Joint Stock Company “The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements and Independent Auditors’ Report

31 December 2008

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Independent Auditors' Report

To the Shareholders and the Board of Directors of Joint Stock Company "The Ural Bank for Reconstruction and Development" ("UBRD" JSC).

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" (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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that as at December 31, 2008 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties of the Group. The aggregate amount of these loans comprises 27% of the loan portfolio and 14% of the total assets of the Group. Further information in respect of these loans is disclosed in Note 13 to the consolidated financial statements.

ZAO KPMG

ZAO KPMG
7 October 2009

In thousands of Russian Roubles	Notes	31 December 2008	31 December 2007 Restated
Assets			
Cash and cash equivalents	8	6 444 501	4 637 346
Mandatory cash balances with the CBRF		46 343	412 490
Trading securities	9	76 437	691 882
Investments available-for-sale	10	-	3 057 594
Held-to-maturity investments	11	8 705 246	-
Due from other banks	12	28 142	997
Loans and advances to customers	13	25 605 930	22 254 515
Finance lease receivables	14	719 131	665 281
Current income tax prepayment		50 806	-
Goodwill	15	162 122	162 122
Intangible assets	17	13 893	14 585
Property and equipment	16	5 695 242	5 663 113
Advances to real estate developers	18	2 825 583	1 712 185
Other assets	19	1 197 893	1 275 265
Total assets		**51 571 269**	**40 547 375**
Liabilities			
Due to other banks	20	14 596 951	2 621 359
Customer accounts	21	28 808 773	29 295 552
Debt securities in issue	22	1 830 081	2 164 259
Current income tax liability		11 752	556
Deferred tax liability	30	380 874	729 234
Other liabilities	23	168 849	193 170
Subordinated debt	24	1 521 631	1 217 205
Total liabilities		**47 318 911**	**36 221 335**
Equity			
Share capital	25	1 880 526	1 880 526
Revaluation reserve for premises	26	2 048 672	2 160 500
Revaluation reserve for investments available-for-sale	26	(48 394)	(2 725)
Retained earnings		371 554	287 739
Total equity		**4 252 358**	**4 326 040**
Total liabilities and equity		**51 571 269**	**40 547 375**

Approved for issue and signed on behalf of the Board of Directors on "7" October 2009.

Dymshakov S.V.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	**Notes**	**2008**	**2007 Restated**
Interest income	27	6 431 950	4 422 793
Interest expense	27	(3 720 867)	(2 511 590)
Net interest income		**2 711 083**	**1 911 203**
Provision for loan impairment	13	(740 873)	(302 389)
Net interest income after provision for loan impairment		**1 970 210**	**1 608 814**
Fee and commission income	28	514 875	482 328
Fee and commission expense	28	(84 979)	(87 137)
Net (losses)/gain from trading securities		(63 666)	26 798
Net gain/(losses) from trading operations with securities at fair value through profit or loss		-	(11 365)
Net realised losses from investments available-for-sale		(33 066)	-
Net (losses)/gain from trading in foreign currencies		(50 715)	126 459
Net gain from trading in precious metals		18 373	17 227
Foreign exchange translation gain/(losses)		104 048	(27 521)
Rental income		61 130	9 562
(Provision)/recovery of provision for impairment of finance lease receivables		3 442	(7 739)
Impairment of property and equipment	16	(13 999)	(17 581)
Other operating income		28 032	30 614
Financial result of alteration of the terms of the leasing agreements		-	(19 987)
Administrative and other operating expenses	29	(2 505 890)	(1 707 564)
(Loss)/profit before tax		**(52 205)**	**422 908**
Income tax benefit/(expense)	30	42 202	(104 226)
(Loss)/profit for the year		**(10 003)**	**318 682**

In thousands of Russian Roubles	**Notes**	**Share capital**	**Revaluation reserve for premises**	**Revaluation reserve for investments available-for-sale Restated**	**(Accu-mulated losses)/ retained earnings Restated**	**Total equity Restated**
Balance at 1 January 2007		**1 880 526**	**854 868**	**1 396**	**(50 647)**	**2 686 143**
Investments available-for-sale:						
Gain on revaluation of investments available-for-sale		-	-	(5 422)	-	(5 422)
Property and equipment:						
- Revaluation of property and equipment	16	-	1 743 863	-	-	1 743 863
- Realised revaluation reserve		-	(25 926)	-	25 926	-
- Deferred income tax recorded in equity	30	-	(412 305)	1 301	(6 222)	(417 226)
Net income/(loss) recognised directly in equity		-	1 305 632	(4 121)	19 704	1 321 215
Profit for the year		-	-	-	318 682	318 682
Total recognised income/(loss) for 2007		-	**1 305 632**	**(4 121)**	**338 386**	**1 639 897**
Balance at 31 December 2007		**1 880 526**	**2 160 500**	**(2 725)**	**287 739**	**4 326 040**
Investments available-for-sale:						
- Revaluation reserve for investments available-for-sale		-	-	(75 514)	5 639	(69 875)
- Realised revaluation reserve for investments available-for-sale		-	-	18 608	-	18 608
Property and equipment:						
- Revaluation of property and equipment	16	-	(171 130)	-	-	(171 130)
- Realised revaluation reserve		-	(110 640)	-	110 640	-
Deferred income tax recorded in equity	30	-	169 942	11 237	(22 461)	158 718
Net income/(loss) recognised directly in equity		-	(111 828)	(45 669)	93 818	(63 679)
Loss for the year		-	-	-	(10 003)	(10 003)
Total recognised income/(loss) for 2008		**-**	**(111 828)**	**(45 669)**	**83 815**	**(73 682)**
Balance at 31 December 2008		**1 880 526**	**2 048 672**	**(48 394)**	**371 554**	**4 252 358**

In thousands of Russian Roubles	Notes	2008	2007 Restated
Cash flows from operating activities			
Interest received		6 336 870	4 471 552
Interest paid		(3 761 650)	(2 464 002)
Fees and commissions received		512 383	480 044
Fees and commissions paid		(79 292)	(105 791)
(Losses paid)/income received from trading in trading securities		(67 633)	4 245
Losses paid from trading in investments available-for-sale		(20 574)	-
(Losses paid)/income received from trading in foreign currencies		(32 745)	126 459
Income received from trading in precious metals		45 413	17 227
Administrative and other operating expenses paid		(2 190 131)	(1 498 439)
Income tax paid		(212 757)	(72 345)
Other operating income received		95 860	20 190
Cash flows from operating activities before changes in operating assets and liabilities		**625 744**	**979 140**
Changes in operating assets and liabilities			
Net decrease/(increase) in Mandatory cash balances with the CBRF		366 147	(29 828)
Net (increase)/decrease in trading securities		(1 143 780)	606 700
Net increase in investments available-for-sale		(165 069)	(522 361)
Net decrease in due from other banks		237 004	534 525
Net increase in loans and advances to customers		(3 466 869)	(8 410 398)
Net increase in finance lease receivables		(50 408)	(201 581)
Net increase in advances to real estate developers		(1 113 398)	(167 180)
Net decrease/(increase) in other assets		92 950	(404 407)
Net increase in due to other banks		11 896 708	473 333
Net increase in subordinated debt		40 769	1 217 205
Net (decrease)/increase in customer accounts		(924 919)	8 840 684
Net (decrease)/increase in promissory notes		(12 773)	538 396
Net (decrease)/increase in other liabilities		(147 596)	91 706
Net cash from operating activities		**6 234 510**	**3 545 934**
Cash flows from investing activities			
Acquisition of held-to-maturity investment securities		(3 698 152)	-
Acquisition of property and equipment	16	(556 394)	(1 140 166)
Proceeds from disposal of property and equipment		18 200	70 000
Acquisition of intangible assets	17	-	(9 963)
Net cash used in investing activities		**(4 236 346)**	**(1 080 129)**
Cash flows from financing activities			
Proceeds from bonds issued on domestic market		323 076	1 070 550
Repayment of bonds issued on domestic market		(618 663)	(807 156)
Net cash (used in)/from financing activities		**(295 587)**	**263 394**

In thousands of Russian Roubles	Notes	2008	2007 Restated
Effect of exchange rate changes on cash and cash equivalents		**104 578**	**(27 522)**
Net increase in cash and cash equivalents		**1 807 155**	**2 701 677**
Cash and cash equivalents at the beginning of the year		4 637 346	1 935 669
Cash and cash equivalents at the end of the year		**6 444 501**	**4 637 346**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Joint Stock Company "The Ural Bank for Reconstruction and Development" (the "Bank") and its subsidiaries (together referred to as the "Group" or "Ural Bank for Reconstruction and Development").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company ("OAO") limited by shares and was set up in accordance with Russian regulations.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 28 September 1990. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #174-FZ "Deposits of individuals insurance in Russian Federation" dated 13 October 2008. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2008 and 2007 the Group had the following fully consolidated subsidiaries and special purpose entities.

Name of the enterprise	Nature of business	%of ownership at 31 December 2008	%of ownership at 31 December 2007	Country of incorporation
Subsidiaries				
OOC "UBRiR-Finance"	Issue of bonds on domestic market	100	100	Russia
OOO "UBRiR-Leasing"	Leasing company	100	100	Russia
OOO "Fininvest K"	Ownership of premises	100	100	Russia
OOO "Investleasing"	Leasing company	100	100	Russia
Special purpose entities				
Sebright Finance Limited	Ownership of premises	-	-	United Kingdom
OOO "Invest Techno"	Ownership of premises	-	-	Russia
OOO "Uralstroyinvestservice"	Ownership of premises	-	-	Russia

As at 31 December 2008 and 2007 two individuals (the President of the Bank, Mr. S.V. Dymshakov, and Mr. I.A. Altushkin, affiliated with ZAO "Russian Copper Company") ultimately controlled 91.1% of the share capital of the Bank.

The Bank has 11 (2007: 9) branches and 76 (2007: 73) additional offices within the Russian Federation.

The average number of the Group's employees during the year was 3 254 (2007: 2 681).

Registered address and place of business. The Bank's registered address and place of business is 620014, Sakko and Vancetti st., 67, Yekaterinburg, Russian Federation.

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

Recent volatility in global and Russian financial markets. Despite the fact, that the Group is not exposed to risks related to mortgage market of the USA, the ongoing global liquidity crisis that started in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the US, Western Europe and Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed to the Group. Deterioration in the business environment of the Group's borrowers can affect the management's cash flows forecasts and its estimates of financial and non-financial assets' impairment. To the best of the information available, the management reflected the revised expected cash flows in its impairment estimates.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

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

3 Summary of 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 the revaluation of premises and financial instruments at fair value through profit or loss. 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, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (includingspecial 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.

3 Summary of Significant Accounting Policies (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest, except for contingent income tax liabilities, which are measured in accordance with IAS 12 "Income Taxes".

Intercompany transactions, balances and unrealised gains on transactions between group companies 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.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group's equity.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the 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 on an arm's length basis.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with initial maturities of less than three months. Funds restricted for a period of more than three months on origination 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 consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio use for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within six months. Trading securities are carried at fair value.

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. 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 bases; 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 or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Board of Directors. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

3 Summary of Significant Accounting Policies (Continued)

Held-to-maturity investment securities. Held-to-maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturity dates which in accordance with intention and ability of the Group will be held until maturity. Management classified held-to-maturity investment securities upon initial recognition. Held-to-maturity investment securities are carried at amortised cost.

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

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

Loans and advances to customers. Loans and advances to customers are recorded when the 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.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

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 bank 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.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

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 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 other banks or other borrowed funds.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories 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.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of Significant Accounting Policies (Continued)

Property and equipment. Property 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. Cost of property and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

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 property and equipment 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, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property 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 property 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 profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	2.5%
Equipment	11.8 – 33.3%

The carrying amount 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 stage 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 until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 4 years.

3 Summary of Significant Accounting Policies (Continued)

Advances to real estate developers. Advances to real estate developers are prepayments advanced by the Group under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less provision for impairment where required. The Group intends to receive back investments before the completion stage and recieves regular income on the amounts advanced to real estate developers, based on an implied interest rate. The income is received in the legal form of penalties payable by real estate developers for breaches of various conditions of the construction contracts. Penalties received from real estate developers are recorded as interest income in the consolidated income statement.

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.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

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 finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other 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. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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

Debt securities in issue. Debt securities in issue include promissory notes and bonds 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 gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is carried on the balance sheet at amortised cost. Obligations to repay interest are recorded through profit or loss. Subordinated debts rank after all other creditors in case of liquidation.

3 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts are carried at their fair value.

All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Term deals with precious metals. Term deals with precious metals include forward contracts for purchase/sale of precious metals settled in cash. Term deals with precious metals at the balance sheet date are disclosed in the notes to these financial statements. Balances on these operations are remeasured at market prices and the result is recorded in the consolidated statement of income in the "Gains less losses/(losses less gains) arising from from trading in precious metals".

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 and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax 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. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Share 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.

3 Summary of 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 consolidated income statement for all debt instruments on an accrual basis. 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. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

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

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

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

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. 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.

3 Summary of Significant Accounting Policies (Continued)

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 indicated that hyperinflation had 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.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment) or in providing products and 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 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. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Professional 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:

Going concern. Management is of the opinion that the Group will be able to continue its operations and activities, and meet its obligations as they fall due. Accordingly, Management has prepared these financial statements on the basis that the Group will continue as a going concern. In making this judgement Management considered its current intentions, profitability of operations and access to financial resources.

In particular, Management considered the impact of economic conditions in the Russian Federation in the fall of 2008 on the financial position of the Group, its liquidity and capital adequacy requirements.

Management analysed existing debt repayment schedules and customer funds flow analysis and identified potential sources of funds replacement, including the Bank's ability to roll forward existing and obtain new loans from the CBRF. Management has also considered the ability of the controlling shareholders to provide additional funding to the Group if required.

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

A substantial part of the Group's loan portfolio is represented by unsecured loans to individuals. Recoverability of these loans may be adversely affected by the economic conditions in Sverdlovsk region of the Russian Federation. The Group also has a concentration of risk in its corporate loan portfolio in respect of companies engaged in the metals industry, which has been negatively impacted by the substantial fall in the world metals market prices. In estimating the recoverability of assets Management concluded that the existing level of provisioning is sufficient considering current level of recoverability of these loans.

Over 48% of the Group's equity is represented by revaluation reserve for the Group's premises. Management revalued the value of the Group's premises with an independent valuer for the year ending 2008. Management also valued the recoverable value of goodwill based on the estimates of value in use. Refer to Note 15.

Depending on the outcome of the above assessments and access to the sources of liquidity, which also impact regulatory capital adequacy requirements the Group may continue on a going concern basis.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, 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. 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. The significant credit risk concentration on loans issued to the group of related borrowers disclosed in Note 13 relates to the copper industry.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special purpose entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity (SPE) indicates that the special purpose entity is controlled by the Group. The Group uses the following criteria: ability to control financial and operating policies of SPE, whether the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation, whether the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers and extent of exposure to risks and rewards related to activities of the SPE. To the extent that the SPEs are not consolidated total assets of the Group would be RR 51 051 911 thousand and net profit would be RR 140 859 thousand (2007: total assets of the Group would be RR 39 615 666 thousand and net profit would be RR 343 550 thousand).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 34.

Initial recognition of the operations with related parties. In the course of the business the Group conducts operations with related parties. In accordance with IAS 39 financial instruments should be initially recognized at its fair values. If the market for such instruments is not active judgement is required to determine if operation was under arm's length conditions or not. The basis used for judgement are pricing of the similar instruments with third parties and analysis of effective interest rate.

5 Changes in Accounting Policies

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 Group reclassified certain non-derivative financial assets out of trading assets into held-to-maturity investments. For details on the impact of these reclassifications, refer to Note 9.

6 Adoption of New or Revised Standards and Interpretations and New Accounting Policies

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

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

7 Restatement of comparative information

In preparing these financial statements at 31 December 2008, Management established that the Group has not in previous periods fully complied with the requirements of International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" in the following area:

As of 31 December 2007 the Group incorrectly disclosed certain investments available-for-sale of RUB 3 057 594 thousand and trading securities of RUB 505 409 thousand as other securities at fair value through profit or loss.

In 2008, Management of the Group corrected the classification of the securities and designated them as investments available-for-sale and trading securities.

The comparative information was restated as follows:

In thousands of Russian Roubles	**Balance at 31 December 2007**	**Reclassification**	**Balance at 31 December 2007**
	Previously reported		**Restated**
Balance sheet			
Trading securities	186 473	505 409	691 882
Other securities at fair value through profit or loss	3 563 003	(3 563 003)	-
Investments available-for-sale	-	3 057 594	3 057 594
Revaluation reserve for available-for-sale assets	-	(2 725)	(2 725)
Retained earnings	285 014	2 725	287 739
Income statement			
Net gain from trading securities	11 199	15 599	26 798
Net losses from trading operations with securities at fair value through profit or loss	(748)	(10 617)	(11 365)
Income tax expense	(103 365)	(861)	(104 226)

8 Cash and Cash Equivalents

In thousands of Russian Roubles	**2008**	**2007**
Cash on hand	1 976 423	1 395 959
Cash and balances with the CBRF (other than mandatory reserve deposits)	2 396 756	1 644 207
Correspondent accounts and overnight placements with other banks		
- Russian Federation	48 679	232 763
- Other countries	364 082	64 314
Placements with other banks with original maturities of less than three months	1 622 948	1 249 670
Settlement accounts with trading systems	35 613	50 433
Total cash and cash equivalents	**6 444 501**	**4 637 346**

Correspondent accounts, overnight placements with other banks and placements with other banks with original maturities of less than three months are placed with large Russian and foreign banks.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 32.

9 Trading Securities

In thousands of Russian Roubles	2008	2007 Restated
Corporate bonds	64 169	80 612
Municipal bonds	9 221	95 559
Russian government bonds	1 259	505 409
Total debt trading securities	**74 649**	**681 580**
Corporate shares	1 788	10 302
Total trading securities	**76 437**	**691 882**

Russian government bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature from April 2009 to January 2011 with coupon rate ranging from 5.8% to 7.4% p.a. and yields to maturity as at 31 December 2008 ranging from 6.39% to 13.97% p.a. depending on the type of bond issue. As at 31 December 2007 Russian government bonds were represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds had maturity in January 2011 with coupon rate of 6.1% p.a. and yields to maturity as at 31 December 2007 of 8 % p.a.

Municipal bonds are Russian Rouble denominated securities issued by the governments of Bashkortostan Republic and Sakha Republic, the regional administration of Irkutsk, Samara, Moscow and Volgograd regions and the administration of Moscow. These bonds mature from April 2009 to June 2015 with coupon rate ranging from 7.6% to 11% p.a. and yields to maturity as at 31 December 2008 ranging from 5.54% to 30.93% p.a. depending on the type of bond issue. As at 31 December 2007 municipal bonds were represented by Russian Rouble denominated securities issued by the regional administration of Sakha Republic (Yakutia). These bonds had maturity in May 2010, coupon rate of 10.0% and yields to maturity as at 31 December 2007 of 8% p.a.

Corporate bonds are represented by Russian Rouble denominated investments in bonds issued by Russian banks, industrial companies, retail trade companies and others. These bonds have maturity dates ranging from January 2009 to September 2020, coupon rates ranging from 7.6% to 15% p.a. and yields to maturity as at 31 December 2008 ranging from 15.37% to 28.9 % p.a. depending on the type of bond issue. As at 31 December 2007 corporate bonds were represented by Russian Rouble denominated interest bearing securities issued by a mettalurgy and a food industry company. These bonds had maturity dates ranging from February 2008 to August 2012, coupon rates ranging from 8.8% to 11.3% p.a. and yields to maturity as at 31 December 2007 ranging from 9.1% p.a. to 12.3 % p.a.

As at 31 December 2008 and 31 December 2007 corporate shares of Russian companies were represented by shares of a Russian industrial company traded in the Russian domestic market.

Trading securities are carried at fair value, which also reflects any credit risk related reduction in carrying value. As trading securities are carried at their fair values based on observable market data, the Group does not specifically analyse or monitor impairment indicators.

9 Trading Securities (Continued)

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

In thousands of Russian Roubles	Russian government bonds	Municipal bonds	Corporate bonds	Corporate shares	Total
- Rated BBB	1 259	926	33 920	-	36 105
- Rated from BB- to BB+	-	6 423	21 541	-	27 964
- Rated from B- to B+	-	1 712	1 564	-	3 276
- Not rated	-	160	7 144	1 788	9 092
Total current amounts	**1 259**	**9 221**	**64 169**	**1 788**	**76 437**
Total debt trading securities	**1 259**	**9 221**	**64 169**	**1 788**	**76 437**

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

In thousands of Russian Roubles	Russian government bonds Restated	Municipal bonds	Corporate bonds	Corporate shares	Total Restated
- Rated BBB	505 409				505 409
- Rated from B- to B+	-	95 559	-	-	95 559
- Not rated	-	-	80 612	10 302	90 914
Total current amounts	**505 409**	**95 559**	**80 612**	**10 302**	**691 882**
Total debt trading securities	**505 409**	**95 559**	**80 612**	**10 302**	**691 882**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's. Interest rate analyses of trading securities are disclosed in Note 32.

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

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

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 5), the Group reclassified certain securities out of financial instruments at fair value through profit or loss to held-to-maturity investments. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Group 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.

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

In thousands of Russian Roubles	1 July 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Quoted securities reclassified to held-to-maturity investments	1 757 035	1 757 035	1 719 277	1 602 048

9 Trading Securities (Continued)

The table below sets out the amounts actually recognised in profit or loss and equity during 2008 in respect of quoted securities reclassified out of financial assets at fair value through profit or loss:

In thousands of Russian Roubles	**Profit or loss and equity**
Period before reclassification	
Quoted securities reclassified to held-to-maturity investments:	
Net profit	(2 577)
Period after reclassification	
Quoted securities reclassified to held-to-maturity investments:	
Impairment loss	(475)
	(3 052)

The loss for 2008 year includes loss of RR 2 577 thousand and RR 475 thousand from operations with quoted securities reclassified to held-to-maturity investments.

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

In thousands of Russian Roubles	**Profit or loss and equity**
Quoted securities reclassified to held-to-maturity investments:	
Net loss on financial instruments held for trading	(117 704)
	(117 704)

At 1 July 2008 the effective interest rates on quoted securities reclassified to held-to-maturity investments ranged from 6.1% to 9.9% with expected recoverable cash flows of RR 1 935 715 thousand.

10 Investments Available-for-Sale

In thousands of Russian Roubles	**2008**	**2007 Restated**
Federal loan bonds (OFZ)	-	1 685 543
Municipal bonds	-	1 371 687
Government domestic foreign currency-denominated bonds (OVGVZ)	-	364
Total investments available-for-sale	**-**	**3 057 594**

In accordance with IAS 39 (paragraph 54) the Group reclassified certain securities out of investments available-for-sale to held-to-maturity investments as a result of a change in intention to hold these securities until maturity.

The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the trading purpose.

In accordance with IAS 39 (paragraph 54) the reclassifications were made with effect from 16 July 2008 at fair value at that date.

10 Investments Available-for-Sale (Continued)

The table below sets out investments available-for-sale which were reclassified and their carrying and fair values:

In thousands of Russian Roubles	16 July 2008		31 December 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Investments available-for-sale reclassified to held-to-maturity investments	3 210 253	3 210 253	3 272 650	2 939 917

11 Held-to-Maturity Investments

In thousands of Russian Roubles	**2008**	**2007**
Municipal bonds	3 176 827	-
Russian Government Bonds	3 004 876	-
Corporate bonds	2 523 543	-
Total held-to-maturity investments	**8 705 246**	**-**

OFZ bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature from April 2009 to January 2011 with coupon rate ranging from 5.8% to 7.4% p.a. and yield to maturity as at 31 December 2008 ranging from 6.39% to 13.97% p.a. depending on the type of bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the governments of Bashkortostan Republic and Sakha Republic, the regional administration of Moscow, Irkutsk, Lipetsk, Samara and Nizhny Novgorod regions and the administration of Moscow. These bonds mature from April 2009 to November 2010 with coupon rate ranging from 6.98% to 11% p.a. and yield to maturity as at 31 December 2008 ranging from 7.1% to 30.93% p.a. depending on the type of bond issue.

Corporate bonds are represented by Russian Ruble denominated investments in bonds issued by OJSC AHML and other Russian companies and banks. These bonds have maturity dates ranging from February 2009 to September 2020, coupon rates ranging from 7.1% to 11% p.a. and yield to maturity as at 31 December 2008 ranging from 12.71% to 33.6 % p.a. depending on the type of bond issue.

In thousands of Russian Roubles	**Russian government bonds**	**Municipal bonds**	**Corporate bonds**	**Total**
- Rated BBB	3 004 876	976 349	2 259 242	6 240 467
- Rated from BB- to BB+	-	1 328 816	235 163	1 563 979
- Rated from B- to B+	-	871 662	-	871 662
- Not rated	-	-	29 138	29 138
Total current amounts	**3 004 876**	**3 176 827**	**2 523 543**	**8 705 246**

12 Due from Other Banks

In thousands of Russian Roubles	2008	2007
Short-term placements with other banks with original maturities of more than three months	28 142	997
Total due from other banks	**28 142**	**997**

At 31 December 2008 and 31 December 2007 the Group did not create provision for impairment of due from other banks.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 and 31 December 2007 is as follows:

In thousands of Russian Roubles	2008	2007
- Rated BBB	23 698	997
- Rated from BB- to BB	4 444	-
Total current and not impaired	**28 142**	**997**
Total due from other banks	**28 142**	**997**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

The carrying value of amounts due from other banks approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of due from other banks was RR 28 142 thousand (31 December 2007: RR 997 thousand).

At 31 December 2008 amounts due from other banks were represented by Russian Rouble denominated after sight promissory notes of the bank, placed in the Russian Federation, and minimum balances on correspondent accounts. At 31 December 2007 amounts due from other banks are represented by Russian Rouble denominated after sight promissory notes of the bank, placed in the Russian Federation.

13 Loans and Advances to Customers

In thousands of Russian Roubles	2008	2007
Corporate loans:		
- Related parties	7 067 580	5 962 707
- Corporate loans	5 720 995	6 772 981
- Small and medium businesses	1 027 365	738 340
Total corporate loans	**13 815 940**	**13 474 028**
Loans to individuals:		
- Express loans	4 192 886	3 679 508
- Loans to employees participating in payroll projects	2 516 658	1 732 453
- Unsecured consumer loans	5 194 774	3 139 140
- Collateralised consumer loans	1 354 443	957 284
Total loans to individuals	**13 258 761**	**9 508 385**
Total loans and advances to customers (before impairment)	**27 074 701**	**22 982 413**
Less: Provision for loan impairment	(1 468 771)	(727 898)
Total loans and advances to customers	**25 605 930**	**22 254 515**

Movements in the provision for corporate loans impairment during the year 2008 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium businesses	Total
Provision for loan impairment at 1 January 2008	**37 243**	**153 697**	**35 593**	**226 533**
(Recovery of)/provision for loan impairment during the year	40 644	(36 456)	48 443	52 631
Provision for loan impairment at 31 December 2008	**77 887**	**117 241**	**84 036**	**279 164**

13 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Provision for loan impairment at 1 January 2008	**475 479**	**3 560**	**22 111**	**215**	**501 365**
Provision for/(recovery of) loan impairment during the year	290 829	102 000	257 374	38 071	688 274
Loans and advances to customers written off during the year as uncollectible	-	(32)	-	-	(32)
Provision for loan impairment at 31 December 2008	**766 308**	**105 528**	**279 485**	**38 286**	**1 189 607**

Movements in the provision for corporate loans impairment during the year 2007 were as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium businesses	Total
Provision for loan impairment at 1 January 2007	**66 946**	**209 853**	**20 817**	**297 616**
(Recovery of)/provision for loan impairment during the year	(29 703)	(31 205)	14 776	(46 132)
Loans and advances to customers written off during the year as uncollectible	-	(24 951)	-	(24 951)
Provision for loan impairment at 31 December 2007	**37 243**	**153 697**	**35 593**	**226 533**

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

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Provision for loan impairment at 1 January 2007	**135 541**	**998**	**8 623**	**7 682**	**152 844**
Provision for/(recovery of) loan impairment during the year	339 938	2 562	13 488	(7 467)	348 521
Provision for loan impairment at 31 December 2007	**475 479**	**3 560**	**22 111**	**215**	**501 365**

13 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	31 December 2008 Amount	%	31 December 2007 Amount	%
Individuals	13 258 761	49	9 508 385	41
Metallurgy and metals trade	6 798 838	25	7 062 512	31
Trade	2 817 049	10	2 729 860	12
Construction	1 395 755	5	842 632	4
Manufacturing	787 667	3	712 717	3
Services	580 875	3	666 996	3
Other	1 435 756	5	1 459 311	6
Total loans and advances to customers (before impairment)	**27 074 701**	**100**	**22 982 413**	**100**

As at 31 December 2008 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties of the Group. The aggregate amount of these loans is RR 6 989 693 thousand (2007: RR 5 925 464 thousand), or 27% of the gross loan portfolio (2007: 26%).

At 31 December 2008 the Group has 17 borrowers (31 December 2007: 9 borrowers) with aggregated loan amounts above RR 250 000 thousand. The total aggregate amount of these loans was RR 8 524 125 thousand (2007: RR 9 273 755 thousand) or 31% of the gross loan portfolio (2007: 40%).

At 31 December 2008 the estimated fair value of loans and advances to customers was RR 25 605 930 thousand (2007: RR 22 254 515 thousand).

Information about loan portfolio classification at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Loans (before impairment)**	**Provision for loan impairment**	**Loans less provision for impairment**	**Impairment relative to loans before impairment, %**
Loans to individuals				
Express loans	4 192 886	(766 308)	3 426 578	18%
Loans to employees participating in payroll projects	2 516 658	(105 528)	2 411 130	4%
Unsecured consumer loans	5 194 774	(279 485)	4 915 289	5%
Collateralised consumer loans	1 354 443	(38 286)	1 316 157	3%
Total loans to individuals	**13 258 761**	**(1 189 607)**	**12 069 154**	**9%**
Loans to legal entities				
Related parties	7 067 580	(77 887)	6 989 693	1%
Corporate loans	5 720 995	(117 241)	5 603 754	2%
Small and medium businesses	1 027 365	(84 036)	943 329	8%
Total loans to legal entities	**13 815 940**	**(279 164)**	**13 536 776**	**2%**
Total loans and advances to customers	**27 074 701**	**(1 468 771)**	**25 605 930**	**5%**

13 Loans and Advances to Customers (Continued)

Information about loan portfolio classification at 31 December 2007 is as follows:

In thousands of Russian Roubles	Loans (before impairment)	Provision for loan impairment	Loans less provision for impairment	Impairment relative to loans before impairment, %
Loans to individuals				
Express loans	3 679 508	(475 479)	3 204 029	13%
Loans to employees participating in payroll projects	1 732 453	(3 560)	1 728 893	0%
Unsecured consumer loans	3 139 140	(22 111)	3 117 029	1%
Collateralised consumer loans	957 284	(215)	957 069	0%
Total loans to individuals	**9 508 385**	**(501 365)**	**9 007 020**	**5%**
Loans to legal entities				
Related parties	5 962 707	(37 243)	5 925 464	1%
Corporate loans	6 772 981	(153 697)	6 619 284	2%
Small and medium businesses	738 340	(35 593)	702 747	5%
Total loans to legal entities	**13 474 028**	**(226 533)**	**13 247 495**	**2%**
Total loans and advances to customers	**22 982 413**	**(727 898)**	**22 254 515**	**3%**

13 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Unsecured loans**	**Collatera-lised loans - real estate**	**Collatera-lised loans - motor vehicles**	**Collatera-lised loans - guarantees and sureties**	**Collatera-lised loans – goods in turnover**	**Collatera-lised loans – other collateral**	**Total carrying amount of loans to individuals**
Loans to individuals							
Express loans	4 190 078	-	-	2 808	-	-	4 192 886
Loans to employees participating in payroll projects	2 205 110	1 934	-	309 614	-	-	2 516 658
Unsecured consumer loans	5 194 774	-	-	-	-	-	5 194 774
Collateralised consumer loans	-	284 692	4 167	803 830	-	261 754	1 354 443
Total loans to individuals	**11 589 962**	**286 626**	**4 167**	**1 116 252**	**-**	**261 754**	**13 258 761**
Loans to legal entities							
Loans to related parties	1 561 687	-	-	334 472	4 283 172	888 249	7 067 580
Loans to corporate customers	852 555	2 128 672	131 392	1 478 156	625 679	504 541	5 720 995
Loans to small and medium enterprises	163 501	370 603	154 197	325 621	3 570	9 873	1 027 365
Total loans to legal entities	**2 577 743**	**2 499 275**	**285 589**	**2 138 249**	**4 912 421**	**1 402 663**	**13 815 940**
Total loans and advances to customers	**14 167 705**	**2 785 901**	**289 756**	**3 254 501**	**4 912 421**	**1 664 417**	**27 074 701**

13 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2007 is as follows:

In thousands of Russian Roubles	**Unsecured loans**	**Collatera-lised loans - real estate**	**Collatera-lised loans - motor vehicles**	**Collatera-lised loans - guarantees and sureties**	**Collatera-lised loans –goods in turnover**	**Collatera-lised loans – other collateral**	**Total carrying amount of loans to individuals**
Loans to individuals							
Express loans	3 679 508	-	-	-	-	-	3 679 508
Loans to employees participating in payroll projects	1 561 123	-	490	170 840	-	-	1 732 453
Unsecured consumer loans	3 139 140	-	-	-	-	-	3 139 140
Collateralised consumer loans	199 853	76 490	85 090	542 646	-	53 205	957 284
Total loans to individuals	**8 579 624**	**76 490**	**85 580**	**713 486**	**-**	**53 205**	**9 508 385**
Total loans to legal entities							
Loans to related parties	2 445 448	16 932	150 715	-	3 349 305	307	5 962 707
Loans to corporate customers	838 117	2 372 430	1 422 084	606 948	1 499 138	34 264	6 772 981
Loans to small and medium enterprises	87 672	296 409	137 970	185 220	17 160	13 909	738 340
Total loans to legal entities	**3 371 237**	**2 685 771**	**1 710 769**	**792 168**	**4 865 603**	**48 480**	**13 474 028**
Total loans and advances to customers	**11 950 861**	**2 762 261**	**1 796 349**	**1 505 654**	**4 865 603**	**101 685**	**22 982 413**

13 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collatera-lised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not impaired	2 398 404	2 146 058	4 215 404	1 190 150	9 950 016
- with credit history of less than 90 days	41 599	6 639	6 165	614 018	668 421
- with credit history of more than 90 days	2 356 805	2 139 419	4 209 239	576 132	9 281 595
Past due but not impaired, including:	884 096	284 646	771 217	149 905	2 089 864
less than 30 days overdue	324 577	140 507	340 513	58 390	863 987
31 to 90 days overdue	316 471	91 008	273 747	77 541	758 767
91 to 210 days overdue	243 048	53 131	156 957	13 974	467 110
Individually impaired:	910 386	85 954	208 153	14 388	1 218 881
211 to 360 days overdue	204 264	41 546	88 449	3 011	337 270
over 360 days overdue	706 122	44 408	119 704	11 377	881 611
Total loans to individuals (before provision for loan impairment)	**4 192 886**	**2 516 658**	**5 194 774**	**1 354 443**	**13 258 761**
Provision for loan impairment	(766 308)	(105 528)	(279 485)	(38 286)	(1 189 607)
Total loans to individuals less provision for impairment	**3 426 578**	**2 411 130**	**4 915 289**	**1 316 157**	**12 069 154**
Provision for loan impairment relative to loans before impairment, %	18%	4%	5%	3%	9%

13 Loans and Advances to Customers (Continued)

In thousands of Russian Roubles	Loans to related parties	Loans to corporate customers	Loans to small and medium enterprises	Total loans to legal entities
Loans to legal entities				
Current and not impaired	7 067 580	5 527 157	966 944	13 561 681
Past due but not impaired, including:	-	158 343	13 687	172 030
less than 30 days overdue	-	83 202	1 482	84 684
31 to 90 days overdue	-	34 944	7 338	42 282
91 to 180 days overdue	-	40 197	4 867	45 064
Individually impaired:	-	35 495	46 734	82 229
181 to 360 days overdue	-	4 668	22 124	26 792
over 360 days overdue	-	30 827	24 610	55 437
Total loans to legal entities (before impairment)	**7 067 580**	**5 720 995**	**1 027 365**	**13 815 940**
Provision for loan impairment	(77 887)	(117 241)	(84 036)	(279 164)
Total loans to legal entities less provision for impairment	**6 989 693**	**5 603 754**	**943 329**	**13 536 776**
Provision for loan impairment relative to loans before provision for loan impairment, %	1%	2%	8%	2%
Gross carrying value of loans				**27 074 701**
Provision for loan impairment				**(1 468 771)**
Total loans and advances to customers				**25 605 930**

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

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collatera-lised consumer loans	Total loans to individuals
Loans to individuals					
Current and not impaired	2 564 112	1 627 741	2 895 386	935 768	8 023 007
- with credit history of less than 90 days	1 061 504	563 928	1 165 447	99 569	2 890 448
- with credit history of more than 90 days	1 502 608	1 063 813	1 729 939	836 199	5 132 559
Past due but not impaired, including:	537 994	92 657	187 583	20 314	838 548
less than 30 days overdue	207 895	46 608	104 814	16 510	375 827
31 to 90 days overdue	162 162	29 708	48 469	3 152	243 491
91 to 210 days overdue	167 937	16 341	34 300	652	219 230
Individually impaired:	577 403	12 055	56 170	1 202	646 830
211 to 360 days overdue	283 282	7 595	27 349	634	318 860
over 360 days overdue	294 120	4 460	28 822	568	327 970
Total loans to individuals (before provision for loan impairment)	**3 679 508**	**1 732 453**	**3 139 140**	**957 284**	**9 508 385**
Provision for loan impairment	(475 479)	(3 560)	(22 111)	(215)	(501 365)
Total loans to individuals less provision for impairment	**3 204 029**	**1 728 893**	**3 117 029**	**957 069**	**9 007 020**
Provision for loan impairment relative to loans before impairment, %	13%	0%	1%	0%	5%

13 Loans and Advances to Customers (Continued)

In thousands of Russian Roubles	Loans to related parties	Loans to corporate customers	Loans to small and medium enterprises	Total loans to legal entities
Loans to legal entities				
Current and not impaired	5 962 707	6 691 136	724 455	13 378 298
Past due but not impaired, including:	-	5 188	8 898	14 086
less than 30 days overdue	-	486	3 706	4 192
31 to 90 days overdue	-	2 176	3 663	5 839
91 to 180 days overdue	-	2 526	1 529	4 055
Individually impaired:	-	76 657	4 987	81 644
181 to 360 days overdue	-	32 372	3 859	36 231
over 360 days overdue	-	44 285	1 128	45 413
Total loans to legal entities (before impairment)	**5 962 707**	**6 772 981**	**738 340**	**13 474 028**
Provision for loan impairment	(37 243)	(153 697)	(35 593)	(226 533)
Total loans to legal entities less provision for impairment	**5 925 464**	**6 619 284**	**702 747**	**13 247 495**
Provision for loan impairment relative to loans before provision for loan impairment, %	1%	2%	5%	2%
Gross carrying value of loans				**22 982 413**
Provision for loan impairment				**(727 898)**
Total loans and advances to customers				**22 254 515**

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans represent the loans issued to individuals at points-of-sale with the minimum credit requirements. Unsecured consumer loans are issued to individuals in the Group offices after scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Difference in credit quality of these products is reflected in the higer level of interest rates on express loans.

The Group assesses the credit quality of current and not impaired loans to individuals by analyzing the following factors:

- Income level;
- Stability of employment;
- Availability of reliable financial information on the borrowers and their employers.

Current and not impaired corporate loans are mostly represented by loans issued to large corporate entities which have a long credit history with the Group. The Group assesses the credit quality of current and not impaired corporate loans by analyzing the financial position of borrowers and the following factors:

- Volume of the business of the borrowers;
- Sources of the loan repayment;
- Purpose of the loan;
- Sufficiency and liquidity of the pledge with secures the loan.

13 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

The factors that the Group considers in determining whether corporate loans are current and not impaired are the following:

- The borrower does not suffer significant financial insolvency in service of loans;
- There are no delays in repayment of principal and interest due to the financial insolvency of the borrower;
- Financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower;
- The borrower is not sued for a charge of improper service of loans granted by other credit institutions;
- The loan is secured by liquid collateral, the fair value of which covers the liabilities of the borrower with respect to the loan.

The Group distinguishes individually impaired loans as loans with the objective signs of impairment resulting from one or several events occurring after initial recognition of the loan, and if those events influence the reliably estimated expected future cash inflows from the loan and interest repayment.

The factors that the Group considers in determining past due, but not impaired corporate loans are the following:

- Significant financial difficulties of the borrower;
- Breaches of the terms of the loan agreement (refusal or deviation from obligations to repay loan principal and/or interest);
- Renegotiation of the loan agreement by the creditor to reach more favourable terms for the borrower, caused by legal or financial reasons and which would not have occurred under other circumstances;
- Probability of financial restructuring or bankruptcy of the borrower;
- Termination of the market for the specified loan product due to the financial difficulties faced by the borrowers.

Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Loans to customers shown as past due but not impaired represent:

- In respect of loans to individuals – not only the past due amount but the whole carrying value of loans;
- In respect of loans to legal entities – only the past due amount of the loans.

The Group determines past due loans to customers as those loans with amounts outstanding with respect to the terms of the loan contract at the reporting date as followes:

- In respect of loans to legal entities with overdue principal amount for 90 and more days;
- In respect of loans to individuals with overdue principal or interest amount for 30 and more days.

The Group analyses financial condition of the borrower and uses professional judgment to qualify loans as individually impaired.

13 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals		
Fair value of collateral - individually impaired loans, including:		
- Real estate	62 689	62 689
- Other collateral	2 634	2 634
Total loans to individuals	**65 323**	**65 323**

In thousands of Russian Roubles	**Loans to corporate clients**	**Loans to small and medium enterprises**	**Total loans to legal entities**
Loans to legal entities			
Fair value of collateral - individually impaired loans, including:			
- Real estate	89 707	30 967	120 674
- Motor vehicles	4 338	-	4 338
Total loans to legal entities	**94 045**	**30 967**	**125 012**
Total loans and advances to customers			**190 335**

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

In thousands of Russian Roubles	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals		
Fair value of collateral - individually impaired loans, including:		
- Real estate	5 500	5 500
Total loans to individuals	**5 500**	**5 500**

The actual net realizable value of the collateral on loans to legal entities and individuals can significantly differ from the shown above value due to possible unforeseeable difficulties in obtaining by the creditor of the ownership rights over the borrower’s property.

In thousands of Russian Roubles	**Loans to corporate clients**	**Loans to small and medium enterprises**	**Total loans to legal entities**
Loans to legal entities			
Fair value of collateral - loan past due but not impaired, including:	180 943	39 063	220 006
- Real estate	56 600	30 677	87 277
- Motor vehicles	112 522	5 578	118 100
- Goods in turnover	11 821	2 808	14 629
Total loans to legal entities	**180 943**	**39 063**	**220 006**
Total loans and advances to customers			**225 506**

13 Loans and Advances to Customers (Continued)

Fair value of residential real estate and other assets at the balances sheet date was estimated by the Group's credit department using the Group's internal guidelines.

Actual net realisable value of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed above due to potential difficulties during the foreclosure which can not be predicted. Interest rate analysis of loans and advances to customers is disclosed in Note 32. Information on related party balances is disclosed in Note 38.

14 Finance Lease Receivables

Finance lease receivables are represented by leases of equipment and vehicles respectively.

Finance lease receivables of RR 473 437 thousand (2007: RR 595 497 thousand), RR 395 907 thousand (2007: RR 361 646 thousand) and RR 83 683 thousand (2006: RR 65 897 thousand) are represented by leases of equipment, vehicles and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2008 and 2007 are as follows:

In thousands of Russian Roubles	**Not later than 1 year**	**Later than 1 year and not later than 5 years**	**Later than 5 years**	**Total**
Finance lease payments receivable at 31 December 2008	**448 575**	**498 219**	**6 233**	**953 027**
Unearned finance income	(23 915)	(195 437)	(3 966)	(223 318)
Provision for impairment of finance lease receivables	(6 173)	(4 370)	(35)	(10 578)
Present value of lease payments receivable at 31 December 2008	**418 487**	**298 412**	**2 232**	**719 131**
Finance lease payments receivable at 31 December 2007	**496 844**	**511 970**	**14 226**	**1 023 040**
Unearned finance income	(114 765)	(219 430)	(9 544)	(343 739)
Provision for impairment of finance lease receivables	(6 100)	(7 920)	-	(14 020)
Present value of lease payments receivable at 31 December 2007	**375 979**	**284 620**	**4 682**	**665 281**

The carrying amount of the finance lease receivables includes RR 953 027 thousand (2007: RR 1 203 040 thousand) of unguaranteed residual values accruing to the benefit of the Group.

Leased property is held by the Group and serves as a collateral for lease agreements.

14 Finance Lease Receivables (Continued)

Analisys of changes in impairment of finance lease receivable is as follows:

In thousands of Russian Roubles	2008	2007
Provision for impairment of finance lease receivables at 1 January	**14 020**	**6 281**
Provision for impairment of finance lease receivables during the year	(3 442)	7 739
Provision for impairment of finance lease receivables at 31 December	**10 578**	**14 020**

Finance lease receivables as at 31 December 2008 and 31 December 2007 are represented by current and not impaired balances.

Information about the fair value of collateral is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Equipment	598 319	494 157
Vehicles	434 437	279 164
Premises	96 962	69 774
Total	**1 129 718**	**843 095**

Fair value of collateral on financial lease receivables exceeds the amount of carrying value of finance lease receivables at 31 December 2008 and 31 December 2007 as the short-term realisation of collateral is not possible.

15 Goodwill

At 31 December 2008 goodwill of RR 162 122 thousand (2007: RR 162 122 thousand) is allocated to the business of acquired “Sverdlsotsbank” (“SSB”), currently a branch of the Bank representing a cash-generating unit (CGU) being the basic data within the Group at which goodwill is monitored.

The recoverable amount of the CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a three-year period. Management determined budgeted gross margin based on past performance and its market expectations. The growth rates do not exceed the long-term average growth rates for the banking sector in Ekaterinburg in which the CGU operates. The weighted average growth rates used are in compliance with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to SSB. Recoverable amount of SSB exceeds its carrying amount.

The discount rates used are pre-tax and reflect specific risks relating to SSB. Recoverable amount of SSB exceeds its carrying amount by RR 345 410 thousand (2007: RR 500 598 thousand). The CGU’s carrying amount would equal to value in use at a discount rate of 17% (2007: 24%) p.a.

Based on calculations performed Management did not identify any impairment of goodwill as at 31 December 2008 or as at 31 December 2007.

16 Property and equipment

In thousands of Russian Roubles	Notes	Premises	Office and computer equipment	Construc-tion in progress	Total premises and equipment
Cost or valuation at 1 January 2007		2 666 462	395 008	200 211	3 261 681
Cost of depreciated items		204	116 236	-	116 440
Accumulated depreciation		(159 980)	(212 229)	-	(372 209)
Carrying amount at 1 January 2007		**2 506 686**	**299 015**	**200 211**	**3 005 912**
Additions		837 687	262 970	39 509	1 140 166
Transfers		91 801	-	(91 801)	-
Disposals - cost		(54 676)	(9 627)	-	(64 303)
Disposals - accumulated depreciation		1 472	(4 147)	-	(2 675)
Depreciation charge	29	(71 620)	(70 649)	-	(142 269)
Impairment through profit or loss		(17 581)	-	-	(17 581)
Revaluation		1 743 863	-	-	1 743 863
Carrying amount at 31 December 2007		**5 037 632**	**477 562**	**147 919**	**5 663 113**
Cost or valuation at 31 December 2007		5 437 617	649 515	147 919	6 235 051
Cost of depreciated items		203	115 072	-	115 275
Accumulated depreciation		(400 188)	(287 025)	-	(687 213)
Carrying amount at 31 December 2007		**5 037 632**	**477 562**	**147 919**	**5 663 113**
Additions		224 057	291 972	40 365	556 394
Transfers		105 186	-	(105 186)	-
Disposals - cost		(26 403)	(75 949)	(14 024)	(116 376)
Disposals - accumulated depreciation		3 088	59 166	-	62 254
Depreciation charge	29	(144 907)	(140 107)	-	(285 014)
Impairment through profit or loss		(13 999)	-	-	(13 999)
Revaluation		(171 130)	-	-	(171 130)
Carrying amount at 31 December 2008		**5 013 524**	**612 644**	**69 074**	**5 695 242**
Cost or valuation at 31 December 2008		5 524 770	858 120	69 074	6 451 964
Cost of depreciated items		204	122 490	-	122 694
Accumulated depreciation		(511 450)	(367 966)	-	(879 416)
Carrying amount at 31 December 2008		**5 013 524**	**612 644**	**69 074**	**5 695 242**

16 Property and equipment (Continued)

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

Premises were independently valued at 31 December 2008. The valuation was carried out by an independent valuer, SRG Appraisal, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Fair values were estimated based on observable market prices in an active market.

Included in the above carrying amount is RR 171 130 thousand (2007: RR 1 743 863 thousand) representing revaluation surplus relating to premises of the Group. At 31 December 2008 a deferred tax asset of RR 147 481 thousand (2007: RR 418 527 thousand) has been recognised directly in equity in respect of the revaluation of the Group's premises. At 31 December 2008, the carrying amount of premises would have been RR 3 115 274 thousand (2007: RR 2 873 343 thousand) had the assets been carried at cost less depreciation.

Impairment losses of RR 13 999 thousand (2007: RR 17 581 thousand) were recognised as a result of impairment test performed by the independent valuer, SRG Appraisal.

17 Intangible Assets

In thousands of Russian Roubles	**Notes**	**Software licenses**
Cost at 1 January 2007		33 628
Accumulated amortisation		(18 021)
Carrying amount at 1 January 2007		**15 607**
Additions		9 963
Amortisation charge	29	(10 985)
Carrying amount at 31 December 2007		**14 585**
Cost at 31 December 2007		43 591
Accumulated amortisation		(29 006)
Carrying amount at 31 December 2007		**14 585**
Amortisation charge	29	(692)
Carrying amount at 31 December 2008		**13 893**
Cost or valuation at 31 December 2008		43 591
Accumulated amortisation		(29 698)
Carrying amount at 31 December 2008		**13 893**

Additions to intangible assets represent capitalised software and license costs related to a new centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

18 Advances to Real Estate Developers

Advances to real estate developers represent the Group's investments under investment contracts advanced by the Group for construction of apartment buildings, business centres, hotels and other properties in Ekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive real estate property. The Group intends to sell the majority of these investments close to completion stage and receives regular income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts and recorded as interest income. The consolidated income statement for the year ended 31 December 2008 includes income of RR 320 241 thousand (2007: RR 354 699 thousand) relative to the abovementioned investments.

19 Other Assets

In thousands of Russian Roubles	Notes	2008	2007
Trade receivables		634 650	514 206
Settlements on conversion operations		65 328	77 040
Credit and debit cards receivables		17 266	46 708
Foreign exchange forward contracts	35	2 512	21 337
Settlements on transactions with securities		-	1 349
Other		3 721	3 715
Total other financial assets		**723 477**	**664 355**
Prepayments for construction in progress		155 866	236 440
Other non-financial receivables		91 349	69 955
Settlements on operations with precious metals		68 001	90 937
Precious metals held		52 029	54 826
Precious metal forward contracts	35	35 690	8 520
Prepaid taxes other than income tax		33 485	130 002
Settlements on operations with banking cards		27 434	-
Deferred expenses		10 562	20 230
Total other non-financial assets		**474 416**	**610 910**
Total other assets		**1 197 893**	**1 275 265**

Carrying value of each class of other financial assets approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of other financial assets was RR 723 477 thousand (2007: RR 664 355 thousand).

Analysis by credit quality of other financial receivables outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Outstanding for less than one year	Outstanding from 1 to 2 years	Outstanding for more than 2 years	Total
Trade receivables	631 664	2 781	205	634 650
Settlements on conversion operations	65 328	-	-	65 328
Credit and debit cards receivables	17 266	-	-	17 266
Foreign exchange forward contracts	2 512	-	-	2 512
Other	-	-	3 721	3 721
Total financial assets	**716 770**	**2 781**	**3 926**	**723 477**

19 Other Assets (Continued)

Analysis by credit quality of other financial receivables outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	Outstanding for less than one year	Outstanding from 1 to 2 years	Outstanding for more than 2 years	Total
Trade receivables	514 206	-	-	514 206
Settlements on conversion operations	77 040	-	-	77 040
Credit and debit cards receivables	46 708	-	-	46 708
Foreign exchange forward contracts	21 337			21 337
Settlements on transactions with securities	1 224	-	125	1 349
Other	-	-	3 715	3 715
Total financial assets	**660 515**	**-**	**3 840**	**664 355**

Credit quality of all amounts of other assets is considered to be good in accordance with internal grading. At 31 December 2008 and 31 December 2007 the Group did not create any provision for the impairment of other assets.

20 Due to Other Banks

In thousands of Russian Roubles	2008	2007
Correspondent accounts and overnight placements of other banks	39 354	217 813
Short-term deposits of other banks	9 468 413	2 403 546
Other borrowed funds of the banks	5 089 184	-
Total due to other banks	**14 596 951**	**2 621 359**

The carrying value of each class of due to other banks approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of due to other banks was RR 14 596 951 thousand (2007: RR 2 621 359 thousand).

As at 31 December 2008 included in due to other banks are the Group's obligations for financing from the CBRF of RR 12 015 128 thousand. These include lombard loans on securities of RR 2 066 420 thousand (2007: none), loans granted under repurchase agreements of RR 3 574 515 thousand (2007: none), unsecured loans of RR 4 907 533 thousand (2007: none) and other obligations of RR 1 466 660 thousand (2007: none). The maturity period of unsecured loans is from 5 weeks to 3 months.

Interest rate analysis of due to other banks is disclosed in Note 32.

21 Customer accounts

In thousands of Russian Roubles	2008	2007
State and public organisations		
- Current/settlement accounts	39 897	39 512
Other legal entities		
- Current/settlement accounts	3 156 578	5 573 756
- Term deposits	4 935 245	3 384 486
Individuals		
- Current/demand accounts	2 051 515	2 240 006
- Term deposits	18 625 538	18 057 792
Total customer accounts	**28 808 773**	**29 295 552**

21 Customer accounts (Continued)

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	20 677 053	72	20 297 798	69
Manufacturing	1 872 934	7	1 789 913	6
Trade	1 099 743	4	1 462 095	5
Services	2 303 978	8	2 563 918	9
Construction	422 470	1	1 033 718	4
Metallurgy and trade	598 185	2	637 970	2
Other	1 834 410	6	1 510 140	5
Total customer accounts	**28 808 773**	**100**	**29 295 552**	**100**

At 31 December 2008 the Group had 9 customers (2007: 10 customers) with balances above RR 150 000 thousand. The aggregate balance of these customers was RR 3 543 288 thousand (2007: RR 3 797 837 thousand) or 12% (2007: 13%) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of RR 31 805 thousand (2007: RR 634 622 thousand) held as collateral for irrevocable commitments under import letters of credit.

Carrying value of each class of customer accountsapproximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of customer accounts was RR 28 808 773 thousand (2007: RR 29 295 552 thousand).

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

22 Debt Securities in Issue

In thousands of Russian Roubles	**2008**	**2007**
Promissory notes	1 323 601	1 353 642
Bonds issued in domestic market	506 480	810 617
Total debt securities in issue	**1 830 081**	**2 164 259**

At 31 December 2008 Group's debt securities in issue comprised bonds of RR 506 480 thousand (2007: RR 810 617 thousand) denominated in Russian Roubles. These bonds were placed in July 2006 with maturity date in July 2009 (2006: July 2009), issue volume was RR 1 billion, nominal value of each bond is RR one thousand. The issuer established the quarterly coupon of 12.5% p.a. which will change in a year after the issue of the debt securities.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 32. The information on debt securities in issue held by related parties is disclosed in Note 38.

22 Debt Securities in Issue (Continued)

Fair value of debt securities in issue at 31 December 2008 and 31 December 2007 was as follows:

	2008		2007	
In thousands of Russian Roubles	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Promissory notes	1 323 601	1 323 601	1 353 642	1 353 642
Bonds issued in domestic market	445 982	506 480	788 753	810 617
Total debt securities in issue	**1 769 583**	**1 830 081**	**2 142 395**	**2 164 259**

23 Other Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	2008	2007
Trade payables	20 423	72 544
Settlements on operations with precious metals and foreign currencies	44 790	36 430
Financial leasing liabilities	35 161	-
Settlements on plastic cards	6 963	5 049
Liabilities under financial guarantee contracts	1 511	4 003
Other liabilities	3 428	4 522
Total other financial liabilities	**112 276**	**122 548**
Taxes other than income tax payable	53 694	68 086
Other	2 879	2 536
Total other liabilities	**56 573**	**70 622**
Total other liabilities	**168 849**	**193 170**

Credit quality of all amounts of other liabilities is considered to be good in accordance with internal grading.

The carrying value of each class of other financial liabilities approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of other financial liabilities was RR 112 276 thousand (2007: RR 122 548 thousand). At 31 December 2008 the estimated fair value of other non-financial liabilities was RR 56 573 thousand (2007: RR 70 622 thousand). Refer to Note 36.

24 Subordinated Debt

On 27 December 2007 the Group attracted a non-secured subordinated debt of USD 50 million for 10 years. The loan was granted by ABN AMRO BANK N.V. at a contractual interest rate of Libor plus margin of 8% p.a. As at 31 December 2008 this subordinated debt was accounted for at amortised cost of RR 1 521 631 thousand (2007: RR 1 217 205 thousand).

In the event of the Group's liquidation the creditors under this subordinated debt would be the last ones to receive repayment.

As at 31 December 2008 the estimated fair value of the subordinated debt approximated its carrying value and comprised RR 1 521 631 thousand (2007: RR 1 217 205 thousand).

The interest rate analysis of subordinated debt is disclosed in Note 32.

25 Share Capital

In thousands of Russian Roubles	Number of outstanding shares (in thousands)	Ordinary shares	Share premium	Total
At 1 January 2007	668 121	1 298 570	581 956	1 880 526
At 31 December 2007	668 121	1 298 570	581 956	1 880 526
At 31 December 2008	668 121	1 298 570	581 956	1 880 526

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.

Share premium represents the amount exceeding the nominal value of the shares issued by the Group.

26 Other Reserves

Revaluation reserve for property and equipment is transferred to retained earning when realised through depreciation, impairment, sale or other disposal.

Revaluation reserve for investments available-for-sale is transferred to profit or loss when realised through sale or impairment.

In accordance with the Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2008 are RR 1 277 946 thousand (2007: RR 1 025 455 thousand).

27 Interest Income and Expense

In thousands of Russian Roubles	2008	2007
Interest income		
Loans and advances to customers	5 260 731	3 381 789
Held-to-maturity investment securities	551 634	-
Income from advances to real estate developers	320 241	354 699
Finance lease receivables	180 466	227 510
Due from other banks	67 110	60 512
Debt trading securities	17 231	180 172
Investments available-for-sale	25 597	212 726
Correspondent accounts with other banks	8 940	5 385
Total interest income	**6 431 950**	**4 422 793**
Interest expense		
Term deposits of individuals	2 266 812	1 683 508
Term deposits of legal entities	414 725	383 549
Term placements of other banks	321 757	202 350
Buy/sell back transactions with securities	303 755	-
Debt securities in issue	199 561	209 842
Other borrowed funds	159 029	4 144
Current/settlement accounts	44 535	22 582
Correspondent accounts of other banks	2 322	3 771
Other	8 371	1 844
Total interest expense	**3 720 867**	**2 511 590**
Net interest income	**2 711 083**	**1 911 203**

28 Fee and Commission Income and Expense

In thousands of Russian Roubles	2008	2007
Fee and commission income		
Fee and commission income:		
- Settlement transactions	216 851	183 229
- Transactions with plastic cards and cheques	180 049	166 156
- Cash transactions	76 777	59 570
- Guarantees issued	7 827	14 158
- Cash collection	7 719	5 722
- Transactions with securities	6 623	10 065
- Fiduciary activities	5 209	13 594
- Other	13 820	29 834
Total fee and commission income	**514 875**	**482 328**
Fee and commission expense		
Fee and commission expense:		
- Transactions with plastic cards and cheques	26 487	21 581
- Settlement transactions	24 780	45 762
- Other	14 301	5 788
- Cash collection	13 792	11 653
- Transactions with securities	5 619	2 353
Total fee and commission expense	**84 979**	**87 137**
Net fee and commission income	**429 896**	**395 191**

29 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Notes	2008	2007
Staff costs		1 390 448	950 274
Depreciation of property and equipment	16	285 014	142 269
Operating lease expense for property and equipment		113 375	13 060
Contributions to State deposit insurance system		112 227	87 745
Taxes other than income tax		94 473	50 745
Other costs of property and equipment		91 159	88 424
Fittings and materials		88 426	50 428
Advertising and marketing services		81 107	32 078
Security services		39 268	39 871
Communications		38 710	35 941
Equipment maintenance services		30 004	37 025
Professional services		24 738	30 163
Staff and property insurance		20 117	16 378
Amortisation of software and other intangible assets	17	692	10 985
Other		96 132	122 178
Total administrative and other operating expenses		**2 505 890**	**1 707 564**

Included in staff costs are statutory social security and pension contributions of RR 205 316 thousand (2006: RR 146 668 thousand).

30 Income Tax (Benefit)/Expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2008	2007 Restated
Current tax	147 440	71 708
Deferred tax	(189 642)	32 518
Income tax (benefit)/expense for the year	**(42 202)**	**104 226**

The income tax rate applicable to the majority of the Group’s income is 24% (2007: 24%). The current income tax applicable to the majority of subsidiaries is 24% (2007: 24%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2008	2007 Restated
(Loss)/profit before tax	**(52 205)**	**422 908**
Theoretical tax benefit at applicable rate (2007: 24%; 2006: 24%)	(12 529)	101 498
Effect of changes in the applicable tax rate on deferred tax	(7 662)	-
Tax effect of items which are not deductible or assessable for taxation purposes		
- Non deductible expenses	20 528	27 361
- Income on government securities taxed at different rates	(42 539)	(23 412)
Other non-temporary differences	-	(1 221)
Income tax (benefit)/expense for the year	**(42 202)**	**104 226**

A deferred tax asset of RR 158 718 thousand (2007: a deferred tax liability of RR 417 226 thousand) is recorded directly in equity in respect of the revaluation of Group’s premises and investment available-for-sale. Refer to Note 16 and 26.

30 Income Taxes (Continued)

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

(в тысячах российских рублей)	31 December 2007 Restated	Charged to profit or loss	Charged directly to equity	31 December 2008
Tax effect of deductible temporary differences				
Receivables on financial operations	51 812	116 236	-	168 048
Fair valuation of trading securities	3 300	6 481	-	9 781
Gain on revaluation of investments available-for-sale	860	3 723	11 237	15 820
Other	12 944	90 878	-	103 822
Gross deferred tax asset	**68 916**	**217 318**	**11 237**	**297 471**
Recognised deferred tax asset	**68 916**	**217 318**	**11 237**	**297 471**
Tax effect of taxable temporary differences				
Property and equipment: inflation, revaluation and depreciation	(786 131)	(32 607)	147 481	(671 257)
Loan impairment provision	(12 019)	4 931		(7 088)
Gross deferred tax liability	**(798 150)**	**(27 676)**	**147 481**	**(678 345)**
Less offsetting with deferred tax assets	68 916	217 318	11 237	297 471
Recognised deferred tax liability	**(729 234)**	**189 642**	**158 718**	**(380 874)**

In thousands of Russian Roubles	31 December 2007 Restated	Charged to profit or loss	Charged directly to equity	31 December 2008
Tax effect of temporary differences				
Loan impairment provision	(12 019)	4 931	-	(7 088)
Receivables on financial operations	51 812	116 236	-	168 048
Fair valuation of trading securities	3 300	6 481	-	9 781
Gain on revaluation of investments available-for-sale	860	3 723	11 237	15 820
Property and equipment: inflation, revaluation and depreciation	(786 131)	(32 607)	147 481	(671 257)
Other	12 944	90 878	-	103 822
Recognised deferred tax liability	**(729 234)**	**189 642**	**158 718**	**(380 874)**

30 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2006	Charged to profit or loss Restated	Charged directly to equity Restated	31 December 2007 Restated
Tax effect of temporary differences				
Loan impairment provision	40 420	(52 439)	-	(12 019)
Receivables on financial operations	32 608	19 204	-	51 812
Fair valuation of trading securities	(15 034)	18 334	-	3 300
Gain on revaluation of investments available-for-sale	(441)	-	1 301	860
Property and equipment: inflation, revaluation and depreciation	(346 724)	(20 880)	(418 527)	(786 131)
Other	9 681	3 263	-	12 944
Recognised deferred tax liability	**(279 490)**	**(32 518)**	**(417 226)**	**(729 234)**

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

31 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:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Financial markets – representing financial instruments trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.

31 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Retail banking	Corporate banking	Financial markets	Unallocated funds	Elimina-tions	Total
2008						
External revenues	3 382 227	2 870 113	694 485	89 162	-	7 035 987
Revenues from other segments	920 169	-	360 923	-	(1 281 092)	-
Total revenues comprise:						
- Interest income	4 018 911	2 662 697	1 031 434	-	(1 281 092)	6 431 950
- Fee and commission income	283 485	207 416	23 974	-	-	514 875
- Other operating income	-	-	-	89 162	-	89 162
Total revenues	**4 302 396**	**2 870 113**	**1 055 408**	**89 162**	**(1 281 092)**	**7 035 987**
Segment result	**(774 064)**	**507 784**	**124 913**	**89 162**	**-**	**(52 205)**
Unallocated costs	-	-	-	-	-	**-**
Loss before tax						**(52 205)**
Income tax benefit						**42 202**
Loss for the year						**(10 003)**
Segment assets	**15 727 800**	**18 827 996**	**15 857 035**	**-**	**-**	**50 412 831**
Other unallocated assets						**1 158 438**
Total assets						**51 571 269**
Segment liabilities	**20 677 056**	**8 133 231**	**18 006 260**	**-**	**-**	**46 816 547**
Current and deferred tax liabilities						**392 626**
Other unallocated liabilities						**109 738**
Total liabilities						**47 318 911**
Other segment items						
Capital expenditure	356 560	170 209	29 625	-	-	**556 394**
Depreciation charge	182 649	87 190	15 175	-	-	**285 014**
Provision for loan impairment	688 242	52 631	-	-	-	**740 873**

31 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Retail banking Restated	Corporate banking Restated	Financial markets Restated	Unallocated funds Restated	Elimina-tions Restated	Total Restated
2007						
External revenues	1 579 717	2 702 788	652 345	10 447	-	4 945 297
Revenues from other segments	1 132 636	-	203 558	-	(1 336 194)	-
Total revenues comprise:						
- Interest income	2 475 162	2 497 898	785 927	-	(1 336 194)	4 422 793
- Fee and commission income	217 564	197 962	66 802	-	-	482 328
- Other operating income	19 627	6 928	3 174	10 447	-	40 176
Total revenues	**2 712 353**	**2 702 788**	**855 903**	**10 447**	**(1 336 194)**	**4 945 297**
Segment result	**(354 709)**	**443 712**	**323 458**	**10 447**	**-**	**422 908**
Unallocated costs						-
Profit before tax						**422 908**
Income tax expense						**(104 226)**
Profit for the year						**318 682**
Segment assets	**9 007 017**	**13 247 496**	**15 360 265**	**-**	**-**	**37 614 778**
Other unallocated assets						2 932 597
Total assets						**40 547 375**
Segment liabilities	**16 802 566**	**9 702 749**	**5 926 709**	**-**	**-**	**32 432 024**
Current and deferred tax liabilities						729 790
Other unallocated liabilities						3 059 521
Total liabilities						**36 221 335**
Other segment items						
Capital expenditure	579 480	301 225	254 259	-	-	1 134 964
Depreciation charge	97 513	50 689	5 051	-	-	153 253
Provision for loan impairment	348 521	(46 132)	-	-	-	302 389

31 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Russia Restated	Other Restated	Total Restated
2007			
Segment assets	37 067 173	547 605	37 614 778
External revenues	4 945 297	-	4 945 297
Capital expenditure	1 134 965	-	1 134 965
Credit related commitments	2 582 542	618 564	3 201 106
2008			
Segment assets	46 162 799	4 250 032	50 412 831
External revenues	6 663 642	372 345	7 035 987
Capital expenditure	556 394	-	556 394
Credit related commitments	1 563 708	134 122	1 697 830

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, precious metals, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

32 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 objective of the financial risk management is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customers are approved regularly by the management as part of current and strategic planning. Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The Group’s financial model is annually approved by the budget committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products). Thereby, the Group sets limits that are monitored by the credit committee (as part of credit risk management) and asset/liability committee (as part of loan yield management).

32 Financial Risk Management (Continued)

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- The Group's Board of Directors approves credit limits for customers belonging to the Russian Copper Company group; and
- The Group's Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Group's Legal Department and Security Service, and subsequently evaluated by the Risk Review Department and transferred to the Credit Committee for setting a credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the Risk Review Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of individually impaired corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as individually impaired loans on the basis of the following criteria:

- The borrower has one delay in principal payment (under the loan agreement) exceeding 15 (fifteen) calendar days;
- The borrower has one delay in interest payment exceeding 15 (fifteen) calendar days under the loan agreement;
- The payment is more than 15 (fifteen) calendar days overdue upon maturity of the loan agreement;
- Availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent;
- A failure to fulfil, within 15 (fifteen) calendar days, the Group's requirement to make premature repayment of the loan and interest in cases provided for by the loan agreement;
- Two consecutive delays in contractual lease payments;
- Violation of contractual requirements on the use of leased property or maintaining normal were thereof; and
- Facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay, or impossibility to contact the borrower, or otherwise).

The Group applies two methods for collecting individually impaired corporate loans: voluntary and compulsory. Voluntary repayment of an individually impaired loan stipulates the following actions on the part of the responsible staff in case of possibility/impossibility to contact the borrower during a certain period of time:

32 Financial Risk Management (Continued)

If the loan is classified as individually impaired, the Group performs the following actions in respect of the borrower:

- Contacting the problem borrower, negotiating;
- Reviewing the reasons of arising of overdue balances (default);
- Discussing payment options (methods, dates, check and photography of different types of collateral, property of the problem borrower (third persons) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral;
- Collecting and reviewing information on third persons (in respect of which information was previously unavailable), including through inquiries to security service units;
- In case of a negative evaluation of future repayments probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan;
- Organising transportation and removal of the problem borrower's property (including unpledged property) to the Group; and
- Reviewing and evaluating the likelihood of voluntary repayment, searching for interested persons (problem borrower's creditors and collateral providers) for selling the debt.

In case of absence of any contact with the problem borrower (guarantor), the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks, used by the Group, is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products using the following two methods:

- On the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by past due amounts; and
- On the basis of a review of the relationship of net operating income, received from gross loan placements, and actual losses (past due amounts with consideration of the recovery coefficient).

The process of issuing loans to individuals is carried out via a system of consumer loan support.

The system includes the following three basic elements (software modules/automated work stations (AWS)): "Point of sales" (AWS "PS"), "Risk Manager" (AWS "RM") and "Claims Group" (AWS "CG").

- AWS "PS" is the place of input and storage of personal client data. Personal client data is entered by employees of the Group's points of sales on the basis of information provided by the client.
- AWS "RM" is a module of evaluation of individuals' loan applications on the basis of programme codes. The module comprises all information received as a result of application of client evaluation methods, evaluation results and limits.
- AWS "CG" is a working module of the services in charge of security and problem loan management. The module reflects the flow of loan applications considered by the security service staff who provide an opinion on these applications.

In case of a positive decision from the security service and a non-zero limit in AWS "RM" on the basis of evaluation of the loan application, loan issue is automatically confirmed in AWS "PS". Then the employee of the point of sales can generate all necessary documents for execution of the loan from AWS "PS".

32 Financial Risk Management (Continued)

Individual clients are evaluated on the basis of scoring models developed with the help of special software on the basis of accumulated statistical data. These methods include procedures for calculation of scoring rates on the basis of borrower's personal data as a separate borrower evaluation factor. The application is rejected or approved on the basis of automatic comparison of the borrower's scores and the established cut-off level.

The Group applies the system of monitoring of the individual loan portfolio. Staff of the Risk Review Department evaluate problem loan trends for the portfolio in general and for each product, evaluate the efficiency of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

Problem loans recovery is based on two strategies depending on the type of the lending product: 1) the express loan strategy; and 2) the consumer loan strategy (above RR 100 thousand).

Work with problem express loans recovery comprises the following three stages:

In case of overdue mandatory payments (commission, interest, principal), the borrower is contacted by phone in automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 30 calendar days).

If the payment is overdue by more than 30 days, all procedures are passed to the Department for Problem Individual Loans.

- During 60 calendar days from the date of receipt of the problem loan agreement, the issue is handled by the operative Response Unit of the Department. Responsible staff identifies problem borrowers, clarifies contact details and group the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. The Group's management is provided monthly reports based on the results of this work; and
- During subsequent 120 days, problem loans are handled by the Department for long-term Past Due Loans with participation of the Legal Department. Work with problem borrowers comprises the entire set of measures from telephone calls to visits and court proceedings.

Write-off of uncollectible loans from the Group's balance sheet.

Problem consumer loans recovery comprises the following three stages:

In case of overdue mandatory payments (commission, interest, principal), the borrower is contacted by phone in automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 7 calendar days).

If the payment is overdue by more than 7 days, all procedures are passed to the Group for Overdue Consumer Loans of the Department for Problem Individual Loans.

- During 60 calendar days from the date of transfer of problem loan, responsible staff identifies problem borrowers, clarifies contact details and group the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. The Group's management is provided monthly reports based on the results of this work; and
- If the Group for Overdue Consumer Loans concludes that the loan cannot be collected on the basis of off-the-court procedures, all materials on the borrower are passed to the Legal department for collecting the debt by judicial means.

Write-off of uncollectible loans from the Group's balance sheet.

The Group's Risk Review Department performs ageing analysis of outstanding loans and follows up past due balances. Management is provided information on ageing analysis and other information relating to credit risk. The information on credit risk is provided in Note 13.

32 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk. The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Review Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Review Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions automatically decrease three times and the Investment Committee holds meetings in order to change the current portfolio management procedures.

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

In thousands of Russian Roubles	RR	US Dollars	Euros	Precious metals	Other	Total
Assets						
Cash and cash equivalents	3 229 073	1 855 331	1 358 440	-	1 657	6 444 501
Mandatory cash balances with the CBRF	46 343	-	-	-	-	46 343
Trading securities	76 437	-	-	-	-	76 437
Held-to-maturity investments	8 705 246	-	-	-	-	8 705 246
Due from other banks	28 142	-	-	-	-	28 142
Loans and advances to customers	22 979 094	2 625 003	1 833	-	-	25 605 930
Finance lease receivables	719 131	-	-	-	-	719 131
Advances to real estate developers	2 825 583	-	-	-	-	2 825 583
Total monetary assets	**38 609 049**	**4 480 334**	**1 360 273**	**-**	**1 657**	**44 451 313**
Liabilities						
Due to other banks	14 141 825	221 654	1 546	231 926	-	14 596 951
Customer accounts	23 687 383	3 069 454	1 943 560	74 759	33 617	28 808 773
Debt securities in issue	1 725 512	104 473	96	-	-	1 830 081
Subordinated debt	-	1 521 631	-	-	-	1 521 631
Total monetary liabilities	**39 554 720**	**4 917 212**	**1 945 202**	**306 685**	**33 617**	**46 757 436**
Less fair value of currency derivative instruments	-	(2 506)	-	-	-	(2 506)
Net balance sheet position less currency derivative instruments	**(945 671)**	**(439 384)**	**(584 929)**	**(306 685)**	**(31 960)**	**(2 308 629)**
Currency derivatives	**-**	**(561 070)**	**538 734**	**-**	**24 842**	**2 506**
Net balance sheet position plus currency derivative instruments	**(945 671)**	**(1 000 454)**	**(46 195)**	**(306 685)**	**(7 118)**	**(2 306 123)**

32 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	RR Restated	US Dollars Restated	Euros Restated	Precious metals Restated	Other Restated	Total Restated
Assets						
Cash and cash equivalents	3 044 928	1 437 923	107 554	46 941	-	4 637 346
Mandatory cash balances with the CBRF	412 490	-	-	-	-	412 490
Trading securities	691 882	-	-	-	-	691 882
Investments available-for-sale	3 057 230	364	-	-	-	3 057 594
Due from other banks	997	-	-	-	-	997
Loans and advances to customers	19 900 795	2 353 323	397	-	-	22 254 515
Finance lease receivables	665 281	-	-	-	-	665 281
Advances to real estate developers	1 712 185					1 712 185
Total monetary assets	**29 485 788**	**3 791 610**	**107 951**	**46 941**	**-**	**33 432 290**
Liabilities						
Due to other banks	1 796 157	720 728	11 773	-	92 701	2 621 359
Customer accounts	27 118 671	1 348 902	678 330	121 076	28 573	29 295 552
Debt securities in issue	2 065 330	89 775	9 154	-	-	2 164 259
Subordinated debt	-	1 217 205	-	-	-	1 217 205
Total monetary liabilities	**30 980 158**	**3 376 610**	**699 257**	**121 076**	**121 274**	**35 298 375**
Less fair value of currency derivatives	-	(5 310)	-	-	-	(5 310)
Net balance sheet position less currency derivatives	**(1 494 370)**	**409 690**	**(591 306)**	**(74 135)**	**(121 274)**	**(1 871 395)**
Currency derivatives	**-**	**(609 908)**	**601 881**	**-**	**13 337**	**5 310**
Net balance sheet position plus currency derivatives	**(1 494 370)**	**(200 218)**	**10 575**	**(74 135)**	**(107 937)**	**(1 866 085)**

Derivatives in each column represent the fair value at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The net total represents fair value of the currency derivatives.

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

The Group is exposed to currency risk only in respect of positions opened for the purpose of managing the portfolio's exposure to market risk. Currency risk is managed through setting a capital drawdown threshold and also a threshold for possible deviations in the portfolio's value (30-day VaR with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). The calculation of VaR is done based on statutory information. Based on the level of capital reduction approved by the Asset/Liability Management Committee, the Investment Committee develops the strategy of management of the currency position portfolio (position entry/exit rules) and sets currency positions for each currency pair. The Risk review Department monitors financial results of operations with speculative currency positions on a daily basis. If capital decreases by more than 50% of a specified level, the Committee reduces the limits three times. Decisions are set on a regular basis at meetings of the Investment Committee for the purpose of changing the management strategy for the currency position portfolio.

32 Financial Risk Management (Continued)

The below table represents model and actual limits for open currency positions.

In thousands of Russian Roubles	Exposure during 2008	Exposure during 2007
Capital drawdown – limit	150 000	30 000
Capital drawdown – fact	22 962	25 982
30-day 95% VaR on portfolio (limits) at 31 December	-	70 804

* Common DrawDown limit of RR 150 million is set on shares and currency positions over 2008.

The table below shows analysis of the trend in the VaR values during 2007 and 2008 years:

In thousands of Russian Roubles	2008		2007	
	VaR value	Date	VaR value	Date
Minimum VaR value	72 714	31 January 2008	25 115	31 January 2007
Average VaR value	92 871		48 511	
Maximum VaR value	106 983	31 August 2008	68 746	31 December 2007

The results of back-testing of VaR model for 2007 and 2008 years show that the losses associated with currency risk did not exceed the estimated VaR.

Other price risk. The Group has limited exposure to equity price risk.

Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day VaR with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). Equity portfolio management rules are developed by the Asset/Liability Management Committee and approved by the Investment Committee. The Risk Review Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% of a specified level, the Committee reduces limits three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules.

The below table represents model and actual limits for the equity trading portfolio:

In thousands of Russian Roubles	Exposure during 2008	Exposure during 2007
Capital drawdown- limit	150 000	60 000
Capital drawdown- fact	129 850	47 155
30-day 95% VaR (limits)	-	141 805

Interest rate risk. The Group is exposed to interest risk in case of change in the bond portfolio's value (both at fair value through profit or loss and held to maturity in connection with a potential sale of this portfolio in response to internal and external factors).

The Group manages interest rate risk associated with changes in the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Asset/Liability Committee sets portfolio duration limit at least annually on the basis of the overall possible change in the portfolio's value. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for operations with instruments in the portfolio. The Risk Review Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change (increase) of market rates (yields).

32 Financial Risk Management (Continued)

The table below reflects the bond portfolio's sensitivity to changes in market rates:

In thousands of Russian Roubles	**Exposure as at 31 December 2008**	**Exposure as at 31 December 2007**
Changes in portfolio's value in case of a 100 percentage points increase in rates at the year end	(156 477)	(92 279)
Actual maximum capital decrease during the year	-	(38 577)

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the value of liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. For the purpose of margin management the Group develops scenario-based models for a term of up to one year broken down by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modeling in case of serious deviations.

The table below summarises the Group's exposure to interest rate risks as at 31 December 2008. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	6 444 501	-	-	-	6 444 501
Mandatory cash balances with the CBRF	15 720	14 749	4 023	11 851	46 343
Trading securities	76 437	-	-	-	76 437
Held-to-maturity investment securities	-	701 271	668 648	7 335 327	8 705 246
Due from other banks	-	-	-	28 142	28 142
Loans and advances to customers	1 739 528	3 807 963	6 790 666	13 267 773	25 605 930
Finance lease receivables	69 085	181 325	168 077	300 644	719 131
Advances to real estate developers	-	-	-	2 825 583	2 825 583
Other financial assets	465 973	191 277	897	65 330	723 477
Total financial assets	**8 811 244**	**4 896 585**	**7 632 311**	**23 834 650**	**45 174 790**
Liabilities					
Due to other banks	1 408 409	5 678 618	354 321	7 155 603	14 596 951
Customer accounts	9 771 759	9 168 908	2 500 749	7 367 357	28 808 773
Debt securities in issue	1 241 767	76 330	511 984	-	1 830 081
Subordinated debt	-	-	-	1 521 631	1 521 631
Other financial liabilities	43 411	48 343	20 522	-	112 276
Total financial liabilities	**12 465 346**	**14 972 199**	**3 387 576**	**16 044 591**	**46 869 712**
Net interest sensitivity gap at 31 December 2008	**(3 654 102)**	**(10 075 614)**	**4 244 735**	**7 790 059**	**(1 694 922)**

32 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 31 December 2007. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	Demand and less than 1 month Restated	From 1 to 6 months Restated	From 6 to 12 months Restated	Over 12 months Restated	Total Restated
Assets					
Cash and cash equivalents	4 637 346	-	-	-	4 637 346
Mandatory cash balances with the CBRF	116 276	22 750	84 705	188 759	412 490
Trading securities	186 473	-	-	505 409	691 882
Investments available-for-sale	-	553 268	48 624	2 455 702	3 057 594
Due from other banks	997	-	-	-	997
Loans and advances to customers	2 529 273	5 961 806	6 316 617	7 446 819	22 254 515
Finance lease receivables	22 470	269 605	83 904	289 302	665 281
Advances to real estate developers	-	-	-	1 712 185	1 712 185
Other financial assets	131 490	529 150	-	3 715	664 355
Total financial assets	**7 624 325**	**7 336 579**	**6 533 850**	**12 601 891**	**34 096 645**
Liabilities					
Due to other banks	676 450	-	525 916	1 418 993	2 621 359
Customer accounts	8 258 111	1 615 719	6 015 821	13 405 901	29 295 552
Debt securities in issue	750 490	80 856	478 177	854 736	2 164 259
Subordinated debt	-	-	-	1 217 205	1 217 205
Other financial liabilities	74 302	44 243	-	4 003	122 548
Total financial liabilities	**9 759 353**	**1 740 818**	**7 019 914**	**16 900 838**	**35 420 923**
Net interest sensitivity gap at 31 December 20087	**(2 135 028)**	**5 595 761**	**(486 064)**	**(4 298 947)**	**(1 324 278)**

All of the Group's debt instruments reprice within 5 years (2007: all reprice within 5 years).

32 Financial Risk Management (Continued)

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

In % p.a.	2008				2007			
	RR	**US Dollars**	**Euros**	**Other**	**RR**	**US Dollars**	**Euros**	**Other**
Assets								
Cash and cash equivalents		0.1	-	-	0.0	4.4	0.0	0.0
Trading securities	6.3[illegible]	-	-	-	7.5	-	-	-
Investments available-for-sale	-	-	-	-	7.5	-	-	-
Due from other banks	-	4.85	-	-	5.8	8.6	4.5	-
Loans and advances to customers	16.8	12.9	-	-	19.1	10.2	12.5	-
Held-to-maturity investments	9.17							
Advances to real estate developers	16	-	-	-	15.5	-	-	-
Finance lease receivables	19.7	-	-	-	24.4	-	-	-
Liabilities								
Due to other banks	11.5	9.4	-	8.5	4.8	5.8	4.3	4.4
Customer accounts					-	-	-	-
- current and settlement accounts	2.2	-	-	-	0.1	0.0	0.0	0.0
- term deposits	13.6	11.6	10.1	-	11.1	8.6	7.2	4.4
Debt securities in issue	9.6	13.2	7.0	-	10.5	2.5	7.0	-
Subordinated debt	-	12.6	-	-	-	12.6	-	-

32 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	4 457 470	1 987 031	6 444 501
Mandatory cash balances with the CBRF	46 343	-	46 343
Trading securities	76 437	-	76 437
Held-to-maturity investments	8 705 246	-	8 705 246
Due from other banks	28 142	-	28 142
Loans and advances to customers	23 426 231	2 179 699	25 605 930
Finance lease receivables	719 131	-	719 131
Advances to real estate developers	2 825 583	-	2 825 583
Other financial assets	640 175	83 302	723 477
Total financial assets	**40 924 758**	**4 250 032**	**45 174 790**
Non-financial assets	**6 396 479**	**-**	**6 396 479**
Total assets	**47 321 237**	**4 250 032**	**51 571 269**
Liabilities			
Due to other banks	14 365 025	231 926	14 596 951
Customer accounts	27 468 542	1 340 231	28 808 773
Debt securities in issue	1 830 081	-	1 830 081
Subordinated debt	-	1 521 631	1 521 631
Other financial liabilities	112 276	-	112 276
Total financial liabilities	**43 775 924**	**3 093 788**	**46 869 712**
Non-financial liabilities	**449 199**	**-**	**449 199**
Total liabilities	**44 225 123**	**3 093 788**	**47 318 911**
Net balance sheet position	**3 096 114**	**1 156 244**	**4 252 358**
Credit related commitments	**1 563 708**	**134 122**	**1 697 830**

Assets, liabilities and credit related commitments have been based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and property and equipment have been allocated based on the country in which they are physically held.

32 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia Restated	Other countries Restated	Total Restated
Assets			
Cash and cash equivalents	4 637 346	-	4 637 346
Mandatory cash balances with the CBRF	412 490	-	412 490
Trading securities	691 882	-	691 882
Investments available-for-sale	3 057 594	-	3 057 594
Due from other banks	997	-	997
Loans and advances to customers	22 253 448	1 067	22 254 515
Finance lease receivables	665 281	-	665 281
Advances to real estate developers	1 712 185	-	1 712 185
Other financial assets	664 355	-	664 355
Total financial assets	**34 095 578**	**1 067**	**34 096 645**
Non-financial assets	**6 450 730**	**-**	**6 450 730**
Total assets	**40 546 308**	**1 067**	**40 547 375**
Liabilities			
Due to other banks	2 621 359	-	2 621 359
Customer accounts	29 200 646	94 906	29 295 552
Debt securities in issue	2 164 259	-	2 164 259
Subordinated debt	-	1 217 205	1 217 205
Other financial liabilities	122 548	-	122 548
Total financial liabilities	**34 108 812**	**1 312 111**	**35 420 923**
Non-financial liabilities	**800 412**	**-**	**800 412**
Total liabilities	**34 909 224**	**1 312 111**	**36 221 335**
Net balance sheet position	**5 637 084**	**(1 311 044)**	**4 326 040**
Credit related commitments	**2 582 542**	**618 564**	**3 201 106**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2008 and 2007.

32 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. 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 Group manages liquidity risk at two levels: the first level is the Asset/Liability Committee; the second level is the Treasury and the Asset/Liability Department.

The Asset/Liability Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid assets provisions in accordance with requirements of the Asset/Liability Committee. The Asset/Liability Department monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Asset/Liability Committee.

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

The Group's liquidity management includes: performing daily calculations of liquid assets necessary for covering resource base risks; reviewing the level and structure of liquid assets and available liquidity forming instruments; providing access to different finance sources; maintaining liquidity contingency plans; monitoring compliance with legal requirements to balance sheet liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset/Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table are the contractual amount of liabilities at prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Net settled derivatives are included at the net amounts expected to be paid.

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

32 Financial Risk Management (Continued)

The undiscounted maturity analysis of principal amounts of financial liabilities at 31 December 2008 is as follows. This analysis excludes future interest payments.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Due to other banks	1 408 409	5 678 618	354 321	7 155 603	14 596 951
Current accounts and deposits from customers	9 771 759	9 168 908	2 500 749	7 367 357	28 808 773
Debt securities in issue	1 241 767	76 330	511 984	-	1 830 081
Subordinated debt	-	-	-	1 521 631	1 521 631
Currency derivative committments	552 843	-	-	-	552 843
Operating lease commitments	4 030	18 516	21 447	134 976	178 969
Guarantees issued	12 310	208 397	-	89 015	309 722
Letters of credit issued	103 258	225 700	334 371	-	663 329
Total potential future payments for financial liabilities	**13 094 376**	**15 376 469**	**3 722 872**	**16 268 582**	**48 462 299**

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Due to other banks	682 410	19 686	536 079	1 419 245	2 657 420
Customer accounts	8 282 698	2 028 045	6 402 132	14 241 304	30 954 179
Debt securities in issue	791 712	106 828	499 465	854 736	2 252 741
Subordinated debt	-	80 965	77 574	2 622 846	2 781 385
Currency derivative commitments	5 400	615 308	-	-	620 708
Operating lease commitments	85 258	16 970	151 425	-	253 653
Guarantees issued	114 081	143 634	2 840	114 864	375 239
Letters of credit issued	-	99 558	328 862	-	428 420
Total potential future payments for financial liabilities	**9 961 559**	**3 110 994**	**7 998 377**	**19 252 995**	**40 323 925**

Payments under deliverable forward agreements (total amount) will be accompanied by corresponding cash inflows. Current accounts and deposits from customers are recognised in the above analysis based on contractual maturities. However, in accordance with Civil Code of the Russian Federation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

32 Financial Risk Management (Continued)

However, the Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows 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 12 months	Total
Assets					
Cash and cash equivalents	6 444 501	-	-	-	6 444 501
Mandatory cash balances with the CBRF	15 720	14 749	4 023	11 851	46 343
Trading securities	76 437	-	-	-	76 437
Held-to-maturity investments	-	701 271	668 648	7 335 327	8 705 246
Due from other banks	-	-	-	28 142	28 142
Loans and advances to customers	1 739 528	3 807 963	6 790 666	13 267 773	25 605 930
Finance lease receivables	69 085	181 325	168 077	300 644	719 131
Advances to real estate developers	-	-	-	2 825 583	2 825 583
Other financial assets	465 973	191 277	897	65 330	723 477
Total financial assets	**8 811 244**	**4 896 585**	**7 632 311**	**23 834 650**	**45 174 790**
Liabilities					
Due to other banks	1 408 409	5 678 618	354 321	7 155 603	14 596 951
Customer accounts	9 771 759	9 168 908	2 500 749	7 367 357	28 808 773
Debt securities in issue	1 241 767	76 330	511 984	-	1 830 081
Subordinated debt	-	-	-	1 521 631	1 521 631
Other financial liabilities	43 411	48 343	20 522	-	112 276
Total financial liabilities	**12 465 346**	**14 972 199**	**3 387 576**	**16 044 591**	**46 869 712**
Net liquidity gap at 31 December 2008	**(3 654 102)**	**(10 075 614)**	**4 244 735**	**7 790 059**	**(1 694 922)**
Cumulative liquidity gap at 31 December 2007	**(3 654 102)**	**(13 729 716)**	**(9 484 981)**	**(1 694 922)**	

The above analysis is based on the expected maturities. The entire portfolio of trading securities is therefore included in Demand and less than one month based on Management's assessment of portfolio's realisability.

Due to development of the refinancing system of credit institutions by the CBRF the Group extensively uses this instrument to maintain current liquidity. As the Group's portfolio of bonds principally consists of securities included into the CBRF Lombard list, Management considers to hold the portfolio to maturities and use it to obtain lombard loans and conduct "repo" agreements with the CBRF on a regular basis. In view of the above the maturities of due from the CBRF are set out in the table above in accordance with the maturities of the Group's portfolio of bonds.

32 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**From 1 to 6 months Restated**	**From 6 to 12 months Restated**	**Over 12 months Restated**	**Total Restated**	**Total Restated**
Assets					
Cash and cash equivalents	4 637 346	-	-	-	4 637 346
Mandatory cash balances with the CBRF	116 276	22 750	84 705	188 759	412 490
Trading securities	186 473	-	-	505 409	691 882
Investments available-for-sale	-	552 904	48 624	2 456 066	3 057 594
Due from other banks	997	-	-	-	997
Loans and advances to customers	2 529 273	5 961 806	6 316 617	7 446 819	22 254 515
Finance lease receivables	22 470	269 605	83 904	289 302	665 281
Advances to real estate developers	-	-	-	1 712 185	1 712 185
Other financial assets	131 490	529 150	-	3 715	664 355
Total financial assets	**7 624 325**	**7 336 215**	**6 533 850**	**12 602 255**	**34 096 645**
Liabilities					
Due to other banks	676 450	-	525 916	1 418 993	2 621 359
Customer accounts	8 258 111	1 615 719	6 015 821	13 405 901	29 295 552
Debt securities in issue	750 490	80 856	478 177	854 736	2 164 259
Subordinated debt	-	-	-	1 217 205	1 217 205
other financial liabilities	74 302	44 243	-	4 003	122 548
Total financial liabilities	**9 759 353**	**1 740 818**	**7 019 914**	**16 900 838**	**35 420 923**
Net liquidity gap at 31 December 2007	**(2 135 028)**	**5 595 397**	**(486 064)**	**(4 298 583)**	**(1 324 278)**
Cumulative liquidity gap at 31 December 2007	**(2 135 028)**	**3 460 369**	**2 974 305**	**(1 324 278)**	**-**

32 Financial Risk Management (Continued)

The 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.

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

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 will expire or terminate without being funded.

33 Management of Capital

The Group's objectives when managing capital are (i) to comply with capital requirements set by the Central Bank of the Russian Federation, and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant. Other objectives of capital management are evaluated quarterly.

Revaluation reserve for property and equipment and long-term subordinated debt are included into reconciliation of capital adequacy ratio taking into consideration the restrictions to Tier 2 Capital estimation.

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 a prescribed minimum level of 10%. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises RR 4 291 518 thousand (2007: RR 3 493 631 thousand).

33 Management of Capital (Continued)

Capital Adequacy Ratio

Calculation of Group's capital adequacy ration as at 31 December 2008 and 31 December 2007 is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Tier 1 Capital		
Share capital	1 880 526	1 880 526
Retained earnings	371 554	285 014
Less:		
- Goodwill	(162 122)	(162 122)
Total Tier 1 Capital	**2 089 958**	**2 003 418**
Tier 2 Capital		
Revaluation reserves	2 000 278	2 003 418
Subordinated debt	89 680	-
Total Tier 2 Capital	**2 089 958**	**2 003 418**
Total Capital	**4 179 916**	**4 006 836**
Capital Adequacy Ratio		
Risk weighted average of assets	39 304 249	32 916 467
Total capital	4 179 916	4 006 836
Tier 1	5.3%	6.1%
Tier 2	10.6%	12.2%

34 Contingencies and Commitments

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

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

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

34 Contingencies and Commitments (Continued)

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

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

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

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide exhaustive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters and possible attribution of additional taxes to the Groups foreign companies, Management estimates that the Group doesn’t have other possible obligations from exposure to other than remote tax risks (2007: RR 91 296 thousand).

The Management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained. Therefore, as at 31 December 2008 the Management has not created any provision for potential tax liabilities (2007: no provision).

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**
Less than 1 year	17 925	85 258
Later than 1 year and not later than 5 years	34 529	16 970
Later than 5 years	126 515	151 425
Total operating lease commitments	**178 969**	**253 653**

34 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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 and commercial 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, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2008**	**2007**
Guarantees issued	309 722	375 239
Unused limits on overdraft loans	645 315	822 268
Import letters of credit	663 329	428 420
Commitments to extend credit	79 464	143 889
Total credit related commitments	**1 697 830**	**1 769 816**

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. Fair value of credit related commitments approximated their carrying value as at 31 December 2008 and 31 December 2007 and were equal to RR 5 947 thousand (2007: RR 11 811 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2008**	**2007**
Russian Roubles	793 003	520 984
US Dollars	463 888	716 418
Euros	440 939	532 414
Total	**1 697 830**	**1 769 816**

Fiduciary assets. These assets are not included in the consolidated balance sheet as they are not assets of the Group.

35 Derivative Financial Instruments and Operations with Precious Metals

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group as at 31 December 2008 and 2007. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2008		2007	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD payable on settlement (-)	(552 843)	(8 227)	(609 886)	-
- Euros receivable on settlement (+)	538 734	-	601 881	-
- RR receivable on settlement (+)	-	-	-	-
- Other currencies receivable on settlement (+)	16 621	8 222	18 715	-
- Other currencies payable on settlement (+)			(5 400)	-
Net fair value of foreign exchange forwards	**2 512**	**(5)**	**5 310**	**-**
Forwards with precious metals: fair values, at the balance sheet date,of				
- USD payable on settlement (+)	149 556	7 747	-	-
- USD recievable on settlement (-)	-	(270 870)	-	-
- Precious metals recievable on settlement (+)	1 811 987	250 228	-	-
- Precious metals payable on settlement (-)	(147 523)	(14 769)	-	-
- RR receivable on settlement (+)	-	5 232	-	-
- RR receivable on settlement (-)	(1 778 330)	-	-	-
Net fair value of forwards with precious metals	**35 690**	**(22 432)**	**-**	**-**

The Group had outstanding obligations to deliver precious metals with fair value, at the balance sheet date, of RR 161 962 thousand (2007: RR 18 804 thousand) and obligations to accept delivery of precious metals with fair value, at the balance sheet date, of RR 2 061 884 thousand (2007: RR 124 566 thousand). The Group expects to settle these forward contracts net in cash and therefore recognised them in the balance sheet at 31 December 2008 as an asset at net fair value of RR 35 690 thousand and a liability at net fair value of RR 22 432 thousand.

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

36 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the 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 and other securities at fair value through profit or loss and derivatives, including instruments classified as sale and repurchase receivables, are shown in the consolidated balance sheet at their fair value.

Cash and cash equivalents are carried at amortised cost which approximates current fair value. The fair values were determined based on quoted market prices.

Loans and receivables carried at amortised cost. 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. Refer to Notes 11 and 12 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 9 % p.a. to 12 % p.a. (2007: from 19 % p.a. to 12 % p.a.)

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 35.

37 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies/allocates financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008:

As of 31 December 2008 and 31 December 2007 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives are classified as at fair value through profit or loss.

37 Reconciliation of classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008:

In thousands of Russian Roubles	Loans and receivables	Trading assets	Held-to-maturity investments	Total
Assets				
Cash and cash equivalents	6 444 501	-	-	6 444 501
Mandatory cash balances with the CBRF	46 343	-	-	46 343
Trading securities				
- Russian Government bonds	-	1 259	-	1 259
- Municipal bonds	-	9 221	-	9 221
- Corporate bonds	-	64 169	-	64 169
- Corporate shares	-	1 788	-	1 788
Held-to-maturity investments				
- Russian Government bonds	-	-	3 004 876	3 004 876
- Municipal bonds	-	-	3 176 827	3 176 827
- Corporate bonds	-	-	2 523 543	2 523 543
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	28 142	-	-	28 142
Loans and advances to customers				
Corporate loans				
- Related parties	6 989 693	-	-	6 989 693
- Corporate loans	5 603 754	-	-	5 603 754
- Small and medium businesses	943 329	-	-	943 329
Loans to individuals				
- Express loans	3 426 578	-	-	3 426 578
- Loans to employees participating in payroll projects	2 411 130	-	-	2 411 130
- Unsecured consumer loans	4 915 289	-	-	4 915 289
- Collateralised consumer loans	1 316 157	-	-	1 316 157
Finance lease receivables	719 131	-	-	719 131
Advances to developers	2 825 583	-	-	2 825 583
Other financial assets:				
- Trade receivables	634 650	-	-	634 650
- Settlements on conversion operations	65 328	-	-	65 328
- Credit and debit cards receivables	17 266	-	-	17 266
- Foreign exchange forward contracts	2 512	-	-	2 512
- Other	3 721	-	-	3 721
Total financial assets	**36 393 107**	**76 437**	**8 705 246**	**45 174 790**

37 Reconciliation of classes of Financial Instruments with Measurement Categorie (Continued)

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

In thousands of Russian Roubles	**Loans and receivables Restated**	**Trading assets Restated**	**Investments available-for-sale Restated**	**Total Restated**
Assets				
Cash and cash equivalents	4 637 346	-	-	4 637 346
Mandatory cash balances with the CBRF	412 490	-	-	412 490
Trading securities	-			
- Russian government bonds	-	505 409	-	505 409
- Municipal bonds	-	95 559	-	95 559
- Corporate bonds	-	80 612	-	80 612
- Corporate shares	-	10 302	-	10 302
Investments available-for-sale	-			
- Federal loan bonds (OFZ)	-	-	1 685 543	1 685 543
- Municipal bonds	-	-	1 371 687	1 371 687
- Government domestic foreign currency-denominated bonds (OVGVZ)	-	-	364	364
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	997	-	-	997
Loans and advances to customers		-		
Corporate loans				
- Related parties	5 925 464	-	-	5 925 464
- Corporate loans	6 619 284	-	-	6 619 284
- Small and medium businesses	702 747	-	-	702 747
Loans to individuals				
- Express loans	3 186 060	-	-	3 186 060
- Loans to employees participating in payroll projects	408 771	-	-	408 771
- Unsecured consumer loans	3 117 367	-	-	3 117 367
- Collateralised consumer loans	2 294 822	-	-	2 294 822
Finance lease receivables	665 281			665 281
Advances to developers	1 712 185	-	-	1 712 185
Other financial assets:				
- Trade receivables	514 206	-		514 206
- Settlements on conversion operations	77 040	-		77 040
- Credit and debit cards receivables	46 708	-	-	46 708
- Foreign exchange forward contracts	21 337	-	-	21 337
- Settlements on transactions with securities	1 349			1 349
- Other	3 715	-		3 715
Total financial assets	**30 347 169**	**691 882**	**3 057 594**	**34 096 645**

38 Related Party Transactions

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

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

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 6%-19%)	9 557	7 067 580	19 138
Impairment provisions for loans and advances to customers	-	(77 887)	-
Other assets	10	91	-
Customer accounts (contractual interest rate: 0%-13%)	115	2 233	2
Debt securities in issue (effective interest rate: 0%-18%)	-	77 000	-

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

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Interest income	-	910 483	1 323
Interest expense	-	(27 660)	-
Fee and commission income	26	3 600	-
Provision for credit related commitments	-	(441)	-
Other operating income	-	74	-

At 31 December 2008, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Guarantees issued by the Group at the year end	-	44 071	-
Import letters of credit at the year end	-	4 890	-

38 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 6%-19%)	17 469	5 962 707	6 981
Impairment provisions for loans and advances to customers	-	(37 243)	-
Finance lease receivables	-	65 370	-
Less: Provision for doubtful finance lease receivables	-	(570)	-
Other assets	-	7 638	-
Customer accounts (contractual interest rate: 0%-13%)	12 506	242 928	6 951
Debt securities in issue (effective interest rate: 0%-18%)	-	90 346	-
Other liabilities	-	7 479	-

During 2007, amounts due from two legal entities and one individual of RR 224 131 thousand were excluded from the total amount of loans due from the Bank's shareholders in connection with the withdrawal of these entities and a person from the Group's shareholding structure.

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

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	1 476	826 188	2 314
Interest expense	(19 500)	(2 166)	-
Fee and commission income	72	3 430	-
Provision for credit related commitments	-	(388)	-

At 31 December 2007, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Guarantees issued by the Group at the year end	-	36 819	-

Other related parties represent three members of the Executive Board and five members of the Board of Directors of the Bank. In 2008 the remuneration of Management of the Group comprised salaries, discretionary bonuses and other short-term benefits amounted to RR 80 365 thousand (2007: RR 55 456 thousand). Social security costs amount to RR 1 849 thousand (2007: RR 1 360 thousand) of the total remuneration of Management. Short term bonuses were fully paid during the year ended 31 December 2008.