullion	45	357
Receivables on plastic cards	3	14
Settlements on acquisition of investment property	-	103
Settlements under finance lease contracts	-	296
Other	521	134
	20,781	**9,334**
Less – Allowance for impairment of other assets	(310)	(56)
Other assets	**20,471**	**9,278**

Prepaid operating taxes comprise primarily RUB 3,558 (2007 – RUB 1,955) accounted on the balance sheet of LLC "URALSIB Leasing Company" and represent excess input VAT over the output VAT. In accordance with tax legislation excess input VAT is subject to recovery either through offset against output VAT or cash refund. The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Upon the expiration of the three month period the remainder of input VAT which was not offset by the tax authorities is to be refunded to the taxpayer in cash upon its written claim or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

Other liabilities comprise:

	2008	*2007*
Trade creditors	2,517	63
Operating taxes	491	327
Accrued compensation and bonuses	440	1,019
Settlements under finance lease contracts	329	2,281
Dividend settlements	188	6
Settlements under agreements on purchase of equipment	161	241
Rent settlements	81	53
Deferred tax liability (Note 16)	70	616
Deferred commission income	16	22
Settlements with foreign exchange derivatives	16	-
Accrued contribution under obligatory deposit insurance system	11	73
Settlements on plastic cards	5	6
Securities sold, but not yet purchased	-	88
Other	154	150
Other liabilities	**4,479**	**4,945**

The movements in allowances for other assets were as follows:

	2008	*2007*
January 1	**56**	**236**
Charge/(reversal)	254	(33)
Write-offs	-	(147)
December 31	**310**	**56**

(Millions of Russian Rubles)

18. Investment property

The investment property of the Bank comprises the retail trade premises, completed residential apartments and residential buildings under construction, all of which are owned by the mutual funds consolidated by the Bank. The majority of the Bank's investment property is located in Moscow and Moscow region, while the rest of it is situated throughout other regions of the Russian Federation.

The Bank rents out the above trade premises to third parties under the operating lease arrangements. During 2008, the Bank received RUB 226 of rental income from this investment property.

The basis used for the appraisal was the market approach. The market approach was based upon an analysis of the results of comparable sales of similar premises.

Changes in the estimates above could affect the value of the investment property. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the investment property valuation as of December 31, 2008 would be RUB 190 higher/lower.

The movements in the investment property for the years ended December 31, 2008 and 2007 were as follows:

	2008	*2007*
Fair value of investment property as at 1 January	**45**	**802**
Disposals during the year	(45)	(802)
Acquisition of subsidiaries	3,061	-
Acquisitions during the year	3,567	45
Revaluation	(294)	-
Fair value of investment property as at 31 December	**6,334**	**45**

19. Investments in associate

The following associate is accounted for under the equity method:

2007

Associate	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
OJSC "Bashprombank"	48.5%	Russia	November 28, 1990	Banking	June 6, 2002

During 2007, the Bank lost control over OJSC "Bashprombank" (BPB), which occurred without a change in the ownership interest of the Bank in that subsidiary. BPB became subject to the new governance rules and the new structure of the Board of Directors which led to the Bank's effectively losing control over BPB.

The loss of control over BPB resulted in lowering the level of influence still held by the Bank to "significant influence". Therefore, the remaining interest in the carrying amount of the BPB's assets and liabilities at the date of loss of the control was deemed to be the associate's cost.

Movement in investments in associate:

	2008	*2007*
Investments in associate, beginning of the year	112	-
Purchase cost	-	106
Share of profit	14	6
Investments in associate, end of the year	**126**	**112**

The following table illustrates summarised financial information of the associate:

Aggregated assets and liabilities of associate	*2008*	*2007*
Assets	1,082	690
Liabilities	822	459
Net assets	**260**	**231**

Aggregated revenue and profit of associate	*2008*	*2007*
Revenue	73	61
Profit	28	12

(Millions of Russian Rubles)

20. Amounts due to credit institutions

The amounts due to credit institutions comprise:

	2008	*2007*
Time deposits and loans	100,537	40,943
Syndicated loans	24,052	31,011
Subordinated loan	7,216	6,097
Current accounts	4,767	4,865
Repurchase agreements	3,927	3,050
Amounts due to credit institutions	**140,499**	**85,966**

The Bank entered into repurchase agreements with a number of credit institutions. The subject of these agreements are Russian State bonds with a fair value of RUB 4,054 (as of December 31, 2007 the subject of these agreements were Eurobonds of Russian Federation and Corporate Eurobonds issued by Russian companies with fair value of RUB 2,893 and 476, respectively).

As of December 31, 2008 nominal amount of syndicated loans received by the Bank comprised USD 812 million from Russian, OECD and non-OECD banks and companies. The amounts received from non-credit institutions (nominal amount comprised USD 47.5 million) is recognized in other borrowed funds. The contractual maturity of syndicated loans is 2009-2012, and the interest rate is tied to six-month LIBOR.

During 2007 the Bank received a subordinated loan in total nominal amount of USD 250 million from an OECD bank. The contractual maturity of the subordinated loan is 2017, and the interest rate is LIBOR plus 4.5 per cent during the first 5-year period and LIBOR plus 6.5 per cent after the first five year period.

21. Amounts due to customers

The amounts due to customers include the following:

	2008	*2007*
Time deposits	**147,199**	**117,856**
-Time deposits of corporate clients	97,641	70,472
-Time deposits of individuals	49,558	47,384
Current accounts	**79,161**	**96,990**
-Current accounts of corporate clients	63,962	73,739
-Current accounts of individuals	15,199	23,251
Repurchase agreements	**-**	**166**
Amounts due to customers	**226,360**	**215,012**

At December 31, 2008, amounts due to customers of RUB 78,909 or 35% were due to the ten largest third party customers (2007 - RUB 25,085 or 12%).

Included in time deposits are deposits of individuals in the amount of RUB 49,558 (2007 – RUB 47,384). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2008	*2007*
Private enterprises	115,907	112,953
Individuals	63,391	68,797
State and budgetary organisations	45,696	31,424
Employees	1,366	1,838
Amounts due to customers	**226,360**	**215,012**

(Millions of Russian Rubles)

An analysis of customer accounts by economic sector follows:

	2008	*2007*
Individuals	64,757	70,635
Government bodies	45,597	31,143
Investment and finance	45,492	43,174
Energy	20,221	8,185
Trade and food processing	17,719	17,547
Real estate construction	16,048	16,747
Production and manufacturing	5,239	6,217
Services	3,918	4,501
Transport and communication	2,925	5,229
Chemical	775	3,027
Leasing	148	765
Non-budget funds	65	132
City and municipal bodies	33	149
Other	3,423	7,561
Amounts due to customers	**226,360**	**215,012**

22. Promissory notes and certificates of deposit issued

Promissory notes and certificates of deposit issued consisted of the following:

	2008	*2007*
Promissory notes	9,155	14,652
Certificates of deposit	-	30
Promissory notes and certificates of deposit issued	**9,155**	**14,682**

Promissory notes and certificates of deposit issued by the Bank as of December 31, 2008, bear annual interest rates ranging from 4.04% to 21.19% (2007 - from 2.0% to 11.9%).

23. Other borrowed funds

Other borrowed funds comprised the following:

	2008	*2007*
Bonds ("Uralsib Leasing Company" LLC)	7,530	655
Subordinated Deposit	5,885	-
Credit Linked Notes ("Uralsib Leasing Company" LLC)	2,602	2,228
Syndicated loans (Note 20)	1,406	2,148
Other borrowed funds	**17,423**	**5,031**

In 2007, "Uralsib Leasing Company" LLC completed the issue of Credit Linked Notes denominated in Russian Rubles totalling RUB 2,500 maturing in 2009 with 9.75% fixed interest payable semi-annually. The Credit Linked Notes were issued by ING Bank N.V, the placement agents for the issue are OJSC "URALSIB" and ING Bank N.V.

In December 2007, LLC "Uralsib Leasing Company" (represented by OJSC "URALSIB" and LLC "Uralsib Capital") completed the issue of non-convertible documentary bonds totalling RUB 2,700 maturing in 2010 with 11.6% interest (for the first three coupon payments, remaining are to be determined by the issuer) and payable semi-annually. The placement agent for the issue was OJSC "URALSIB".

In December 2008, LLC "Uralsib Leasing Company" (represented by OJSC "URALSIB" and LLC "Uralsib Capital") completed the issue of non-convertible documentary bonds totalling RUB 5,000 maturing in 2011 with 12.99% interest (for the first three coupon payments, remaining are to be determined by the issuer) and payable semi-annually. The placement agent for the issue was OJSC "URALSIB".

In November 2008 the Bank received a subordinated deposit in total nominal amount of RUB 6,000 from an OJSC "Regional fund". The contractual maturity of the subordinated deposit is 2018, and the interest rate is 13.2%.

(Millions of Russian Rubles)

24. Equity

Shares outstanding, issued and fully paid were as follows:

	Number of shares		Nominal amount, Rbth		Inflation Adjustment Rbth	Total Rbth
	Preferred	Ordinary	Preferred	Ordinary		
December 31, 2005, 2006, 2007 and 2008	-	**204,184,218**	-	**20,418**	**12,189**	**32,607**

The number of authorized ordinary shares is 275,984,185,600 (2007: – 275,984,185,600) with a nominal value per share of Ruble 0.1.

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

In November 2004 the shareholders of OJSC AB "IBG NIKoil", OJSC AKB "AVTOBANK-NIKOIL", OJSC "Bryansky Narodny Bank", OJSC "Kuzbassugolbank" and OJSC "Uralo-Sibirsky Bank" approved a reorganization in the form of a combination with OJSC "Uralo-Sibirsky Bank", which was completed and registered by the CBR in September 2005.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. In its stand-alone financial statements, the Bank had approximately RUB 18,050 of undistributed and unreserved earnings as of December 31, 2008 (2007 – RUB 14,738). In addition, the Bank's share in the undistributed and unreserved earnings of its subsidiaries was approximately RUB 68 as of December 31, 2008 (2007 – RUB 1,437).

Nature and purpose of other reserves

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

This reserve records fair value changes of available-for-sale investments.

25. Commitments and contingencies

Legal

In the ordinary 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.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

(Millions of Russian Rubles)

As of December 31, the Bank's commitments and contingencies comprised the following:

	2008	*2007*
Credit related commitments		
-Undrawn loan commitments		
Russian Federation companies	58,188	49,830
OECD companies	-	1,112
Total undrawn loan commitments	**58,188**	**50,942**
-Letters of credit		
OECD companies	6,196	1,853
Russian Federation companies	5,100	12,371
Other non-OECD	-	5
Total letters of credit	**11,296**	**14,229**
-Guarantees issued		
Russian Federation companies	12,123	10,600
OECD companies	408	174
Total guarantees issued	**12,531**	**10,774**
Total credit related commitments	**82,015**	**75,945**
Operating lease commitments		
Not later than 1 year	1,914	1,221
Later than 1 year but not later than 5 years	3,906	2,267
Later than 5 years	808	584
	6,628	**4,072**
Capital expenditure commitments	973	783
	89,616	**80,800**
Less – Bank's promissory notes held as security against guarantees	(625)	(732)
Commitments and contingencies	**88,991**	**80,068**

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

26. Net fee and commission income

Net fee and commission income comprises:

	2008	*2007*
Settlements operations	3,478	3,472
Cash operations	2,651	1,924
Guarantees and letters of credit	821	222
Foreign exchange operations	327	200
Underwriting	146	38
Trust operations	21	48
Securities operations	7	9
Consulting	-	120
Agent fees for insurance	-	4
Other	26	9
Fee and commission income	**7,477**	**6,046**
Settlements operations	971	871
Cash operations	328	150
Trust operations	252	-
Collection agencies services	177	-
Currency conversion operations	68	1
Securities operations	20	13
Guarantees	15	11
Other	1	8
Fee and commission expense	**1,832**	**1,054**
Net fee and commission income	**5,645**	**4,992**

(Millions of Russian Rubles)

Settlements commissions represent commissions received for transfer of customers' funds and on other operations with clients' accounts, issue and processing of payments by cards and from other financial institutions on acquiring services. Commissions on cash operations consists of commissions received from the Bank's clients on encashment operations. Guarantees and LC's commission represent payment for origination of the guarantees and LC's facilities by the Bank. Foreign exchange operations commission represent commission charged for currency exchange operations and currency control function performed by the Bank.

27. Net losses from trading securities

Transactions with trading securities in 2008 resulted in losses in the amount of RUB 3,148 (2007: RUB 3,754), which included both realized and unrealized gains and losses.

28. Net (losses)/gains from derivatives

Gains less losses from derivatives comprise:

	2008	*2007*
Equity contracts (realised and unrealised)	(388)	477
Foreign exchange contracts (realised)	162	700
Gains less losses from derivatives	**(226)**	**1,177**

29. Net gains from foreign currencies

Gains less losses from foreign currencies comprise:

	2008	*2007*
Dealing gains	1,940	1,266
Translation differences	(463)	(855)
Net gains from foreign currencies	**1,477**	**411**

30. Other income

Other income comprise the following:

	2008	*2007*
Rental income	432	156
Gain on disposal of property	158	57
Penalties on vault operations	125	20
Brokerage	97	72
Dividend income	70	237
Other income	262	281
Other income	**1,144**	**823**

(Millions of Russian Rubles)

31. Personnel expenses, administrative and operating expenses

Personnel, administrative and operating expenses comprise:

	2008	*2007*
Salaries and bonuses	7,895	8,349
Social security costs	1,125	1,145
Personnel expenses	**9,020**	**9,494**
Rent expenses	1,877	1,350
Operating taxes	1,453	1,139
Repairs and maintenance of property and equipment	799	794
Communications	556	270
Marketing and advertising	548	455
Office materials	476	300
Business development	334	250
Security costs	326	247
Obligatory deposit insurance system contributions	286	352
Data processing	276	324
Insurance	264	193
Business travel and related expenses	191	206
Charity	145	447
Professional services	101	30
Personnel training	72	45
Penalties incurred	29	77
Other	811	229
Administrative and operating expenses	**8,544**	**6,708**

32. Risk management

The Bank is exposed to credit risk, market risk and liquidity risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

In order to control the level of certain risks and to restrict its losses, the Bank implemented an ongoing risk management process. The risk management system is based on an integrated approach to identification, measurement, monitoring and controlling of risk. The Bank's risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Bank.

Risk management structure

Risk management functions are realized at all levels of corporate governance and are allocated among the following bodies:

Supervisory Board (Board of Directors) performs supervisory functions and provides overall assurance over the risk management process.

Management Board is responsible for implementing the risk management strategy, approving risk management Policies, segregating risk management functions between the Bank's committees and departments and controlling their execution.

The Board sets general limits on the level of risk that may be accepted by types of risks and by business-segments and also sets risk limits for large risk exposures. The Board regularly analyses risk reports and, where necessary, reallocates risk limits to achieve target strategic risk profile.

To make the risk management system more efficient, the Management Board delegates authority for setting risk limits to other Bank committees, departments or personnel.

Assets and Liabilities Management Committee (ALCO) is responsible for currency, interest rate and liquidity risk management. ALCO also manages price risk.

ALCO allocates general market risk limits established by the Management Board against particular securities portfolio, currency and interest rate positions and sets target level for liquidity position. ALCO also approves internal transfer prices that are a core instrument of the Bank's interest rate risk management policy. The Committee is chaired by the Chairman of the Management Board.

Day-to-day management of currency, interest rate and liquidity risks as well as administration of the internal funds transfer pricing system is carried out by **the Bank's Treasury** within authority delegated to it by the ALCO.

(Millions of Russian Rubles)

The **Credit Committee** is responsible for implementation of the Bank's credit policy in the commercial lending segment. The Bank implemented a four-level system of Credit Committees, due to its diversified regional network. The Credit Committee is co-chaired by the Deputy Chairman of the Management Board overseeing corporate lending and Deputy Chairman of the Management Board responsible for risk management compliance.

The **Credit Committee for Money and Capital Markets Operations** determines the policy for managing credit risk which the Bank undertakes when performing operations on the currency, money and securities markets. The Committee sets risk limits for the Bank's counterparties (credit institutions, financial and investment companies, exchanges, trading systems and clearing centers), securities issuers (Russian and foreign) as well as country risk limits.

The **Risk Management Department** performs centralized risk management functions and is responsible for development of risk management policies and procedures and identification, assessment and control of risks in all business segments. It performs independent analysis of credit and market risk exposures that are submitted by business units for approval to Bank's decision-making committees (see above), as well as analyses all exposures on a portfolio basis, and prepares regular risk reports covering all business segments. The Risk Management Department is an independent division reporting directly to the Deputy Chairman of the Management Board responsible for risk management and compliance.

The **Risk Control Units** make sure that individual transactions comply with policies, established risk limits and other requirements sets out for each of the business segments and prepare regular risk reports. The Risk Control units are present in each of the Bank's regional hubs as well as in each of the business segments and report to the Risk Management Department.

The **Internal Control Department** performs internal control functions and assesses the efficiency of the risk management system at both the Bank and individual business levels. The Internal Control Department reports its findings to the Management Board of the Bank.

The **Internal Audit Department** performs internal audit functions and reports to the Supervisory Board's Committee for Audit and Risks.

Credit risk

Credit risk is the risk that the Bank will incur losses as a result of its counterparties failing to fulfill their financial obligations in full or in part or when they fall due. The Bank's exposure to credit risk depends on amounts due and the Bank's off-balance sheet commitments which carry credit risk.

Exposure to credit risk without taking into account any collateral and netting agreements is as follows:

	2008	*2007*
Balance sheet instruments carrying credit risk:		
Cash and cash equivalents*	55,179	36,401
Trading securities, unpledged	19,154	30,450
Trading securities pledged under repurchase agreements	4,054	3,533
Amounts due from credit institutions*	5,082	6,192
Derivative financial assets	104	1,130
Loans to customers	262,103	229,101
Available-for-sale securities	8,178	804
Held-to-maturity securities	6,216	-
Net investment in finance leases	31,881	20,480
Other assets	3,930	4,022
	395,881	**332,113**
Commitments carrying credit risk: **		
Undrawn loan commitments	58,188	50,942
Letters of credit	11,296	14,229
Guarantees issued	12,531	10,774
	82,015	**75,945**
Total credit risk exposure	**477,896**	**408,058**

Credit risk concentrations arise when significant loans are granted to an individual counterparty (borrower) or to a group of related counterparties (borrowers) or in case when counterparties (borrowers) are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause them to be similarly affected by changes of the same economic factors.

* These captions include amounts due from the CBR, however the Bank considers this risk as minimal.

** The Bank has commitments such as credit facilities, guarantees and uncovered letters of credit carrying credit risk. Such risk is mitigated through the use of the same methods and procedures as applied to the balance sheet instruments bearing credit risk.

(Millions of Russian Rubles)

Credit risk concentration by geographical regions as of December 31, 2008 and 2007 is the following:

	2008				2007			
	Russia	*OECD*	*Other countries*	*Total*	*Russia*	*OECD*	*Other countries*	*Total*
Assets:								
Cash and cash equivalents	42,171	12,379	629	**55,179**	32,032	4,356	13	**36,401**
Trading securities, unpledged	8,610	10,544	-	**19,154**	19,170	10,945	335	**30,450**
Trading securities pledged under repurchase agreements	4,054	-	-	**4,054**	3,533	-	-	**3,533**
Amounts due from credit institutions	3,481	8	1,593	**5,082**	5,218	173	801	**6,192**
Derivative financial assets	8	96	-	**104**	2	633	495	**1,130**
Loans to customers	227,866	1,751	32,486	**262,103**	203,454	605	25,042	**229,101**
Available-for-sale securities	8,031	148	-	**8,179**	804	-	-	**804**
Held-to-maturity securities	4,825	1,391	-	**6,216**	-	-	-	**-**
Net investment in finance leases	31,881	-	-	**31,881**	20,480	-	-	**20,480**
Other assets	3,930	-	-	**3,930**	3,960	62	-	**4,022**
Total	**334,857**	**26,317**	**34,708**	**395,882**	**288,653**	**16,774**	**26,686**	**332,113**

The Bank's credit procedures are designed to make the credit approval process efficient, depending on the credit risk level, by taking into consideration the specifics of different industries, business segments, groups of customers and types of credit products.

Loans to large corporate customers

Loan applications by corporate customers are handled by client managers, who analyze the applicant's business and structure the loans in accordance with customer's requirements. The application documents are then sent to the Corporate Lending Department, whose credit managers assess the credit risk and the fair value of the collateral by applying the relevant methodology prepared jointly with the Risk Management Department (refer to the Section "Credit quality of financial assets") and prepare a credit report to the Credit Committee. The Risk Management Department provides its own independent analysis of the loan.

The ultimate decision on a particular deal depends on its structure and amount, and is made by either:

- an authorized credit manager (within personal limit) or
- a credit risk manager and a credit managers("four-eyes approach") or
- one of the Credit Committees or
- Management Board.

The subsequent support and monitoring of the loan is carried out by the Loan Administration Department. The fair value of collateral is revised on a quarterly basis.

A loan could be classified as a problem loan by the Credit Committee if:

- it is past due,
- the borrower's financial position worsens,
- value of collateral substantially decreases, or
- there are other circumstances.

The Problem Assets Collection Department reviews all problem loans and takes actions necessary to collect debts including loan restructuring, judicial and extrajudicial recovery.

In fourth quarter of 2008 the Board of Management set up a special Committee for Asset Quality Review that meets on a weekly basis and reviews loan portfolio reports as well as individual problem loans with the purpose of taking actions aimed at mitigating further credit quality deterioration of the Bank's loan portfolio. The committee is chaired by the Chairman of the Management Board of the Bank and includes Board members responsible for Risk Management and Corporate Lending, as well as heads of Legal and Security Departments.

(Millions of Russian Rubles)

Loans to small and medium-sized entities

The Bank grants loans to small and medium-sized entities on standard terms, thereby reducing decision-making time. Credit managers assess a client's credit risk by applying the relevant methodology prepared jointly with the Risk Management Department (refer to the Section "Credit quality of financial assets"). The procedures for credit approval, loan administration and problem loans management are identical to those for large corporate customers.

Retail lending

Retail customers submit their loan applications to customer managers who collect and review all necessary documents for compliance with the Bank's minimal requirements and make an initial assessment of the customer's credit limit. Applications together with supporting documents are then reviewed by qualified underwriters who perform credit scoring, determine the customer's maximum credit limit, request customer verification approval from the Bank's Security Department, request a collateral valuation (depending on product type) and finally draw a credit conclusion.

The final loan approval is made by the Bank's authorized managers. The subsequent support and monitoring of loans, including loans past due up to 60 days are carried out by credit controllers of the Retail Loan Control Department. Loans past due by more than 60 days are classified as problem loans, and transferred to the Problem Assets Collection Department, which takes necessary steps to collect debts, including loan restructuring, judicial and extrajudicial recovery.

Collateral for operations with credit risk

The type and amount of collateral required depends on assessment of credit quality of a counterparty. The Bank requires the following types of collateral, depending on the type of transactions:

- repurchase transactions: securities;
- interbank transactions: promissory notes and securities;
- corporate lending: real estate (manufacturing premises, trade areas, warehouses), machinery and equipment, inventories, receivables, guarantees and sureties;
- retail lending: real estate and motor vehicles.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

The Bank established procedures that determine the adequacy and amount of required collateral depending on the type of transaction as well as procedures for monitoring the fair value of collateral that require the borrower to put up additional collateral in case the current collateral value declines. To reduce its risks, the Bank requires that collateral is insured by insurance companies accredited by the Bank.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As of December 31, 2008, impaired loans to legal entities with a gross value of RUB 4,058 are secured by pledge of real estate with a fair value of RUB 9,412. Impaired loans to legal entities with a gross value of RUB 5,177 are secured by pledge of equipment and cars with a fair value of RUB 7,041. For the remaining impaired loans of RUB 6,483 it is impracticable to determine fair value of collateral or there is no collateral.

As of December 31, 2008, loans to individuals past due more than 30 days with a gross value of RUB 1,281 are secured by pledge of real estate with a fair value of RUB 1,175. Loans to individuals past due more than 30 days with a gross value of RUB 927 are secured by pledge of cars with a fair value of RUB 919. For the remaining loans to individuals past due more than 30 days of RUB 4,206 it is impracticable to determine fair value of collateral or there is no collateral.

The Bank also uses master netting agreements with counterparties to mitigate the exposure to credit risk.

During the year ended December 31, 2008 the Bank obtained the assets by taking control of collateral accepted as security for commercial loans 6 RUB.

(Millions of Russian Rubles)

Credit quality of financial assets

The assessment of credit quality of financial assets is based on the qualitative and quantitative assessment of credit risk

The assessment of credit quality of loans to **legal entities** is based on the seven-level system (good+, good, good-, average+, average, average-, below average) which is a basis for the classification of the loan portfolio. The assignment of a credit quality level is based on assessment of the borrower's financial position and value and liquidity of collateral obtained. The assessment is made also with regard to the type of lending: turnover financing, investment financing, project financing, financing the users of mineral resources, small-business, and lease financing.

The assessment of credit risk of **individuals** is based on scoring models.

The following table provides information on the credit quality of the loans to legal entities and net investment in finance leases as at 31 December 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Corporate lending				
Loans for which no evidence of impairment has been identified	177,679	(5,952)	171,727	3.3%
Impaired loans:				
- not past due	2,764	(119)	2,645	4.3%
- past due less than 90 days	6,641	(2,052)	4,589	30.9%
- past due more than 90 days and less than 1 year	3,493	(1,152)	2,341	33.0%
- past due more than 1 year	2,820	(2,311)	509	82.0%
Total impaired loans	15,718	(5,634)	10,084	35.8%
Total corporate loans	**193,397**	**(11,586)**	**181,811**	**5.9%**
Net investment in finance leases				
Loans for which no evidence of impairment has been identified	14,756	(397)	14,359	2.7%
Impaired loans:				
- past due less than 90 days	15,784	(802)	14,982	5.1%
- past due more than 90 days and less than 1 year	3,024	(834)	2,190	27.6%
- past due more than 1 year	517	(167)	350	32.3%
Total impaired loans	19,325	(1,803)	17,522	9.3%
Total net investment in finance leases	**34,081**	**(2,200)**	**31,881**	**6.5%**

The following table provides information on the credit quality of the loans to legal entities and net investment in finance leases as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Corporate lending				
Loans for which no evidence of impairment has been identified	170,633	(3,450)	167,183	2.0%
Impaired loans:				
- not past due	160	(4)	156	2.5%
- past due less than 90 days	1,146	(1,027)	119	89.6%
- past due more than 90 days and less than 1 year	1,627	(1,405)	222	86.4%
- past due more than 1 year	2,022	(1,552)	470	76.7%
Total impaired loans	4,955	(3,988)	967	80.5%
Total corporate loans	**175,588**	**(7,438)**	**168,150**	**4.2%**
Net investment in finance leases				
Loans for which no evidence of impairment has been identified	18,069	(271)	17,798	1.5%
Impaired loans:				
- past due less than 90 days	2,092	(63)	2,029	3.0%
- past due more than 90 days and less than 1 year	970	(317)	653	32.7%
Total impaired loans	3,062	(380)	2,682	12.4%
Total net investment in finance leases	**21,131**	**(651)**	**20,480**	**3.08%**

(Millions of Russian Rubles)

The following table provides information on the credit quality of loans to individuals as at 31 December 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Consumer loans				
Not past due	16,222	(165)	16,057	1.0%
Past due less than 30 days	580	(28)	552	4.8%
Past due 30-89 days	842	(277)	565	32.9%
Past due 90-179 days	227	(173)	54	76.2%
Past due 180-360 days	349	(301)	48	86.2%
Past due more than 360 days	2,381	(1,963)	418	82.4%
Total consumer loans	**20,601**	**(2,907)**	**17,694**	**14.1%**
Auto loans				
Not past due	15,291	(43)	15,248	0.3%
Past due less than 30 days	465	(6)	459	1.3%
Past due 30-89 days	227	(39)	188	17.2%
Past due 90-179 days	111	(50)	61	45.0%
Past due 180-360 days	146	(90)	56	61.6%
Past due more than 360 days	443	(355)	88	80.1%
Total auto loans	**16,683**	**(583)**	**16,100**	**3.5%**
Credit cards				
Not past due	1,608	(130)	1,478	8.1%
Past due less than 30 days	14	(2)	12	14.3%
Past due 30-89 days	7	(1)	6	14.3%
Past due 90-179 days	10	(1)	9	10.0%
Past due 180-360 days	31	(5)	26	16.1%
Past due more than 360 days	231	(133)	98	57.6%
Total credit card	**1,901**	**(272)**	**1,629**	**14.3%**
Mortgage loans				
Not past due	38,143	(117)	38,026	0.3%
Past due less than 30 days	1,725	(55)	1,670	3.2%
Past due 30-89 days	571	(81)	490	14.2%
Past due 90-179 days	243	(51)	192	21.0%
Past due 180-360 days	364	(108)	256	29.7%
Past due more than 360 days	103	(93)	10	90.3%
Total mortgage loans	**41,149**	**(505)**	**40,644**	**1.2%**
Other loans to individuals				
Not past due	4,023	(5)	4,018	0.1%
Past due less than 30 days	112	-	112	0.0%
Past due 30-89 days	75	(7)	68	9.3%
Past due 90-179 days	20	(4)	16	20.0%
Past due 180-360 days	14	(5)	9	35.7%
Past due more than 360 days	19	(17)	2	89.5%
Total other loans to individuals	**4,263**	**(38)**	**4,225**	**0.9%**
Total loans to individuals	**84,597**	**(4,305)**	**80,292**	**5.1%**

(Millions of Russian Rubles)

The following table provides information on the credit quality of loans to individuals as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Consumer loans				
Not past due	14,237	(98)	14,139	0.7%
Past due less than 30 days	200	(55)	145	27.5%
Past due 30-89 days	369	(104)	265	28.2%
Past due 90-179 days	254	(152)	102	59.8%
Past due 180-360 days	537	(325)	212	60.6%
Past due more than 360 days	2,213	(1,445)	768	65.3%
Total consumer loans	**17,810**	**(2,179)**	**15,631**	**12.2%**
Auto loans				
Not past due	13,917	(32)	13,885	0.2%
Past due less than 30 days	228	(12)	216	5.3%
Past due 30-89 days	150	(19)	131	12.7%
Past due 90-179 days	144	(62)	82	43.1%
Past due 180-360 days	157	(83)	74	52.9%
Past due more than 360 days	313	(223)	90	71.2%
Total auto loans	**14,909**	**(431)**	**14,478**	**2.9%**
Credit cards				
Not past due	1,371	(160)	1,211	11.7%
Past due less than 30 days	4	(1)	3	25.0%
Past due 30-89 days	4	-	4	0.0%
Past due 90-179 days	73	(12)	61	16.4%
Past due 180-360 days	9	(3)	6	33.3%
Past due more than 360 days	7	(4)	3	57.1%
Total credit card	**1,468**	**(180)**	**1,288**	**12.3%**
Mortgage loans				
Not past due	27,391	(5)	27,386	0.0%
Past due less than 30 days	181	(15)	166	8.3%
Past due 30-89 days	175	(7)	168	4.0%
Past due 90-179 days	156	(16)	140	10.3%
Past due 180-360 days	54	(9)	45	16.7%
Total mortgage loans	**27,957**	**(52)**	**27,905**	**0.2%**
Other loans to individuals				
Not past due	1,629	(1)	1,628	0.1%
Past due less than 30 days	11	-	11	0.0%
Past due 30-89 days	3	-	3	0.0%
Past due 90-179 days	3	(2)	1	66.7%
Past due 180-360 days	6	(4)	2	66.7%
Past due more than 360 days	20	(16)	4	80.0%
Total other loans to individuals	**1,672**	**(23)**	**1,649**	**1.4%**
Total loans to individuals	**63,816**	**(2,865)**	**60,951**	**4.5%**

During 2008 the Bank has changed the terms (interest rate, payment schedule, commissions etc.) of some loans to legal entities. The amount of these loans as of 31 December 2008 totalled RUB 15,342 (2007: 7,061). These loans do not have signs of impairment and such renegotiation activity is aimed at managing customer relationships and is not a matter of any loss events. All loans restructured due to financial difficulties of borrowers have been reported as impaired and are not included in stated above amount of renegotiated loans.

Liquidity risk

A liquidity risk is the risk of a potential loss arising in the case when the Bank is unable to meet its financial obligations as they fall due.

The Bank created a regular fund management process intended to maintain a source-diversified funding base.

The Bank Treasury is responsible for operative liquidity risk management which is aimed at maintaining current and medium-term liquidity. In managing the liquidity risk, the Bank Treasury prepares a "cash-plan" report for each day, carries out stress-testing, sets limits on liquidity gaps and forms portfolios (allowances) of liquid assets of different levels.

The Bank has a rule to maintain solvency in critical situations, establishing the procedures for committees, departments and personnel in case of a possible lack of funding sources.

(Millions of Russian Rubles)

In accordance with the CBR's requirements, the Bank maintains an obligatory reserve with the CBR. As of December 31, 2008, the obligatory reserve with the CBR amounted to RUB 624 (2007 - RUB 4,112). The Bank also meets the following CBR's liquidity requirements:

- Immediate-liquidity ratio (N2): calculated by dividing the total amount of highly liquid assets by the total amount of the Bank's liabilities that must be repaid on demand;
- Current-liquidity ratio (N3): calculated by dividing the total amount of all liquid assets by the total amount of the Bank's liabilities maturing in the next 30 days;
- Long-term-liquidity ratio (N4): calculated by dividing the total amount of the Bank's assets with a maturity of more than 1 year by the Bank's equity and liabilities with a maturity of more than 1 year.

The table below gives data on the structure of assets and liabilities in accordance with the contractual maturities, with the exception of government and municipal bonds amongst trading securities (2007: all trading securities), which are shown in the category "Less than 3 months", because of the fact that the Bank's management believes that all of these securities could be liquidated within 3 months in the normal course of business. With regard to planning the level of funding sources, the Bank segregates the stable part of its liabilities that are formed by the balances on the clients' current demand accounts, based on an analysis of the statistical data on the movement of balances on the clients' accounts.

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 (liquidity gap) is as follows:

	2008								
	On demand	***Less than 3 months***	***3 months to 1 year***	***1 to 3 years***	***3 to 5 years***	***Over 5 years***	***Past due***	***No stated maturity***	***Total***
Assets:									
Cash and cash equivalents	64,604	7,371	-	-	-	-	-	-	**71,975**
Obligatory reserves with the Central Bank	-	-	-	-	-	-	-	624	**624**
Amounts due from credit institutions	-	209	3,043	770	-	436	-	-	**4,458**
Trading securities, unpledged	-	10,150	1,193	2,070	4,785	955	-	1,829	**20,982**
Trading securities pledged under repurchase agreements	-	4,054	-	-	-	-	-	-	**4,054**
Available-for-sale securities	-	123	1,063	1,322	4,130	1,632	-	1,770	**10,040**
Held-to-maturity securities	-	274	328	1,204	2,965	1,445	-	-	**6,216**
Derivative financial assets	-	77	27	-	-	-	-	-	**104**
Loans to customers	706	50,130	82,491	37,579	34,419	52,263	4,515	-	**262,103**
Net investment in finance leases	-	5,042	7,487	12,111	4,142	3,099	-	-	**31,881**
Property and equipment	-	-	-	-	-	-	-	8,833	**8,833**
Goodwill	-	-	-	-	-	-	-	4,527	**4,527**
Other assets	937	8,814	2,289	-	-	861	-	7,570	**20,471**
	66,247	**86,244**	**97,921**	**55,056**	**50,441**	**60,691**	**4,515**	**25,153**	**446,268**
Liabilities:									
Amounts due to credit institutions	25,995	45,531	45,704	9,840	2,296	11,133	-	-	**140,499**
Derivative financial liabilities	-	86	57	-	-	-	-	-	**143**
Amounts due to customers	80,118	57,633	79,282	8,391	40	896	-	-	**226,360**
Promissory notes and certificates of deposit issued	524	3,988	4,216	159	13	255	-	-	**9,155**
Other borrowed funds	-	2,602	1,406	7,530	-	5,885	-	-	**17,423**
Other liabilities	359	3,120	930	-	-	70	-	-	**4,479**
	106,996	**112,960**	**131,595**	**25,920**	**2,349**	**18,239**	**-**	**-**	**398,059**
Net position	**(40,749)**	**(26,716)**	**(33,674)**	**29,136**	**48,092**	**42,452**	**4,515**	**25,153**	**48,209**
Accumulated gap	**(40,749)**	**(67,465)**	**(101,139)**	**(72,003)**	**(23,911)**	**18,541**	**23,056**	**48,209**	

(Millions of Russian Rubles)

	2007								
	On demand	*Less than 3 months*	*3 months to 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Past due*	*No stated maturity*	*Total*
Assets:									
Cash and cash equivalents	33,832	14,015	-	-	-	-	-	-	**47,847**
Obligatory reserves with the Central Bank	-	-	-	-	-	-	-	4,112	**4,112**
Amounts due from credit institutions	-	69	1,004	667	61	279	-	-	**2,080**
Trading securities, unpledged	-	40,554	-	-	-	-	-	-	**40,554**
Trading securities pledged under repurchase agreements	-	3,533	-	-	-	-	-	-	**3,533**
Available-for-sale securities	-	2,489	17	303	483	-	-	-	**3,292**
Derivative financial assets	-	617	513	-	-	-	-	-	**1,130**
Loans to customers	292	46,790	77,415	46,433	27,039	30,168	964	-	**229,101**
Net investment in finance leases	-	2,278	5,469	9,134	2,200	1,399	-	-	**20,480**
Property and equipment	-	-	-	-	-	-	-	8,780	**8,780**
Goodwill	-	-	-	-	-	-	-	4,527	**4,527**
Other assets	1,929	2,641	1,635	1,190	286	226	172	1,199	**9,278**
	36,053	**112,986**	**86,053**	**57,727**	**30,069**	**32,072**	**1,136**	**18,618**	**374,714**
Liabilities:									
Amounts due to credit institutions	6,681	20,410	34,431	13,971	3,548	6,925	-	-	**85,966**
Derivative financial liabilities	-	320	516	-	-	-	-	-	**836**
Amounts due to customers	97,816	53,488	56,301	7,161	246	-	-	-	**215,012**
Promissory notes and certificates of deposit issued	894	3,882	9,120	718	40	28	-	-	**14,682**
Other borrowed funds	-	464	493	4,074	-	-	-	-	**5,031**
Other liabilities	39	2,392	1,891	7	-	616	-	-	**4,945**
	105,430	**80,956**	**102,752**	**25,931**	**3,834**	**7,569**	**-**	**-**	**326,472**
Net position	**(69,377)**	**32,030**	**(16,699)**	**31,796**	**26,235**	**24,503**	**1,136**	**18,618**	**48,242**
Accumulated gap	**(69,377)**	**(37,347)**	**(54,046)**	**(22,250)**	**3,985**	**28,488**	**29,624**	**48,242**	

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

As of December 31, 2008 and 2007 the Bank had a negative accumulated liquidity gap. The Bank's liquidity risk management policy seeks to ensure that any negative liquidity gap can be maintained at a level that the Bank can comfortably fulfil. This policy prescribes the weekly monitoring of assets and liabilities behaviour, active management of their structure, and use of various treasury tools and methodologies.

The Bank's Treasury prepares cash and liquidity reports on a daily and weekly basis, respectively, regularly computes the volatility-related factors using statistical analyses, and provides the Bank's management with various stress-test scenarios and recommendations. The results of those tests are considered weekly by the ALCO.

A significant portion of the demand deposits is stable and historically has not been demanded by customers, even taking into account the statistical volatilities and fluctuations during the past three years. The Bank also has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Bank in its liquidity forecasts estimates that the liquidity gaps in the tables above will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

Large accounts of legal entities are being managed on an individual basis. The Bank influences its liquidity situation through regular adjustments of the interest rates on funds borrowed and loaned.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 21.

(Millions of Russian Rubles)

Maturity profile of the Bank's financial liabilities at December 31, 2008 based on contractual undiscounted repayment obligations is following:

	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*More than 3 years*	*Total gross amount outflow/ (inflow)*	*Carrying amount*
Amount due to credit institutions	35,039	36,557	48,306	10,153	18,561	**148,616**	**140,499**
Amounts due to customers	94,049	43,950	80,320	9,987	1,023	**229,329**	**226,360**
Promissory notes and certificates of deposit issued	2,319	2,435	4,962	208	466	**10,390**	**9,155**
Other borrowed funds	2,982	108	2,746	10,601	12,287	**28,724**	**17,423**
Other liabilities	359	3,120	930	-	70	**4,479**	**4,479**
Derivative financial liabilities							
-inflow	(658)	(183)	(6,944)	-	-	(7,785)	(104)
-outflow	589	172	6,970	-	-	7,731	143
Total	**134,679**	**86,159**	**137,290**	**30,949**	**32,407**	**421,484**	**397,955**
Credit related commitments	**65,464**	**4,274**	**11,844**	**433**	**-**	**82,015**	**82,015**

Maturity profile of the Bank's financial liabilities at December 31, 2007 based on contractual undiscounted repayment obligations is following:

	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*More than 3 years*	*Total gross amount outflow/ (inflow)*	*Carrying amount*
Amount due to credit institutions	13,431	14,454	37,288	16,647	14,052	**95,872**	**85,966**
Amounts due to customers	112,382	40,197	58,506	8,328	325	**219,738**	**215,012**
Promissory notes and certificates of deposit issued	2,765	2,042	9,659	784	70	**15,320**	**14,682**
Other borrowed funds	37	-	724	4,304	-	**5,065**	**5,031**
Other liabilities	39	2,392	1,891	7	616	**4,945**	**4,945**
Derivative financial liabilities							
-inflow	(9,511)	(9,086)	(2,529)	-	-	(21,126)	(1,130)
-outflow	9,785	8,699	2,951	-	-	21,435	836
Total	**128,928**	**58,698**	**108,490**	**30,070**	**15,063**	**341,249**	**325,342**
Credit related commitments	**54,890**	**11,698**	**8,815**	**533**	**9**	**75,945**	**75,945**

Market risk

Market risk is the risk that the fair value of assets or future cash flows from financial instruments will diminish due to adverse changes in the interest rates, share prices or currency rates.

The Bank distinguishes the market risk related to trading activities in financial markets (**price risk** for equities and **fair value interest rate risk** for fixed income securities) and the market risk related to the structure of the Bank's assets and liabilities (**currency risk** and **interest rate repricing risk**).

Market risk assessment methods

The Bank assesses market risk at both the overall level as well as of its components: the price, currency, fair value interest rate and interest rate repricing risks.

A **price risk** is the risk that the fair values of equity, decrease as a result of adverse changes in their prices. A **fair value interest rate risk** is the risk that the fair values of fixed income securities decrease as a result of adverse changes in their prices.

Price risk and fair value interest rate risk are managed by setting exposure limits for different securities portfolios, including position limits, concentration limits for different types of securities and individual issuers, as well as stop-loss limits. These limits are established by ALCO with the overall limit for exposure in securities submitted to the Management Board for approval. The Bank's Risk Management Department monitors securities positions on a daily basis and submits weekly reports to ALCO outlining the composition of the securities portfolio, utilization of established limits (including any breaches).

Price risk and fair value interest rate risk are measured by performing sensitivity analysis on equities and fixed income securities that comprise the trading and available-for-sale portfolios.

(Millions of Russian Rubles)

The sensitivity analysis results for trading and available-for-sale debt securities using the modified duration method and basing on assumption of 100 basis point decrease in interest rates for positions existing as at December 31, 2008 and 2007 are following:

Trading portfolio:	*Fair value December 31, 2008*	*Effect on net profit*	*Effect on equity*	*Fair value December 31, 2007*	*Effect on net profit*	*Effect on equity*
- Government and municipal bonds	**13,897**	**298**	**298**	**18,222**	**269**	**269**
Treasury bills of foreign governments	9,289	202	202	11,209	139	139
Russian State bonds (OFZ)	4,469	93	93	2,338	72	72
Municipal and government bonds	139	3	3	324	5	5
Russian Federation Eurobonds	-	-	-	4,351	53	53
- Corporate bonds and promissory notes	**9,311**	**74**	**74**	**15,761**	**125**	**125**
Corporate Ruble bonds	6,342	37	37	9,969	56	56
Corporate Promissory notes	1,715	9	9	3,814	16	16
Corporate Eurobonds	1,254	28	28	1,978	53	53

AFS portfolio:	*Fair value December 31, 2008*	*Effect on net profit*	*Effect on equity*	*Fair value December 31, 2007*	*Effect on net profit*	*Effect on equity*
- Government and municipal bonds	**2,423**	**-**	**30**	**17**	**-**	**-**
Russian State bonds (OFZ)	409	-	4	-	-	-
Municipal and government bonds	2,014	-	26	17	-	-
- Corporate bonds	**5,847**	**-**	**29**	**787**	**-**	**5**
Corporate Ruble bonds	5,698	-	27	672	-	4
Corporate Eurobonds	149	-	2	115	-	1

An analysis of sensitivity of the Bank's net profit for the year and equity to changes in equity securities prices based on positions existing as at December 31, 2008 and 2007 and a simplified scenario of a 5% change in all equity securities prices is as follows:

	2008	***2007***	***2008***	***2007***
	Change in net profit		***Change in equity***	
Trading portfolio				
5% increase in equity securities prices	73	384	73	384
5% decrease in equity securities prices	(73)	(384)	(73)	(384)
AFS portfolio				
5% increase in equity securities prices	-	-	74	95
5% decrease in equity securities prices	-	-	(74)	(95)

(Millions of Russian Rubles)

Currency risk

Currency risk is the risk of a potential loss on the Bank's positions opened in foreign currencies or precious metals due to adverse changes in foreign exchange rates or the set prices of precious metals.

The Bank's exposure to currency risk:

	2008					*2007*				
	Rubles	*USD*	*EUR*	*Other*	*Total*	*Rubles*	*USD*	*EUR*	*Other*	*Total*
Assets:										
Cash and cash equivalents	32,454	26,391	13,017	113	**71,975**	41,473	4,262	2,019	93	**47,847**
Obligatory reserves with the Central Bank	624	-	-	-	**624**	4,112	-	-	-	**4,112**
Amounts due from credit institutions	2,849	1,600	9	-	**4,458**	477	1,590	13	-	**2,080**
Trading securities, unpledged	10,438	10,284	260	-	**20,982**	26,388	14,149	17	-	**40,554**
Trading securities pledged under repurchase agreements	4,054	-	-	-	**4,054**	165	3,368	-	-	**3,533**
Available-for-sale securities	9,132	345	4	559	**10,040**	3,289	–	3	-	**3,292**
Held-to-maturity securities	5,179	1,037	-	-	**6,216**	-	-	-	-	**-**
Derivative financial assets	7	11	-	86	**104**	494	4	29	603	**1,130**
Loans to customers	195,919	56,857	9,327	-	**262,103**	156,165	66,956	5,965	15	**229,101**
Net investment in finance leases	15,214	9,367	7,300	-	**31,881**	10,162	5,745	4,573	-	**20,480**
Property and equipment	8,833	-	-	-	**8,833**	8,780	-	-	-	**8,780**
Goodwill	4,527	-	-	-	**4,527**	4,527	-	-	-	**4,527**
Other assets	19,159	1,174	131	7	**20,471**	7,492	1,300	128	358	**9,278**
	308,389	**107,066**	**30,048**	**765**	**446,268**	**263,524**	**97,374**	**12,747**	**1,069**	**374,714**
Liabilities:										
Amounts due to credit institutions	61,791	62,732	15,973	3	**140,499**	13,550	63,182	9,215	19	**85,966**
Derivative financial liabilities	4	-	-	139	**143**	11	28	58	739	**836**
Amounts due to customers	166,370	44,250	15,134	606	**226,360**	183,659	23,850	7,317	186	**215,012**
Promissory notes and certificates of deposit issued	7,221	1,686	248	-	**9,155**	11,566	2,957	159	-	**14,682**
Other borrowed funds	16,017	1,406	-	-	**17,423**	2,883	2,148	-	-	**5,031**
Other liabilities	2,680	569	1,230	-	**4,479**	3,468	586	889	2	**4,945**
	254,083	**110,643**	**32,585**	**748**	**398,059**	**215,137**	**92,751**	**17,638**	**946**	**326,472**
Net balance sheet position	**54,306**	**(3,577)**	**(2,537)**	**17**	**48,209**	**48,387**	**4,623**	**(4,891)**	**123**	**48,242**
Net off balance sheet position – derivatives	**17**	**203**	**(638)**	**418**	**-**	**2,665**	**(5,772)**	**3,410**	**(303)**	**-**
Net off balance sheet position – commitments	**64,378**	**21,383**	**3,225**	**5**	**88,991**	**47,760**	**21,889**	**10,419**	**-**	**80,068**

The Bank Treasury is responsible for day-to-day management and control of open positions in foreign currencies. An analysis of the sensitivity of the income statement to the changes in the Ruble exchange rate (when other parameters remain unchanged) is given below:

	2008	*2007*	*2008*	*2007*
Currency	*Change in currency rate*		*Effect on profit before tax*	
USD	+5.0%	+5.0%	(168)	(57)
	-5.0%	-5.0%	168	57
EUR	+5.0%	+5.0%	(159)	(74)
	-5.0%	-5.0%	159	74
Other currencies	+5.0%	+5.0%	22	(9)
	-5.0%	-5.0%	(22)	9

The effect on profit before taxes is calculated on the basis of changes in the currency exchange rates that are applied to the sum of net balance sheet position and resent value of net off balance sheet position for derivatives.

Interest rate repricing risk

Interest repricing risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the Bank's assets, liabilities and off-balance sheet instruments sensitive to such changes, except for debt trading and available-for-sale securities.

The Bank Treasury manages the interest rate risk on the basis of a gap-analysis and an analysis of the current level of the operating margin. Each week, the Bank Treasury informs the ALCO about the level of interest rate risk.

(Millions of Russian Rubles)

An analysis of sensitivity of the Bank's net interest income for the year and equity to interest rate repricing risk based on a simplified scenario of a 100 and 50 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2008 and 2007 is as follows:

Change in interest rates in basis points	2008 Sensitivity of net interest income	2007 Sensitivity of net interest income	2008 Change in equity	2007 Change in equity
+100	(741)	139	(593)	106
-100	741	(139)	593	(106)
+50	(341)	34	(273)	26
-50	341	(34)	273	(26)

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

Operational risk is managed by performing self-assessments throughout the Bank's departments with the purpose of identifying key operational risks improving measures taken to reduce the risk level, as well as for building Key Risk Indicators. Information on events that generate operational risks is input into the Bank's Operational Risks Database, which can be used to analyze the general level of the operational risk in the Bank and can provide statistical data for the quantitative methods of operational risk assessment.

33. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2008	Fair value 2008	Carrying value 2007	Fair value 2007
Financial assets				
Cash and cash equivalents	71,975	71,975	47,847	47,847
Amounts due from credit institutions and obligatory reserves with the Central Bank	5,082	4,860	6,192	6,293
Trading securities, unpledged	20,982	20,982	40,554	40,554
Trading securities pledged under repurchase agreements	4,054	4,054	3,533	3,533
Available-for-sale securities	10,040	10,040	3,292	3,292
Held-to-maturity securities	6,216	4,913	-	-
Derivative financial assets	104	104	1,130	1,130
Loans to customers	262,103	254,049	229,101	229,069
Net investments in finance leases	31,881	28,603	20,480	20,550
Financial liabilities				
Amounts due to credit institutions	140,499	138,486	85,966	85,621
Derivative financial liabilities	143	143	836	836
Amounts due to customers	226,360	217,803	215,012	214,573
Promissory notes and certificates of deposits issued	9,155	8,991	14,682	14,902
Other borrowed funds	17,423	16,403	5,031	4,955

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(Millions of Russian Rubles)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2008	*Valuation techniques – market observable inputs 2008*	*Valuation techniques – non-market observable inputs 2008*	*Total 2008*
Financial assets				
Trading securities, unpledged	20,982	-	-	**20,982**
Available-for-sale securities	8,129	1,731	180	**10,040**
Trading securities pledged under repurchase agreements	4,054	-	-	**4,054**
Derivative financial assets	104	-	-	**104**
Financial liabilities				
Derivative financial liabilities	143	-	-	**143**

	Quoted market price 2007	*Valuation techniques – market observable inputs 2007*	*Valuation techniques – non-market observable inputs 2007*	*Total 2007*
Financial assets				
Trading securities, unpledged	40,554	-	-	**40,554**
Trading securities pledged under repurchase agreements	3,533	-	-	**3,533**
Derivative financial assets	1,130	-	-	**1,130**
Available-for-sale securities	1,900	1,220	172	**3,292**
Financial liabilities				
Derivative financial liabilities	836	-	-	**836**
Other liabilities – securities sold, but not yet purchased	88	-	-	**88**

34. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

A significant volume of related party transactions are carried out by the Bank with other members of Financial Corporation URALSIB as the Bank plays an important role in the Group, providing a full range of financial and banking services. All members of FC Uralsib are regarded as related parties since they represent entities under common control. Additionally, there are also other entities under common control, which are not members of FC Uralsib.

(Millions of Russian Rubles)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2008 and 2007 are as follows:

	2008			2007		
	Companies of Financial Corporation Uralsib	Other entities under common control	Key management personnel	Companies of Financial Corporation Uralsib	Other entities under common control	Key management personnel
Cash and cash equivalents	2	2,349	-	140	2,522	-
Trading securities	-	3,711	-	-	1,506	-
Held-to-maturity securities	-	261	-	-	-	-
Amounts due from credit institutions, gross	8	2,358	-	935	376	-
Derivative financial assets	-	-	-	262	232	-
Available–for–sale securities	-	1,314	-	1,236	-	-
Loans to customers (gross)	9,638	31,861	141	8,113	21,107	97
Less: allowance for impairment	(36)	(318)	(1)	(1)	(176)	(1)
Loans to customers (net)	9,602	31,543	140	8,112	20,931	96
Other assets	3	314	-	1,566	53	-
Amounts due to credit institutions	877	798	-	1,173	319	-
Amounts due to customers	2,691	7,625	-	12,967	31,797	-
Promissory notes and certificates of deposit issued	1,568	144	-	-	131	-
Other liabilities	1	1	-	39	10	-
Commitments and contingencies, gross	426	1,108	-	947	661	-
Interest income	643	2,246	-	286	1,931	-
Interest expense	(1,150)	(352)	-	(182)	(1,537)	-
Net losses from trading securities	(474)	(974)	-	(475)	(1,908)	-
Net realised gains from available-for-sale securities	-	(86)	-	-	1,205	-
Net gains from derivatives	-	-	-	262	232	-
Net (losses)/gains from foreign currencies	(114)	(57)	-	44	50	-
Net fee and commission income						
– Fees and commissions income	32	147	-	11	4	-
– Fees and commissions expenses	(172)	(2)	-	(6)	-	-
Net fee and commission income	(140)	145	-	5	4	-
Administrative and operating expenses – Occupancy and rent	486	-	-	399	-	-
Salaries and other short-term benefits	-	-	346	-	-	249
Social security costs	-	-	9	-	-	7

35. Trust activities

The Bank provides custody, trustee and investment management service to third parties that involve the Bank making asset management, purchase and sales decisions in relation to a wide range of financial instruments. The assets that are held in a fiduciary capacity are not included in the Bank's financial statements. The trust assets comprise:

	2008	2007
Marketable securities	14,387	16,263
Settlement accounts with MICEX and brokerage houses	526	991
Cash	1	12
Trust assets	**14,914**	**17,266**

(Millions of Russian Rubles)

36. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- Full compliance with the capital requirements imposed by the CBR and Russian legislation;
- Maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties;
- Ensuring that the amount of capital is sufficient for business expansion and development

Minimum capital requirement under Russian legislation

During 2006, the Russian parliament (Duma) adopted amendments to the federal laws "On Banks and Banking Activities" and "On the Central Bank of Russian Federation", requiring Russian banks to maintain, at all times, capital equal to at least 5 mln. Euros. The Bank complied with this requirement during the reporting periods.

Capital adequacy under Russian Accounting Legislation

The Bank management constantly monitors the adequacy of the Bank's capital and its compliance with regulatory capital requirements. The Bank uses rules and ratios established by CBR regulations. All necessary capital adequacy calculations required by Russian legislation are submitted to the CBR on a monthly basis.

The CBR requires banks to maintain a capital adequacy ratio of 10% with respect to risk-weighted assets, as computed in accordance with RAL. As of December 31, 2008 and 2007, the Bank's CBR-defined capital adequacy ratio exceeded the required statutory minimum.

	2008 *	*2007* *
Main capital	29,321	31,885
Additional capital	19,779	9,151
Less: deductions from capital	21	36
Total regulatory capital	**49,121**	**41,000**
Risk-weighted assets	**384,884**	**344,660**
Capital adequacy ratio	12.8%	11.9%

Capital adequacy under the Basel Accord guidelines (the "Basel ratio")

For Basel ratio calculation purposes, two levels of capital are distinguished:

1. Tier 1 capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.
2. Tier II capital is "supplementary" bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

In computing regulatory capital, Tier 1 and Tier 2 capital amounts are reduced by post-acquisition changes in the Bank's share in net assets of associates.

* The information presented in the table is based on separate statutory financial statements of Open joint stock company "BANK URALSIB".

(Millions of Russian Rubles)

The table below presents the composition of capital complying with Basel and discloses the capital adequacy ratio for the years ended December 31, 2008 and 2007:

	2008	*2007*
Tier 1 capital	42,638	41,240
Tier 2 capital	14,145	8,572
Less: investments in associates and shares of credit institution	(174)	(136)
Total regulatory capital	**56,609**	**49,676**
Risk-weighted assets:		
On balance sheet	366,235	338,444
Off balance sheet	29,473	27,913
Total risk-weighted assets	**395,708**	**366,357**
Total capital	14.3%	13.6%
Tier 1	10.8%	11.3%

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the Basel Accord. During 2008 and 2007, the Bank and its individual banking subsidiaries complied with Basel capital requirements.

The Bank's overall capital management policy is aimed at the dynamic optimization of capital required for the Bank's expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders' vision and strategy of long-term Bank development.

As compared with 2007, the above policy of capital management remained unchanged.