OJSC “Bank “St Petersburg” Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report

31 December 2008

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Independent Auditors' Report

To the Supervisory Board of OJSC "Bank "St Petersburg"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC "Bank "St Petersburg" (the "Bank") 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 shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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
1 April 2009

In thousands of Russian Roubles	**Note**	**31 December 2008**	**31 December 2007**
ASSETS			
Cash and cash equivalents	7	36 841 326	9 612 448
Mandatory cash balances with the Central Bank of the Russian Federation		212 921	1 551 913
Trading securities	8	2 692 385	11 650 690
Securities pledged under sale and repurchase agreements	9	1 470 526	517 834
Amounts receivable under reverse repurchase agreements	10	-	916 651
Due from banks	11	19 175 864	6 736 881
Loans and advances to customers	12	144 882 501	91 730 134
Investment securities held-to-maturity	13	777 591	-
Other financial assets	14	214 561	155 031
Prepaid income tax		-	93 946
Premises and equipment	15	6 945 944	3 433 461
Intangible assets	15	974	1 016
Other assets	16	362 811	256 207
Long-term assets held-for-sale	17	2 137 985	-
TOTAL ASSETS		**215 715 389**	**126 656 212**
LIABILITIES			
Due to banks	18	32 320 089	677 266
Customer accounts	19	139 824 479	88 728 772
Bonds issued	20	9 933 581	6 587 222
Other debt securities in issue	21	4 336 891	7 425 303
Other borrowed funds	22	9 598 851	7 641 887
Other financial liabilities	23	231 703	57 012
Income tax liabilities		1 025	-
Deferred income tax liability	30	67 125	248 131
Other liabilities	24	596 896	285 556
TOTAL LIABILITIES		**196 910 640**	**111 651 149**
SHAREHOLDERS' EQUITY			
Share capital	25	3 564 330	3 564 330
Share premium	25	9 725 450	9 725 450
Revaluation reserve for premises		2 209 624	1 141 992
Retained earnings		3 305 345	573 291
TOTAL SHAREHOLDERS' EQUITY		**18 804 749**	**15 005 063**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**215 715 389**	**126 656 212**

Approved for issue and signed on behalf of the Supervisory Board on 1 April 2009.

A.V. Saveliev
Chairman of the Board

S.E. Lobach
Chief Accountant

The notes on pages 6 to 80 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	**Note**	**2008**	**2007**
Interest income	27	19 130 078	9 175 824
Interest expense	27	(9 626 639)	(4 508 261)
Net interest income		**9 503 439**	**4 667 563**
Provision for loan impairment	11, 12	(3 395 949)	(1 006 886)
Net interest income after provision for loan impairment		**6 107 490**	**3 660 677**
(Losses less gains)/gains less losses from trading securities		(1 258 323)	71 346
Losses less gains from other securities at fair value through profit or loss		-	(22 715)
Gains less losses from trading in foreign currencies		979 997	286 322
Foreign exchange translation gains less losses		381 546	57 780
Fee and commission income	28	1 715 123	1 065 048
Fee and commission expense	28	(329 082)	(175 670)
Provision for impairment of investment securities held-to-maturity	13	(19 840)	-
Release of provision for impairment of premises	15	-	33 566
Gain on disposal of investments in subsidiary		-	871
Other net operating income		119 664	89 759
Administrative and other operating expenses	29		
- Staff costs		(2 060 460)	(1 313 797)
- Costs related to Group’s premises and equipment		(471 365)	(335 397)
- Other administrative and operating expenses		(1 319 732)	(779 831)
Profit before tax		**3 845 018**	**2 637 959**
Income tax expense	30	(1 071 252)	(628 751)
Profit for the year		**2 773 766**	**2 009 208**
Basic and diluted earnings per ordinary share (in Russian Roubles per share)	31	**9.8**	**8.9**

		Attributable to equity holders of the Bank				
	Note	**Share capital**	**Share premium**	**Revaluation reserve for premises**	**Retained earnings/ (accumulated deficit)**	**Total equity**
Balance as at 1 January 2007		**3 483 580**	**1 925 556**	**498 698**	**(1 401 310)**	**4 506 524**
Revaluation of premises	15	-	-	846 439	-	846 439
Deferred income tax recognised directly in equity	15,30	-	-	(203 145)	-	(203 145)
Income recognised directly in equity		-	-	643 294	-	643 294
Profit for the year		-	-	-	2 009 208	2 009 208
Total recognised income for 2007						2 652 502
Share issue	25	80 750	7 799 894	-	-	7 880 644
Dividends declared						
- Ordinary shares	32	-	-	-	(32 396)	(32 396)
- Preference shares	32	-	-	-	(2 211)	(2 211)
Balance as at 31 December 2007		**3 564 330**	**9 725 450**	**1 141 992**	**573 291**	**15 005 063**
Revaluation of premises and constructions	15	-	-	1 259 409	-	1 259 409
Deferred income tax recognised directly in equity	15,30	-	-	(251 882)	-	(251 882)
Effect of change in income tax rate on deferred tax	30	-	-	60 105	-	60 105
Income recognised directly in equity		-	-	1 067 632	-	1 067 632
Profit for the year		-	-	-	2 773 766	2 773 766
Total recognised income for 2008						3 841 398
Dividends declared						
- Ordinary shares	32	-	-	-	(39 501)	(39 501)
- Preference shares	32	-	-	-	(2 211)	(2 211)
Balance as at 31 December 2008		**3 564 330**	**9 725 450**	**2 209 624**	**3 305 345**	**18 804 749**

In thousands of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
Interest income received on loans and correspondent accounts		17 687 462	8 570 696
Interest income received on securities		889 472	544 393
Interest on securities pledged under sale and repurchase agreements		498 700	-
Interest expense paid on due to banks		(687 830)	(81 153)
Interest expense paid on customer deposits		(6 270 843)	(2 617 356)
Interest expense paid on other debt securities in issue		(577 452)	(167 958)
Net (loss)/income received from securities trading		(1 093 151)	93 074
Net income received from trading in foreign currencies		1 109 590	278 351
Fees and commissions received		1 713 520	1 089 385
Fees and commissions paid		(329 082)	(175 670)
Other net operating income received		103 606	66 399
Staff costs		(1 918 069)	(1 115 020)
Costs related to premises and equipment		(227 321)	(286 541)
Other administrative and operating expenses		(1 333 502)	(647 192)
Income tax paid		(1 349 064)	(703 853)
.			
Cash flows from operating activities before changes in operating assets and liabilities		**8 216 036**	**4 847 555**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		1 338 992	(778 755)
Net decrease/(increase) in trading securities		5 212 332	(5 634 528)
Net decrease in other securities at fair value through profit or loss		24	1 241 984
Net increase in securities pledged under sale and repurchase agreements		(6 337 914)	(501 949)
Net decrease/(increase) in amounts receivable under reverse repurchase agreements		916 150	(916 150)
Net increase in due from banks		(9 265 017)	(4 981 649)
Net increase in loans and advances to customers		(48 155 762)	(53 699 211)
Net decrease in other financial assets		(8 109)	(62 519)
Net increase in other assets		(50 896)	(16 592)
Net increase in due to banks		31 154 311	261 864
Net increase in customer accounts		45 472 216	43 648 395
Net (decrease)/increase in other debt securities in issue		(3 071 748)	4 559 283
Net decrease in other financial liabilities		(2 901)	(10 097)
Net increase in other liabilities		164 830	14 741
Net cash from/(used in) operating activities		**25 582 544**	**(12 027 628)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	15	(2 690 703)	(1 117 339)
Proceeds from disposal of premises and equipment and intangible assets		193 627	4 755
Proceeds from purchase of investment securities available-for-sale		(42 638)	-
Cash outflow from disposal of subsidiary		-	(4 040)
Dividend income received		15 997	11 917
Net cash used in investing activities		**(2 523 717)**	**(1 104 707)**

In thousands of Russian Roubles	Note	2008	2007
Cash flows from financing activities			
Issue of ordinary shares			
- Share capital	25	-	80 750
- Share premium	25	-	7 732 405
Issue of bonds		2 176 750	2 454 620
Proceeds from other borrowed funds		5 633 730	6 113 621
Repayment of other borrowed funds		(4 329 800)	(1 683 781)
Interest paid on issued bonds		(756 481)	(455 063)
Interest paid on other borrowed funds		(611 966)	(312 798)
Dividends paid		(40 597)	(33 571)
Net cash from financing activities		**2 071 636**	**13 896 183**
Effects of exchange rate changes on cash and cash equivalents		**2 098 415**	**91 932**
Net increase in cash and cash equivalents		**27 228 878**	**855 780**
Cash and cash equivalents at the beginning of the year		9 612 448	8 756 668
Cash and cash equivalents at the end of the year	7	**36 841 326**	**9 612 448**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for OJSC “Bank “St Petersburg” (the “Bank”) and a controlled special purpose entity BSPB Finance plc (together referred to as the “Group” or OJSC “Bank “St Petersburg” Group”).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the privatisation process of the former Leningrad regional office of Zhilsotsbank. The Bank is an open joint stock company.

As at 31 December 2008, 29.9% of the ordinary shares of the Bank are controlled by Mr. A.V. Saveliev (2007: 24.6%). The rest of the management of the Bank controls a further 10.7% of the ordinary shares of the Bank (2007: 13.3%). As at 31 December 2008, the company “Systemnye Tehnologii” owned 14.5% of the ordinary shares of the Bank (2007: 11.0%). Mr. A.V. Saveliev purchased a 19% interest in the company “Systemnye Tehnologii”. In addition Mr. A.V. Saveliev has an option to purchase 81% of the interest in the company “Systemnye Tehnologii”. This option was signed in 2007, in March 2008 it was extended until 2010 and can be exercised at any time before 1 April 2010. There is no contractual agreement between any members of management team and Mr Saveliev A.V. on joint control of the Bank. There is no ultimate controlling party in the Bank.

Other shareholders of the Bank are: 4.6% of the shares are controlled by Mr. Troitskiy (31 December 2007: 11.4%) and 11.4% (2007: 11.4%) of the shares are controlled by Mr. Korzhev. The remaining 28.9% (2007: 28.3%) of the shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ “Deposits of individuals insurance in the Russian Federation” dated 23 December 2003. The state deposit Insurance agency system repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits up to a limit of RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

A reorganisation of the Bank’s branches was held in the first part of 2008. The branches located in St Petersburg were reorganised as supplementary offices. As at 31 December 2008, the Bank had 4 branches within the Russian Federation (2 branches are located in North-West region of Russia, 1 branch is in Moscow, 1 branch is in Niznniy Novgorod) and 32 supplementary offices. In 2007 the Bank had 11 branches within the Russian Federation (10 branches were located in the North-West region of Russia, 1 branch in Moscow) and 21 supplementary offices.

Special purpose entity BSPB Finance plc is used by the Bank for its Eurobond issue (see Note 20).

Registered address and place of business. The Bank’s registered address and place of business is: 193167, Russian Federation, Saint Petersburg, Nevskiy Prospect, 178.

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

2 Operating Environment of the Group

Russian Federation The economy of the Russian Federation displays certain characteristics of an emerging market, including a rather high rate of inflation. In spite of the recent active economic growth, during 2008, especially in the fourth quarter, the financial environment in Russia has considerably deteriorated. As a result of uncertainty in the financial and primary markets as well of other factors, there has been a significant decrease in the Russian securities markets. Since September 2008 the currency markets have seen significant volatility and a devaluation of the Russian national currency (RR) in relation to certain foreign currencies. The official CBRF exchange rate has changed from RR 25.37 for 1 USD as at 1 October 2008 to RR 29.38 for 1 USD as at 31 December 2008 and to RR 35.72 for 1 USD as at 1 March 2009.

The international reserves of the Russian Federation decreased from USD 556 813 000 thousand as at 30 September 2008 to USD 427 080 000 thousand as at 31 December 2008 and to USD 384 074 000 thousand as at 1 March 2009.

Events in the financial markets have affected the commodity market. The price for Urals blend oil has decreased from USD 96.4 in September, 2008 to USD 38.1 in December, 2008 and has increased to USD 41.9 in February, 2009.

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

Russian Banking sector. The second half of 2008 saw decreases in the level of liquidity in the Banking sector and increases of interbank lending rates, as well as volatility of share and currency markets.

Several measures to support the Russian Banking sector were taken by the Russian authorities including:

- In October 2008 the CBRF decreased the mandatory reserves ratio to 0.5% and increased the maximum of deposits fully insured under the state deposit insurance system to RR 700 thousand per individual, in case of withdrawal of the bank's license or CBRF moratorium on payments.

- The list of assets provided as collateral for repurchase agreements with the CBRF was significantly increased.

- The terms and conditions of lending with the use of certain types of pledge have been mitigated, non-collateralized loans are granted.

- The CBRF is allowed to partially compensate losses arising from commercial banks operations on the money market, if they arise as a result of withdrawal of a correspondent bank's license.

- Subordinated loans have been provided by the CBRF to increase banks' capital.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial financial instruments fair value recognition, the revaluation of premises, trading securities, other securities categorised as at fair value through profit or loss and financial instruments available-for-sale. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Consolidation. Subsidiaries are companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The Group holds zero interest in the share capital of a fully consolidated special purpose entity BSPB Finance plc. However, the Group obtains all the rewards and risks from the activities of this company. Refer to Note 39.

Intercompany transactions, balances and unrealised gains arising from intercompany transactions are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Valuation techniques such as discounted cash flows models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised when a company becomes a party to the contractual provisions of the financial instrument.

Foreign currency translation. Functional currency of the Group's entities is the currency of the primary economic environment in which the entity operates. The Bank's and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RR").

Currency monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective balance sheet date. Translation differences on monetary assets and liabilities are included in foreign exchange translation gains and losses in the profit or loss. Translation at the rates effective as at the end of the reporting period does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As at 31 December 2008, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 and EURO 1 = RR 41.4411 (2007: USD 1 = RR 24.5462 and EURO 1 = RR 35.9332).

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognized in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Trading securities. Trading securities are securities, classified as financial assets at fair value through profit or loss which are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, within six months.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. The management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management provision, and information on that basis is regularly provided to and reviewed by the Bank’s top management personnel.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortised cost.

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- implementation of the borrower’s investment plans is delayed;
- the Group expects difficulties in servicing the borrower’s debt due to volatility of the borrower’s cash flows caused by its cyclic activity or irregularity of proceeds.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

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

Investment securities available-for-sale are carried at cost, as the Group can not measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Impairment losses are recognised in consolidated profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated profit or loss, the impairment loss is reversed through current period's consolidated profit or loss.

Advances payable. Advances payable are recognised, if the Group made a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by a contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to banks or customer accounts, as appropriate.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities held-to-maturity are quoted non-derivative financial assets with fixed or determinable payments and fixed maturity, which the management of the Group has firm intention and ability to hold to maturity. The Group's management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investments held-to-maturity are measured at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in due from banks and loans and advances to customers, based on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

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

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

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

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Premises: 50 years;

Office and computer equipment: 5 years;

Leasehold improvements: over the term of the underlying lease.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, eg its maintenance, are expensed when incurred.

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

Long term assets held-for-sale Long term assets and disposal groups (which may include both non-current and current assets) are presented in the balance sheet as long term assets held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. These assets are reclassified when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Long term assets or disposal groups classified as held-for-sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current reporting period.

Long term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included into the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

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

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

***Other debt securities in issue**.* Other debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Other borrowed funds. Other borrowed funds include liabilities to state or corporate customers and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange forwards, futures and swaps, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses arising from trading in foreign currency in the consolidated statement of income. The Group does not enter into derivative financial instruments for hedging purposes.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax charge and deferred tax and is recognised in the consolidated statement of income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. In the case of commitments to provide loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately after signing the agreement, such commission income related to loan commitments is recognised as future period profit and is included into the loan’s carrying amount upon initial recognition. This amount is amortised on a straight line basis over the life of the commitment. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Preference shares. Preference shares that are not redeemable and with discretionary dividends, are classified as equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions are indicated in Note 36. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Investment securities held-to-maturity. The management of the Group determines whether to reclassify financial assets into held-to-maturity in particular to prove its intention and ability to hold these assets to maturity. If the Group fails to hold these investments to maturity (except for particular obligations – such as sale of insignificant amount of investments shortly before date of maturity) the Group will be compelled to reclassify all securities of this type (any remaining held-to-maturity securities) into the category available for sale and the Group will not be able to classify (recognize) any securities as held-to-maturity within the two following reporting periods. Such reclassified investments will be measured at fair value, not at amortised cost. If all held-to-maturity securities were to be reclassified, their carrying value will decrease by an amount of RR 36 956 thousand (2007: the Group had no investment securities held-to-maturity).

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 85 590 thousand higher or RR 85 590 thousand lower (2007: RR 47 250 thousand higher or RR 47 250 thousand lower).

Revaluation of premises. The fair values of premises of the Group are determined by using valuation methods and are based on their market value. Market values of the Group’s premises are obtained from the report of independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed using *sales comparison* approach i.e. comparison with other premises which were sold or are offered for sale. For details please refer to Note 15. To the extent that the assessed change in the fair value of the Group’s premises differs by 10%, the effect of the revaluation adjustment would be RR 426 935 thousand (before deferred tax) as at 31 December 2008 (2007: RR 266 810 thousand).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Frequency of revaluation of premises. The premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Group's management uses judgement for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

Tax legislation. The tax legislation of the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Refer to Note 36.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 "Financial Instruments: Recognition and Measurement" requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

5 Adoption of New or Revised Standards and Interpretations

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

- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and

- ***IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

The above interpretations did not significantly affect the Group's consolidated financial statements.

Reclassification of Financial Assets – Amendments to IAS 39 Financial Instruments: Recognition and Measurement and further Amendment Reclassification of Financial Assets – Effective date and transition In October 2008 the IASB issued "Reclassification of Financial Assets" (Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures").

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

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

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

Pursuant to these amendments, the Bank reclassified certain non-derivative financial assets out of trading assets and into loans to customers, due from banks and investment securities held-to-maturity. For details on the impact of these reclassifications, refer to Notes 8, 11, 12, 13 of the consolidated financial statements.

6 New Accounting Pronouncements

Certain new Standards and Interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted: The Group plans to adopt these pronouncements when they become effective. The Group has not yet, fully analysed the likely impact of these new standards on its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The management does not expect IFRS 8 to significantly affect the Group’s consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and amendments to Presentation of Financial Statements – IAS 1 (effective on 1 January 2009) The Amendment requires certain financial instruments that meet the definition of financial liability to be classified as equity instruments. The Group is in the process of analysing the impact of this amendment on the consolidated financial statements.

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The management does not expect IAS 27 to significantly affect the Group’s consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The Amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The Amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The management does not expect this Amendment to IFRS 2 to significantly affect the Group’s consolidated financial statements.

Measuring Investments in Subsidiaries, Jointly Controlled Entities and Associates – IFRS 1 and additional amendments into IAS 27 Consolidated and Separate Financial Statements (revised in May 2008, effective for annual periods beginning or after 1 January 2009).Under these Amendments entities adopting IFRSs for the first time when determining the cost of investments in subsidiaries, jointly controlled entities and associates may measure that cost at fair value or at carrying amount as previously measured in unconsolidated financial statements prepared according to Russian Accounting Principles. Pursuant to the Amendment the entity is obliged to recognize pre-acquisition net assets of investments objects in profit or loss rather than as reimbursement of investments. The management does not expect this Amendment to significantly affect the Group’s consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The management does not expect IFRS 3 to significantly affect the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board (IASB) decided to start annual improvement projects intended to update standards as a means of essential but non-urgent amendments to IFRS. Various "Improvements to IFRSs" have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2008	2007
Cash on hand	6 026 512	2 469 383
Cash balances with the CBRF (other than mandatory reserve deposits)	12 901 049	3 437 183
Correspondent accounts and overnight placements with banks		
- Russian Federation	1 574 146	374 601
- Other countries	580 493	3 188 235
Settlement accounts with trading systems	15 759 126	143 046
Total cash and cash equivalents	**36 841 326**	**9 612 448**

Currency analysis of cash and cash equivalents is disclosed in Note 34.

Interest rate analysis of cash and cash equivalents is disclosed in Note 34.

8 Trading Securities

In thousands of Russian Roubles	2008	2007
Corporate bonds	1 094 549	1 697 080
Russian Federation Eurobonds	956 815	4 074 171
Corporate Eurobonds	338 931	-
Federal loan bonds (OFZ bonds)	266 382	4 476 304
Municipal bonds	1 712	592 958
Total debt securities	**2 658 389**	**10 840 513**
Corporate shares	33 996	810 177
Total trading securities	**2 692 385**	**11 650 690**

8 Trading Securities (continued)

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and are tradable in the Russian market. These bonds have maturity dates from 26 February 2009 to 12 June 2018 (2007: from 19 June 2008 to 19 July 2012), coupon rates of 7.0% -15.2% p.a. (2007: 8.4% – 13.5% p.a.) and yields to maturity from 6.3% to 34.7% p. a. as at 31 December 2008 (2007: from 8.6% to 16% p. a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are tradable internationally. These bonds have maturity dates from 31 March 2030 (2007: 31 March 2030), coupon rates of 8.3% p.a. (2007: 7.5% p.a.) and yields to maturity of 3.3% as at 31 December 2008 (2007: from 5.5% p.a.).

Corporate Eurobonds are interest bearing securities denominated in USD issued by the Russian companies and tradable in the Russian market. Corporate Eurobonds have maturity dates from 15 January 2009 to 22 October 2011, coupon rates of 8.4% to 10.8% p.a. and yields to maturity from 10.3% to 22.5% as at 31 December 2008 (2007: no corporate Eurobonds).

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 20 January 2010 to 2 November 2012 (2007: from 29 April 2009 to 6 February 2036), coupon rates of 6.0% to 10.0% p.a (2007:5.8% to 10.0%) and yields to maturity from 9.9% to 11.7% p.a. as at 31 December 2008 (2007: from 5.9% to 6.8% p.a.), depending on the type of bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, Moscow Region, Irkutsk and Samara Regions (2007: municipal administrations of St. Petersburg and Moscow Region). These bonds are issued at a discount to nominal value, have maturity dates from 21 April 2009 to 16 April 2014 (2007: from 21 April 2009 to 16 April 2014), coupon rates of 7.6% to 11.0% p.a. (2007: 8.0% to 11.5% p.a.) and yields to maturity from 9.2% to 34.8% p.a. as at 31 December 2008 (2007: from 6.2% to 7.0% p.a.), depending on the type of bond issue.

Corporate shares are shares of Russian companies.

Trading securities are carried at fair value which also reflects the credit risk of these securities. The Group holds no overdue trading securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Federal loan bonds**	**Russian Federation Eurobonds**	**Municipal bonds**	**Corporate bonds**	**Corporate Eurobonds**	**Total**
Group A	266 382	956 815	925	998 489	153 993	2 376 604
Group B	-	-	787	96 060	184 938	281 785
Total debt trading securities	**266 382**	**956 815**	**1 712**	**1 094 549**	**338 931**	**2 658 389**

Analysis by credit quality of debt trading securities outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	**Federal loan bonds**	**Russian Federation Eurobonds**	**Municipal bonds**	**Corporate bonds**	**Total**
Group A	4 476 304	4 074 171	368 205	-	8 918 680
Group B	-	-	224 753	1 697 080	1 921 833
Total debt trading securities	**4 476 304**	**4 074 171**	**592 958**	**1 697 080**	**10 840 513**

8 Trading Securities (continued)

Debt trading securities of the Group are divided by credit quality types and parameters into the following groups:

Group A – debt financial instruments with rating of at least BBB-.

Group B – other debt instruments.

Currency and maturity analyses of trading securities are disclosed in Note 34.

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

In 2008 the Group reclassified certain financial assets from trading securities to investment securities held-to-maturity, loans and advances to customers and due from banks. Refer to Note 11, 12 and 13.

Management believes that the decrease in market prices which occurred in the third quarter of 2008 can be considered a rare event, as it does not reflect the overall volatility on the market which was observed for the past periods. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category as at 30 September 2008.

The carrying value and fair value of all reclassified financial assets from trading securities are as follows:

In thousands of Russian Roubles	**30 September 2008**		**31 December 2008**	
	Carrying value	**Fair value**	**Carrying value***	**Fair value**
Loans and advances to customers	5 528 751	5 528 751	5 412 330	4 853 814
Due from banks	2 765 954	2 765 954	2 777 232	2 753 093
Held-to-maturity investments	797 019	797 019	797 431	740 635
Total	**9 091 724**	**9 091 724**	**8 986 993**	**8 347 542**

** - Carrying value is shown before provision for impairment .*

Income and expense related to the period prior to reclassification, to the period after reclassification and income and expense (after the date of reclassification) which would have been recognised in the consolidated income statement if the reclassification had not been made are as follows:

In thousands of Russian Roubles	**Income/(expenses), recognised prior to the date of reclassification**	**Income/(expenses), recognised after the date of reclassification**	**Income/(expenses), which would have been recognised, if the reclassification had not been made (after the date of reclassification)**
Interest income	246 789	116 249	208 736
Gain less losses on operation with securities	(513 154)	10 347	(530 815)
Provision for loan impairment	-	(160 743)	-
Provision for impairment of held-to-maturity investments	-	(19 840)	-
Total effect on income statement	**(266 365)**	**(53 987)**	**(322 079)**

As at the date of reclassification the effective interest rate on reclassified financial assets was from 2.1% to 42.2% with expected recoverable cash flows of RR 10 977 249 thousand.

The reclassification of quoted securities had the effect of increasing both basic and diluted earnings per share for 2008 by RR 0.76 per share.

9 Securities Pledged Under Sale and Repurchase Agreements

Trading Securities

In thousands of Russian Roubles	2008	2007
Corporate bonds	1 364 973	-
Municipal bonds	105 553	517 834
Total securities pledged under sale and repurchase agreements	**1 470 526**	**517 834**

Securities pledged under sale and repurchase agreements are represented by corporate and municipal bonds issued by the municipal administration of Moscow (2007: bonds issued by the municipal administration of St. Petersburg).

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and are tradable in the Russian market. In 2008 these bonds have maturity dates from 19 March 2009 to 12 June 2018, coupon rates of 7.1 to 9.0% p.a. and yields to maturity from 7.2% to 20.2% p.a. as at 31 December 2008 (2007: no corporate bonds), depending on the type of bond issue. The term of the corresponding repurchase agreements is 12 days with an effective rate of 9.7% p.a.

Municipal bonds are purchased at a discount to nominal value. These bonds have a maturity date of 18 December 2011 (2007: from 18 June 2008 to 6 August 2014), coupon rates of 8.0% p.a. (2007: 9% to 10% p.a.) and yields to maturity of 9.2% as at 31 December 2008 (2007: 3.1% to 6.5% p.a.). The term of sale and repurchase transactions is 12 days with the effective rate of 5% p.a. (2007: The term of the corresponding repurchase agreements is 195 days with an effective rate of 5.3%).

Analysis by credit quality of securities pledged under sale and repurchase agreements outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
Group A	105 553	401 809	507 362
Group B	-	963 164	963 164
Total securities pledged under sale and repurchase agreements	**105 553**	**1 364 973**	**1 470 526**

As at 31 December 2007 securities pledged under sale and repurchase agreements of the Group were included into Group A. For definition of Group A refer to Note 8.

As at 31 December 2008 included in due to banks were sale and repurchase agreements in the amount of RR 1 221 725 thousand (2007: included in customer accounts were sale and repurchase agreements in the amount of RR 492 712 thousand). Refer to Notes 18 and 19.

Currency and maturity analyses of securities pledged under sale and repurchase are disclosed in Note 34.

10 Amounts Receivable Under Reverse Repurchase Agreements

In thousands of Russian Roubles	2008	2007
Amounts receivable under reverse repurchase agreements with clients	-	616 518
Amounts receivable under reverse repurchase agreements with banks	-	300 133
Total amounts receivable under reverse repurchase agreements	**-**	**916 651**

As at 31 December 2008 the Group didn’t have amounts receivable under reverse repurchase agreements (2007: amounts receivable under reverse repurchase agreements represented agreements with customers and banks which were secured by Federal loan bonds and corporate bonds with fair value of RR 1 088 965 thousand).

Currency and maturity analyses of amounts receivable under reverse repurchase agreements is disclosed in Note 34.

11 Due from Banks

In thousands of Russian Roubles	2008	2007
Term placements with banks	19 203 410	6 739 348
Provision for impairment	(27 546)	(2 467)
Total due from banks	**19 175 864**	**6 736 881**

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

In thousands of Russian Roubles	2008	2007
Provision for impairment of due from banks as at 1 January	**2 467**	**4 413**
Provision for/(Recovery of provision) for loan impairment of due from banks during the year	25 079	(1 946)
Provision for impairment of due from banks as at 31 December	**27 546**	**2 467**

As at 31 December 2008, due from banks in the amount of RR 295 thousand (2007: RR 2 467 thousand) are impaired.

As at 31 December 2008 the carrying value of securities reclassified to due from banks amounted to RR 2 777 232 thousand (RR 2 765 954 thousand as at the date of reclassification). Refer to Note 8.

Securities reclassified to due from banks were analysed by the Group for indications of significant decrease in future cash flows and where necessary a provision for impairment was accounted for. As at 31 December 2008 the amount of provision for impairment was RR 27 251 thousand (2007: none). The remaining debts recognised in due from banks are current.

Securities amounting to RR 2 288 931 thousand were pledged under sale and repurchase agreements included in due to banks (2007: none).

11 Due from Banks (continued)

The Bank uses a system of limits for granting loans to banks, as shown in Note 34. The current interbank loan portfolio is an instrument of liquidity management for the Group.

The management believes that the Group is not exposed to significant credit risk in relation to amounts due from banks. When making lending decisions, the loans to banks are assessed based on a range of factors. After the loan is granted the Group monitors the borrowers’ financial position for impairment. For the purpose of credit quality evaluation all loans to banks are classified as “prime” unless they have any signs of impairment or any overdue amounts.

The Group’s loans to banks are not collateralised.

As at 31 December 2008 the estimated fair value of due from banks amounted to RR 19 178 975 thousand (2007: carrying value of due from banks approximated their fair value due to the short-term nature of due from banks.) Refer to Note 37. The fair value of securities reclassified into due from banks as at 31 December 2008 amounted to RR 2 753 093 thousand. Refer to Note 8.

Currency and maturity analyses of due from banks are disclosed in Note 34. Interest rate analysis of due from banks is disclosed in Note 34. The information on related party balances is disclosed in Note 38.

12 Loans and Advances to Customers

In thousands of Russian Roubles	**2008**	**2007**
Corporate loans		
– loans to finance working capital	88 143 276	61 275 836
– investment loans	39 590 339	21 971 101
– loans to entities financed by the government	6 251 258	2 598 882
Loans to individuals		
– mortgage loans	9 495 278	4 274 713
– car loans	1 762 898	1 641 927
– other loans to individuals	5 481 354	2 560 495
Provision for impairment	(5 841 902)	(2 592 820)
Total loans and advances to customers	**144 882 501**	**91 730 134**

At 31 December 2008, the gross carrying value of securities reclassified to loans and advances to customers amounted to RR 5 412 330 thousand (RR 5 528 751 thousand as at date of reclassification). Refer to Note 8.

Securities reclassified to loans and advances to customers were analysed by the Group for indications of significant decrease in future cash flows and where necessary a provision for impairment was accounted for. As at 31 December 2008 the amount of provision for impairment was RR 133 492 thousand. The remaining securities recognised in loans and advances to customers are current.

Securities amounting to RR 2 595 911 thousand are pledged under sale and repurchase agreements included in due to banks (2007: none). Refer to Note 18.

Securities amounting to RR 313 572 thousand are pledged under sale and repurchase agreements included in customer accounts (2007: none). Refer to Note 19.

12 Loans and Advances to Customers (continued)

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

	Corporate loans			Loans to individuals			
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Other loans to indivi-duals	**Total**
Provision for loan impairment at 31 December 2007	**1 298 157**	**1 044 642**	**89 582**	**81 282**	**35 076**	**44 081**	**2 592 820**
Provision for impairment during the year	1 910 753	1 115 269	23 783	169 892	44 715	106 458	3 370 870
Amounts written off during the year as uncollectible	(119 758)	-	-	-	-	(2 030)	(121 788)
Provision for loan impairment at 31 December 2008	**3 089 152**	**2 159 911**	**113 365**	**251 174**	**79 791**	**148 509**	**5 841 902**

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

	Corporate loans			Loans to individuals			
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Other loans to indivi-duals	**Total**
Provision for loan impairment at 31 December 2006	**1 039 964**	**439 948**	**62 666**	**25 538**	**13 202**	**23 438**	**1 604 756**
Provision for impairment during the year	278 961	604 694	26 916	55 744	21 874	20 643	1 008 832
Amounts written off during the year as uncollectible	(13 008)	-	-	-	-	-	(13 008)
Disposal of subsidiary	(7 760)	-	-	-	-	-	(7 760)
Provision for loan impairment at 31 December 2007	**1 298 157**	**1 044 642**	**89 582**	**81 282**	**35 076**	**44 081**	**2 592 820**

12 Loans and Advances to Customers (continued)

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

	2008		2007	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Heavy machinery and ship-building	23 055 028	15.3	8 474 636	9.0
Construction	18 762 462	12.4	11 651 470	12.3
Real estate	18 420 612	12.2	16 310 925	17.3
Trade	16 860 868	11.2	15 242 550	16.2
Individuals	16 739 530	11.1	8 477 135	9.0
Leasing and financial services	16 174 120	10.7	12 646 781	13.4
Production and food industry	12 668 474	8.4	5 335 203	5.7
Transport	6 383 059	4.2	2 227 345	2.3
Federal and municipal transportation and storage facilities	6 249 267	4.1	2 598 882	2.8
Telecommunications	2 271 117	1.5	1 499 997	1.6
Chemical industry	2 348 154	1.6	2 622 630	2.8
Energy	1 511 136	1.0	692 993	0.7
Other	9 280 576	6.3	6 542 407	6.9
Total gross loans and advances to customers (before impairment)	**150 724 403**	**100.0**	**94 322 954**	**100.0**

As at 31 December 2008, the Group’s 20 largest borrowers had aggregated loan amounts of RR 41 290 618 thousand (2007: RR 29 846 976 thousand), or 27.4% (2007: 31.6%) of the gross loan portfolio before impairment.

Most loans to customers are secured by collateral. Collateral for loans can comprise bank deposits, promissory notes issued by the Bank, real estate, property and equipment and other collateral.

Mortgage loans are secured by the underlying housing real estate.

Car loans are secured by underlying car.

Impaired and overdue loans with the total amount of RR 9 847 101 thousand are secured by collateral with a fair value of RR 23 632 262 thousand. For the remaining impaired loans of RR 29 716 thousand there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2008 the Group obtained assets with the total amount of RR 2 137 985 thousand by taking control of collateral accepted as security for loans to customers (2007: nil). Refer to Note 17.

12 Loans and Advances to Customers (continued)

The loans and advances to customers and the related provisions for impairment as at 31 December 2008 are as follows:

In thousands of Russian Roubles	**Current loans and advances to customers (before provision for impairment)**	**Provision for impairment**	**Total current loans and advances to customers (after provision for impairment)**	**Provision for impairment to current loans, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not impaired				
Standard loans not past due	111 445 023	3 078 998	108 366 025	2.76%
Watch list loans not past due	13 017 112	849 398	12 167 714	6.53%
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	8 775 165	1 056 507	7 718 658	12.04%
6 to 30 days overdue	214 489	19 661	194 828	9.17%
31 to 60 days overdue	47 116	18 211	28 905	38.65%
61 to 90 days overdue	48 749	22 348	26 401	45.84%
91 to 180 days overdue	239 827	119 913	119 914	50.00%
Uncollectible loans	197 392	197 392	-	100.00%
Total loans and advances to legal entities	**133 984 873**	**5 362 428**	**128 622 445**	**4.00%**
Loans and advances to individuals:				
Loans collectively assessed for impairment				
- mortgage loans	9 495 278	251 174	9 244 104	2.65%
- car loans	1 762 898	79 791	1 683 107	4.53%
- other loans to individuals	5 481 354	148 509	5 332 845	2.71%
Total loans and advances to individuals	**16 739 530**	**479 474**	**16 260 056**	**2.86%**
Total loans and advances to customers	**150 724 403**	**5 841 902**	**144 882 501**	**3.88%**

12 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total loans and advances to individuals**
Loans to individuals				
Standard loans not past due	9 267 854	1 674 170	5 443 427	16 385 451
less than 5 days overdue	30 950	14 655	8 568	54 173
6 to 30 days overdue	144 051	37 186	2 918	184 155
31 to 60 days overdue	16 413	9 783	15 054	41 250
61 to 90 days overdue	21 546	6 352	1 053	28 951
91 to 180 days overdue	14 464	10 506	4 864	29 834
181 to 365 days overdue	-	7 701	4 377	12 078
more than 1 year overdue	-	2 545	1 093	3 638
Total loans and advances to individuals	**9 495 278**	**1 762 898**	5 481 354	**16 739 530**
Provision for impairment	251 174	79 791	148 509	479 474
Total loans and advances to individuals	**9 244 104**	**1 683 107**	5 332 845	**16 260 056**

12 Loans and Advances to Customers (continued)

The loans and advances to customers and the related provisions for impairment as at 31 December 2007 are as follows:

In thousands of Russian Roubles	**Current loans and advances to customers (before provision for impairment)**	**Provision for impairment**	**Total current loans and advances to customers (after provision for impairment)**	**Provision for impairment to current loans, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not impaired				
Standard loans not past due	79 285 170	1 816 875	77 468 295	2,29%
Watch list loans not past due	3 981 823	232 231	3 749 592	5,83%
6 to 30 days overdue	11 746	195	11 551	1,66%
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	2 339 626	213 656	2 125 970	9,13%
91 to 180 days overdue	45 340	2 430	42 910	5,36%
181 to 365 days overdue	16 235	1 115	15 120	6,87%
Uncollectible loans	165 879	165 879	-	100,00%
Total loans and advances to legal entities	**85 845 819**	**2 432 381**	**83 413 438**	**2,83%**
Loans and advances to individuals:				
Loans collectively assessed for impairment				
- mortgage loans	4 274 713	81 282	4 193 431	1,90%
- car loans	1 641 927	35 076	1 606 851	2,14%
- other individual loans	2 560 495	44 081	2 516 414	1,72%
Total loans and advances to individuals	**8 477 135**	**160 439**	**8 316 696**	**1,89%**
Total loans and advances to customers	**94 322 954**	**2 592 820**	**91 730 134**	**2,75%**

12 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total loans and advances to individuals**
Loans to individuals				
Standard loans not past due	4 262 233	1 619 636	2 552 296	8 434 165
less than 5 days overdue	-	107	881	988
6 to 30 days overdue	7 420	14 393	2 503	24 316
31 to 60 days overdue	5 060	7 394	1 603	14 057
61 to 90 days overdue	-	38	388	426
91 to 180 days overdue	-	21	659	680
181 to 365 days overdue	-	338	977	1 315
more than 1 year overdue	-	-	1 188	1 188
Total loans and advances to individuals	**4 274 713**	**1 641 927**	**2 560 495**	**8 477 135**
Provision for impairment	81 282	35 076	44 081	160 439
Total loans and advances to individuals	**4 193 431**	**1 606 851**	**2 516 414**	**8 316 696**

The Group has estimated loan impairment for loans to legal entities based on an analysis of the expected future cash flows for impaired loans which was based primarily on collateral. The principal collateral taken into account in the estimation of future cash flows comprises real estate. Valuations for real estate have been discounted by 30 - 50 percent to reflect current market conditions.

For portfolios of loans for which no indications of impairment have been identified, in determining the portfolio impairment allowance at 31 December 2008 the Group has adjusted historic loss rates to factor in the deterioration of the loan portfolio, as evidenced by the rate of increase in the level of impaired and overdue loans, arising from current market conditions.

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.

The Bank estimated loan impairment for loans to individuals based on its past historical loss experience adjusted for current economic conditions.

During the year ended 31 December 2008 the Bank renegotiated commercial loans that would otherwise be past due or impaired of RR 9 835 197 thousand (2007: RR 1 518 132 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. This amount does not include those loans for which prolondation was included in the initial conditions of credit agreement.

Loans and advances to customers are classified in the group “Standard loans not past due” when they do not have any overdue payments as at reporting date and the management of the Group does not have any information about existence of any factors which can influence the possibility of the borrower to repay the loan in full and in time or if there is enough collateral to allow the borrower to repay fully the loan.

12 Loans and Advances to Customers (continued)

Loans and advances to customers are classified in the group "Watch list loans not past due" when they have moderate credit risk. The Bank's analysis of operating and financial position of the borrower and other information, including external environment, indicate the stable position of the borrower, however the analysis of the borrower indicates some negative tendencies, which could impact the ability of the borrower to repay its loan in the future on a timely basis.

The primary factors that the Group considers when deciding whether a loan is individually impaired is its overdue status and/or occurrence of any factors which may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

Interest recorded in the profit or loss on overdue and impaired loans during 2008 amounted to RR 612 720 thousand (2007: RR 208 122 thousand).

At 31 December 2008, the estimated fair value of loans and advances to customers was RR 147 066 652 thousand (2007: RR 93 908 851 thousand). Refer to Note 37.

Currency and maturity analyses of loans and advances to customers are disclosed in Note 34. Interest rate analysis of loans and advances to customers is disclosed in Note 34. The information on related party balances is disclosed in Note 38.

13 Investment Securities Held-to-Maturity

In thousands of Russian Roubles	2008	2007
Corporate bonds	797 431	-
Provision for impairment	(19 840)	-
Total held-to-maturity investments	**777 591**	**-**

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and are tradable in the Russian market. These bonds have maturity dates from 24 February 2009 to 2 March 2010, coupon rates of 7.5% -13.8% p.a. and yields to maturity from 2.1% to 42.2% p. a. as at 31 December 2008.

Movements in the held-to-maturity investments portfolio is as follows:

In thousands of Russian Roubles	Note	2008	2007
Carrying value as of 1 January		**-**	-
Transfers from trading securities	8	797 019	-
Accrued interest income		31 648	-
Interest received		(31 236)	-
Carrying value as of 31 December		**797 431**	**-**

13 Investment Securities Held-to-Maturity (continued)

Analysis of movements in the provision for impairment of held-to maturity investments during 2008 is as follows:

In thousands of Russian Roubles	2008	2007
Provision for impairment at 1 January	**-**	**-**
Provision for impairment during the year	19 840	-
Provision for impairment at 31 December	**19 840**	**-**

The Group analyses and monitors impairment indicators. As at 31 December 2008 the provision for impairment of held-to-maturity investments was RR 19 840 thousand. The Group holds no overdue held-to-maturity investments.

Analysis by credit quality of held-to maturity investments outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Corporate bonds	Total
Group B	797 431	797 431
Total held-to-maturity investments	**797 431**	**797 431**

As at 31 December 2008 the estimated fair value of held-to-maturity investments was RR 740 635 thousand (2007: no held-to-maturity investments). Refer to Note 37.

Currency and maturity analyses of held-to-maturity investments are disclosed in Note 34. Interest rate analysis of held-to-maturity investments is disclosed in Note 34.

14 Other Financial Assets

In thousands of Russian Roubles	Note	2008	2007
Plastic cards receivables		94 241	95 935
Fair value of derivative financial instruments	36	66 342	17 051
Investment securities available-for-sale		53 978	11 340
Settlements on conversion operations		-	30 681
Other securities at fair value through profit or loss		-	24
Total other financial assets		**214 561**	**155 031**

Other financial assets of the Group do not include individually impaired and overdue assets. In 2008, the Group created no provision for other financial assets (2007: no provision).

Investment securities available for sale represent equity securities carried at cost. Their fair value may not be reliably estimated since they are neither listed on the market nor traded. The Group’s management believes that the difference between the fair and carrying values of the securities available for sale is not material. The Group will sell these securities in case of favourable market movements.

The carrying value of all categories of other financial assets approximates their fair value as at 31 December 2008 and 31 December 2007. Refer to Note 37.

Currency and maturity analyses of other financial assets are disclosed in Note 34.

15 Premises and Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2007		1 316 743	632 777	15 167	9 992	1 974 679
Accumulated depreciation, amortisation and impairment losses		(63 672)	(285 682)	-	(6 999)	(356 353)
Net book amount as at 1 January 2007		**1 253 071**	**347 095**	**15 167**	**2 993**	**1 618 326**
Additions		553 454	249 166	314 707	12	1 117 339
Transfers between categories		-	14 111	(14 111)	-	-
Disposals		(2 001)	(4 377)	-	(911)	(7 289)
Depreciation and amortisation charge	**29**	(47 576)	(125 250)	-	(1 078)	(173 904)
Revaluation		846 439	-	-	-	846 439
Release of provision for impairment through profit or loss		33 566	-	-	-	33 566
Net book amount as at 31 December 2007		**2 636 953**	**480 745**	**315 763**	**1 016**	**3 434 477**
Cost as at 31 December 2007		2 668 103	822 399	315 763	6 386	3 812 651
Accumulated depreciation and amortisation		(31 150)	(341 654)	-	(5 370)	(378 174)
Net book amount as at 31 December 2007		**2 636 953**	**480 745**	**315 763**	**1 016**	**3 434 477**
Additions		401 356	448 909	1 840 303	135	2 690 703
Transfers between categories		232 613	-	(232 613)	-	-
Disposals		(191 558)	(2 710)	-	-	(194 268)
Depreciation and amortisation charge	**29**	(69 420)	(173 806)	-	(177)	(243 403)
Revaluation		1 259 409	-	-	-	1 259 409
Net book amount as at 31 December 2008		**4 269 353**	**753 138**	**1 923 453**	**974**	**6 946 918**
Cost as at 31 December 2008		4 269 353	1 251 859	1 923 453	6 521	7 451 186
Accumulated depreciation and amortisation		-	(498 721)	-	(5 547)	(504 268)

Construction in progress mainly consists of construction of head office and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

The premises of the Group have been revalued as at 31 December 2008. The revaluation has been performed by an independent professional real estate appraisal company, which is registered in St Petersburg. The basis for the appraisal was market value using the sales comparison approach.

The sales comparison approach is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on sales of the comparable items that took place in the market.

15 Premises and Equipment and Intangible Assets (continued)

As at 31 December 2008 the carrying value includes revaluation of the Group’s premises in the amount of RR 2 762 028 thousand (2007: RR 1 502 619 thousand), including RR 1 259 409 thousand recognised as a result of revaluation of the premises as at 31 December 2008. As at 31 December 2008 the Group has recorded a deferred tax liability of RR 552 406 thousand related to the amount of revaluation.

In respect of the building for which the Group previously created an impairment provision, the release of provision in the amount of RR 33 566 thousand was recognised in the consolidated income statement as a result of revaluation as at 31 December 2007.

If the assets of the Group were recorded at cost adjusted to the equivalent of the purchasing power of the Russian Rouble as at 31 December 2002 for the premises purchased before 1 January 2003 less accumulated depreciation, their carrying value as at 31 December 2008 would amount to RR 1 743 247 thousand (2007: RR 1 124 051 thousand).

16 Other Assets

In thousands of Russian Roubles	**2008**	**2007**
Deferred expenses	143 472	78 900
Advances payable	111 397	155 295
Prepaid taxes other than on income	44 353	16 314
Other	63 589	5 698
Total other assets	**362 811**	**256 207**

Advances payable include advances made by the Group in relation to purchase of new computer software and equipment, as well as prepayments for repair works of existing premises.

Currency and maturity analyses of other assets are disclosed in Note 34.

17 Long-Term Assets Held-for-Sale

In thousands of Russian Roubles	**2008**	**2007**
Building	2 137 985	-
Total long-term assets held-for-sale	**2 137 985**	**-**

During the fourth quarter of 2008 one of the Group’s borrowers defaulted on certain obligations to the Group. As a result the parties mutually agreed that the Group takes ownership of the collateral it held against the loans. Following the completion of the necessary process, during December 2008 the Group took ownership of a building which was provided as collateral for the loans.

Accordingly the loans were derecognised and the collateral recognised at the carrying amount of the loans prior to derecognition as an asset held-for-sale. The building comprises a terminal in the North-West region.

The Group obtained a valuation by an independent valuer and based on this estimates that the fair value less costs to sell exceeds the carrying value of the asset.

The Group has taken the decision to dispose of the asset at the earliest opportunity as ownership thereof does not form part of its core business. The Group expects such sale to be completed within one year of the reporting date of 31 December 2008.

This asset held-for-sale is included in the assets of the Unallocated segment. Refer to Note 33.

18 Due to Banks

In thousands of Russian Roubles	2008	2007
Term placements of banks	27 015 504	635 069
Amounts payable under sale and repurchase agreements	5 171 736	-
Correspondent accounts and overnight placements with banks	132 849	42 197
Total due to banks	**32 320 089**	**677 266**

As at 31 December 2008 and 31 December 2007, the carrying value of due to banks approximated their fair value since due to banks is short-term. Refer to Note 37.

As at 31 December 2008 due to banks included deposits of RR 24 432 456 thousand placed by Central Bank of Russia (2007: none).

As at 31 December 2008, included in due to banks were sale and repurchase agreements in the amount of RR 1 221 725 thousand. Securities pledged under these sale and repurchase agreements are corporate and municipal bonds with the fair value of RR 1 470 526 thousand (2007: no sale and repurchase agreements were included in due to banks). Refer to Note 9.

As at 31 December 2008, included in due to banks were sale and repurchase agreements in the amount of RR 2 099 461 thousand. Securities pledged under these sale and repurchase agreements are corporate and municipal bonds reclassified to loans and advances to customers with the carrying value before provision of RR 2 595 911 thousand and fair value of RR 2 359 782 thousand. (2007: no sale and repurchase agreements were included in due to banks). Refer to Note 12.

As at 31 December 2008, included in due to banks were sale and repurchase agreements in the amount of RR 1 850 550 thousand. Securities pledged under these sale and repurchase agreements are corporate and municipal bonds reclassified to due from banks with the carrying value before provision of RR 2 288 931 thousand and fair value of RR 2 280 724 thousand. (2007: no sale and repurchase agreements were included in due to banks). Refer to Note 11.

Currency and maturity analyses of banks accounts are disclosed in Note 34.

Interest rate analysis of customer accounts is disclosed in Note 34.

19 Customer Accounts

In thousands of Russian Roubles	2008	2007
State and public organisations		
- Current/settlement accounts	3 471 690	1 319 910
- Term deposits	1 314 564	4 920 868
Other legal entities		
- Current/settlement accounts	27 843 057	24 040 675
- Term deposits	57 921 513	27 738 723
- Sale and repurchase agreements	239 895	492 712
Individuals		
- Current/demand accounts	10 125 643	5 505 729
- Term deposits	38 908 117	24 710 155
Total customer accounts	**139 824 479**	**88 728 772**

State and public organisations exclude government owned profit orientated businesses.

19 Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	49 033 760	35,1%	30 215 884	34,1%
Financial services	26 865 688	19,1%	6 563 381	7,4%
Construction	14 369 467	10,3%	8 480 095	9,6%
Trade	12 520 440	9,0%	10 583 808	11,9%
Production	10 123 534	7,2%	5 073 424	5,7%
Transport	5 248 759	3,8%	4 674 449	5,3%
Cities and municipalities	4 767 666	3,4%	6 191 715	7,0%
Real estate	4 309 603	3,1%	2 229 305	2,5%
Public utilities	2 677 793	1,9%	4 014 146	4,5%
Art, science and education	2 505 641	1,8%	1 471 001	1,7%
Communications	2 116 467	1,5%	2 486 462	2,8%
Energy	1 190 419	0,9%	5 001 781	5,6%
Medical institutions	361 566	0,3%	333 909	0,4%
Other	3 733 676	2,6%	1 409 412	1,6%
Total customer accounts	**139 824 479**	**100,0%**	**88 728 772**	**100%**

As at 31 December 2008, included in customer accounts were sale and repurchase agreements in the amount of RR 239 895 thousand. Securities pledged under these sale and repurchase agreements are municipal bonds included in loans and advances to customers with the carrying value before provision of RR 313 572 thousand and fair value of RR 290 084 thousand. Refer to Note 12. (2007: included in customer accounts were sale and repurchase agreements in the amount of RR 492 712 thousand. Securities pledged under these sale and repurchase agreements were municipal bonds with the fair value of RR 517 834 thousand). Refer to Note 9.

As at 31 December 2008, included in customer accounts are deposits of RR 2 091 303 thousand held as collateral for irrevocable commitments under import letters of credit (2007: RR 1 347 709 thousand). Refer to Note 36.

As at 31 December 2008, the estimated fair value of customer accounts was RR 141 030 201 thousand (2007: RR 89 118 878 thousand). Refer to Note 37.

Currency and maturity analyses of customer accounts are disclosed in Note 34. Interest rate analysis of customer accounts is disclosed in Note 34. The information on related party balances is disclosed in Note 38.

20 Bonds Issued

In thousands of Russian Roubles	2008	2007
Eurobonds	5 911 152	3 065 263
Subordinated Eurobonds	3 021 061	2 522 904
Bonds	1 001 368	999 055
Total bonds issued	**9 933 581**	**6 587 222**

In November 2006, the Group placed 1 250 interest-bearing US Dollar-denominated Eurobonds (one bond – USD 100 000). The issue was arranged by ABN AMRO Bank N.V. and Dresdner Bank AG. The issue was registered on the Irish Stock Exchange. As at 31 December 2008, the carrying value of these bonds was USD 125 239 thousand, the equivalent of RR 3 679 561 thousand (2007: the carrying value of these bonds was USD 124 877 thousand, the equivalent of RR 3 065 263 thousand). These Eurobonds have a maturity of 25 November 2009, nominal coupon rate of 9.501% p.a. and effective interest rate of 10.46% p.a. The Group should observe certain covenants, relating to the Eurobond issue. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group’s management believes that as at 31 December 2008 and 31 December 2007 the Group fully meets all covenants of the loan agreements. Refer to Note 36.

On 16 April 2008, the Group placed 750 interest-bearing US Dollar-denominated Eurobonds (one bond – USD 100 000). The issue was arranged by Dresdner Bank AG. The issue was registered on Irish Stock Exchange. As at 31 December 2008, the carrying value of these bonds was USD 75 955 thousand, the equivalent of RR 2 231 591 thousand. These Eurobonds have a maturity of 16 April 2010, nominal coupon rate of 9.975% p.a. and effective interest rate of 10.93% p.a. The Group should observe certain covenants, relating to the Eurobond issue. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group’s management believes that as at 31 December 2008 and 31 December 2007 the Group fully meets all covenants of the loan agreements. Refer to Note 36.

In July 2007 the Group placed 1 000 interest-bearing US Dollar-denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2008, the carrying value of these bonds was USD 102 826 thousand, the equivalent of RR 3 021 061 thousand (2007: the carrying value of these bonds was USD 102 782 thousand the equivalent of RR 2 522 904 thousand). These subordinated Eurobonds have a maturity of 25 July 2017 with an early redemption option at nominal value on 25 July 2012, nominal coupon rate of 10.5% p.a. and effective interest rate of 11.14% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated Eurobonds are subordinated to the claims of all other creditors and depositors of the Bank.

On 14 June 2006, the Group placed 1 000 000 Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000). As at 31 December 2008, the carrying value of these bonds was RR 1 001 368 thousand (2007: RR 999 055 thousand). The bonds have maturity date of 22 June 2009. Coupon rate established for the first four coupon periods was 9.6% p.a. For the coupon periods starting from 20 June 2008 the coupon rate shall be 10.5% p.a. and effective interest rate of 11.27% p.a.

As at 31 December 2008, the estimated fair value of bonds issued was RR 8 311 133 thousand (2007: RR 6 371 661 thousand). Refer to Note 37.

Currency and maturity analyses of bonds issued are disclosed in Note 34.

21 Other Debt Securities in Issue

In thousands of Russian Roubles	**2008**	**2007**
Promissory notes	4 329 290	7 381 245
Deposit certificates	7 601	44 058
Total other debt securities in issue	**4 336 891**	**7 425 303**

As at 31 December 2008, the estimated fair value of other debt securities in issue was RR 4 422 454 thousand (2007: RR 7 434 146 thousand). Refer to Note 37.

Currency and maturity analyses of other debt securities in issue are disclosed in Note 34. Interest rate analysis of other debt securities in issue is disclosed in Note 34.

22 Other Borrowed Funds

In thousands of Russian Roubles	**2008**	**2007**
Syndicated loans	3 682 375	4 893 544
Subordinated loans	2 985 422	1 221 894
Funds attracted from KFW IPEX-Bank Gmbh	1 070 158	-
Funds attracted from Nordic Investment Bank	849 147	706 522
Funds attracted from EBRD	830 955	745 678
Funds attracted from Bank of New York, NY	151 097	-
Funds attracted from Unicreditbank	29 697	74 249
Total other borrowed funds	**9 598 851**	**7 641 887**

On 26 June 2008 the Group attracted a syndicated loan in the amount of USD 100 000 thousand arranged by (European Bank of Reconstruction and Development) EBRD in 2 tranches. The first tranche of USD 25 000 thousand has the maturity date of 23 June 2012 and interest rate of LIBOR + 3.45% p.a. The second tranche of USD 75 000 thousand has the maturity date of 23 December 2009 and interest rate of LIBOR + 2.75% p.a. The participants of the loan are 14 non-resident banks. As at 31 December 2008 the carrying value of this loan was USD 99 898 thousand, the equivalent of RR 2 935 042 thousand. The interest rate on this loan is 5.295% for the first tranche and 4.595% for the second tranche as at 31 December 2008.

On 20 June 2008 the Group repaid a syndicated loan in the amount of USD 100 000 thousand arranged by Standard Bank Plc, ZAO Standard Bank, Raiffeisen Zentralbank Osterreich AG, ZAO Raiffeisenbank, OAO VTB Bank and VTB Bank Europe PLC. The participants of the loan were 16 non-resident banks and 4 resident banks (2007: the carrying value of this loan was USD 101 878 thousand, the equivalent of RR 2 500 719 thousand).

On 29 November 2007 the Group attracted a syndicated loan in the amount of USD 70 000 thousand in 2 tranches. The first tranche of USD 44 500 thousand has a maturity date of 21 November 2008 and was repaid during 2008. The second tranche of USD 25 500 thousand has a maturity date of 22 May 2009. The loan is arranged by Commerzbank Aktiengesellschaft, ICICI Bank Hong Kong branch and UniCredit Group, acting through Bank Austria Creditanstalt AG. The participants of the loan are 15 non-resident banks and 3 resident banks. As at 31 December 2008 the carrying value of this loan was USD 25 436 thousand, the equivalent of RR 747 333 thousand (2007: the carrying value of this loan was USD 69 612 thousand the equivalent of RR 1 708 710 thousand). The interest rate for the second tranche is LIBOR + 2.25% p.a. As at 31 December 2008 the interest rates was 4.871% p.a.

22 Other Borrowed Funds (continued)

In December 2006, the Group attracted a subordinated loan in the amount of USD 50 000 thousand with maturity in March 2012 financed by issuing credit linked notes. The provider of this subordinated loan was Investment bank TRUST. As at 31 December 2008, the carrying value of this subordinated loan was USD 49 861 thousand, the equivalent of RR 1 464 948 thousand (2007: USD 49 779 thousand, the equivalent of RR 1 221 894 thousand). This subordinated loan was attracted at the fixed interest rate of 11% p.a.

In December 2008, the Group attracted a subordinated loan from the Bank’s shareholder in the amount of EUR 36 690 thousand with maturity in December 2014 financed by issuing credit linked notes. As at 31 December 2008, the carrying value of this subordinated loan was EUR 36 690 thousand, the equivalent of RR 1 520 474 thousand. This subordinated loan was attracted at the fixed interest rate of 14.5% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated loans are subordinated to the claims of all other creditors and depositors of the Bank.

On 16 July 2008 the Group attracted a loan arranged by KFW IPEX-Bank Gmbh in the amount of USD 35 000 thousand with maturity in July 2013. The interest rate on this loan is LIBOR + 6.12%. As at 31 December 2008 the carrying value of this loan was USD 36 424 thousand, the equivalent of RR 1 070 158 thousand. The interest rate on this loan is 9.987% p.a.

On 6 September 2007 and the Group attracted three tranches and on 20 November 2007 the Group attracted one tranche of the credit facility provided by Nordic Investment Bank. The Group allocated the raised amounts for funding certain projects. As at 31 December 2008 the carrying value of this loan was USD 28 902 thousand, the equivalent of RR 849 147 thousand (2007: USD 28 783 thousand, the equivalent of RR 706 522 thousand). The loan maturity date of these credit facilities is on 3 October 2015. The interest rate on the loan ranges from LIBOR+2.6% p.a. to LIBOR+2.95% p.a., depending on maturity dates of the tranches. As at 31 December 2008 the interest rate on the loan was from 6.638% to 6.988% p.a.

On 25 October 2006, 26 February 2007 and 27 June 2007 the Group attracted three tranches of the loan provided by (European Bank of Reconstruction and Development) EBRD in the amount of USD 10 000 thousand each, which should be repaid before November 2011. This loan was issued for the purposes of funding small and medium businesses. Starting from November 2008 the Group started repayment of the loan and as at 31 December 2008 USD 2 000 thousand of principal amount was repaid. As at 31 December 2008 the carrying value of this loan was USD 28 283 thousand, the equivalent of RR 830 955 thousand (2007: RR 30 379 thousand the equivalent of RR 745 678 thousand).The interest rate on the loan is LIBOR + 3% p.a. As at 31 December 2008 the interest rate on the loan was 6.265% p.a.

On 4 April 2008 the Group attracted a loan in the amount of USD 5 000 thousand provided by the Bank of New York, NY to refinance export contracts of the Group’s clients. This loan has a maturity of 30 March 2009 and interest rate of LIBOR + 1.5% p.a. As at 31 December 2008 the carrying value of the loan was USD 5 143 thousand, the equivalent of RR 151 097 thousand. As at 31 December 2009 the interest rate was 4.154%.

On 9 October 2007 the Group attracted the loan from the UniCredit Bank in the amount of USD 1 000 thousand and USD 2 000 thousand with the maturity date 6 April 2009 and 6 October 2008, respectively. As at 31 December 2008 the loan in amount of USD 2 000 thousand was repaid. As at 31 December 2008, the carrying value of this loan was USD 1 011 thousand, the equivalent of RR 29 697 thousand (2007: USD 3 025 thousand, the equivalent of RR 74 249 thousand). The interest rate on the loan is LIBOR + 2.15% p.a. As at 31 December 2007 the interest rates was 6.494% p.a.

22 Other Borrowed Funds (Continued)

In July 2008 a syndicated loan arranged by ABN AMRO Bank N.V. was repaid (2007: the carrying value of this loan was USD 27 871 thousand, the equivalent of RR 684 115 thousand).

The Group should observe certain covenants relating to attraction of syndicated loans, subordinated loans and EBRD funds. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group’s management believes that the Group fully meets all covenants of the loan agreements. (Refer to Note 36).

As at 31 December 2008 the estimated fair value of other borrowed funds was RR 9 199 354 thousand (2007: the carrying value of other borrowed funds approximated their estimated fair value). Refer to Note 37.

Currency and maturity analyses of other borrowed funds are disclosed in Note 34. The information on related party balances is disclosed in Note 38.

23 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2008	2007
Fair value of derivative financial instruments	36	185 766	6 882
Plastic card payables		23 181	24 941
Fair value of guarantees and import letters of credit		22 734	24 337
Settlements on conversion operations		-	769
Provision for losses on credit related commitments		22	83
Total other financial liabilities		**231 703**	**57 012**

The carrying value of all other financial liabilities is approximately equal to their fair value as at 31 December 2008 and 31 December 2007. Refer to Note 37.

Currency and maturity analyses of other financial liabilities are disclosed in Note 34.

24 Other Liabilities

In thousands of Russian Roubles	Note	2008	2007
Commitments to employees		398 484	255 862
Payables		80 339	1 602
Taxes payable other than on income		70 051	20 226
Dividends payable	32	2 626	1 511
Other		45 396	6 355
Total other liabilities		**596 896**	**285 556**

Currency and maturity analyses of other liabilities are disclosed in Note 34.

25 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
As at 1 January 2007	**201 400**	**20 100**	**3 306 129**	**1 925 556**	**177 451**	**5 409 136**
New shares issued	80 750	-	80 750	7 799 894	-	7 880 644
As at 31 December 2007	**282 150**	**20 100**	**3 386 879**	**9 725 450**	**177 451**	**13 289 780**
New shares issued	-	-	-	-	-	
As at 31 December 2008	**282 150**	**20 100**	**3 386 879**	**9 725 450**	**177 451**	**13 289 780**

As at 31 December 2008 nominal registered amount of the Group's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 302 250 thousand (2007: RR 302 250 thousand). At 31 December 2008, all of the Group's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2007: RR 1 per share). Each share carries one vote.

The preference shares have a nominal value of RR 1 (2007: RR 1) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 11% p.a. and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid. Dividend payments on preference shares for the periods where preference shares were given the right to vote are not subsequently compensated from future profit of the Bank.

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

26 Other Reserves

In accordance with the Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2008 are RR 3 745 403 thousand (2007: RR 3 679 549 thousand).

27 Interest Income and Expense

In thousands of Russian Roubles	**2008**	**2007**
Interest income		
Loans and advances to customers	17 491 643	8 407 210
Trading securities	759 645	496 350
Sale and repurchase agreements	498 199	501
Due from banks	329 120	179 143
Investment securities held-to-maturity	41 093	-
Correspondent accounts with banks	10 378	4 570
Other debt securities at fair value through profit or loss	-	88 050
Total interest income	**19 130 078**	**9 175 824**
Interest expense		
Term deposits of legal entities	3 675 661	1 706 248
Term deposits of individuals	2 974 356	1 405 253
Due to banks	922 687	81 903
Bonds issued	862 065	527 482
Other borrowed funds	629 000	390 776
Other debt securities in issue	471 614	275 178
Current/settlement accounts	91 256	121 421
Total interest expense	**9 626 639**	**4 508 261**
Net interest income	**9 503 439**	**4 667 563**

28 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2008**	**2007**
Fee and commission income		
- Commission on settlement transactions	711 847	353 447
- Commission on plastic cards and cheque settlements	311 667	233 107
- Commission on cash transactions	257 671	195 033
- Commission on guarantees and letters of credit issued	284 141	150 460
- Commission on cash collections	74 684	55 371
- Commission on foreign exchange transactions	43 217	42 159
- Commission on custody operations	12 567	7 731
- Commission on underwriting transactions	5 795	26 571
- Other	13 534	1 169
Total fee and commission income	**1 715 123**	**1 065 048**
Fee and commission expense		
- Commission on guarantees and letters of credit	135 233	63 687
- Commission on plastic cards and cheque settlements	78 458	49 310
- Commission on settlement transactions	46 249	43 486
- Commission on banknote transactions	19 911	8 688
- Commission on securities	19 755	4 831
- Commission on foreign exchange transactions	7 968	133
- Other	21 508	5 535
Total fee and commission expense	**329 082**	**175 670**
Net fee and commission income	**1 386 041**	**889 378**

29 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2008	2007
Staff costs		2 060 460	1 313 797
Property rent expenses		249 076	127 545
Depreciation of premises, equipment and amortisation of intangible assets	15	243 403	173 904
Other costs, related to premises and equipment		227 962	161 493
Contributions to deposits insurance system		178 557	98 107
Taxes other than on income		176 830	84 434
Transportation costs		128 579	93 347
Security expenses		126 262	91 768
Advertising and marketing services		74 267	47 643
Postal, cable and telecommunication expenses		61 705	45 758
Charity expenses		40 380	11 518
Professional services		13 346	12 609
Other administrative expenses		270 730	167 102
Total administrative and other operating expenses		**3 851 557**	**2 429 025**

The information on related party transactions is disclosed in Note 38.

30 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2008	2007
Current tax	1 444 035	698 311
Deferred tax	(372 783)	(69 560)
Income tax expense for the year	**1 071 252**	**628 751**

The income tax rate applicable to the majority of the Group's income is 24% (2007: 24%). In accordance with the change in the Russian Tax Code approved by the State Duma (Federal Law №224) on 26 November 2008, starting from 1 January 2009 the income tax rate is 20%.

A reconciliation between the expected and the actual taxation charge is provided below

In thousands of Russian Roubles	2008	2007
Profit before tax	**3 845 018**	**2 637 959**
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	922 804	633 110
- Non deductible expenses	157 234	19 200
- Income tax paid in the current reporting period and related to the prior reporting period	3 725	6 037
- Income on government securities taxed at different rates	(37 441)	(32 375)
- Effect of change in income tax rate	24 930	-
- Other	-	2 779
Income tax expense for the year	**1 071 252**	**628 751**

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

30 Income Taxes (Continued)

In thousands of Russian Roubles	**31 December 2007**	**Charged to profit or loss**	**Charged directly to equity**	**31 December 2008**
Tax effect of deductible temporary differences				
Provision for loan impairment	129 393	181 443	-	310 836
Accrued income/expense	82 538	(8 927)	-	73 611
Fair value of trading and other securities	-	88 087	-	88 087
Valuation of bonds issued at amortised cost	-	29 248	-	29 248
Valuation of other borrowed funds at amortised cost	-	9 458	-	9 458
Valuation of investment securities held-to-maturity at amortised cost	-	5 873	-	5 873
Valuation of due from banks	-	2 426	-	2 426
Other	48 714	16 623	-	65 337
Net deferred tax assets	**260 645**	**324 231**	**-**	**584 876**
Less offsetting with deferred tax liabilities	(260 645)	(324 231)	-	(584 876)
Tax effect of taxable temporary differences				
Premises and equipment	(477 621)	37 974	(191 777)	(631 424)
Fair valuation of trading and other securities	(17 320)	17 320	-	-
Valuation of bonds issued at amortised cost	(11 677)	11 677	-	-
Valuation of other borrowed funds at amortised cost	(2 158)	2 158	-	
Other	**-**	(20 577)	-	(20 577)
Gross deferred tax liability	**(508 776)**	**48 552**	**(191 777)**	**(652 001)**
Less offsetting with deferred tax assets	260 645	324 231	**-**	584 876
Recognised deferred tax liability	**(248 131)**	**372 783**	**(191 777)**	**(67 125)**

30 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2006	Credited to profit or loss	Charged directly to equity	Disposal of subsidiary	31 December 2007
Tax effect of deductible temporary differences					
Provision for loan impairment	128 432	29 879	-	(28 918)	129 393
Accrued income/expense	39 993	42 545	-	-	82 538
Other	5 072	44 641	-	(999)	48 714
Net deferred tax assets	**173 497**	**117 065**	**-**	**(29 917)**	**260 645**
Less offsetting with deferred tax liabilities	(172 931)	(117 065)	-	29 351	**(260 645**)
Recognised deferred tax asset	**566**	**-**	**-**	**(566)**	**-**
Tax effect of taxable temporary differences					
Premises and equipment	(242 710)	(62 841)	(203 145)	31 075	(477 621)
Fair valuation of trading and other securities	(29 224)	11 904	-	-	(17 320)
Valuation of bonds issued at amortised cost	(5 242)	(6 435)	-	-	(11 677)
Valuation of other borrowed funds at amortised cost	(1 533)	(625)	-	-	(2 158)
Other	(10 492)	10 492	-	-	-
Gross deferred tax liability	**(289 201)**	**(47 505)**	**(203 145)**	**31 075**	**(508 776)**
Less offsetting with deferred tax assets	172 931	117 065	-	(29 351)	260 645
Recognised deferred tax liability	**(116 270)**	**69 560**	**(203 145)**	**1 724**	**(248 131)**

31 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

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

In thousands of Russian Roubles	Notes	2008	2007
Profit attributable to the Group’s shareholders		2 773 766	2 009 208
Less: preference dividends	32	(2 211)	(2 211)
Profit attributable to the Bank’s ordinary shareholders		2 771 555	2 006 997
Weighted average number of ordinary shares in issue (thousands)	25	282 150	226 669
Basic and diluted earnings per share (expressed in RR per share)		**9.8**	**8.9**

32 Dividend

	2008		2007	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable as at 1 January	**1 511**	**-**	**475**	**-**
Dividends declared during the year	39 501	2 211	32 396	2 211
Dividends paid during the year	(38 386)	(2 211)	(31 360)	(2 211)
Dividends payable as at 31 December	**2 626**	**-**	**1 511**	**-**
Dividends per share declared during the year (RR per share)	**0.14**	**0.11**	**0.14**	**0.11**

All dividends are declared and paid in Russian Roubles.

33 Segment Analysis

The Group’s primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of three main business segments:

- Corporate banking – representing settlement and current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – representing financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individuals.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on the market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-fo-sale, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

33 Segment Analysis (Continued)

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

In thousands of Russian Roubles	**Corporate banking**	**Operations on financial markets**	**Retail Banking**	**Unallo-cated**	**Eliminations**	**Total**
2008						
External revenues	17 352 085	1 322 727	2 290 053	-	-	**20 964 865**
Revenues from other segments	6 095 549	13 990 594	5 208 077	-	(25 294 220)	**-**
Total revenues	**23 447 634**	**15 313 321**	**7 498 130**	**-**	**(25 294 220)**	**20 964 865**
Total revenues comprise:						
- Interest income	22 121 763	15 282 812	7 019 723	-	(25 294 220)	19 130 078
- Fee and commission income	1 210 619	27 867	476 637	-	-	1 715 123
- Other operating income	115 252	2 642	1 770	-	-	119 664
Segment results	**3 158 309**	**494 240**	**2 166 537**	**-**	**-**	**5 819 086**
Unallocated costs						(1 974 068)
Profit before tax						**3 845 018**
Income tax expense						(1 071 252)
Profit for the year						**2 773 766**
Segment assets	**135 180 351**	**55 189 946**	**19 822 036**	**5 523 056**	**-**	**215 715 389**
Segment liabilities	**95 127 610**	**51 852 521**	**49 033 760**	**896 749**	**-**	**196 910 640**
Other segment items						
Capital expenditures	(659 530)	(110 943)	(447 556)	(1 472 674)	-	(2 690 703)
Depreciation and amortisation charge	(70 016)	(8 708)	(46 753)	(117 926)	-	(243 403)
(Provision)/recovery of provision for loan impairment	(3 049 805)	(25 079)	(321 065)	-	-	(3 395 949)
Charge for provision for impairment through profit or loss	-	(19 840)	-	-	-	(19 840)
Other non-cash expenses	(170 869)	(7 039)	(370 611)	(93 431)	-	(641 950)

33 Segment Analysis (Continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallo-cated	Eliminations	Total
2007						
External revenues	8 421 479	811 951	1 097 201	-	-	**10 330 631**
Revenues from other segments	4 115 061	7 908 033	2 497 056	-	(14 520 150)	**-**
Total revenues	**12 536 540**	**8 719 984**	**3 594 257**	**-**	**(14 520 150)**	**10 330 631**
Total revenues comprise:						
- Interest income	11 743 736	8 676 279	3 275 959	-	(14 520 150)	9 175 824
- Fee and commission income	725 064	43 705	296 279	-	-	1 065 048
- Other operating income	67 740	-	22 019	-	-	89 759
Segment results	**1 813 785**	**1 035 525**	**933 929**	**-**	**-**	**3 783 239**
Unallocated costs						(1 145 280)
Profit before tax						**2 637 959**
Income tax expense						(628 751)
Profit for the year						**2 009 208**
Segment assets	**88 312 289**	**26 443 344**	**10 100 698**	**1 799 881**	**-**	**126 656 212**
Segment liabilities	**65 938 191**	**14 906 375**	**30 215 884**	**590 699**	**-**	**111 651 149**
Other segment items						
Capital expenditures	(316 756)	(35 333)	(185 086)	(580 164)	-	(1 117 339)
Depreciation and amortisation charge	(54 799)	(5 043)	(32 375)	(81 687)	-	(173 904)
(Provision for)/recovery of provision for loan impairment	(910 572)	1 946	(98 260)	-	-	(1 006 886)
Release of provision for impairment through profit or loss	-	-	-	33 566	-	33 566
Other non-cash expenses	(408 331)	(7 964)	(286 243)	(108 356)	-	(810 894)

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

In thousands of Russian Roubles	North-West Region	Moscow	Other regions	Total
2008				
Segment assets	189 715 862	24 451 454	1 548 073	215 715 389
External revenues	18 247 499	2 635 105	82 261	20 964 865
Capital expenditures	(2 667 876)	(15 738)	(7 089)	(2 690 703)
Credit related commitments	13 333 702	501 906	155 795	13 991 403
2007				
Segment assets	109 150 441	17 505 771	-	126 656 212
External revenues	8 932 916	1 397 715	-	10 330 631
Capital expenditures	(1 097 440)	(19 899)	-	(1 117 339)
Credit related commitments	21 166 509	402 003	-	21 568 512

33 Segment Analysis (Continued)

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

34 Financial Risk Management

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

The primary objectives of the financial risk management function are to establish risk limits and other risk restrictions and then ensure that exposure to risks stays within these limits and restrictions. Geographical risk management consists in making decisions about opening new branches and supplementary offices and setting limits for operations with counterparties – residents of countries with different level of economic development with due consideration of geographical risk factors. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Group’s management risk function includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on the economic, business and regulatory changes.

The Group’s main bodies performing the financial risk management functions are: the Supervisory Board, Management Board, Asset and Liability Management Committee, and Credit Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. Accordingly, the Supervisory Board establishes benchmarks which determine the Bank’s risk limits (in particular, the maximum amount of write-offs losses, provisions, concentration of assets by industry etc.). Starting from the second quarter of 2008 the Supervisory Board reviews on a monthly basis the reports submitted by the Bank’s management on implementation of the Bank’s Strategic development plan together with the report on implementation of business indicators of the Bank’s Corporate plan for the current year. Reports on the Bank’s lending operations, which contain information on the credit risk as the Bank’s main financial risk are also reviewed by the Supervisory Board on a monthly basis.

The Management Board is responsible for exercising general control over financial risk management. The Management Board has approved of the Risk Management Policy, the compliance with which is supervised by reviews and approvals of quarterly risk management reports. The said reports are prepared by the Department of Banking Risks and contain the description of the Group’s risk position, both at the consolidated level and exposure to specific risks. The Bank’s Management Board makes decisions on the risks that may be accepted by the Group or on arrangements to maintain the Group as a going concern in case of emergency when the decision-making process is beyond the scope of the Asset and Liability Management Committee and the Credit Committee. Due to deterioration of the financial markets in the fourth quarter of 2008 the Management Board considered the results of stress-tests of the Bank’s risks, liquidity risk and credit risk being the financial risks that the Bank is most exposed to during the financial crisis.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for the credit risk). Weekly, the Asset and Liability Management Committee adopts resolutions on management of the Group’s balance sheet structure and the related liquidity risks, on determining and changing market risk limits. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for the credit risk) and has the right to make decisions on financial risk management in case of emergency.

The Bank’s Technical Policy Committee reviews the issues of management of operational risks, associated with IT infrastructure of the Bank.

The Department of Banking Risks is responsible for the compliance with the Risk Management Policy, monitoring of the cumulative bank exposure level, initiating the development of methods of assessment of certain financial and non-financial risk levels, management procedures for these risks, compliance by the Bank divisions with existing procedures and limits restricting the level of these risks. The Department of Banking Risks coordinates the management of operational and legal risks.

34 Financial Risk Management (Continued)

The Bank's Management Board, Big Credit Committee and Small Credit Committees of the Bank's branch subdivisions are responsible for making decisions on management of the Bank's credit risks. The Bank's Management Board approves the Credit Policy (a document containing guidelines on principles and procedures of credit risk management in the Bank and determining authority of the Bank's Big Credit Committee and Small Credit Committee). The Bank's Big Credit Committee and Small Credit Committees of the branches and the head office adopt resolutions on separate credit risk-related transactions or determine credit risk limits for certain borrowers (within the scope established by the Management Board in the credit policy). Whenever decisions on certain loans are out of the scope of Small Credit Committees, the respective authority is delegated to the Big Credit Committee and the Bank's Management Board.

Since credit risk is the main financial risk of the Group, the current management of the Group's credit risk is mostly performed by its specialized subdivision, the Credit Division, exercising operational control over the credit risk level.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts of the principal debt or interest in full when due.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of respective financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group's overall approach to credit risk management is defined in the Credit Policy, which is annually approved by the Bank's Management Board. The Bank's credit policy reflects the general approach to the Group's credit risk management, credit risk management policy, the respective functions of the Bank's subdivisions, particular aspects of credit risk management for one borrower or a group of related borrowers, and the industry limits in lending operations.

To maintain credit risks at an appropriate level the Group uses the following risk management tools:

For separate borrowers:

- Establishing limits for separate borrowers and groups of related borrowers;
- Assessment of the borrowers' financial position at the moment of the loan application and during the term of the loan;
- Evaluation of the market value of the collateral for a loan, evaluation of financial position of guarantors;
- Control over availability and safety of the pledge, both preliminary (before the pledge agreement is concluded) and subsequent control within the agreement term;
- Control over timely performance of the borrower's obligations to the Bank;
- Defining the credit quality category of the loan, which conforms to the credit risk level.

For the loan portfolio in general:

- Development of uniform procedures and methods of issue of loans and subsequent monitoring of the borrowers, as well as timely obtaining information on the borrowers;
- Control over compliance by the Bank's subdivisions with resolutions adopted by the Bank's competent authorities and internal documents (such as credit policy, internal limits, etc).

34 Financial Risk Management (Continued)

The Group management controls credit risks and the loan portfolio quality based on the following *reporting forms*:

Daily reports which form the basis for management decisions and are submitted to the Credit Director and the Deputy Chairman of the Management Board, responsible for lending operations:

- Changes in the quality categories of loans in the loan portfolio.
- Calculation of credit risk exposure per one borrower or a group of related borrowers.

Weekly and monthly reports submitted for the purposes of meetings conducted by the Bank’s Asset and Liability Management Committee, Management Board and Supervisory Board:

- Calculation of covenants (industry risks, credit exposure of large customers, loans granted to related borrowers, calculation of cumulative loans granted to the Bank’s 20 largest borrowers).
- General structure of the loans issued by the Bank by branches/additional offices;
- Movement of loans (broken down by the loans issued, rolled-over, overdue or repaid);
- Performance of the Bank’s branches/departments in terms of the amount of the loans granted, borrowers’ industries, etc;
- Performance of the Bank in terms of credit products issued to individual and corporate customers.

Decision to grant loans

For credit risk management purposes the Bank adopted a collegial decision-making system for granting loans (except for common loans granted to individuals under the Bank’s target programs). The branches and the head office have Small Credit Committees which grant loans within the established limits. The limits of authority of the Small Credit Committees in branches are determined on the basis of their credit performance in the previous year, the structure and quality of their loan portfolios and qualifications of the employees by subdivision. The specific limits are determined in the Bank’s Credit Policy approved by the Bank’s Management Board.

Decisions on loans beyond the limits of authority of Small Credit Committees is taken by the Credit Committee (preliminary approval of granting the loan with the Small Credit Committee is obligatory). Decisions on loans beyond the limits of authority of Credit Committee, which authority is limited only by the amount of cumulative debt liability of borrowers, is taken by the Bank’s Management Board (preliminary approval of granting the relevant loan with the Small Credit Committee and Credit Committee is obligatory).

The loans to the borrowers related to the Group are granted with prior consent of the Bank’s Supervisory Board.

Limits established by the Group for credit risk management purposes:

1. Limits for separate borrowers and for a group of related borrowers.

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of global financial institutions, which are the Group’s creditors.

34 Financial Risk Management (Continued)

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Bank takes into account all the information the Group managed to obtain. When establishing an individual limit, the Group performs analysis of the financial statements, cash flows, available credit history of each borrower in a group of related borrowers, the need of the group of related borrowers in credit resources, as well as availability of funds for redemption of the loan. Also the Group takes into account the property pledged as collateral for a loan. The Group has established the following priority of collateral based on liquidity of collateral:

1. deposits with the Bank and promissory notes issued by the Bank;
2. real estate;
3. guarantees and sureties of legal entities;
4. fixed assets;
5. other assets.

2. Overall loan portfolio limits.

- Cumulative credit risk exposure to a separate borrower or a group of related borrowers (not exceeding 25% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision in April 1998 (Basel I));
- Amount of loans and advances to borrowers related to the Bank (not exceeding 20% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I));
- Cumulative amount of loans, bank guarantees and sureties provided by the Bank to its shareholders (having the right to 5 and more percent of the Bank's voting stock) - not exceeding 50% of the Bank's equity estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I));
- Amount of overdue loans in the loan portfolio – not exceeding 5%;
- Ratio of the maximum aggregate risk in the real estate and construction sector to the cumulative loan portfolio less than 25%;
- Ratio of the maximum risk in any economic sector to the cumulative loan portfolio of 20%.

For off-balance sheet financial instruments the Group uses the same credit policy as it does for balance sheet financial instruments, including transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any of the Bank's offered products (guarantees, letters of credit, credit facilities, etc.) within the established limit.

The Bank uses the system of limits restricting the maximum debt of counterparty banks when conducting transactions on the interbank lending market and performing purchase and sale of financial assets, including term currency operations when the counterparty bears the credit risk in settlements. The respective limits are established for each financial institution on the basis of its credit quality analysis performed by the Bank's competent collegial bodies (Management Board, Credit Committee). The limits established for resident banks are subject to review at least each quarter. The limits established for non-resident banks are subject to review at least semi-annually.

Starting from the second half of September 2008 the governing bodies of OJSC "Bank "St. Petersburg" took a number of measures, aimed at reducing exposure to credit risks arising on granting and servicing of loans to legal entities and individuals as well as at diversification of loan portfolio by sectors and significant credit exposures, including:

34 Financial Risk Management (Continued)

1. Starting from 6 October 2008 restrictions were introduced in respect of new loan applications from legal entities operating in the following economic sectors: “Construction”, “Real estate operations”. The authority to make the decision on provision of loans/guaranties to legal entities operating in these economic sectors belongs to the Bank’s Management Board. The powers formerly allocated to Credit Committees of supplementary offices and branches, and the Credit Committee of the Bank were restricted. The exceptions are tender participation loans/guaranties, decisions on which are taken by the Credit Committee of the Bank, and loans to small and medium size legal entities, decisions on which are taken by Small Credit Committees of supplementary offices and branches of the Bank irrespective of the economic sector they operate in.

2.The amendments to the Bank’s Credit Policy aimed at toughening the requirements and limiting authority of Credit Committees of supplementary offices and branches of the Bank in taking decisions on loan provision are as follows:

- The list of collateral which is subject to compulsory insurance was expanded;

- Restriction of Small Credit Committees’ authority to:

    - grant loans/guaranties to legal entities without collateral (with the exception of tender participation loans);

    - grant secured loans, which do not belong to the 1 and 2 categories of quality of collateral, determined in accordance with the guideline of CBRF №254-P dated 26 March 2004 “On the formation of reserves against possible losses on loans, credit and equivalent debt by credit organisations”.

    - change initial terms of loan and pledge agreements, as well as of release of collateral.

In addition, certain measures were taken to improve collateral on existing facilities and to bring it in line with new policies.

3. Changes in the Bank’s lending programs for individual borrowers are as follows:

<u>*Car loans:*</u>

- increase of initial contribution up to 30%;

- removal of the possibility to include comprehensive and collision car insurance payments as a part of the loan;

- tightening of requirements in respect of documentation requirements (employment history, earnings certificate only by 2-NDFL, 3-NDFL).

<u>*Mortgage loans:*</u>

- increase of initial contribution up to 25 % for apartments and up to 30 % for dwelling-houses and land properties;

- removal of the possibility to grant a concurrent loan to cover initial contribution.

34 Financial Risk Management (Continued)

Geographical risk. The Group's exposure to geographical risk is limited since substantially all assets and liabilities of the Group are concentrated in the Russian Federation.

Market risks. The Group takes on exposure to the market risks arising from open positions in interest rate, currency and equity products that are exposed to general and specific market movements.

- currency risk (risk of losses due to exchange rate fluctuations);
- interest rate risk (risk of losses due to fluctuations in the levels of market interest rates);
- other price (equity) risk (risk of losses due to movements in quotations of the equity instrument).

The Department of the Banking Risks is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest risk), management procedures for these risks, and for identification and analysis of the current risk level. The management procedure for currency and other price (equity) risk was significantly updated in May 2008 when the Bank's Management Board approved "Regulation of management of risks, arising from operations with financial market instruments". The Department of the Banking Risks reports to the Group's management on a regular basis. The review of the main risks is communicated to the Bank's management and the Asset and Liability Management Committee of the Bank.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest risk.

Market risk management is defined as a method of limitation of possible losses which can be incurred for by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of limits on transactions, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed) and monitoring their further compliance.

Currency risk. Currency risk is the risk of changes in income or carrying value of the Group's financial instrument portfolio due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee (the Department of the Banking Risks prepares estimates for these limits). The Operational Department (back-office) currently monitors the Bank's compliance with the limits set.

For currency management purposes the Group uses the system of mandatory limits established by the CBRF, including limits on open position of the Bank in a foreign currency (up to 10% of the equity estimated in compliance with the CBRF) and the limit on the open position in all foreign currencies (up to 20% of the equity estimated in compliance with the CBRF).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euros) below the currency exposure limits established by the CBRF.

In addition the Asset and Liability Management Committee sets a number of additional limits (restrictions) on the amount of market risks for financial market instruments, through which the Bank is exposed to currency risk.

34 Financial Risk Management (Continued)

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2008. The Group does not apply the presented currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
Assets					
Cash and cash equivalents	13 022 590	14 442 415	9 340 213	36 108	36 841 326
Mandatory cash balances with the CBRF	212 921	-	-	-	212 921
Trading securities	1 396 639	1 295 746	-	-	2 692 385
Securities pledged under sale and repurchase agreements	1 470 526	-	-	-	1 470 526
Due from banks	4 428 663	774 845	13 972 356	-	19 175 864
Loans and advances to customers	114 536 137	26 222 624	4 123 740	-	144 882 501
Investment securities held-to-maturity	777 591	-	-	-	777 591
Other financial assets	183 621	14 544	16 396	-	214 561
Premises and equipment	6 945 944	-	-	-	6 945 944
Intangible assets	974	-	-	-	974
Other assets	347 213	14 771	827	-	362 811
Long-term assets held-for-sale	2 137 985	-	-	-	2 137 985
Total assets	**145 460 804**	**42 764 945**	**27 453 532**	**36 108**	**215 715 389**
Liabilities					
Due to banks	31 631 760	669 958	17 913	458	32 320 089
Customer accounts	97 200 435	24 475 408	18 128 629	20 007	139 824 479
Other debt securities in issue	3 717 881	396 583	222 427	-	4 336 891
Bonds issued	1 001 368	8 932 213	-	-	9 933 581
Other borrowed funds	-	8 078 377	1 520 474	-	9 598 851
Other financial liabilities	209 056	1 730	20 917	-	231 703
Income tax liabilities	1 025	-	-	-	1 025
Deferred income tax liability	67 125	-	-	-	67 125
Other liabilities	563 179	33 654	63	-	596 896
Total liabilities	**134 391 829**	**42 587 923**	**19 910 423**	**20 465**	**196 910 640**
Less fair value of currency derivatives	119 424	-	-	-	119 424
Net balance sheet position, excluding currency derivatives	**11 188 399**	**177 022**	**7 543 109**	**15 643**	**18 924 173**
Currency derivatives (Note 36)	**8 419 723**	**(1 344 940)**	**(7 194 207)**	**-**	**(119 424)**
Net balance sheet position, including currency derivatives	**19 608 122**	**(1 167 918)**	**348 902**	**15 643**	**18 804 749**

34 Financial Risk Management (Continued)

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2007. The Group does not apply the presented currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
Assets					
Cash and cash equivalents	5 665 183	2 865 412	1 047 342	34 511	9 612 448
Mandatory cash balances with the CBRF	1 551 913	-	-	-	1 551 913
Trading securities	7 576 519	4 074 171	-	-	11 650 690
Securities pledged under sale and repurchase agreements	517 834	-	-	-	517 834
Amounts receivable under reverse repurchase agreements	916 651	-	-	-	916 651
Due from banks	1 615 624	3 760 262	1 360 995	-	6 736 881
Loans and advances to customers	73 725 930	15 912 001	2 092 203	-	91 730 134
Other financial assets	154 676	110	245	-	155 031
Prepaid income tax	93 946	-	-	-	93 946
Premises and equipment	3 433 461	-	-	-	3 433 461
Intangible assets	1 016	-	-	-	1 016
Other assets	254 394	605	27	1 181	256 207
Total assets	**95 507 147**	**26 612 561**	**4 500 812**	**35 692**	**126 656 212**
Liabilities					
Due to banks	613 700	55 443	7 550	573	677 266
Customer accounts	78 146 564	6 447 650	4 128 205	6 353	88 728 772
Bonds issued	999 055	5 588 167	-	-	6 587 222
Other debt securities in issue	7 100 073	179 115	146 115	-	7 425 303
Other borrowed funds	-	7 641 887	-	-	7 641 887
Other financial liabilities	36 486	2 337	18 189	-	57 012
Deferred income tax liability	248 131	-	-	-	248 131
Other liabilities	283 202	2 354	-	-	285 556
Total liabilities	**87 427 211**	**19 916 953**	**4 300 059**	**6 926**	**111 651 149**
Less fair value of currency derivatives	(10 169)	-	-	-	(10 169)
Net balance sheet position, excluding currency derivatives	**8 069 767**	**6 695 608**	**200 753**	**28 766**	**14 994 894**
Currency derivatives (Note 36)	**7 730 036**	**(7 325 320)**	**(394 547)**	**-**	**10 169**
Net balance sheet position, including currency derivatives	**15 799 803**	**(629 712)**	**(193 794)**	**28 766**	**15 005 063**

34 Financial Risk Management (Continued)

The table below summarises the foreign currency exchange rate risk for the Group's monetary financial instruments as at 31 December 2008 and 31 December 2007:

In thousands of Russian Roubles	As at 31 December 2008				As at 31 December 2007			
	Monetary financial assets	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Russian Roubles	135 994 692	133 760 500	8 419 723	**10 653 915**	90 914 153	86 895 878	7 730 036	**11 748 311**
US Dollars	42 750 174	42 554 269	(1 344 940)	**(1 049 035)**	26 611 956	19 914 599	(7 325 320)	**(627 963)**
Euros	27 452 705	19 910 360	(7 194 207)	**348 138**	4 500 785	4 300 059	(394 547)	**(193 821)**
Other	36 108	20 465	-	**15 643**	34 511	6 926	-	**27 585**
Total	**206 233 679**	**196 245 594**	**(119 424)**	**9 868 661**	**122 061 405**	**111 117 462**	**10 169**	**10 954 112**

The currency derivatives position in each column represents the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents fair value of the derivatives.

An analysis of sensitivity of the Bank's net income (and equity) to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

In thousands of Russian Roubles	**As at 31 December 2008**
5% appreciation of USD against RR	(44 380)
5% depreciation of USD against RR	44 380
5% appreciation of Euro against RR	13 258
5% depreciation of Euro against RR	(13 258)

In thousands of Russian Roubles	**As at 31 December 2007**
5% appreciation of USD against RR	(31 398)
5% depreciation of USD against RR	31 398
5% appreciation of Euro against RR	(9 691)
5% depreciation of Euro against RR	9 691

Movements in other currencies' exchange rates will have no material effect on the profit or loss of the Group.

34 Financial Risk Management (Continued)

In 2008 the governing bodies (the management) of OJSC "Bank "St. Petersburg" took a number of measures in order to reinforce the currency risk management system, including:

- The major internal Bank's document determining the currency risk management procedure was amended;

- In April 2008 the Asset and Liability Management Committee set tighter internal limits on the amount of open currency position tougher than those set by the CBRF, including open currency position limits in principal currencies and limits on the amount of positions on forward currency contracts (forward currency positions).

Since November 2008 the Bank has followed the CBRF recommendations relating to reduction of long open currency positions and undesirability of changing short currency positions to long ones for certain currencies.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. As a result of such changes interest margins may reduce and the Group's profit may decrease.

The table below summarises the effective interest rates by currency for major debt instruments. The analysis has been prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

	2008				2007			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	1.34	0.00	0.04	0.00	0.0	6.54	5.53	0.00
Debt trading securities	13.30	5.60	-	-	7.82	5.53	-	-
Securities pledged under sale and repurchase agreements	14.00	-	-	-	-	6.30	-	-
Due from banks	20.85	3.58	2.06	-	5.31	4.94	4.21	-
Loans and advances to customers	15.22	13.29	14.50	-	13.10	12.50	12.10	-
Investment securities held-to-maturity	17.6	-	-	-	-	-	-	-
Liabilities								
Due to banks	12.66	7.78	-	-	5.02	3.99	-	0.00
Customer accounts								
- current and settlement accounts	1.14	0.12	0.08	0.68	0.11	0.02	0.05	0.00
- term deposits								
- individuals	11.06	9.34	8.23	-	9.29	8.53	7.69	-
- legal entities	11.11	7.95	7.17	-	8.38	8.96	7.10	-
Bonds issued	11.27	10.80	-	-	9.61	10.90	-	-
Other debt securities in issue	10.47	11.01	3.94	-	8.03	9.73	1.24	-
Other borrowed funds	-	8.00	14.50	-	-	8.51	-	-

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

34 Financial Risk Management (Continued)

Interest rate risk management represents management of the Group's assets and liabilities to maximize profit and reduce losses from possible fluctuations of the interest rates and the balance sheet structure. The Group believes that interest rate risk management is an important part of the Group management, which significantly affects the Group's financial performance.

The Group's interest rate risk management is performed by the following bodies:

- Management Board – in terms of strategic management of the balance sheet structure;

- Asset and Liability Management Committee – in terms of approval and control over the structure of the assets and liabilities, management of interest rates and portfolio of securities, approval of methods (procedures) of the interest rate risk evaluation;

- Treasury Department – in terms of evaluation of the Group's exposure to the interest rate risks; current management of the balance sheet structure, short-term asset management, definition of interest rate risk levels acceptable for the Group and making interest rate risk management proposals to the Asset and Liability Management Committee.

In case the existing interest rate movement forecast predicts a significant reduction of the Group's net interest margin, the Asset and Liability Management Committee makes decisions to regulate the interest rate risk level. The regulation arrangements of the Group may include:

- alterations in the size and structure of the fixed-income investment portfolio as an instrument to facilitate rapid change of the interest rate risk position;

- changes in base interest rates to manage the structure of assets and liabilities;

- changes in the share of the floating rate instruments in assets and liabilities.

For management purposes the Group sets the forecasted change in the net interest income in case of movement in the rate of the benchmark market instrument of one percentage point as an interest rate risk criterion. As the benchmark instrument the Group uses Russian Federation bonds as it reflects the current interest rates in the national economy of the Russian Federation.

On the basis of the pricing mechanism for the market securities with fixed income, when the market level of interest rates is changed, a fast (one off) change of net interest income takes place related to revaluation of such securities portfolio as a response to movement in the market level of interest rates. The further revision of rates on other assets and liabilities sensitive to changes in interest rates is extended for a certain period and on the basis of the Bank's asset and liability structure by maturity and according to the existing practice of interest rate revision, it is normally completed within 180 days.

For a 30-day period the Group considers the changes in the net interest income for the first month from the date of movement in the market interest rates. For a 180-day period the Group considers the change of the net interest income for the sixth month from the date of movement in the market interest rates. Since all interest rates on financial assets and liabilities will be revised subject to compliance with the uniformity interest rate revision assumptions, the Group will evaluate its general exposure to the interest rate risk as "exposure to the interest rate risk within the period of 30 days + 5/2 of the exposure to the interest rate risk within the period of 180 days". The Group's exposure to the interest rate risk is determined separately for Russian Roubles and foreign currencies.

An analysis of sensitivity of the fair value of the Group's debt securities, which form part of the Group's trading portfolio and other securities at fair value through profit or loss of the Bank based on a change in the interest rates during the next reporting year, assuming that all other variables remain unchanged is as follows.

34 Financial Risk Management (Continued)

As at 31 December 2008:

In thousands of Russian Roubles	
100 bp parallel rise	
Trading securities	(16 485)
Securities pledged under sale and repurchase agreements	(13 905)
Total	**(30 390)**
100 bp parallel fall	
Trading securities	16 485
Securities pledged under sale and repurchase agreements	13 905
Total	**30 390**

As at 31 December 2007:

In thousands of Russian Roubles	
100 bp parallel rise	
Trading securities	(472 950)
Securities pledged under sale and repurchase agreements	(18 478)
Total	**(491 428)**
100 bp parallel fall	
Trading securities	472 950
Securities pledged under sale and repurchase agreements	18 478
Total	**491 428**

Identifying the deterioration in the Russian financial market in August and early September 2008, the Bank noted the growth of interest rate risks and took timely measures to reduce the debt securities portfolio (primarily bonds with long-term maturity/ repurchase offer)

The following table presents the Group’s exposure to the movement in the net interest income from fixed and floating rate financial instruments (except for the debt securities which form part of the Group’s trading portfolio and other securities recorded at fair values through profit or loss) based on forecasted movements in interest rates of financial assets and liabilities for the next reporting period, with all other variables held constant.

34 Financial Risk Management (Continued)

As at 31 December 2008:

In thousands of Russian Roubles	**Interest rate movement**	**Net interest income movement**
Due from banks	(0,36%)	(41 190)
Loans and advances to customers	(0,36%)	(257 345)
Due to banks	(0,33%)	68 354
Customer accounts	(0,33%)	162 587
Bonds issued	(0,09%)	9 175
Other debt securities in issue	(0,33%)	7 102
Other borrowed funds	(0,38%)	71 483
Total net interest income movement		**20 166**

As at 31 December 2007:

In thousands of Russian Roubles	**Interest rate movement**	**Net interest income movement**
Loans and advances to customers	0,5%	205 532
Customer accounts	(0,2%)	80 707
Bonds issued	(0,5%)	10 958
Other debt securities in issue	(0,2%)	9 941
Other borrowed funds	(0,5%)	25 757
Total net interest income movement	**-**	**332 895**

In 2007 the Group did not evaluate the movement of the net interest income/(expenses) from correspondent accounts, due from and to banks since the Group management forecasted a zero movement in the interest rate for these instruments.

Other price (equity) risk. The Group takes on exposure to the risk of the movements in quotations of the equity instruments, purchased by the Group.

The Department of Financial Markets Operations currently manages the open equity positions and the corresponding derivative financial instruments within the limits set by the Asset and Liability Management Committee.

The Asset and Liability Management Committee sets the limits restricting possible losses related to the effects of the equity risk: cumulative limit for the amount of open equity positions, individual limits for the amount of open equity position for each issuer, "stop-loss" limit.

If the risk becomes material the mitigation arrangements are determined by the Management Board.

The limits are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments.

The Operational Department (back-office) currently monitors the Bank's compliance with equity limits.

The Department of Banking Risks controls the equity risk on a daily basis and reports to the Asset and Liability Management Committee the results of the estimates which show whether the set limits may be exceeded in case of a continuous unfavourable situation on the equity market, as well as the matters related to possible equity risk mitigation in transactions with a certain group of equity instruments.

34 Financial Risk Management (Continued)

An analysis of sensitivity of the Bank’s net income (and equity) to changes in securities prices based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in securities prices is as follows:

In thousands of Russian Roubles	**As at 31 December 2008**
5% increase in securities prices	1 292
5% decrease in securities prices	(1 292)

In thousands of Russian Roubles	**As at 31 December 2007**
5% increase in securities prices	40 509
5% decrease in securities prices	(40 509)

The following instruments are applied to manage the equity risk:

- Diversification of the portfolio of equity securities, including setting limits on different types of equity securities;
- Setting and monitoring compliance with cumulative and individual limits for equity instruments;
- Setting and monitoring compliance with the “stop-loss” limits to reduce the losses of the Group.

Identifying the deterioration of the Russian financial market in August 2008, the Group took the following measures to manage equity risk: sharp decrease (or in some cases - closing) of limits on issuers’ equity instruments, where stability was questioned or which were characterized by high volatility or a sharp decrease in the market liquidity; increase in the discount for reverse repurchase agreements to 25% with maturity decreased to 1 working day.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group’s customers.

34 Financial Risk Management (Continued)

The Group seeks to maintain a diversified and stable structure of liabilities, which comprise primarily issued debt securities, long-term and short-term deposits of banks, corporate and retail customer deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts provide a long-term and stable source of funding for the Group.

The Group has established a multi-level liquidity management system. On a daily basis the Treasury Department controls the Group’s liquidity position. The long-term liquidity is forecasted by the Asset and Liability Management Committee. In some cases decisions on liquidity may be made by the Management and Supervisory Boards who also control the general liquidity of the Group.

Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group’s activity the management may demand higher amounts of liquidity, if required. In the third quarter of 2008 the Group’s management decided to raise the requirements in respect of liquid assets, which allowed the Bank to maintain sufficient liquid assets for timely performance of obligations and maintaining adequate liquidity ratio during the financial crisis in the third and fourth quarter of 2008.

The Group’s management applies the following main instruments of liquidity management:

- In the short term the most effective way to manage liquidity is to manage the volume and structure of liquid assets. The management of the Group maintains a portfolio of liquid assets (including trading securities) which can be used for prompt and loss-free repayment of the Bank’s debt;

- In certain cases the management may impose restrictions on some transactions to regulate the Group’s balance sheet structure. The limits are set when other instruments of liquidity management are insufficient to maintain liquidity;

- Raising long-term funds. During 2008 and 2007, the Group raised significant amounts on the global long-term debt and equity markets. Refer to Notes 20 and 22.

The Group’s liquidity management policy includes the following:

- Daily forecasts of cash flows by currencies and calculation of the cash-flow related amount of current liquidity reserves;

- Management of concentration and structure of borrowed funds;

- Development of liquidity maintenance plans;

- Diversification of the funding sources;

- Control over compliance of the Group with the statutory liquidity requirements;

- Setting interest rates for raising/granting funds by instruments and periods.

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis and includes daily estimates of the level of liquid assets necessary to settle obligations of the Bank to customers and counterparties in full as they fall due. It is implemented based on statistical and chronological analysis of the balances on customers’ current accounts, forecasted guaranteed random customer deposits in correspondent accounts, movement of funds on accounts, analysis and processing of the information on the Bank’s obligations and requirements under term contracts in short-term periods. The received analytical data serves as a basis for management of the Bank’s liquidity position and replenishment of the payment cycle of the Bank and its customers with funds from liquid assets.

34 Financial Risk Management (Continued)

Medium-term liquidity (for the period of up to 3 months) monitoring ensures creation of the asset portfolio which may fully cover (with a certain emergency reserve) all needs of the current liquidity management within the planning time horizon.

Long-term liquidity (over 3 months) monitoring is based on analysis of the Group's liquidity gaps. The Group developed an analytical form to evaluate the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity. For example, for current accounts of customers the Group uses the statistical data on sustainability, and for securities – possible periods of selling portfolios without losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. The management analyses net liquidity gap and cumulative liquidity gap.

The following tables are based on the above principles and show distribution of assets and liabilities as at 31 December 2008 and 31 December 2007 by expected maturity periods. This table is prepared by the Group for management purposes on the basis of accounting data prepared under the Russian Accounting Principles.

As at 31 December 2008:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
Assets	75 481 917	57 999 468	46 385 449	39 028 913	218 895 747
Liabilities and equity	69 713 884	57 692 886	24 279 756	67 209 221	218 895 747
Net liquidity gap	5 768 033	306 582	22 105 693	(28 180 308)	
Cumulative liquidity gap	5 768 033	6 074 615	28 180 308		

As at 31 December 2007:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
Assets	36 032 398	24 674 595	36 403 345	30 146 250	127 256 588
Liabilities and equity	37 750 195	23 012 513	20 279 524	46 214 356	127 256 588
Net liquidity gap	(1 717 797)	1 662 082	16 123 821	(16 068 106)	
Cumulative liquidity gap	(1 717 797)	(55 715)	16 068 106		

When performing its operating activity the Bank also focuses on compliance with the requirements of the CB RF on maintaining the minimum sufficient (maximum allowable) ratios of instant (up to 1 day), current (up to 30 days) and long-term (over 1 year) liquidity. These ratios are:

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

According to the Group's management view based on daily calculations of the Treasury Department, within 2008 and 2007 the Bank complied with the liquidity ratios established by the CBRF.

34 Financial Risk Management (Continued)

The tables below shows assets and liabilities as at 31 December 2008 and 31 December 2007 by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration. Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and based on management's view that it is a reasonable fairer portrayal of the Group's liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of the respective liabilities are also included within this category.

The liquidity position of the Group at 31 December 2008 prepared under IFRS is set out below. The Group does not use the presented analysis by contractual maturity for liquidity management purposes.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	36 841 326	-	-	-	-	36 841 326
Mandatory cash balances with the CBRF	212 921	-	-	-	-	212 921
Trading securities	2 692 385	-	-	-	-	2 692 385
Securities pledged under sale and repurchase agreements	1 470 526	-	-	-	-	1 470 526
Due from banks	16 289 612	1 993 181	277 576	600 619	14 876	19 175 864
Loans and advances to customers	8 880 603	54 840 163	45 890 167	25 871 524	9 400 044	144 882 501
Investment securities held-to-maturity	-	235 386	441 293	100 912	-	777 591
Other financial assets	66 551	94 032	-	-	53 978	214 561
Premises and equipment	-	-	-	-	6 945 944	6 945 944
Intangible assets	-	-	-	-	974	974
Other assets	135 485	69 739	13 322	72 634	71 631	362 811
Long-term assets held-for-sale	-	-	2 137 985	-	-	2 137 985
Total assets	**66 589 409**	**57 232 501**	**48 760 343**	**26 645 689**	**16 487 447**	**215 715 389**
Liabilities						
Due to banks	14 952 490	17 367 599	-	-	-	32 320 089
Customer accounts	58 840 493	51 712 552	27 097 496	2 107 848	66 090	139 824 479
Bonds issued	-	1 001 368	3 679 561	2 231 591	3 021 061	9 933 581
Other debt securities in issue	1 385 777	1 579 854	1 135 566	235 694	-	4 336 891
Other borrowed funds	-	1 047 725	2 481 956	4 353 701	1 715 469	9 598 851
Other financial liabilities	209 004	1 210	721	15 161	5 607	231 703
Income tax liabilities	-	1 025	-	-	-	1 025
Deferred income tax liability	-	-	-	67 125	-	67 125
Other liabilities	197 026	398 693	1 177	-	-	596 896
Total liabilities	**75 584 790**	**73 110 026**	**34 396 477**	**9 011 120**	**4 808 227**	**196 910 640**
Net liquidity gap	**(8 995 381)**	**(15 877 525)**	**14 363 866**	**17 634 569**	**11 679 220**	**18 804 749**
Cumulative liquidity gap as at 31 December 2008	**(8 995 381)**	**(24 872 906)**	**(10 509 040)**	**7 125 529**	**18 804 749**	

34 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2007 prepared under IFRS is set out below.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	9 612 448	-	-	-	-	9 612 448
Mandatory cash balances with CBRF	1 551 913	-	-	-	-	1 551 913
Trading securities	11 650 690	-	-	-	-	11 650 690
Securities pledged under sale and repurchase agreements	517 834	-	-	-	-	517 834
Amounts receivable under reverse repurchase agreements	916 651	-	-	-	-	916 651
Due from banks	6 666 881	70 000	-	-	-	6 736 881
Loans and advances to customers	10 411 635	28 031 756	31 991 062	17 936 254	3 359 427	91 730 134
Other financial assets	143 667	24	-	-	11 340	155 031
Prepaid income tax	-	93 946	-	-		93 946
Premises and equipment	-	-	-	-	3 433 461	3 433 461
Intangible assets	-	-	-	-	1 016	1 016
Other assets	87 645	56 299	31 267	36 066	44 930	256 207
Total assets	**41 559 364**	**28 252 025**	**32 022 329**	**17 972 320**	**6 850 174**	**126 656 212**
Liabilities						
Due to banks	486 439	190 827	-	-	-	677 266
Customer accounts	44 196 665	30 801 753	12 386 553	1 343 801	-	88 728 772
Bonds issued	-	999 055	-	3 065 263	2 522 904	6 587 222
Other debt securities in issue	2 048 036	4 056 727	1 164 695	155 845	-	7 425 303
Other borrowed funds		2 510 013	1 971 165	2 911 074	249 635	7 641 887
Other financial liabilities	32 957	4 322	10 458	3 259	6 016	57 012
Deferred income tax liability	-	-	-	248 131	-	248 131
Other liabilities	45138	239 353	544	521	-	285 556
Total liabilities	**46 809 235**	**38 802 050**	**15 533 415**	**7 727 894**	**2 778 555**	**111 651 149**
Net liquidity gap	**(5 249 871)**	**(10 550 025)**	**16 488 914**	**10 244 426**	**4 071 619**	**15 005 063**
Cumulative liquidity gap as at 31 December 2007	**(5 249 871)**	**(15 799 896)**	**689 018**	**10 933 444**	**15 005 063**	

Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

According to current legislation individuals can withdraw their deposits placed before contractual maturity, in this case the interest rate on their deposits will equal interest rate on demand deposits effective on the date of withdrawal.

Management of the Group believes that the committed unused credit lines it has available, as well as the stability of customer accounts will fully cover the liquidity gap in the tables above.

34 Financial Risk Management (Continued)

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

The Group provides an opportunity to the majority of its borrowers to roll-over credit agreements. Many of the loans are issued for project finance and the term of the roll-over is separately specified in the loan agreement. In accordance with its credit policy the Group issues short-term loans, with the possibility of their further prolongation to finance medium - and long-term projects of borrowers. Customers can extend the maturity of the loans, subject to approval by the Credit Committee and/or the Management Board. Most borrowers of the Group take the opportunity to prolong their loans, and this is regularly approved by the Bank’s Management Board. For such transactions contractual maturity of loans is shorter than their expected maturity which may have a negative impact on the liquidity position of the Group presented above.

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

The main differences between liquidity tables prepared under IFRS by contractual maturity and the above tables prepared by the Group for management purposes are as follows:

1. The total balance sheet value differs by the provision for loan impairment of loans and advances to customers recorded by the Group on the liabilities side for management purposes, whereas for the purposes of IFRS financial statements the amount of loans and advances to customers is reduced by the provision;

2. For management purposes the Group accounts for mandatory cash balances with the CBRF as an asset, retiring in more than one year since the Group may not use these resources to cover the creditors’ demands;

3. For management purposes the loans and advances to customers are recorded by contractual maturity of the total loan amounts when they fall due, whereas for the purposes of IFRS financial statements the loans are broken down by tranches, which is specifically relevant for the loans granted to individuals and repaid by equal monthly installments;

4. The Bank also applies internal methods to determine the maturity of current accounts and deposits on demand since these deposits are considered to be a long-term source of funding of the Group’s transactions. Therefore, the current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for Group management purposes.

34 Financial Risk Management (Continued)

The tables below show distribution of liabilities as at 31 December 2008 and 31 December 2007 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the balance sheet amounts which are based on discounted cash flows. The Bank does not apply the presented analysis by undiscounted cashflows in liquidity management.

As at 31 December 2008:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	15 060 984	18 167 529	-	-	-	**33 228 513**
Customer accounts	59 307 327	54 207 941	28 857 149	2 250 468	102 027	**144 724 912**
Bonds issued	154 497	1 337 209	4 103 934	3 551 410	4 175 763	**13 322 813**
Other debt securities in issue	1 397 712	1 666 155	1 237 753	264 319	-	**4 565 939**
Other borrowed funds	58 945	1 242 811	2 785 915	5 174 712	1 723 122	**10 985 505**
Other financial liabilities	159 348	49 599	-	-	-	**208 947**
Derivative financial instruments						
- inflow	(6 798 509)	-	-	-	-	**(6 798 509)**
- outflow	6 782 431	-	-	-	-	**6 782 431**
Total undiscounted future cash flows to settle financial liabilities	**76 122 735**	**76 671 244**	**36 984 751**	**11 240 909**	**6 000 912**	**208 020 551**
Irrevocable undrawn credit lines	-	499	-	-	**-**	**499**
Total future cash flows	**76 122 735**	**76 671 743**	**36 984 751**	**11 240 909**	**6 000 912**	**207 021 050**

34 Financial Risk Management (Continued)

As at 31 December 2007:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	486 890	193 758	-	-	-	**680 648**
Customer accounts	44 303 999	31 531 577	13 315 456	1 570 520	-	**90 721 552**
Bonds issued	131 940	1 286 192	279 713	4 413 155	3 765 874	**9 876 874**
Other debt securities in issue	2 049 406	4 159 715	1 251 377	166 142	-	**7 626 640**
Other borrowed funds	1 355	2 798 127	2 169 488	3 609 423	277 068	**8 855 461**
Other financial liabilities	32 592	-	-	-	-	**32 592**
Total undiscounted future cash flows to settle financial liabilities	**47 006 182**	**39 969 369**	**17 016 034**	**9 759 240**	**4 042 942**	**117 793 767**
Irrevocable undrawn credit lines	-	449	1 256	50	**-**	**1 755**
Total future cash flows	**47 006 182**	**39 969 818**	**17 017 290**	**9 759 290**	**4 042 942**	**117 795 522**

35 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the Basel Prudential Requirements for Banks (Basel I).

(i) Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above 10%. Regulatory capital is based on the Bank's reports prepared under Russian statutory accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Total capital	23 743 006	17 786 779
Total regulatory capital	13.0%	15.7%

Compliance with the capital adequacy ratio set by the CBRF is monitored monthly with reports containing its calculation reviewed and signed by the Bank's Deputy Chairman of the Management Board and Chief Accountant, as well as daily with calculations of the Treasury Department.

The Group's management believes that during 2007 and 2008 the capital adequacy ratio was not below the set minimum level.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Bank's Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank is planning its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Banks determines the sources of its increase: borrowings on capital markets, share issue and the scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved by the following collegial management bodies in order of the established priority: the Asset and Liability Management Committee, Management Board, Supervisory Board of the Bank.

35 Management of Capital (Continued)

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan of increasing of assets. In some cases the management uses administrative measures to influence the balance sheet structure through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

(iii) According to the loan agreements with its creditors the Bank has a commitment to maintain the minimum capital adequacy ratio of at least 11%, which is calculated under the requirements of Basel I (refer to Note 36).

This ratio is calculated on a quarterly basis; the forecasted amount of capital and capital adequacy are defined by the Bank’s Strategic Development Plan which takes into account compliance with the capital adequacy requirements.

The composition of the Group’s capital calculated in accordance with Basel I is as follows:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Capital	**24 225 253**	**18 505 482**
Tier 1	**16 595 125**	**13 863 071**
Paid-in share capital	3 564 330	3 564 330
Reserves and profit	13 030 795	10 298 741
Including:		
- Share premium	9 725 450	9 725 450
- Retained earnings	3 305 345	573 291
Tier 2	**7 630 128**	**4 642 411**
Revaluation reserves	2 209 624	1 141 992
Subordinated loans	5 420 504	3 500 419
Risk weighted assets	**171 203 414**	**112 735 292**
Risk weighted balance sheet assets	162 035 478	97 941 613
Risk weighted trade assets	5 203 563	9 719 335
Risk weighted off-balance-sheet assets	3 964 373	5 074 344
Total capital adequacy ratio	**14.15%**	**16.41%**
Total tier 1 capital	**9.69%**	**12.30%**

The Group was in compliance with the minimum capital adequacy ratio agreed on with the creditors of the Bank during 2008 and 2007.

Due to the development of financial crisis and subsequent wider economic crisis in the Russian Federation in the fourth quarter of 2008 the Group changed its approach to capital planning for 2009. In developing the basic scenario of the Group’s development in the altered macroeconomic environment it has factored in increased provisions for losses on loan receivables. This has resulted in the necessity to increase the Group’s capital. In December 2008 the Group decided to attract a subordinated loan from one of the Group’s shareholders. For further information refer to Note 22.

36 Contingencies, Commitments and Derivative Financial Instruments

Litigation. From time to time and in the normal course of business, third parties' claims against the Group are received. On the basis of its own estimates and internal professional advice the management is of the opinion that no material losses will be incurred in respect of known claims and accordingly no loss provision has been made in these consolidated financial statements.

Tax legislation. Russian tax 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 Group may be challenged by the relevant regional and federal authorities.

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for potential tax liabilities was recorded (2007: no provision).

Capital expenditure commitments. At 31 December 2008 the Group had contractual capital expenditure commitments in respect of reconstruction and purchase of premises totalling RR 370 078 thousand (2007: RR 214 216 thousand). In 2008 the Group allocated the necessary resources in respect of these commitments. Management believes that future net income and funding will be sufficient to cover this and any similar commitments.

In addition during 2007, the Group's management decided to construct new premises for the Head Office scheduled to be completed by the end of 2010. The Group's committed capital expenditure on construction of the new Head Office building amounts to RR 5 188 000 thousand (2007: RR 3 200 000 thousand).

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

In thousands of Russian Roubles	**2008**	**2007**
Within 1 year	132 715	58 901
Later than 1 year and not later than 5 years	113 349	133 108
Total operating lease commitments	**246 064**	**192 009**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country, in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, changes in the shareholders structure, limits on use of assets and some agreements;

36 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with the Group's related and unrelated parties, the share of overdue balances in the Group's credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the Group's expenditure pattern;

Reporting requirements, obliging the Group to provide its audited financial statements to the lender, as well as certain additional information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to credit risk as at the year end in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2008**	**2007**
Revocable undrawn credit lines	5 263 884	13 124 163
Guarantees issued	2 763 063	4 227 330
Import letters of credit	5 963 957	4 215 264
Irrevocable undrawn credit lines	499	1 755
Total credit related commitments	**13 991 403**	**21 568 512**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. As at 31 December 2008, estimated fair value of guarantees and letters of credit amount to RR 22 734 thousand (2007: RR 24 337 thousand). Refer to Note 37.

As at 31 December 2008, customer accounts include deposits amounting to RR 2 091 303 thousand representing security on irrevocable liabilities on import letters of credit (2007: RR 1 347 709 thousand). Refer to Note 19.

36 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not its assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover was provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2008 Nominal value	2007 Nominal value
Corporate shares held in custody of:		
- Petersburg Central Registration Company	-	170 159
- Depository Clearing Company	282	573
- National Depository Centre	1 783	60
- other registrars and depositories	311 446	72 446
- registers of share issuers	172 054	172 123
Municipal bonds held in custody of:		
- St Petersburg Settlement and Depository Centre	58	58

Derivative financial instruments. Contracts on currency derivative financial instruments entered into by the Group have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards and futures contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after 31 December 2008. The contracts are short term in nature.

In thousands of Russian Roubles		2008		2007	
		Net asset forwards	Net liability forwards	Net asset forwards	Net liability forwards
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		3 721 043	532 710	1 837 801	149 732
- USD payable on settlement (-)		(1 716 510)	(4 554 006)	(3 718 749)	(5 888 658)
- Euros receivable on settlement (+)		-	636 249	-	475 037
- Euros payable on settlement (-)		(2 689 438)	-	(794 124)	(75 460)
- RR receivable on settlement (+)		1 934 047	3 737 760	4 491 467	5 742 313
- RR payable on settlement (-)		(1 182 800)	(538 479)	(1 799 344)	(409 846)
Total on forwards		**66 342**	**(185 766)**	**17 051**	**(6 882)**
In thousands of Russian Roubles		2008		2007	
		Net asset futures	Net liability futures	Net asset futures	Net liability futures
Foreign exchange futures: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		63 567 837	4 769 701	294 554	-
- USD payable on settlement (-)		(3 404)	(67 662 311)	-	-
- Euros payable on settlement (-)		-	(5 141 018)	-	-
- RR receivable on settlement (+)		3 404	72 803 329	-	-
- RR receivable on settlement (-)		(63 567 837)	(4 769 701)	(294 554)	-
Total on futures		**-**	**-**	**-**	**-**
Net fair value of currency derivative financial instruments	14, 23	**66 342**	**(185 766)**	**17 051**	**(6 882)**

37 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss are carried in the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

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

Liabilities carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial guarantees and letters of credit. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to Note 36.

37 Fair Value of Financial Instruments (Continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial assets as at 31 December 2008:

In thousands of Russian Roubles	Trading assets	Loans and receivables	Available-for-sale assets	Assets held-to-maturity	Total carrying value of assets	Fair value of assets
Assets						
Cash and cash equivalents						
- Cash on hand	-	6 026 512	-	-	6 026 512	6 026 512
- Balances with the CBRF	-	12 901 049	-	-	12 901 049	12 901 049
- Correspondent accounts and overnight placements with banks	-	2 154 639	-	-	2 154 639	2 154 639
- Settlement accounts with trading systems	-	15 759 126	-	-	15 759 126	15 759 126
Mandatory cash balances with the CBRF	-	212 921	-	-	212 921	212 921
Trading securities						
- Corporate bonds	1 094 549	-	-	-	1 094 549	1 094 549
- Russian federation Eurobonds	956 815	-	-	-	956 815	956 815
- Federal loan bonds	266 382	-	-	-	266 382	266 382
- Corporate Eurobonds	338 931	-	-	-	338 931	338 931
- Corporate shares	33 996	-	-	-	33 996	33 996
- Municipal bonds	1 712	-	-	-	1 712	1 712
Securities pledged under sale and repurchase agreements	1 470 526	-	-	-	1 470 526	1 470 526
Due from banks						
- Short-term placements with banks	-	19 175 864	-	-	19 175 864	19 178 975
Loans and advances to customers						
- Corporate loans						
- loans to finance working capital		85 054 124	-	-	85 054 124	86 196 168
- investment loans	-	37 430 428		-	37 430 428	37 772 828
- loans to entities financed from budget	-	6 137 893		-	6 137 893	6 210 808
- Loans to individuals						
- mortgage loans	-	9 244 104		-	9 244 104	9 616 001
- car loans	-	1 683 107		-	1 683 107	1 753 608
- other consumer loans	-	5 332 845		-	5 332 845	5 517 239
Investment securities held-to-maturity	-	-	-	777 591	777 591	740 635
Other financial assets	-	160 583	53 978	-	214 561	214 561
Total financial assets	**4 162 911**	**201 273 195**	**53 978**	**777 591**	**206 267 675**	**208 417 981**

37 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	Liabilities carried at amortised cost	Carrying value of liabilities	Fair value of liabilities
Liabilities			
Due to other banks			
- Short-term placements of other banks	27 015 504	27 015 504	27 015 504
- Amounts payable under sale and repurchase agreements	5 171 736	5 171 736	5 171 736
- Correspondent accounts and overnight placements of banks	132 849	132 849	132 849
Customer accounts			
- State and public organisations			
- Current/settlement accounts	3 471 690	3 471 690	3 471 690
- Term deposits	1 314 564	1 314 564	1 320 727
- Other legal entities			
- Current/settlement accounts	27 843 057	27 843 057	27 843 057
- Term deposits	57 921 513	57 921 513	58 486 454
- Amounts payable under sale and repurchase agreements	239 895	239 895	239 895
- Individuals			
- Current/demand accounts	10 125 643	10 125 643	10 125 643
- Term deposits	38 908 117	38 908 117	39 542 735
Bonds issued			
- Eurobonds	5 911 152	5 911 152	4 891 653
- Subordinated Eurobonds	3 021 061	3 021 061	2 407 280
- Bonds	1 001 368	1 001 368	1 012 200
Other debt securities in issue			
- Promissory notes	4 329 290	4 329 290	4 414 805
- Deposit certificates	7 601	7 601	7 649
Other borrowed funds			
- Syndicated loans	3 682 375	3 682 375	3 604 193
- Subordinated loans	2 985 422	2 985 422	2 880 260
- Funds attracted from Kreditanstalt fur Wiederaufbau Frankfurt am Main	1 070 158	1 070 158	969 233
- Funds attracted from Nordic Investment Bank	849 147	849 147	773 032
- Funds attracted from EBRD	830 955	830 955	797 171
- Funds attracted from Bank of New York, NY	151 097	151 097	146 216
- Funds attracted from Unicreditbank	29 697	29 697	29 249
Other financial liabilities	231 703	231 703	231 703
Total financial liabilities	**196 245 594**	**196 245 594**	**195 514 934**

37 Fair Value of Financial Instruments (Continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial assets as at 31 December 2007:

In thousands of Russian Roubles	Trading assets	Assets designated at FVTPL	Loans and receivables	Available-for-sale assets	Total carrying value of assets	Fair value of assets
ASSETS						
Cash and cash equivalents						
- Cash on hand	-	-	2 469 383	-	2 469 383	2 469 383
- Balances with the CBRF	-	-	3 437 183	-	3 437 183	3 437 183
- Correspondent accounts and overnight placements with banks	-	-	3 562 836	-	3 562 836	3 562 836
- Settlement accounts with trading systems	-	-	143 046	-	143 046	143 046
Mandatory cash balances with the CBRF	-	-	1 551 913	-	1 551 913	1 551 913
Trading securities	-	-	-	-		
- Federal loan bonds	4 476 304	-	-	-	4 476 304	4 476 304
- Russian federation Eurobonds	4 074 171	-	-	-	4 074 171	4 074 171
- Corporate bonds	1 697 080	-	-	-	1 697 080	1 697 080
- Municipal bonds	592 958	-	-	-	592 958	592 958
- Corporate shares	810 177	-	-	-	810 177	810 177
Securities pledged under sale and repurchase agreements	-	-	517 834	-	517 834	517 834
Amounts receivable under reverse repurchase agreements	-	-	916 651	-	916 651	916 651
Due from banks	-	-	-	-	-	-
- Short-term placements with banks	-	-	6 736 881	-	6 736 881	6 736 881
Loans and advances to customers	-	-				
- Corporate loans	-	-		-		
- loans to finance working capital		-	59 977 680	-	59 977 680	61 087 942
- investment loans	-	-	20 926 459	-	20 926 459	21 263 747
- loans to entities financed from budget	-	-	2 509 300	-	2 509 300	2 537 561
- Loans to individuals	-	-		-		
- mortgage loans	-	-	4 193 431	-	4 193 431	4 235 484
- car loans	-	-	1 606 851	-	1 606 851	1 626 873
- other consumer loans	-	-	2 516 414	-	2 516 414	2 540 726
Other financial assets	-	24	143 667	11 340	155 031	155 031
Total financial assets	**11 650 690**	**24**	**111 209 528**	**11 340**	**122 871 582**	**124 433 781**

37 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	**Liabilities carried at amortised cost**	**Carrying value of liabilities**	**Fair value of liabilities**
LIABILITIES			
Due to other banks			
- Correspondent accounts and overnight placements of banks	42 197	42 197	42 197
- Short-term placements of other banks	635 069	635 069	635 069
Customer accounts			
- State and public organisations			
- Current/settlement accounts	1 319 910	1 319 910	1 319 910
- Term deposits	4 920 868	4 920 868	4 926 265
- Other legal entities			
- Current/settlement accounts	24 040 675	24 040 675	24 040 675
- Term deposits	27 738 723	27 738 723	27 879 699
- Amounts payable under sale and repurchase agreements	492 712	492 712	492 712
- Individuals			
- Current/demand accounts	5 505 729	5 505 729	5 505 729
- Term deposits	24 710 155	24 710 155	24 953 888
Bonds issued			
- Eurobonds	3 065 263	3 065 263	3 065 263
- Subordinated Eurobonds	2 522 904	2 522 904	2 307 343
- Bonds	999 055	999 055	999 055
Other debt securities in issue			
- Promissory notes	7 381 245	7 381 245	7 389 729
- Deposit certificates	44 058	44 058	44 417
Other borrowed funds			
- Subordinated loan	1 221 894	1 221 894	1 260 853
- Syndicated loan	4 893 544	4 893 544	4 893 544
- Funds attracted from EBRD	745 678	745 678	745 678
- Funds attracted from Nordic Investment Bank	706 522	706 522	706 522
- Funds attracted from Unicreditbank	74 249	74 249	74 249
Other financial liabilities	57 012	57 012	57 012
Total financial liabilities	**111 117 462**	**111 117 462**	**111 339 809**

38 Related Party Transactions

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

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Loans and advances to customers (contractual interest rates: 6.0% – 23.3%)	55	115 974	193 069
Impairment provision for loans and advances to customers	(1)	(2 950)	(7 228)
Customer accounts (contractual interest rates: 1.3% - 13.5%)	711 606	253 059	783 447
Other borrowed funds (contractual interest rates: 14.5%)	1 520 474	-	-

Other borrowed funds include subordinated debt. Refer to Note 20.

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Interest income	5 157	9 205	44 546
Interest expense	(72 043)	(24 584)	(78 838)
(Provision)/recovery of provision for loan impairment	58	(1 420)	(7 228)
Fee and commission income	4 141	596	14 468

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Amounts lent to related parties during the period	672 174	134 138	892 488
Amounts repaid by related parties during the period	675 695	86 990	699 419

38 Related Party Transactions (Continued)

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Loans and advances to customers (contractual interest rates: 9.0%-15.0%)	3 576	68 826	-
Impairment provision for loan portfolio	(59)	(1 530)	-
Customer accounts (contractual interest rates: 2.0%-11.0%)	146 179	155 026	1 028 283

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Interest income	1 915	7 616	15 165
Interest expense	(8 108)	(2 263)	(30 700)
Recovery of provision for loan impairment	11 642	552	11 486
Fee and commission income	299	129	14 748

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Amounts lent to related parties during the period	2 494	102 748	1 163 735
Amounts repaid by related parties during the period	180 791	97 782	1 504 635

In 2008, remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounted to RR 472 052 thousand (2007: RR 230 251 thousand).

39 Consolidation of the Special Purpose Entity

As at 31 December 2008, the Group has consolidated the special purpose entity BSPB Finance plc. This special purpose entity was established in 2006 for the purpose of the Group's Eurobonds issue.

As at 31 December 2008, the Group exercised its control over the activity of the special purpose entity, as all financial and operational activities of this special purpose entity were conducted on behalf of the Group and according to Group's specific business needs. The Group had rights to obtain the majority of the benefits of the special purpose entity and therefore was exposed to risks incident to its activities.

40 Subsequent Events

During January and March of 2009 the Group repurchased its bonds with subsequent cancellation from the listing with the total nominal amount of USD 115 182 thousand, which include bonds with a nominal amount of USD 75 000 thousand (full issue) maturing on 16 April 2010 and bonds with a nominal amount of USD 40 182 thousand maturing 25 November 2009.