Saint-Petersburg Commercial Bank "Tavrichesky"

Independent Auditor’s Report

31 December 2008

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Saint-Petersburg Commercial Bank "Tavrichesky» (Joint-Stock) (the "Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

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

S.A.Somov	L.A. Goncharova
Chairman of the board	Chief Accountant

26 June 2009

AUDITOR'S REPORT

To the Management, Board of Directors and Shareholders of Saint-Petersburg Commercial Bank "Tavrichesky» (Joint-Stock):

We have audited the accompanying financial statements of Saint-Petersburg Commercial Bank "Tavrichesky» (Joint-Stock) (the "Bank") which comprise the balance sheet as at 31 December 2008, and the related income statement, statement of changes in equity and cash flow statement for 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 polices 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 accompanying financial statements present fairly, in all material respects, the financial position of Saint-Petersburg Commercial Bank "Tavrichesky» (Joint-Stock) as at 31 December 2008, its financial performance and its cash flows for year then ended in accordance with International Financial Reporting Standards.

Moore Stephens – St.Petersburg
Branch of OOO Moore Stephens

Business Centre "Mont Blanc"
4-6, Bldg. A Bolshoy Sampsonievskiy Prospect
St.Petersburg 194044
Russian Federation

26 June 2009

Saint-Petersburg Commercial Bank “Tavrichesky"
Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Assets			
Cash and cash equivalents	**7**	4,375,049	2,678,830
Mandatory cash balances with the Central Bank	**8**	14,447	154,656
Securities	**9**	221,099	116,048
Due from banks	**10**	200,000	205,055
Loans and advances to customers	**11**	8,534,689	8,408,143
Other assets available for sale		-	50,000
Accrued income and other assets	**12**	39,073	17,710
Deferred tax asset	**13**	-	33,814
Property, plant and equipment	**14**	356,287	193,371
Total assets		**13,740,644**	**11,857,627**
Liabilities			
Customer accounts	**15**	9,042,670	7,339,944
Due to banks	**16**	9,585	51,534
Subordinated loan	**17**	150,000	150,000
Debt securities issued	**18**	2,312,756	2,894,544
Deferred tax liability	**13**	592	-
Accrued interest expense and other liabilities	**19**	32,333	55,974
Total liabilities		**11,547,936**	**10,491,996**
Equity			
Shareholder’s capital	**20**	993,867	592,867
Share premium	**20**	1,242,285	642,285
Securities’ revaluation reserve	**9**	(136,190)	-
Retained earnings		92,746	130,479
Total equity		**2,192,708**	**1,365,631**
Total liabilities and equity		**13,740,644**	**11,857,627**

Approved on behalf of the Board on 26 June 2009

S.A. Somov
Chairman of the Board

L.A. Goncharova
Chief Accountant

Saint-Petersburg Commercial Bank "Tavrichesky"
Statement of Income for the period ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	2008	2007
Interest income		1,228,259	1,145,367
Interest expense		(635,099)	(618,815)
Net interest income	**22**	**593,160**	**526,552**
(Charge) / recovery of allowance for impairment	**23**	(223,224)	61,042
Net interest income after allowance for impairment on loans and advances		**369,936**	**587,594**
Gains less losses arising from dealing with securities	**24**	(36,410)	12,600
Dividends received		1,394	569
Gains less losses arising from dealing in foreign currencies		56,972	38,283
Net foreign exchange translation losses		(34,400)	(9,827)
Net fee and commission income	**25**	178,816	152,136
Net gains / (losses) arising from sales of fixed assets		9,855	(40)
Other operating income	**26**	31,785	29,752
Net operating income		**577,948**	**811,067**
Operating expenses	**27**	(420,487)	(415,451)
Net loss on transfer of loans and advances claims		(15,367)	-
Profit before taxation		**142,094**	**395,616**
Taxation	**28**	(74,161)	(36,296)
Net profit		**67,933**	**359,320**
Net profit attributable to shareholders of ordinary shares	**29**	**60,733**	**352,120**
Net profit attributable to shareholders of preference shares	**29**	**7,200**	**7,200**
Basic earnings per ordinary share	**29**	**0.14**	**0.18**
Basic earnings per preference share	**29**	**9.96**	**10.00**

Saint-Petersburg Commercial Bank “Tavrichesky"
Statement of Cash Flows for the period ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	2008	2007
Cash flows from operating activities			
Interest received		1,225,981	1,124,201
Interest paid		(839,949)	(427,201)
Net gain from dealing with financial assets at fair value through profit or loss		3,084	2,813
Net gain from dealing in foreign currencies		56,972	38,283
Net fees and commissions received		178,816	138,149
Net loss on loans resold		(15,367)	-
Net gains on fixed assets resold		9,855	-
Administrative expenses paid		(421,237)	(370,026)
Profit tax paid		(58,463)	(70,110)
Operating cash flows before changes in operating assets and liabilities		**139,692**	**436,109**
Net cash increase / (decrease) from changes in:			
Operating assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		140,209	(5,523)
Financial assets at fair value through profit or loss		3,686	(8,225)
Due from banks		(5,055)	126,440
Loans and advances to customers		(318,150)	(1,465,537)
Other assets		60,380	214
Net cash increase / (decrease) from changes in:			
Operating liabilities:			
Due to banks		(41,949)	(202,824)
Customer accounts		1,642,307	1,322,845
Debt securities issued		(581,788)	431,904
Other liabilities		(23,580)	32,964
Net cash generated by operating activities		**1,015,752**	**668,367**
Cash flows from investing activities			
Purchase of financial assets classified as available for sale		-	(13,508)
Purchase of fixed assets	**14**	(184,625)	(144,183)
Proceeds from sales of fixed assets	**14**	2,749	-
Dividends received		1,394	569
Net cash used in investing activities		**(180,482)**	**(157,122)**
Cash flows from financing activities			
Issue of shares		1,001,000	100,000
Repayment of other borrowed funds		-	(45,163)
Dividends paid	**30**	(105,651)	(83,151)
Net cash generated by / (used in) financing activities		**895,349**	**(28,314)**
Effect of foreign exchange fluctuations		(34,400)	(9,827)
Net increase in cash and cash equivalents		**1,696,219**	**473,104**
Cash and cash equivalents at the beginning of the year	**7**	**2,678,830**	**2,205,726**
Cash and cash equivalents at the end of the year	**7**	**4,375,049**	**2,678,830**

Saint-Petersburg Commercial Bank "Tavrichesky"
Statement of Changes in Equity for the period ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	Share capital	Share premium	Securities' revaluation reserve	Retained earnings	Total
Balance at 31 December 2006		**552,867**	**582,285**	**2,130**	**(145,690)**	**991,592**
Share issue	**20**	40,000	60,000	**-**	**-**	**100,000**
Dividends declared	**30**	-	-	**-**	(83,151)	**(83,151)**
Revaluation of financial assets available for sale		-	-	(2,130)	-	**(2,130)**
Net profit		-	-	**-**	359,320	**359,320**
Balance at 31 December 2007		**592,867**	**642,285**	**-**	**130,479**	**1,365,631**
Share issue	**20**	401,000	600,000	**-**	-	**1,001,000**
Dividends declared	**30**	-	-	**-**	(105,666)	**(105,666)**
Revaluation of financial assets available for sale	**9**	-	-	(136,190)	-	**(136,190)**
Net profit		-	-	**-**	67,933	**67,933**
Balance at 31 December 2008		**993,867**	**1,242,285**	**(136,190)**	**92,746**	**2,192,708**

The availability of the Bank's retained earnings for distribution to shareholders is determined by the Bank's Articles of Association and by Russian legal and fiscal regulations (Note 21).

(in thousands of Russian Roubles)

1. Principal Activities

Saint-Petersburg Commercial Bank "Tavrichesky" – (the "Bank") was organised in April 1993 in the form of an open joint stock company in accordance with the legislation of the Russian Federation. The Bank holds a general license № 2304 to carry out banking activities issued by the Central Bank of the Russian Federation (CBRF) on 15 September 2004. In addition, from December 2000, the Bank holds licenses issue by the Federal Commission for Securities and Stock Market to carry out broker, dealer, deposit and managing securities activities.

The Bank is a universal credit institution carrying out all banking operations in accordance with the licenses it holds.

From November 2004 the Bank has been included in the Federal Insurance System for individuals' deposits approved by the Federal Law "About insurance of individuals' deposits in the Banks of the Russian Federation". The system of compulsory insurance of deposits from individuals guarantees 100% payment on deposits not exceeding RUR 700 thousand per individual in case the Bank's license is revoked or the Central Bank of the Russian Federation sets a moratorium on payments.

As at 31 December 2008 the Bank had seven additional offices: in Sosnovyy Bor, Leningradskaya oblast, Pechora in Komi republic, Kingisepp in Leningradskaya oblast, Murmansk, Moscow, Irkutsk, and Syktyvkar.

The Bank's registered address is: Radischeva St., 39, St Petersburg 191123, Russian Federation.

As at 31 December 2008 and 31 December 2007 the Bank had the following shareholding structure:

Shareholder	**2008**	**2007**
Kuznetsov I.V.	9.15%	8.97%
SpareBank 1 Nord-Norge	9.09%	-
Zakharzhevskiy O. Y.	8.71%	11.40%
Fedorov V.M.	7.57%*	15.16%*
OOO "Vest-Invest"	6.47%	8.02%
Makhauri Kh.D..	5.72%	7.30%
OOO "Alkor Holding"	5.67%	9.36%
Kirin D.N.	5.32%	1.25%
OOO "Vetka"	4.79%	9.00%
Alymov O.V.	4.47%	5.32%
Other shareholders (holding less than 5%)	33.04%	24.22%
Total	**100.00 %**	**100 .00%**

* - 7.49% (2007: 14.95%) of shares were preference non-voting shares, and therefore Fedorov V.M. could not influence shareholders decisions

In the opinion of the Directors there is no ultimate controlling party.

During 2008 the Bank had an average of 412 employees (2007: 445 employees).

2. Operating Environment of the Bank

The Bank's operating environment can be summarized in one word and that is 'Crisis'. Whilst there are many different opinions about when and how it started the beginnings of problems in the US sub-prime market were becoming apparent as far back as early 2007. Since then the global economic landscape has changed beyond recognition. Initially problems were felt in western banking markets where interbank liquidity dried up especially regarding banks with high sub-prime exposure.

(continued)

2. Operating Environment of the Bank (continued)

Since then the effects have expanded including banking and other corporate collapses, and impacted the stock market, property market, commodity and foreign exchange markets and into the real economy. Many countries have now entered recession and periods of negative growth in their economies as a result.

Russia in 2008 and CBRF response

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

In response to this the CBRF (and Russian Governmental bodies also) took a number of steps to lessen the impact of the crisis in Russia. Vnesheconombank ('VEB') was provided with funds from the National Wealth Fund to lend to larger banks in order to provide liquidity to the overall banking system, although there were later criticisms that this did not occur. The CBRF continued its policy of managing exchange rates in order to have a managed decline, and also open market operations, including those in order to support securities prices, have been conducted. In addition mandatory reserve ratios were substantially reduced in order to provide banks with ability to use liquidity that they were already holding on their balance sheets. To increase the confidence of customers the limits of coverage of deposit insurance were also increased, and requirements of Banks entry to the system were made stricter. Many banks also have access to borrow CBRF funds if they are able to pledge satisfactory securities collateral.

Year 2009

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

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

3. Basis of Presentation

a) Statement of Compliance

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”) and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect.

b) Basis of Measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments held at fair value through profit or loss and the effects of hyperinflation adjustments for non-monetary items prior to 1 January 2003.

c) Functional and Presentation Currency

These financial statements are presented in thousands of Russian Roubles (“RUR”) unless otherwise indicated. The Rouble is considered to be the functional currency as the majority of the Bank’s transactions are denominated, measured, or funded in Russian Roubles. Transactions in other currencies are treated as transactions in foreign currencies. Amounts in Russian Roubles have been rounded to the nearest thousand.

The Bank is required to maintain its accounting records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These financial statements are based on the Bank’s RAL books and records, as adjusted and reclassified in order to comply with IFRS.

Equity and profit for the year are reconciled between RAL and IFRS as follows:

	2008		2007	
	Equity	**Profit for the year**	**Equity**	**Profit for the year**
Russian Accounting Legislation	**2,189,975**	**190,945**	**1,466,696**	**286,114**
Fair value adjustment of customer accounts	-	-	-	66,379
Fair value adjustment of loans and advances to customers	(1,409)	7,743	(9,152)	3,429
(Charge) / release of allowance for loan impairment	(36,304)	(69,025)	66,503	156,045
Accrual of interest/discount on PN purchased	-	-	(112,880)	(112,974)
Accrual of interest/discount on debt securities issued	-	-	-	87,039
Charge of interest expense /(income)	47,723	30,947	(82,895)	(75,577)
Charge for impairment allowance for other assets	(13,324)	(13,168)	(10,174)	(10,174)
Charge of impairment allowance of guarantees issued	32	(380)	10,456	(4,903)
Accrual of expenses	(5,720)	(3,230)	(2,301)	(9,791)
Accrual of net commission income	(710)	1,853	14,947	14,947
Fixed assets related adjustment	23,985	-	-	-
Depreciation adjustments	(15,827)	(1,982)	(10,954)	(1,530)
Profit tax adjustment	(2,425)	(74,161)	23,232	(36,296)
Other adjustments	6,712	(1,609)	(3,798)	(3,388)
Dividends	-	-	15,951	-
International Financial Reporting Standards	**2,192,708**	**67,933**	**1,365,631**	**359,320**

(continued)

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

d) Accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgement or complexity, or areas where estimates are significant to the financial statements are disclosed in Note 6.

e) Adoption of new and revised International Financial Reporting Standards

During the reporting year no new standards became effective; and the following Interpretations have come into force:

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

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

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' were issued on 13 October 2008 being effective from 1 July 2008; subsequent clarifications were issued in November 2008. The amendments to IAS 39 permit reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the trading category if they are no longer held for the purpose of selling or repurchasing them on the near term to either the held to maturity, loans and receivables or available for sale categories and reclassifications of financial assets from the available for sale category to the loans and receivables category in particular rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur to the near term.

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

In application of the quoted amendments, the Bank has reclassified certain trading securities into the available-for-sale portfolio effective from 2 December 2008, as the Bank no longer holds these securities for the purpose of selling or repurchasing them in the near term. From the reclassification date, the securities are revalued at fair value directly in equity through the revaluation reserve for available-for-sale securities. Assessment of impairment of these securities is performed in accordance with IAS 39 requirements for available-for-sale financial assets.

(continued)

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

f) New Standards and Interpretations not yet adopted

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

IFRS 8	Operating Segments (from 1 January 2009)
IAS 1 (amended)	Presentation of Financial Statements (effective from 1 January 2009)
IAS 23 (amended)	Borrowing Costs (effective from 1 January 2009)
IAS 27 (amended)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
IFRS 3 (amended)	Business Combinations (effective from 1 July 2009)
IFRS 2 (amended)	Vesting Conditions and Cancellations (effective from 1 January 2009)
IAS 32 & IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009)
IFRS 1 & IAS 27 (amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 (amended)	Eligible Hedge Items (effective from 1 July 2009)
IFRS 1 (amended)	First-time Adoption of Financial Reporting Standards (effective from 1 July 2009)
IFRIC 13	Customer Loyalty Programmes (effective from 1 July 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
IFRIC 18	Transfers of Assets from Customers (effective from 1 July 2009)
IFRS 7 (amended)	Improving Disclosures about Financial Instruments (effective from 1 January 2009)

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

g) Associates and related parties

The Bank has a number of related parties. These can be categorised into five groups:

- Entities and individuals with joint control or significant influence over the Bank;
- Entities under common control;
- Key management personnel of the Bank;
- Associates;
- Other related parties.

Balances and transactions with all the above categories of related parties have been disclosed in Note 34.

(continued)

3. Basis of Presentation (continued)

h) Fair value of financial instruments

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

The specific valuation methodologies applied to these instruments are outlined in Note 4. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

i) Inflation accounting

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

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

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash within a day. All short term interbank placements, beyond overnight deposits, are included in due from banks. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

b) Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory balances with the Central Bank of the Russian Federation (CBRF) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

c) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and financial assets available for sale. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: securities held for trading, and other financial instruments designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

(continued)

4. Significant Accounting Policies (continued)

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

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

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities and is in accordance with IAS 39 revised for the fair value option.

Held-to-maturity
Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor and are carried at amortised cost using the effective interest rate method.

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale
Available-for-sale investments are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or are not classified in any of the three preceding categories.

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

e) Recognition and derecognition of financial instruments
The bank recognises financial assets at fair value through profit or loss on the date it commits to purchase the assets. Loans and receivables are recognised on the day they are transferred to or originated by the Bank.

Financial assets and liabilities are initially recognised at cost, which normally is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively

(continued)

4. Significant Accounting Policies (continued)

Loans and receivables issued or purchased at interest rates different from market rates are re-measured at origination to their fair value, being future payments discounted at market interest rates for similar operations. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income under the most appropriate expense heading. Where no other heading is more appropriate the expense is recorded as value transferred on loans issued at less than commercial rates. Subsequently, the carrying amount of such loans is adjusted for amortisation of the value transferred and the related income is recorded as interest income within the statement of income using the effective interest rate method. Such transactions are usually entered into with related parties, although they may also be undertaken for marketing or other purposes.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If listed market prices are not available, the market for a financial asset is not active, securities are unlisted, or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined based upon other relevant factors, including management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition in a reasonable period of time and the level of liquidity in the stock. Market value is not necessarily indicative of the amount that could be obtained for disposal of a large block of securities.

Changes in market values are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs. Coupons earned on government securities are reflected in the statement of income as interest income on securities whereas any trading gains or losses on these securities are reflected as gains less losses arising from securities.

(continued)

4. Significant Accounting Policies (continued)

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Bank determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognised initially, they are measured at fair value, minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs, and then remeasured at amortised cost using the effective interest method. Other financial liabilities are carried at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but shall not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In case there is a doubt of repayment of granted loans, they are revalued to their recoverable amount with further recognition of interest income based on the interest rate used for the discount of future cash flows in order to determine the recoverable amount. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Bank has to use the contractual cash flows over the full contractual term of the financial instrument.

Financial liabilities are classified as financial liabilities at fair value through profit and loss if they are acquired for the purpose of selling or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit and loss. Gains or losses on financial liabilities at fair value through profit and loss are recognised in the statement of income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

f) Offsetting financial instruments

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

g) Impairment of financial assets

Assets carried at amortised cost

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

(continued)

4. Significant Accounting Policies (continued)

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

Whenever there is objective evidence that an impairment loss on loans to customers and receivables has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate as determined under the contract.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

h) Promissory notes purchased

Within the Russian Federation, promissory notes, more commonly known as “veksels”, are widely used as flexible financial instruments. The nature of transactions and balances associated with them is varied. Promissory notes purchased are included in securities, in loans and advances to customers or in due from other banks, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies described for these categories.

i) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including undrawn loan commitments and credit lines, letters of credit and guarantees.

Undrawn loan commitments and credit lines are not included in the balance sheet of the Bank but are separately disclosed in Note 32.

Letters of credit and issued financial guarantees other than those previously asserted to be insurance contracts, are initially recognised at their fair value, and subsequently measured at the higher of (i) the un-amortised balance of the related fees received and deferred and (ii) the amount recognised under IAS 37 *“Provisions, Contingent Liabilities and Contingent Assets”*.

Amounts payable under guarantee contracts are included under other liabilities.

Specific allowances for impairment are recorded in the income statement for other credit related commitments when losses are considered to be incurred.

(continued)

4. Significant Accounting Policies (continued)

j) Fixed assets

Fixed assets are stated in the balance sheet at cost less any subsequent accumulated depreciation, amortisation and accumulated impairment losses when required.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference after eliminating any revaluation surplus balances, is charged to the statement of income. The estimated recoverable amount is the higher of an asset's potential net sales proceeds and its value in use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance.

Intangible assets separately acquired are initially recognised at the cost of acquisition.

After initial recognition intangible assets are measured at the cost of acquisition net of accumulated amortisation and accumulated impairment loss. Impairment assets have finite and indefinite useful lives.

Intangible assets with finite useful life are being amortised over the period and are analysed for impairment only in case there is objective evidence.

Amortisation terms and procedure of intangible assets with finite useful lives are analysed at least annually in the end of reporting period. Changes of expected term of useful life or expected use of a certain asset and receiving future economic profit are recognised by changing the term of amortisation procedures (depending on the situation) and are considered as changes of accounting estimates. Amortisation allocations on intangible assets with finite useful life are recognised in the statement of income in the expenses as part of expenses according to the purpose of the intangible asset.

Intangible assets with indefinite useful lives are not amortised. They are regularly reviewed for impairment. The term of useful life of intangible asset is reviewed for the fact of any circumstances present proving the existing estimate of term of useful life of such asset. Otherwise useful life is perceptively changed from indefinite to finite.

k) Depreciation and amortisation

Depreciation is applied on a straight line basis to write off the assets over their estimated useful lives as follows:

Buildings	50 years
Motor vehicles	5 years
Computer equipment	5 years
Office equipment and furniture	6 years
Capital investments in leased assets	10 years
Other	7 years

(continued)

4. Significant Accounting Policies (continued)

The assets' amortization method is to be reviewed, and adjusted if appropriate, at each balance sheet date. The changes are subject to restatement of opening retained earnings under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Depreciation of the asset initiates when the asset becomes available for use in the location and condition in accordance with the Bank's intentions. Depreciation is stopped either when the asset is reclassified as available for sale or at de-recognition.

l) Due to banks

Amounts due to other banks are recorded when cash or other assets are advanced to the Bank by counterparty banks. The liability is carried at amortised cost using the effective interest method.

m) Customer accounts

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortised cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognised in the statement of income over the period of deposits using the effective interest method.

n) Debt securities issued

Debt securities are instruments issued by the Bank to its customers with a fixed date of repayment. These may be issued against cash deposits or as a payment instrument that the customer can discount in the over-the-counter secondary market. The Bank issues debt securities either with interest or at discount, or settlement debt securities and deposit certificates.

Debt securities and deposit certificates are stated at amortised cost using the effective interest method. Any difference between net proceeds and the redemption value is recognised in the statement of income. Accrued interest for debt securities issued and deposit certificates increase the value of securities issued.

o) Taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the statement of income for the period comprises current profit tax and changes in deferred tax. Current profit tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than profit tax, are recorded within operating expenses.

p) Deferred tax

Deferred profit tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The principal temporary differences arise from amortisation of software, revaluation of certain financial assets, allowance for loan impairment, accruals, and value transferred on loans granted at rates below commercial.

(continued)

4. Significant Accounting Policies (continued)

q) Dividends

Dividends are recorded as a separate debit caption 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 36. Dividends declared to owners of equity instruments after the balance sheet date, are not recognised as liabilities. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

r) Income and expense recognition

Interest income and expense are recognised in the statement of income on the accrual basis. Interest income is not recognised when it is overdue and/or in situations where management believes it is not collectable. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds.

Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

s) Foreign currency translation

Transactions denominated in currencies other than Russian Roubles are recorded at the exchange rate prevailing on the date of transaction. The foreign currencies mostly used by the bank are the dollar of the United States of America (USD) and the Euro (EUR).

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate determined by the CBRF at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses.

The official CBRF exchange rates as at 31 December 2008 were 29.3804 and 41.4411 Roubles per 1 USD and 1 EUR, respectively (2007: 24.5462 and 35,9332 Roubles per 1 USD and 1 EUR, respectively).

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a fully convertible currency outside of the Russian Federation.

t) Pension costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions amount in average to 20% of employees' gross salaries, and are expensed as incurred. The contributions are included in staff costs. The Bank has no other liabilities in respect of pensions or employee retirement benefits.

u) Operating leases

Payments made under operating leases are charged against income in equal instalments over the term of the lease.

(continued)

4. Significant Accounting Policies (continued)

v) Share capital and share premium

Share capital is recognised at historic cost, at that in regards to contribution: by monetary assets, contributed before 1 January 2003, - considering inflation and by nonmonetary asset – at fair value at the date of contribution. Share premium represents contributions in excess of the nominal value of issued shares.

w) Preference shares

Preference shares of the Bank represent shares, dividends on which are paid, according to the Articles of Association, by the decision of the Shareholder’s meeting and are recognised as equity.

x) Assets accepted under deposit agreements

Clients’ assets accepted under depositary, agent or similar agreements do not belong to Bank and are not included on the balance sheet. Commission received on such transactions is recognised as commission income.

y) Segment reporting

Segment is an indentifying component of the Bank associated with specific products or services (business segment), or with presenting products and rendering services in a specific economic environment (geographical segment), which is characterised by risks and profits not characteristic of other segments. A segment is separately disclosed in the financial statements, where the majority of its profit arises or sales to external clients and its profit, financial result and assets are not less then 10% of the overall income or total financial result or overall assets of all segments.

z) Derivative financial instruments

Derivative financial instruments include currency transactions contracts, interest futures, future interest rate agreements, currency and interest swaps, currency and interest options, and other derivatives are carried at fair value. Fair value is calculated based on the quoted market prices, models discounting cash flows, or models determining option price or spot rates as at the end of the year considering the type of transaction. Derivative financial instruments are recognised in the balance item “Financial assets at fair value through profit or loss” if the fair value of financial instruments is positive or to the item “Financial liabilities at fair value through profit or loss” if the fair value of the financial instrument is negative.

The Bank does not perform transactions defined by IAS 39 *“Financial instruments: Recognition and Measurement.”* as hedging.

aa) Comparatives

Certain comparative information has been revised to conform to changes in presentation in the current year where applicable.

(continued)

5. Financial Risk Management

The risk management function within the Bank is carried out with respect to financial risks (credit, geographical, market, currency, interest and liquidity), operational and legal risks. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

The operational and legal risk management's functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The system of financial risk management includes establishing, implementing and monitoring policies and procedures for financial risk management and their further update considering changes in economy, business and regulatory environment. The key financial risk management bodies of the Bank are the Board of Directors and the Executive Board.

The Board of Directors approves basic principles for risk management and is responsible for the organization of the Bank's structure in compliance with the main risk management principles. Its responsibility includes the identification and consideration of risk factors at the time of approving strategic goals and objectives.

The Board of Directors supervises the effectiveness of risk management. The Board of Directors annually reviews and approves reports from executive levels on the completion of the strategic plan for development of the Bank and reports on the loan activities of the Bank, disclosing information on credit risk as the key financial risk of the Bank.

The Board of Directors also controls the timeliness and completeness of control performed by the internal control department to monitor compliance with the main risk management principles for each separate branch and the Bank overall.

In order to comply with the main risk management principles, the Chairman of the Executive Board ensures the adoption of internal documents that determine principles and procedures for risk management. The Chairman of the Executive Board distributes authorities and responsibilities for risk management between the heads of sub-units of different levels, provides them with necessary resources and establishes the interaction and reporting procedures.

The Executive Board monitors compliance with the risk management policy, timeliness in determining risks, adequacy in their assessment and implementation of risk management procedures.

The Executive Board assesses the main risks to which the Bank may be exposed. It also makes decisions on carrying out measures to keep the Bank's performance on a going concern basis in a crisis situations.

The Executive Board is responsible for setting risk limits and implementing measures for their following. It also monitors strategic activities (business as well as risk limit activities).

The Executive Board is responsible for current risk management. At its meetings, the Executive Board takes decisions on managing the Bank's balance structure and changing market risks' limits.

Bank's treasury on a day-to-day basis manages and controls some risks, including liquidity, currency and interest rate risks.

The bodies responsible for managing credit risks include the Executive Board, Credit Committee, Expanded Credit Committee and the Credit Committees of branches.

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

(continued)

5. Financial Risk Management (continued)

The Bank's maximum exposure to credit risk is recognised in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For loan guarantees and commitments the maximum exposure to credit risk equals to the total amount of commitments. The actual amount of losses will, however, be considerably less, as most loan commitments are conditional on conditions described in the relevant agreements.

The Credit Committee of the Bank takes decisions on certain operations with exposure to credit risk and sets credit limits for related counterparties (within the authorities established by the Credit policy). In cases when the Credit Committee does not have enough authority for certain decisions, such questions are passed to the Expanded Credit Committee. The current credit risk management is concentrated in a specialised unit – Bank Credit Management controlling the exposure to credit risk.

The Bank's overall credit risk management policy is set out in its Credit policy. The Bank's Credit policy reflects its credit risk management approach in general, the principles of credit risk management, the functions of the Bank's structural sub-divisions and the peculiarities of risk management for one borrower or a group of related borrowers.

To maintain credit risk at an appropriate level the Bank uses the following risk management instruments:

On separate borrowers:

- Setting limits per borrower and per group of related borrowers;
- Regular monitoring of the financial position of the borrower during the loan application and period of the loan's validity;
- Assessment of market value of collateral and financial standing of the borrower and loan the guarantor;
- Ensuring the presence and integrity of collateral (before concluding the agreement) and further monitoring over the duration of the loan;
- Controlls the timeliness of the borrower's settlement of his obligations;
- Determining the level of loan impairment and setting up adequate reserves.

On a loan portfolio:

- Development of procedures and methods establishing universal loan granting procedures and monitoring and timely gathering of information on the financial position of the borrower;
- Control over the timely fulfillment by sub-units of the authorities' decisions and internal documents related to credit policy, internal limits, etc.

Management's control of exposure to credit risks and the quality of loan portfolio is based on the following types of reporting:

Daily reporting serving as base for management decisions is submitted to the Head of Credit Management:

- Loan portfolio position in terms of evidence of impairment;
- Calculation of the amount of actual outstanding loan per borrower and the Bank of related borrowers;
- Calculation of activities for compliance with special requirements (industry risks, risk of granting significant loans, loans granted to related borrowers, calculation of the amount of aggregate loans granted to the Bank's 20 largest borrowers);

Daily reporting submitted to Credit Committee, Executive Board and Board of Directors meetings:

- Structure of loans granted by the Bank overall with subdivision to branches;
- Movement on loans (with subdivision to granted, prolonged, overdue and settled);
- Fulfillment of activities (quantity of loans granted, branch of the borrower, etc) with subdivision to branches;
- Fulfillment of financial activities on various loan products

(continued)

5. Financial Risk Management (continued)

Granting of loans
For credit risk management the Bank adopted a system responsible for loan granting (except for standard loans of individuals)

The branches establish Credit Committees that have a set limit on granting loans to the specific groups of borrowers. After the approval of loan by a branch's Credit Committee it is approved by the Bank's Credit Committee.

In cases when amount requested by the borrower exceeds the limit of the corresponding Credit Committee, the loan is approved by the Bank's Expanded Credit Committee. Any loans to the related parties, considered being related in accordance with the acting regulations, are granted only after they are approved by the Board of Directors.

Limits set by the Bank for credit risk management:
Limit for a single borrower or a group of related borrowers:

The Bank sets individual limits on single borrowers or groups of related borrowers. To set this limit the Bank considers all available information. Setting individual limits involve a complex analysis of the financial statements, cash flows, existing credit history of each borrower from a group of related borrowers as well as the need of the group of related borrowers for the loan and the existence of the source of repayment. To establish the limit the Bank also considers the collateral.

When assessing liquidity of collateral the Bank considers the following:

- Bank's deposits and promissory notes issued by the Bank;
- Property;
- Guarantees and corporate guarantees
- Fixed assets
- Other assets

Limits on loan portfolio overall:

- The amount of aggregate credit commitments to a single borrower or a group of related borrowers not exceeding 25% of the Bank's capital;
- The amount of outstanding loans to the Bank related borrowers not exceeding 25% of the Bank's capital;
- Aggregated amount of loans, guarantees, presented by the Bank to its shareholders (having 5% or more of the voting shares) – not exceeding 18% of the Bank's capital;

The Bank uses the same credit risk policy in respect of off-balance sheet financial instruments as it does for the balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Bank has a right to use any of the Bank's products (guarantees, letters of credit and credit lines, etc) within the frame of the set limit

The Bank uses a system of limits, restricting the maximum loan to counterparties in transactions on the interbank credit market and transactions for buying/selling of financial assets, including conversion transactions bearing credit risk on the counterparty. Corresponding limits are set for every credit organisation that is a counterparty, based on the analysis of its credit quality by the Bank's authorised sub-units and are approved by the Chairman of the Executive Board. The limits for Banks – correspondents are reviewed on a monthly basis.

(continued)

5. Financial Risk Management (continued)

Credit risk measurement

In measuring the credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (a) the “probability of default” by the client or counterparty on its contractual obligations; (b) current exposures to the counterparty and its likely future development, from which the Bank derive the “exposure at default”; and (c) the likely recovery ratio on the defaulted obligations (the “loss given default”).

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

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally, based on the regulations issued by the Central Bank of the Russian Federation and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data.

For this purpose the loan portfolio of the Bank is classified into five risk categories:

- Pass – allowance rate 0%
- Watch – allowance rate from 1% to 20%
- Substandard – allowance rate from 21% to 50%
- Doubtful – allowance rate from 51% to 100%
- Loss – allowance rate from 100%

The allowance rate represents the ratio of allowance for impairment against gross loans under each pool of loans with similar credit risk or individually impaired loan.

In order to achieve a more representative classification of borrowers, each category (apart from the lowest one) includes subcategories that characterise more specifically the capability of a borrower to repay a loan.

The analysis of debt securities and other liabilities does not differ from the analysis of the Bank’s borrowers and is performed with the use of similar models, keeping into account that not all the financial information is consistent or readily available from all issuers. In this regard bank’s risk evaluation department uses additional information of the securities’ market. The department uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and the over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor’s, Moody’s or Fitch Ratings. Investments in these securities are viewed as a means to improve the credit quality profile of the Bank’s assets and at the same time a tool for liquidity management.

Impairment and provisioning policies

The internal rating described before in this note, used for regulatory purposes as per the instructions of the CBRF focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the Bank’s IFRS financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

The impairment allowance shown in the balance sheet under IFRS at year-end is derived from each of the five statutory risk categories. In absolute terms, the majority of the impairment allowance comes from the top two grading in direct correlation to the volume of the loans assessed; in contrast, the highest allowance rates correspond to the last category.

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

	2008			2007		
Risk category	**Loans and advances (%)**	**Impairment allowance (%)**	**Overall allowance rate (%)**	**Loans and advances (%)**	**Impairment allowance (%)**	**Overall allowance rate (%)**
I	37.75	17.44	3.44	44.78	17.40	2.16
II	43.96	18.95	3.21	37.51	25.68	3.81
III	10.81	3.86	2.66	6.02	2.48	2.29
IV	1.53	0.78	3.80	7.07	6.77	5.33
V	5.95	58.97	73.83	4.62	47.67	57.43
	100.00	**100.00**	**7.45**	**100.00**	**100.00**	**5.56**

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

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

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

Collectively assessed impairment allowances are provided for:

(i) portfolios of homogenous assets that are individually below materiality thresholds; and

(ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

Loans and advances to customers include the following portfolios:

	2008	2007
Loans and advances to customers		
Individuals (retail customers)		
Consumer loans	1,045,599	1,193,164
Corporate entities		
Large business lending	1,905,824	1,593,030
Medium business lending	1,442,410	4,813,975
Small business lending	4,571,093	997,372
Entrepreneurs	256,863	305,950
Gross loans and advances	**9,221,789**	**8,903,491**
Less: allowance for impairment	(687,100)	(495,348)
Loans and advances, net	**8,534,689**	**8,408,143**

The loan portfolios of the Bank's corporate clients, individuals and entrepreneurs as at 31 December 2008 are summarised as follows:

	Total corporate entities	Individuals	Entrepreneurs	Total
Current and individually non-impaired	7,527,043	965,458	149,439	**8,641,940**
Allowance for impairment	(202,648)	(18,362)	(61,710)	**(282,720)**
Total current and individually non-impaired loans	**7,324,395**	**947,096**	**87,729**	**8,359,220**
Past due but not impaired loans	96,406	80,140	12,424	**188,970**
Allowance for impairment	(6,517)	(1,854)	(5,130)	**(13,501)**
Total past due but not impaired loans	**89,889**	**78,286**	**7,294**	**175,469**
Past due and individually impaired loans	390,878	-	-	**390,878**
Allowance for impairment	(390,878)	-	-	**(390,878)**
Total past due and individually impaired loans	**-**	**-**	**-**	**-**
Total loans and advances to customers	**7,414,284**	**1,025,382**	**95,023**	**8,534,689**

(continued)

(in thousands of Russian Roubles)

The loan portfolios of the Bank’s corporate clients as at 31 December 2008 are summarised as follows:

	Corporate entities			
	Large businesses	**Medium businesses**	**Small businesses**	**Total**
Current and individually non-impaired	1,888,594	1,442,410	4,196,039	**7,527,043**
Allowance for impairment	(10,685)	(13,873)	(178,090)	**(202,648)**
Total current and individually non-impaired loans	**1,877,909**	**1,428,537**	**4,017,949**	**7,324,395**
Past due but not impaired loans	17,228	-	79,178	**96,406**
Allowance for impairment	(90)	-	(6,427)	**(6,517)**
Total past due but not impaired loans	**17,138**	**-**	**72,751**	**89,889**
Past due and individually impaired loans	**-**	**-**	390,878	**390,878**
Allowance for impairment	**-**	**-**	(390,878)	**(390,878)**
Total past due and individually impaired loans	**-**	**-**	**-**	**-**
Total loans and advances to customers	**1,895,047**	**1,428,537**	**4,090,700**	**7,414,284**

The amount of accrued interest on past due and impaired loans is RUR 25,278 thousand as at 31 December 2008.

The loan portfolios of the Bank’s corporate clients, individuals, entrepreneurs as at 31 December 2007 are summarised as follows:

	Total corporate entities	**Individuals**	**Entrepreneurs**	**Total**
Current and individually non-impaired	7,000,269	1,144,455	299,568	**8,444,292**
Allowance for impairment	(219,216)	(29,516)	(8,173)	**(256,905)**
Total current and individually non-impaired loans	**6,781,053**	**1,114,939**	**291,395**	**8,187,387**
Past due but not impaired loans	190,335	26,742	2,780	**219,857**
Allowance for impairment	(23,825)	(1,048)	(190)	**(25,063)**
Total past due but not impaired loans	**166,510**	**25,694**	**2,590**	**194,794**
Past due and individually impaired loans	213,773	21,967	3,602	**239,342**
Allowance for impairment	(188,233)	(21,545)	(3,602)	**(213,380)**
Total past due and individually impaired loans	**25,540**	**422**	**-**	**25,962**
Total loans and advances to customers	**6,973,103**	**1,141,055**	**293,985**	**8,408,143**

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

The loan portfolio of the Bank's corporate clients as at 31 December 2007 is summarised as follows:

	Corporate entities			
	Large businesses	Medium businesses	Small businesses	Total
Current and individually non-impaired	1,593,030	4,585,523	821,716	**7,000,269**
Allowance for impairment	(1,713)	(121,330)	(96,173)	**(219,216)**
Total current and individually non-impaired loans	**1,591,317**	**4,464,193**	**725,543**	**6,781,053**
Past due but not impaired loans	-	55,809	134,526	**190,335**
Allowance for impairment	-	(2,577)	(21,248)	**(23,825)**
Total past due but not impaired loans	**-**	**53,232**	**113,278**	**166,510**
Past due and individually impaired loans	-	172,643	41,130	**213,773**
Allowance for impairment	-	(172,643)	(15,590)	**(188,233)**
Total past due and individually impaired loans	**-**	**-**	**25,540**	**25,540**
Total loans and advances to customers	**1,591,317**	**4,517,425**	**864,361**	**6,973,103**

a) *Credit concentration risk*

As at 31 December 2008 the Bank had 1,273 borrowers (2007: 1,363); the largest single borrower represented 4.1% of the total loan portfolio (2007: 3.4%). The next largest borrower represents another of 3.5% the Bank's loan portfolio (2007: 3.2%).

	31 December 2008			31 December 2007		
RUR ranges	Number of borrowers	Total net debt	% of total	Number of borrowers	Total net debt	% of total
More than 60,000	41	5,624,815	65.9	40	5,300,447	63.0
From 15,001 to 60,000	62	1,886,534	22.1	62	2,046,720	24.3
From 601 to 15,000	225	920,168	10.7	246	963,215	11.5
From 31 to 600	651	98,786	1.2	669	92,656	1.1
Less than 30	294	4,386	0.1	346	5,105	0.1
	1,273	**8,534,689**	**100.0**	**1,363**	**8,408,143**	**100.0**

b) *Collateral and other credit enhancements*

The amount and type of collateral accepted by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for lending are charges over real estate properties, and trading inventories.

Securities and guarantees are also obtained from counterparties for all types of lending.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for a credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security must be adequately detailed in the Application for Credit Facility Form. The account officer must have seen evidence of the existence of the collateral offered seen the actual collateral

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Bank takes collateral with a view to ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable.

Details of collateral on loans and advances to customers as at 31 December 2008 are presented in the table below:

	Corporate entities					
	Large businesses	**Medium businesses**	**Small businesses**	**Individuals**	**Entrepreneurs**	**Total**
Securities and shares	218,620	124,400	426,188	-	86,764	855,972
Land and property	44,805	287,940	1,012,910	320,149	5,477	1,671,281
Vehicles	-	21,847	78,288	36,463	11,313	147,911
Equipment	10,930	24,445	70,061	6,649	3,836	115,921
Goods in turnover	1,671,465	352,759	3,830,433	82,021	875,049	6,811,727
Guarantees	206,464	245,899	2,768,629	349,279	1,042,535	4,612,806
Total collateral	**2,152,284**	**1,057,290**	**8,186,509**	**794,561**	**2,024,974**	**14,215,618**

Securities accepted as collateral for loans include promissory notes issued by the bank for RUR 423,032 thousand.

Details of collateral on loans and advances to customers as at 31 December 2007 are presented in the table below:

	Corporate entities					
	Large businesses	**Medium businesses**	**Small businesses**	**Individuals**	**Entrepreneurs**	**Total**
Securities and shares	153	1,220,111	77,501	6,987	-	**1,304,752**
Land and property	292,556	2,276,201	835,454	673,496	380,940	**4,458,647**
Vehicles	55,826	60,044	49,004	13,668	39,722	**218,264**
Equipment	43,178	359,236	197,969	5,440	32,663	**638,486**
Goods in turnover	1,491,390	1,528,270	323,895	80,765	70,339	**3,494,659**
Guarantees	917,247	1,901,272	387,177	741,426	305,065	**4,252,187**
Total collateral	**2,800,350**	**7,345,134**	**1,871,000**	**1,521,782**	**828,729**	**14,366,995**

c) Collateral repossessed
During 2008 the Bank resold the collateral repossessed in 2007 valued at RUR 50,000 thousand.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

Geographical risk
The Bank's exposure to geographical risk is insignificant as the Bank mostly carries out transactions with residents of the Russian Federation.

A geographical analysis of Bank's assets and liabilities as at 31 December 2008 is set out below:

	Russia	OECD countries	Total
Assets			
Cash and cash equivalents	2,978,563	1,396,486	**4,375,049**
Mandatory cash balances with the CBRF	14,447	-	**14,447**
Securities	221,099	-	**221,099**
Due from banks	200,000	-	**200,000**
Loans and advances to customers	7,345,680	1,220,009	**8,534,689**
Accrued income and other assets	39,073	-	**39,073**
Deferred tax assets	-	-	**-**
Fixed assets	356,287	-	**356,287**
Total assets	**11,124,149**	**2,616,495**	**13,740,644**
Liabilities			
Customer accounts	8,819,278	223,392	**9,042,670**
Due to banks	65	9,520	**9,585**
Subordinated loan	150,000	-	**150,000**
Debt securities issued	2,312,756	-	**2,312,756**
Deferred tax liability	592	-	**592**
Accrued expense and other liabilities	32,333	-	**32,333**
Total liabilities	**11,315,024**	**232,912**	**11,547,936**
Net balance sheet position at 31 December 2008	**(190,875)**	**2,383,583**	**2,192,708**

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

A geographical analysis of Bank's assets and liabilities as at 31 December 2007 is set out below:

	Russia	OECD countries	Total
Assets			
Cash and cash equivalents	2,629,038	49,792	**2,678,830**
Mandatory cash balances with the CBRF	154,656	-	**154,656**
Financial assets at fair value through profit or loss	23,617	-	**23,617**
Due from banks	205,055	-	**205,055**
Loans and advances to customers	7,605,612	802,531	**8,408,143**
Financial assets available for sale	92,431	-	**92,431**
Other assets available for sale	50,000	-	**50,000**
Accrued income and other assets	17,710	-	**17,710**
Deferred tax assets	33,814	-	**33,814**
Fixed assets	193,371	-	**193,371**
Total assets	**11,005,304**	**852,323**	**11,857,627**
Liabilities			
Customer accounts	7,285,897	54,047	**7,339,944**
Due to banks	50,577	957	**51,534**
Subordinated loan	150,000	-	**150,000**
Debt securities issued	2,894,544	-	**2,894,544**
Accrued expense and other liabilities	55,974	-	**55,974**
Total liabilities	**10,436,992**	**55,004**	**10,491,996**
Net balance sheet position at 31 December 2007	**568,312**	**797,319**	**1,365,631**

Assets and liabilities have been allocated based on the country of origin in which the counterparty is located. Cash on hand and fixed assets have been allocated based on the country in which they are physically held.

Market risk
The Bank is exposed to market risk which is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. The Bank is exposed to three types of market risks, which include currency risk, interest rate risk and other price risk.

The Bank's Executive Board is responsible for developing procedures for assessment of current market risks, risk management and determining and analysing the current risk level. The Bank's Executive Board monitors the compliance of sub-units with procedures and limits. The heads of corresponding sub-units report to the Bank's Management on a regular basis.

Market risk management seeks to limit the amount of possible losses on owned positions incurred by the Bank within a fixed period due to currency fluctuations, changes. of securities and interest rates by establishing a system of limits on transactions and conducting other procedures below.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

Currency risk

The Bank is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

In managing currency risk the Bank uses a system of accepted risk levels set by the Central Bank of the Russian Federation including limits on open current position for every currency (up to 10% of equity calculated in accordance with the requirements of CBRF and a limit on total open currency position for all currencies (up to 20% of equity calculated in accordance with the requirements of CBRF). The Bank controls compliance with its open currency position limits on a daily basis.

The Bank is conservative in managing currency risks, opening currency positions only on those currencies most widely used within the Russian Federation (US dollars and Euro) and in amounts significantly lower than the limits for open currency positions set by the Central Bank of the Russian Federation.

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,729,245	759,798	886,006	-	**4,375,049**
Mandatory cash balances with the CBRF	14,447	-	-	-	**14,447**
Securities	221,099	-	-	-	**221,099**
Due from banks	200,000	-	-	-	**200,000**
Loans and advances to customers	6,557,552	531,867	1,445,270	-	**8,534,689**
Accrued income and other assets	38,460	613	-	-	**39,073**
Fixed assets	356,287	-	-	-	**356,287**
Total assets	**10,117,090**	**1,292,278**	**2,331,276**	**-**	**13,740,644**
Liabilities					
Customer accounts	6,685,473	1,235,834	1,121,363	-	**9,042,670**
Due to banks	9,082	503	-	-	**9,585**
Subordinated loan	150,000	-	-	-	**150,000**
Debt securities issued	890,152	58,400	1,364,204	-	**2,312,756**
Deferred tax liability	592	-	-	-	**592**
Accrued expense and other liabilities	30,811	13	1,509	-	**32,333**
Total liabilities	**7,766,110**	**1,294,750**	**2,487,076**	**-**	**11,547,936**
Net balance sheet position as at 31 December 2008	**2,350,980**	**(2,472)**	**(155,800)**	**-**	**2,192,708**
Net balance sheet position as at 31 December 2007	**1,198,335**	**142,340**	**24,800**	**156**	**2,192,708**

The Bank has granted loans and advances in foreign currencies. Changes in currency rates against the currency of the Russian Federation may have a negative impact on the borrowers' ability to repay the loan. This increases the chance of possible loss on loans.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

The table below presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

Currency fluctuation in 2008 / 2007	Impact on net result in 2008	Impact on net result in 2007
USD +10% / +5%	2,085	327
USD -10% / -5%	(2,085)	(327)
EUR +10% / +5%	13,701	1,391
EUR -10% / -5%	(13,701)	(1,391)
Other currencies +10% / + 5%	-	8
Other currencies -10% / -5%	-	(8)

The risk was calculated for cash balances in currencies other than the Bank's functional currency:

The currency risk as at the reporting date does not reflect the typical risk situation at the beginning of the year. The table below presents sensitivities of profit and loss to reasonably possible changes in average exchange rates applied at the balance sheet date, with all other variables held constant:

Currency fluctuation in 2008 / 2007	Impact on net result in 2008	Impact on net result in 2007
USD +10% / +5%	2,157	1,044
USD -10% / -5%	(2,157)	(1,044)
EUR +10% / +5%	682	134
EUR -10% / -5%	(682)	(134)
Other currencies +10% / + 5%	99	62
Other currencies -10% / -5%	(99)	(62)

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

Interest rate risk is managed through managing the Bank's assets and liabilities to increase profit and reduce loss resulting from potential fluctuation of interest rates.

The Executive Board is responsible for justifying the level of interest rate risk acceptable to the Bank, developing procedures for evaluating interest rate risk, determining parameters for assets and liabilities, monitoring their observance, and managing interest rate policy within the Bank.

The Bank is managing interest rate risk within the frames of its policy on drawing and depositing funds in Roubles and foreign currency that also determines the measures related to changes of the existing interest rates for ensuring the Bank's profitability and liquidity. Interest rate control is managed by regular monitoring of the level of market interest rates, the analysis of mismatch on maturity dates on assets, liabilities and off-balance sheet commitments with the Bank's obligations on instruments sensitive to interest rate fluctuations, the analysis of profitability of the Bank's transactions, and taking decisions on adjusting the existing interest rates. Interest rates are usually set for a short period of time. Fixed interest rates on assets and liabilities are reviewed on the basis of mutual agreement depending on the market situation. The Bank usually aims at matching interest bearing positions.

The Bank has the right to make immediate changes to rates on most interest bearing assets and liabilities in response to changes in the interest rate environment

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

The table below summarises the effective average interest rate, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using period-end effective interest rates.

	2008 (%)			2007 (%)		
	RUR	USD	EURO	RUR	USD	EURO
Assets						
Due from banks	6.0	-	-	3.9	-	-
Loans and advances to customers	14.4	12.4	12.3	13.1	13.9	9.9
Securities	-	-	-	16.4	-	-
Liabilities						
Customer accounts:						
Deposits of legal entities	11.3	9.4	10.4	8.9	9.0	-
Deposits of individuals	9.4	7.9	7.0	9.4	7.3	7.6
Due to Banks	-	-	-	10.3	-	-
Subordinated loan	9.0	-	-	9.0	-	-
Debt securities issued:						
Promissory notes	7.3	8.4	14.2	15.2	14.0	7.1
Deposit certificates	12.1	-	-	11.3	-	-

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

	On demand or less than 1 month (%)	1 to 6 months (%)	6 months to 1 year (%)	Over 1 year (%)	Overdue/ no stated maturity (%)
Assets					
Due from banks	6	-	-	-	-
Loans and advances to customers	14.9	14.5	13.5	13.9	14.7
Liabilities					
Customer accounts:					
Deposits of legal entities		10.4	10.6	11.2	-
Deposits of individuals	1.7	5.6	9.8	9.2	-
Due to Banks	6.0	-	-	-	-
Subordinated loan	-	-	-	9	-
Debt securities issued:					
Promissory notes	5.5	14.0	10.3	9.4	-
Deposit certificates	11.5	11.7	12.9	-	-

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

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

	On demand or less than 1 month (%)	1 to 6 months (%)	6 months to 1 year (%)	Over 1 year (%)	Overdue/ no stated maturity (%)
Assets					
Due from banks	3.9	-	-	-	-
Loans and advances to customers	11.2	14.5	13.0	13.0	12.6
Securities	-	19.0	15.4	-	-
Liabilities					
Customer accounts:					
Deposits of legal entities	6.7	9.7	10.4	11.2	-
Deposits of individuals	8.3	9.2	9.6	10.2	-
Due to Banks	10.3	-	-	-	-
Subordinated loan	-	-	-	9.0	
Debt securities issued:					
Promissory notes	4.7	10.4	11.6	10.4	-
Deposit certificates	11.7	11.1	11.2	12.0	-

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2008. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates:

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue / no stated maturity	Total
Assets						
Due from banks	200,000	-	-	-	-	**200,000**
Loans and advances to customers	788,716	3,127,295	3,548,339	894,870	175,469	**8,534,689**
Securities	-	221,099	-	-	-	**221,099**
Total assets	**988,716**	**3,348,394**	**3,548,339**	**894,870**	**175,469**	**8,955,788**
Liabilities						
Customer accounts	5,500,050	1,982,752	1,537,171	22,697	**-**	**9,042,670**
Due to Banks	9,585	-	-	-	-	**9,585**
Subordinated loan	-	-	-	150,000	-	**150,000**
Debt securities issued	24,785	1,396,464	855,150	36,357	**-**	**2,312,756**
Total liabilities	**5,534,420**	**3,379,216**	**2,392,321**	**209,054**	**-**	**11,515,011**
	(4,545,704)	**(30,822)**	**1,156,018**	**685,816**	**175,469**	**(2,559,223)**
Accumulated gap at 31 December 2008	**(4,545,704)**	**(4,576,526)**	**(3,420,508)**	**(2,734,692)**	**(2,559,223)**	
Accumulated gap at 31 December 2007	**(3,527,295)**	**(2,939,277)**	**(2,445,715)**	**(1,887,940)**	**(1,730,393)**	

(continued)

5. Financial Risk Management (continued)

Other price risk

The Bank takes exposure to limited risk arising from the fluctuation of the fair value of cash flows related to an instrument as a result of fluctuations in market prices (apart from those arising from interest rate or currency risk) irrespective of when the changes are caused by factors characteristic of a certain security or its issuer that will have an impact on all financial instruments in the market.

Securities of the Bank comprise relatively risky shares of leading power enterprises.

If at 31 December 2008 equity prices had been 10 % (2007: 10%) lower, with all the variables held constant, profit for the year would have been RUR 12,842 thousand (2007: RUR 1,302 thousand) lower (mostly due to revaluation of corporate shares available for sales).

The Bank is exposed to prepayment risk through providing fixed or variable rate loans which give the borrower the right to repay the loans early. The Banks' current year financial result and equity at the current balance sheet date would not have been significantly impacted by changes in payments rates because such loans are recognised at amortised cost and the prepayment is at or close to the amortised cost of the loans and accounts receivable.

Liquidity risk

Liquidity risk is defined as the risk of facing difficulties associated with the settlement of financial obligations.

The Bank's exposure to liquidity risk arises due to a mismatch between the maturities of assets and liabilities. The Bank is exposed to liquidity risk due to the daily necessity of using cash for customer account payments, at a deposit's maturity date, granting loans payments on guarantees and derivatives that are settled in cash. The Bank does not reserve cash for the cases when it has to meet all the above mentioned commitments, as it is able to accurately foresee the necessary amount of monetary assets for settling these obligations.

Bank assets and liabilities so as to allow the Bank to meet commitments to creditors and satisfy the demands of the Bank's clients.

The Bank aims to maintain a diversified and stable structure of funding sources comprising debt securities issued, short-term deposits, deposits and current assets of individuals and legal entities, and diversifying the portfolio of highly liquid assets in order for the Bank to be able to efficiently and without any difficulties meet liquidity calls as they arise.

Management of the Bank's liquidity is carried out through maintaining the overall liquidity reserve. The Management may maintain the above mentioned reserve at a high level as a result of the macroeconomic situation and the state of the banking services market at as well as general tendencies of the Bank's activity.

Liquidity management, its measurement and analysis is performed in accordance with requirements of the CBRF and internal regulatory documents of the Bank.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

When managing liquidity risk the Bank carries out the following procedures:

- Regular control and management of the Bank's balance sheet structure;
- Daily forecasting of cash flows per currency and calculations related to cash flows of the necessary current liquidity reserve level;
- Maintaining sufficient reserves of highly liquidity assets including outstanding cash balances in the correspondent account of the CBRF and in correspondent Banks for cases of unexpected cash outflow;
- Compliance with CBRF ratios including quick, current and long-term liquidity ratio;
- Monitoring liquidity surplus (deficit) ratios and their compliance with set limits to fluctuations in liquidity.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are:

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

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

	Requirement	**31 December 2008**	**31 December 2007**
Instant liquidity ratio (N2)	Minimum 15%	93.7%	74.9%
Current liquidity ratio (N3)	Minimum 50%	99.5%	77.2%
Long-term liquidity ratio (N4)	Maximum 120%	38.7%	54.3%

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

The following table shows assets and liabilities as at 31 December 2008 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans in case of renewal and accordingly short term loans can have a longer term nature.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	4,375,049	-	-	-	-	**4,375,049**
Mandatory cash balances with the CBRF	-	-	-	-	14,447	**14,447**
Securities	-	221,099			-	**221,099**
Due from banks	200,000	-	-	-	-	**200,000**
Loans and advances to customers	788,716	3,127,295	3,548,339	894,870	175,469	**8,534,689**
Accrued income and other assets	10,537	2,752	-	-	25,784	**39,073**
Fixed assets	-	-	-	-	356,287	**356,287**
Total assets	**5,374,302**	**3,351,146**	**3,548,339**	**894,870**	**571,987**	**13,740,644**
Liabilities						
Customer accounts	5,500,050	1,982,752	1,537,171	22,697	**-**	**9,042,670**
Due to Banks	9,585	-	-	-	-	**9,585**
Subordinated loan	-	-	-	150,000	-	**150,000**
Debt securities issued	24,785	1,396,464	855,150	36,357	**-**	**2,312,756**
Deferred liability	-	-	-	-	592	**592**
Accrued expense and other liabilities	25,125	-	7,208	-	-	**32,333**
Total liabilities	**5,559,545**	**3,379,216**	**2,399,529**	**209,054**	**592**	**11,547,936**
Net liquidity	**(185,243)**	**(28,070)**	**1,148,810**	**685,816**	**571,395**	**2,192,708**
Accumulated gap at 31 December 2008	**(185,243)**	**(213,313)**	**935,497**	**1,621,313**	**2,192,708**	
Accumulated gap at 31 December 2007	**(866,815)**	**(224,135)**	**258,671**	**826,243**	**1,365,631**	

Trading securities are classified as on demand and less than one month as the portfolio is of a dealing nature and management believes this is the fairest portrayal of its liquidity position.

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

Management believes that despite the fact that a substantial portion of customer accounts are on demand and less than one month, diversification of these deposits by number and type of client and the past experience of the Bank would indicate that deposits provide a long-term and stable source of funding for the Bank.

(continued)

5. Financial Risk Management (continued)

Operational risk

Operational risk is defined as the risk of losses arising as a result of failure to comply with the requirements of legislation in force, internal control systems and the procedures of banking and other transactions, their violation by the Bank’s employees and (or) other persons (due to incompetence, unpremeditated or intentional activities or negligence), disproportion (inefficiency), functional possibilities (characteristics), informational, technological and other systems applied by the Bank and (or) their failure to perform, and as a result of mistakes force-majeure circumstances.

Control failures mostly result in operational risks damaging the Bank’s reputation, generating litigation against the Bank cause financial losses.

To decrease operational risk the Bank establishes and implements internal control procedures for monitoring transactions in subunits.

Operational risk is managed in accordance with the requirements of the Central Bank of the Russian Federation and with the internal documents developed by the Bank that define segregation of responsibilities between the governing bodies of the Bank and subunits, procedures for identification, evaluation, monitoring and control of operational risks at all level of the Bank’s business-processes.

To evaluate operational risk the Bank uses the basic indicator approach-BIA The Bank maintains its equity at a level sufficient to cover the risk using the gross profit of the last 3 years as an indicator.

To minimise exposure to operational risk the Bank uses the following procedures:

- Segregation of responsibilities;
- Appointing separate services to manage different branches of operational risk: security of informational systems, automation and human resources management;
- Regulation of business processes and their implementation control;
- Examination of new products and services, implementation of a new model of services on a limited scope of operations;
- Regular advanced personnel advances training;
- Gathering and analysis of information on incurred by the Bank losses due to operational risk;
- Establishing reserve for realised operational losses – amounts transferred by mistake, accounts receivable, amounts from fraudulent operations, etc.

Legal risk

Legal risk is the risk of financial loss arising from non-compliance with normative regulatory acts and contractual terms, permitted legal faults at carrying out operations, imperfection of legal system (inconsistency of the Russian Federation legislation, absence of legal norms on regulation of questions arising in the course of Bank’s performance) and the breach of normative legal acts and contractual terms by the counterparties.

(continued)

(in thousands of Russian Roubles)

5. Financial Risk Management (continued)

To decrease legal risk the Bank complies with all requirements of the supervising bodies including on-mandatory recommendations. The Bank employs a highly professional team of lawyers and has a system of coordinated internal and external documents. The Bank grants funds and technical resources to give its employees access to updated information on legislation of the Russian Federation and makes it to provide its personnel with advanced training.

The major estimates and assumptions are listed in the Note 6.

6. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the portfolio. Management uses estimates based on historical loss experience (when available) 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.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2008	2007
Cash in hand	782,877	546,895
Correspondent accounts with the CBRF	2,124,032	2,013,780
Other market placements	12,842	-
Correspondent accounts and overnight deposits with other banks:		
- Russian Federation	58,812	68,363
- Other countries	1,396,486	49,792
Total cash and cash equivalents	**4,375,049**	**2,678,830**

Currency and maturity analysis of cash and cash equivalents are disclosed in Note 5.

8. Mandatory Cash Balances with the Central Bank

The mandatory cash balances with the Central Bank represent amounts deposited with the CBRF. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw this deposit is significantly restricted by legislation. The mandatory reserve with the CBRF as at 31 December 2008 amounted at RUR 14,447 thousand (2007: RUR 154,656 thousand).

(in thousands of Russian Roubles)

9. Securities

	2008	2007
Financial assets at fair value through profit or loss	-	23,617
Financial assets available for sale	221,099	92,431
	221,099	116,048
Total financial assets available for sale	**221,099**	**116,048**

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss outstanding as at the year end 31 December 2008 comprise the following:

	2008	2007
Derivatives	-	10,596
Quoted shares	-	13,021
Total financial assets at fair value through profit or loss	**-**	**23,617**

Quoted shares at fair value through profit or loss are presented in the table below:

	2008	2007
Gazprom OAO	-	4,143
RAO EUSR OAO	-	3,174
Lukoil OAO	-	1,754
Surgutneftegas OAO	-	1,799
VolgaTelecom OAO	-	1,014
Irkutskenergo OAO	-	1,137
Total quoted shares	**-**	**13,021**

Reclassification of financial assets under amendments to IAS 39 (October 2008)

In light of the substantial falls in the securities markets in Russia commencing September 2008 and the subsequent lack of liquidity in the market, meaning the bank was either unable to sell certain securities or sell them at what they believe is a reasonable price, a situation which they believe will continue for the foreseeable future, the Bank decided to perform reclassification of securities under the amendments to IAS 39 issued in October 2008 by the IASB. Management decided to reclassify securities from the FVPL category as securities available for sale.

The securities had previously been held under FVPL due to being actively traded and held for liquidity purposes. The Bank decided to reclassify the securities. The securities bought before 1 July were reclassified at the value as at 1 July 2008.

The table below shows the financial effect of reclassification:

Reclassified	Carrying value of reclassified securities as at 31 Dec 08	Fair value of reclassified securities as at 31 Dec 08 (based on market quotes)	Revaluation gain/ (loss) recognised in IS	Revaluation gain/ (loss) that would have been recognised in IS if not reclassified	Effective interest rate	Cash flow expected to be received
FVPL to AFS	128,418	128,418	-	(136,190)	-	128,418

(continued)

(in thousands of Russian Roubles)

9. Securities (continued)

Financial Assets Available for Sale
Financial assets available for sale are represented in the table below:

	2008	2007
Promissory notes of banks	-	3,686
Quoted shares	128,413	-
Unquoted shares	92,686	88,745
Total financial assets available for sale	**221,099**	**92,431**

Quoted shares available for sale as at 31 December 2008 and 31 December 2007 are presented below:

	2008	2007
Gazprom OAO	72,617	-
Surgutneft OAO	6,910	-
Rosneft OAO	4,549	-
RusGidro	5,535	-
Lukoil OAO	4,307	-
Gazpromneft OAO	4,480	-
NorilskNikel' OAO	4,450	-
Other quoted shares	25, 565	-
	128,413	**-**

Unquoted shares available for sale as at 31 December 2008 and 31 December 2007 are presented below:

Name	Principal activity	2008	2007
Insurance Company "Avesta" ZAO	Insurance company	22,655	22,655
"Triada" ZAO	Building and construction	-	24
"Autocomponenti and oborudovanie" ZAO	Wholesale trade of equipment for aeronautical and automobile engineering	1	1
LAESenergoremont ZAO	Generation, transfer and sale of thermal and electric energy	-	15
IFC "Chetvertoe Izmerenie" ZAO	Broker company	10,030	6,050
Selskokhozyaistvennoe predpriyatie "Smalmyaso" OOO	Cattle breeding, meat production	30,000	30,000
SPH "Smalmyaso" OOO	Meat production	30,000	30,000
Total unquoted shares		**92,686**	**88,745**

Currency, geographical and maturity analysis of securities are disclosed in Note 5.

(in thousands of Russian Roubles)

10. Due from Banks

As at 31 December 2008 the balances due from banks were as follows:

	2008	2007
Current interbank loans	200,000	205,055
Total due from banks	**200,000**	**205,055**

As at 31 December 2008 short term interbank loans represent a loan granted to Sberbank at a rate of 6% p.a.

As at 31 December 2007, due from banks included the following:

Name of the bank	Original amount	Maturity date	Interest rate p.a.	Outstanding Balance
AB "Rossiya" OAO	40,000	09/01/2008	3.00%	40,006
BPF AB ZAO	10,000	09/01/2008	3.00%	10,002
"Fondservisbank" OAO	15,000	09/01/2008	2.50%	15,002
"Investtorgbank" FAKB ZAO	15,000	09/01/2008	4.50%	15,006
"KIT Finans" Investment Bank	55,000	09/01/2008	5.00%	55,022
"Moscow Capital" Bank	10,000	09/01/2008	4.00%	10,000
"Avangard" AKB OAO	25,000	09/01/2008	3.50%	25,005
"Bank St Peterburg" OAO	35,000	09/01/2008	4.25%	35,012
Total				**205,055**

Currency, geographical, maturity and interest rate analysis of the balances due from banks are disclosed in Note 5.

11. Loans and Advances to Customers

Loans and advances to customers outstanding as at the year end 31 December 2008 comprise the following:

	2008	2007
Current loans	8,705,778	8,667,878
Overdue loans	516,011	235,613
Total loans and advances to customers, gross	9,221,789	8,903,491
Less: Impairment allowance on loans and advances to customers	(687,100)	(495,348)
Total loans and advances to customers, net	**8,534,689**	**8,408,143**

Loans are classified as overdue when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least thirty days). When a loan is classified as overdue, the contractual interest income continues being recognised in the financial statements and the resulting receivable accrued is assessed for impairment along with the principal amount. An overdue loan may be restored to current status when principal and interest amounts contractually due are reasonably assured of timely repayment.

(continued)

(in thousands of Russian Roubles)

11. Loans and Advances to Customers (continued)

Movements in impairment allowance on loans and advances to customers were as follows:

	2008	2007
Impairment allowance at the beginning of the year	495,348	567,918
Charge / (release) of allowance during the period	195,626	(57,459)
Loans written-off during the year as uncollectible	(3,874)	(53,219)
Amounts recovered	-	38,108
Impairment allowance at the end of the year	**687,100**	**495,348**

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

	2008		2007	
	Amount	**%**	**Amount**	**%**
Trade	1,939,362	22.8	2,344,695	28.0
Construcion	1,910,913	22.4	1,211,627	14.4
Individuals	1,025,381	12.0	1,138,830	13.5
Real estate	952,071	11.2	615,536	7.3
Agricaltural	612,692	7.2	653,536	7.8
Industry	745,873	8.7	520,732	6.2
Rent	-	-	422,741	5.0
Enterprineoures	95,023	1.1	296,124	3.5
Services	45,596	0.5	277,468	3.3
Development of investment projects	-	-	240,749	2.9
Financial services	652,640	7.6	174,310	2.1
Transport and communication	124,568	1.5	120,572	1.4
Medicine	32,726	0.4	20,784	0.2
Energetics	11,937	0.1	16,847	0.2
Timber industry	-	-	6,806	0.1
Education	-	-	424	-
Other	365,094	4.3	346,362	4.1
Shipping	20,813	0.2	-	-
Total loans and advances to customers	**8,534,689**	**100.0**	**8,408,143**	**100.0**

As at 31 December 2008, the Bank’s largest twenty borrowers accounted for RUR 3,672,712 thousand or 43.0% of the total gross loan portfolio (2007: RUR 3,581,966 thousand or 40.2%). An allowance of RUR 170,964 thousand (2007: RUR 195,253 thousand) was made for these loans.

Details of collateral accepted by the Bank are disclosed in Note 5.

Currency, interest rate, geographical and maturity analysis of loans and advances to customers are detailed in Note 5.

The relevant information about transactions with related parties is disclosed in Note 34.

(in thousands of Russian Roubles)

12. Accrued Income and Other Assets

Accrued income and other assets outstanding as at the year end 31 December 2008 comprise the following:

	2008	**2007**
Commission income and other fees accrued	413	15,208
Debtors and other prepayments	21,188	5,915
Taxation receivable	35,149	244
Other assets	28,572	11,061
	85,322	**32,428**
Less: Allowance for impairment of other assets	(46,249)	(14,718)
Total accrued income and other assets	**39,073**	**17,710**

Movements in the allowance for impairment of other assets are as follows:

	2008	**2007**
Opening balance	14,718	431
Charge of allowance	31,531	14,387
Other assets written off during the year	-	(100)
Allowance for impairment of other assets	**46,249**	**14,718**

13. Deferred Tax Liability

The deferred tax liability as at 31 December 2008 comprises the following:

	2008	**2007**
Opening balance	33,814	33,814
Deferred tax charge	(28,970)	-
Deferred tax effect of changes in tax rate	(5,436)	-
Total defers tax (liability) / asset	**(592)**	**33,814**

The income tax rate applicable to the majority of the Bank's income was 24% for 2008 and 2007. During the year, as a result of the change in the income tax rate from 24% to 20% that will be effective from 1 January 2009, deferred tax balances have been remeasured.

Major components making up the deferred tax liability at the end of 31 December 2008 were:

	Temporary differences	**Tax Rate**	**Deferred tax asset/(liability)**
Provision for losses of financial instruments at fair value through profit or loss	(600)	20%	(120)
Allowance for impairment on loans to customers	38,558	20%	7,712
Debtors and prepayments	(318)	20%	(64)
Fixed assets	(18,815)	20%	(3,763)
Other liabilities, including tax	10,454	20%	2,091
Other items of working capital	(32,239)	20%	(6,448)
Total deferred tax liability	**(2,960)**		**(592)**

(continued)

(in thousands of Russian Roubles)

13. Deferred Tax Liability (continued)

Major components making up the deferred tax liabilities as at 31 December 2007 were:

	Temporary differences	Tax Rate	Deferred asset/ (liability)
Financial assets at fair value through profit or loss	(10,681)	24%	(2,563)
Provision for losses of financial instruments at fair value through profit or loss	(600)	24%	(144)
Allowance for impairment on loans to customers	(57,307)	24%	(13,754)
Debtors and prepayments	176,703	24%	42,409
Accrued income and other assets	7,717	24%	1,852
Fixed assets	(24,199)	24%	(5,808)
Other liabilities, including tax	(213)	24%	(51)
Other items of working capital	49,472	24%	11,873
Total deferred tax asset	**140,892**		**33,814**

(in thousands of Russian Roubles)

14. Fixed Assets

Fixed assets of the Bank as at 31 December 2008 comprise the following:

	Buildings	Land	Computer and office equipment	Vehicles	Leasehold improvements	Intangible assets	Capital investments	Total
Cost								
At 31 December 2006	**-**	**-**	**79,919**	**4,808**	**28,095**	**20**	**2,353**	
Additions	92,509	**-**	5,861	1,446	2,549	-	41,818	**144,183**
Transfers	-	-	2,637	-	-	-	(2,637)	**-**
Disposals	-	-	(5,891)	-	-	-	-	**(5,891)**
At 31 December 2007	**92,509**	**-**	**82,526**	**6,254**	**30,644**	**20**	**41,534**	**253,487**
Additions	164,360	4,833	12,756	1,421	-	-	1,255	**184,625**
Transfers	36,694	-	4,840	-	-	-	(41,534)	**-**
Disposals	-	-	(5,323)	(1,006)	-	-	-	**(6,329)**
At 31 December 2008	**293,563**	**4,833**	**94,799**	**6,669**	**30,644**	**20**	**1,255**	**431,783**
Accumulated depreciation								
At 31 December 2006	**-**	**-**	**37,467**	**1,771**	**10,301**	**6**	**-**	**49,545**
Charge for the year	832	-	10,825	1,100	2,867	2	-	**15,626**
Disposals	-	-	(5,055)	-	-	-	-	**(5,055)**
At 31 December 2007	**832**	**-**	**43,237**	**2,871**	**13,168**	**8**	**-**	**60,116**
Charge for the year	3,919	-	10,811	1,223	3,005	2	-	**18,960**
Disposals	-	-	(2,921)	(659)	-	-	-	**(3,580)**
At 31 December 2008	**4,751**	**-**	**51,127**	**3,435**	**16,173**	**10**	**-**	**75,496**
Net book value								
At 31 December 2008	**288,812**	**4,833**	**43,672**	**3,234**	**14,471**	**10**	**1,255**	**356,287**
At 31 December 2007	**91,677**	**-**	**39,289**	**3,383**	**17,476**	**12**	**41,534**	**193,371**

Vehicles and ATMs of the Bank were insured for RUR 110,631 thousand as at 31 December 2008. (2007: RUR 5,432 thousand).

The gross book value of fully depreciated fixed assets that were still in use as at 31 December 2008 was RUR 21,616 thousand (2007: RUR 18,555 thousand).

(in thousands of Russian Roubles)

15. Customer Accounts

Customer accounts outstanding as at 31 December 2008 and 31 December 2007 comprise the following:

	2008	2007
State and public organisations		
Current/settlement accounts	68,026	46,395
Term deposits	21,321	494
Other legal entities		
Current/settlement accounts	3,836,777	2,777,099
Term deposits	1,558,024	1,050,053
Individuals		
Current/demand accounts	730,569	629,616
Term deposits	2,827,953	2,836,287
Total customer accounts	**9,042,670**	**7,339,944**

As of 31 December 2008, amounts due to customers of RUR 3,603 thousand – 39.85% of all customer accounts, were due to the Bank's largest twenty third party customers (2007: RUR 1,539 thousand, 20.97% of all customer accounts).

Currency, maturity, geographical and interest rate analysis are disclosed in Note 5. The Bank has several deposits from related parties. The relevant information on the related party's deposits is disclosed in Note 34.

16. Due to Banks

	2008	2007
Short-term loans due to other banks	-	50,000
Vostro accounts with other banks	9,585	1,534
Total due to Banks	**9,585**	**51,534**

As at 31 December 2007 deposits from credit institutions were as follows:

Name of the bank	Original amount	Maturity date	Interest rate p.a.	Outstanding Balance
VostSibtranskombank OAO	20,000	18/01/2008	10.5%	20,000
VostSibtranskombank OAO	10,000	25/01/2008	10.5%	10,000
Promservisbank OOO	20,000	30/01/2008	10%	20,000
Total				**50,000**

Currency, geographical, interest rate and maturity analysis are disclosed in Note 5.

(in thousands of Russian Roubles)

17. Subordinated Loan

Details of the subordinated loans as at 31 December 2008 and 31 December 2008 were as follows:

Creditor	Date of the co-tract	Maturity date	Interest rate p.a.	Outstanding Balance
OK OAO	June 2003	June 2015	9.0%	150,000
Total				**150,000**

Currency, geographical, maturity and interest rate analysis of the subordinated loans are disclosed in Note 5.

18. Debt Securities Issued

Debt securities issued as at 31 December 2008 are presented below:

	2008	2007
Deposit certificates	419,698	568,109
Promissory notes	1,893,058	2,326,435
Total debt securities issued	**2,312,756**	**2,894,544**

Currency, geographical and maturity analysis of debt securities issued are disclosed in Note 5.

19. Accrued Expense and Other Liabilities

Accrued interest expense and other liabilities outstanding as at the year end 31 December 2008 comprise the following:

	2008	2007
Taxes payable	6,334	33,466
Deposit insurance	3,534	4,236
Deferred income	572	2,563
Settlements with employees	5,430	2,525
Dividends payable	7,208	7,200
Settlements in transit	1,790	2,204
Allowance for credit related assets	2,794	2,854
Other liabilities	4,671	926
Total accrued interest expense and other liabilities	**32,333**	**55,974**

The movement in loss allowance for credit related assets is presented in the table below:

	2008	2007
Opening balance	2,854	5,313
Release of allowance	(60)	(2,459)
Total provision for impairment of credit related assets	**2,794**	**2,854**

Currency, geographical and maturity analysis of accrued expenses and other liabilities are disclosed in Note 5.

(in thousands of Russian Roubles)

20. Share Capital

Movement of share capital comprises the following:

	2008	2007
Shareholders' capital as at 1 January	**400,220**	**360,220**
Issue of shares	401,000	40,000
Shareholders' capital as at 31 December	**801,220**	**400,220**
Effect of adjustment according to IAS 29 (Note 3 (i))	192,647	192,647
Total shareholder's capital	**993,867**	**592,867**

As at 31 December 2008 and 31 December 2007 the share capital was allocated as follows:

	2008		2007	
Shareholders	**Amount**	**%**	**Amount**	**%**
Non state organisations				
SpareBank 1 Nord-Norge	72,822	9.09	-	-
OOO "Vest-Invest"	51,827	6.47	32,098	8.02
OOO "Alkor Holding"	45,420	5.67	37,460	9.36
OOO "Vetka"	38,390	4.79	36,020	9.00
OOO "Energotrans"	6,613	0.83	6,564	1.64
Individuals				
Kuznetsov I.V.	73,292	9.15	35,900	8.97
Zakhorzhevskiy O.Y.	69,760	8.71	45,625	11.40
Fyodorov V.M.	60,683	7.57	60,673	15.16
Makhauri H.D.	45,845	5.72	29,216	7.30
Kirin D.N.	42,594	5.32	5,000	1.25
Alimov O.V.	35,813	4.47	21,292	5.32
Other shareholders (holding less than 5% individually)	258,161	32.21	90,372	22.58
Total	**801,220**	**100.00**	**400,220**	**100.00**

As at 31 December 2008, the authorised share capital of the Bank consists of 728,220 thousand fully paid ordinary shares with equal voting rights valued at RUR 1 (not thousand) per share (2007: 328,220 thousand) and 730 thousand preference shares without voting rights valued at RUR 100 (not thousand) per share (2007: 720 thousand) Note 29.

In 2008 the increase in share capital had a place amounting 400,000 thousand ordinary shares and 10 thousand of preference shares.

As of 31 December 2008 and 2007 all the shares were issued, fully paid and authorised.

21. Retained Earnings

In accordance with Russian Law on Banking Activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for an accounting period. This may be used to pay dividends or transferred to reserves.

Under Russian Accounting Standards as at 31 December 2008, the Bank had retained earnings of RUR 437,738 thousand (2007: RUR 426,428 thousand) available for distribution.

(in thousands of Russian Roubles)

22. Interest Income and Expense

Interest income and expense during 2008 comprise the following:

	2008	2007
Interest income		
Loans and advances to legal entities	1,096,524	1,014,003
Loans and advances to individuals	113,543	109,219
Financial assets at fair value through profit or loss	85	85
Due from banks	18,107	22,060
Total interest income	**1,228,259**	**1,145,367**
Interest expense		
Term deposits of individuals	(259,440)	(229,136)
Term deposits of legal entities	(110,635)	(111,030)
Current/settlement accounts	(830)	(350)
Term deposits of banks	(4,178)	(8,578)
Other borrowed funds	(13,500)	(14,014)
Interest expense on deposit certificates	(56,527)	(65,385)
Discount expense on promissory notes	(189,989)	(190,322)
Total interest expense	**(635,099)**	**(618,815)**
Net interest income	**593,160**	**526,552**

23. Movement in Allowance for Impairment

Movement in allowance for impairment comprises the following:

	2008	2007
Net movement in allowance during the year comprises:		
Loans and advances to customers (Note 11)	191,752	72,570
Financial assets available for sale	-	300
Other credit related assets (Note 32)	(60)	2,459
Accrued income and other assets (Note 12)	31,532	(14,287)
Net movement in allowance during the period	**(223,224)**	**61,042**

24. Losses less Gains from Dealing Securities

Losses less gains from dealing securities are presented in the table below:

	2008	2007
Losses less gains arising from dealing securities at fair value through profit or loss	(12,112)	12,323
Losses less gains arising from securities available for sale	(24,298)	277
Total losses less gains from dealing securities	**(36,410)**	**12,600**

(in thousands of Russian Roubles)

25. Net Fee and Commission Income

Fee and commission income and expense comprise the following:

	2008	2007
Settlement and foreign currency exchange transactions	141,941	106,328
Cash transactions	18,686	16,244
Guarantees issued	10,653	10,659
Other	29,462	27,010
Total fee and commission income	**200,742**	**160,241**
Settlements and foreign currency exchange transactions	(13,961)	(6,178)
Cash services	-	(12)
Banking services	(7,924)	(1,589)
Other	(41)	(326)
Total fee and commission expense	**(21,926)**	**(8,105)**
Net fee and commission income	**178,816**	**152,136**

26. Other Operating Income

Other operating income comprises the following:

	2008	2007
Rent of assets	1,654	3,096
Penalties on loans and advances	20,315	15,074
Depositary services	6,644	7,463
Other income	3,172	4,119
Total other operating income	**31,785**	**29,752**

(in thousands of Russian Roubles)

27. Operating Expenses

Operating expenses comprise the following:

	2008	2007
Payroll expenses	196,246	180,044
Administrative expenses	45,418	74,727
Rent expenses	81,941	89,014
Depreciation and amortisation (Note 14)	18,960	15,626
Expenses related to fixed assets	8,653	5,529
Client servicing	17,148	11,760
Security	14,316	14,033
Advertising and marketing	1,571	3,082
Deposit insurance	18,299	17,104
Taxes other than on income (Note 28)	17,919	4,526
Other expenses	16	6
Total operating expenses	**420,487**	**415,451**

A breakdown of staff costs is shown below:

	2008	2007
Salaries	157,664	141,898
Bonuses	5,092	7,273
Payroll taxes	31,715	29,370
Other	1,775	1,503
Total operating expenses	**196,246**	**180,044**

(in thousands of Russian Roubles)

28. Taxation

Profit tax charge comprised the following:

	2008	2007
Current tax charge	39,755	70,110
Deferred tax credit relating to the origination and reversal of temporary differences (Note 13)	28,971	(33,814)
Deferred tax movement due to change in tax rate	5,435	-
Profit tax charge for the period	**74,161**	**36,296**

The profit tax rate applicable to the majority of the Bank's income is 24% (2007: 24%). The Bank's IFRS accounting profit may be reconciled to profit for taxable purposes as follows:

	2008	2007
IFRS accounting profit before tax	**142,094**	**395,616**
Adjustments to comply with IFRS including:		
Transfer value of loans	(7,743)	(3,529)
Fair value of deposits	-	(66,379)
Fair value of loans	-	100
Allowance on loans	69,026	(156,045)
Accrual of discount on PN purchased	-	112,974
Accrual of discount on debt securities issued	-	(87,039)
Charge of interest (expense) / income	(30,948)	75,577
Provision on other assets	13,168	10,174
Allowance on guarantees	380	4,903
Depreciation of FA	1,982	1,530
Accrual of expenses	3,230	9,791
Accrual of commission expense	(1,853)	(14,947)
Other adjustments	1,609	3,388
	48,851	(109,502)
Accounting profit under Russian accounting standards	**190,945**	**286,114**
Adjustments for disallowable items	(25,298)	6,013
Taxable profit	**165,647**	**292,127**
Profit tax charge at rate 24%	**39,755**	**70,110**

(continued)

(in thousands of Russian Roubles)

28. Taxation (continued)

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

Other significant taxes borne by the Bank and included in operating expenses comprise:

	2008	2007
Irrecoverable VAT	12,229	2,208
Property tax	5,295	2,037
Other	395	281
Total other taxes	**17,919**	**4,526**

Property tax is calculated at a rate of 2.2 % (2007: 2.2 %) on the value of assets as computed under RAL. Most of the income of the Bank is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

29. Earnings per Share

Profit per share are represented in the table below:

	2008	2007
Net profit attributable to shareholders of ordinary shares	60,733	352,120
Net profit attributable to shareholders of preference shares	7,200	7,200
Net profit	**67,933**	**359,320**
Weighted average number of ordinary shares	428,220	298,220
Weighted average number of preference shares	723	720
Earnings per share		
Basic earnings per ordinary share	**0.14**	**1.18**
Basic earnings per preference share	**9.96**	**10.00**

(in thousands of Russian Roubles)

30. Dividends

Dividends are presented in the table below:

	2008			2007		
	Ordinary shares	**Preference shares**	**Total**	**Ordinary shares**	**Preference shares**	**Total**
Dividends payable as at 1 January	**-**	**7,200**	**7,200**	**-**	**7,200**	**7,200**
Dividends declared	98,466	7,200	105,666	75,951	7,200	83,151
Dividends paid	(98,458)	(7,200)	(105,658)	(75,951)	(7,200)	(83,151)
Dividends payable as at 31 December	**8**	**7,200**	**7,208**	**-**	**7,200**	**7,200**
Amount of dividends per share, declared during the year	0.30	10.00	-	0.23	10.00	-

The additional dividends on the preference shares amounting RUR 100 thousand has been declared at Annual General Meeting held on 22 May 2009.

31. Segment Analysis

The table below presents segment information on major reporting business segments of the Bank as at 31 December 2008:

	Services to individuals	**Services to legal entities**	**Investment banking services**	**Unallocated items**	**Total**
Total assets	965,197	7,583,722	2,264,235	2,927,491	**13,740,645**
Total liabilities	3,587,155	7,847,761	-	113,020	**11,547,936**
Interest income	113,543	1,096,613	18,103	-	**1,228,259**
Interest expense	(272,939)	(357,982)	(4,178)	-	**(635,099)**
Other net (losses) / gains	(146,804)	549,284	(29,075)	(824,471)	**(451,066)**
Profit / (loss) before taxation	(306,200)	1,287,915	(15,150)	(824,471)	**142,094**
Taxation	-	-	-	(74,161)	**(74,161)**
Net profit for the year					**67,933**

(continued)

(in thousands of Russian Roubles)

31. Segment Analysis (continued)

The table below presents segment information on major reporting business segments of the Bank as at 31 December 2007:

	Services to individuals	Services to legal entities	Investment banking services	Unallocated items	Total
Total assets	1,219,471	7,332,594	335,718	2,969,844	**11,857,627**
Total liabilities	3,688,030	6,569,582	201,652	32,732	**10,491,996**
Interest income	109,219	1,040,572	18,111	4,034	**1,171,936**
Interest expense	(248,031)	(348,025)	(22,759)	-	**(618,815)**
Other net losses	(6,798)	(78,958)	(528)	(71,221)	**(157,505)**
Profit / (loss) before taxation	**(145,610)**	**613,589**	**(5,176)**	**(67,187)**	**395,616**
Taxation	-	-	-	(36,296)	**(36,296)**
Net profit for the year					**359,320**

32. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings
As at 31 December 2008 there was no outstanding legal proceedings against the Bank that could negatively influence the Bank financial position.

Tax legislation
Due to the existence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank might be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital commitments
As at 31 December 2008 and 31 December 2007 the Bank had no material capital commitments.

(continued)

(in thousands of Russian Roubles)

32. Contingencies, Commitments and Derivative Financial Instruments (continued)

Credit related commitments

Credit related commitments comprise loan commitments and issued guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. As at 31 December 2008 credit related commitments comprised the following:

	2008	2007
Unused credit lines	19,964	248,918
Unused credit lines on overdrafts	956,787	2,481,636
Issued guarantees	406,440	515,359
Less: allowance for impairment	(2,794)	(2,854)
Credit related commitments	**1,380,397**	**3,243,059**

Movements in loss allowance for credit related assets are represented as follows:

	2008	2007
Opening balance	2,854	5,313
Release of allowance	(60)	(2,459)
Provision for impairment of credit related assets	**2,794**	**2,854**

Derivatives

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

The table below presents comparative analysis of contractual and fair values of derivatives. The table includes total amounts as at 31 December 2008 and 31 December 2007 before netting of positions on foreign currency forward contracts.

	2008		2007	
	Contractual amount	**Positive fair value**	**Contractual amount**	**Positive fair value**
Currency forwards: sale of US Dollars	-	-	145,600	10,596

These forwards contracts are shown on the face of the Balance Sheet as at 31 December 2007 as assets at fair value through profit or loss in the amount of RUR 10,596 thousand.

Assets pledged

As at 31 December 2008 and 31 December 2007 the Bank did not have any assets pledged as collateral.

Insurance

Details of property insurance are set out in Note 14.

(continued)

(in thousands of Russian Roubles)

32. Contingencies, Commitments and Derivative Financial Instruments (continued)

Operating lease liabilities

In the normal course of business, the Bank enters into operating lease agreements for office equipment and branch facilities.

Material future minimum payments under non-cancellable operating leases are presented in the table below:

	2008	2007
Less that 1 year	75,027	71,124
More than 1 year and less than 5 years	27,054	4,652
Total operating lease obligations	**102,081**	**75,776**

33. Fair value of Financial Instruments

The assessed fair value of financial instruments has been measured by the Bank based on current market information (where it exists) and applicable methods of measurement. To interpret the market information for fair value measurement one has to apply professional judgment. The Russian Federation economy reveals certain characteristics peculiar to developing markets and the economic conditions continued to limit the scope of activity in the financial markets. Market quotes might be outdated or reflect the selling cost at low prices. In these cases market quotes will not reflect the fair value of financial instruments. In order to estimate the fair value of financial instruments the Bank uses all existing market information.

Financial liabilities at amortised cost

The assessed fair value of instruments with fixed interest rate that do not have a market value is based on discounted cash flows applying interest rates for the new instruments the same level of exposure to credit risk and the same maturity date

The discount rates used depend on the Bank's exposure to credit risk and on the currency and maturity date of the counterparty's instrument and is fluctuating from 11 % to 14% per annum. (2007: 7% to 11% per annum).

(in thousands of Russian Roubles)

33. Fair value of Financial Instruments (continued)

The fair value of financial assets is presented in the table below:

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents:				
Cash on hand	782,877	782,877	546,895	546,895
Cash balances with CBRF (other than reserves)	2,124,032	2,124,032	2,013,780	2,013,78-
Correspondent accounts and over-night deposits				
Russian Federation	71,654	71,654	68,363	68,363
Other countries	1,396,486	1,396,486	49,792	49,792
Financial assets at fair value through profit or loss:				
Quoted shares	-	-	13,021	13,021
Derivatives	-	-	10,596	10,596
Due from banks	200, 000	200 ,000	205,055	205,035
Loans and advances to customers:				
Large businesses	1,895,049	1,784,562	1,591,318	1,584,712
Medium businesses	1,428,537	1,326,842	4,517,425	4,507,145
Small businesses	4,090,700	3,786,115	864,360	857,987
Entrepreneurs	95,022	85,700	293,985	293,984
Loans to individuals-consumer loans	1,025,381	949,291	1,141,055	829,057
Financial assets available for sale:				
Promissory notes of banks	-	-	3,686	3,684
Quoted shares	128, 413	128 ,413	-	-
Unquoted shares	92, 686	92 ,686	88,745	88,745
Total financial assets	**13,330,837**	**12,728,658**	**11,408,076**	**11,072,796**

(continued)

(in thousands of Russian Roubles)

33. Fair value of financial instruments (continued)

The fair value of financial liabilities as estimated by Management is presented in the table below:

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities				
Due to banks:				
Vostro accounts with other banks	9,585	9,585	1,534	1,534
Short-term loans due to other banks	-	-	50,000	50,331
Customer accounts:				
Current/settlement accounts of state and public organisations	68,026	68,026	46,395	46,395
Term deposits of state and public organisations	21,321	21,321	494	494
Current/settlement accounts of other legal entities	3,836,777	3,836,777	2,777,099	2,777,099
Term deposits of other legal entities	1,558,024	1,555,893	1,050,053	1,144,006
Current/settlement accounts of individuals	730,569	730,569	629,616	629,616
Term deposits of individuals	2,827,953	2,804,417	2,836,287	3,026,482
Subordinated loan	150,000	151,195	150,000	150,552
Debt securities issued:				
Promissory notes	1,893,058	1,892,274	2,326,435	2,302,304
Deposit certificates	419,698	374,667	568,109	509,955
Total financial liabilities	**11,515,011**	**11,444,724**	**10,436,022**	**10,638,768**

34. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *"Related Party Disclosures".* In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Further information on entities considered to be related is set out in Note 3 (g).

(continued)

34. Related Party Transactions (continued)

As at 31 December 2008 the list of related parties of the Bank is as follows:

Name	Type of activity	Type of relationship
I. Entities and individuals with joint control and significant influence over the Bank		
SpareBank 1 Nord-Norge	Banking	Shareholder
Kuznetzov I.V.	Deputy of the Chairman of the Expert Board of Bank Tavrichesky (OAO), General Director of OOO Vest-Invest	Shareholder
Zaharzhevskiy O.Y.	Deputy of the Chairman of the Expert Board of Bank Tavrichesky (OAO)	Shareholder, Chairman of the Board of Directors
OOO Vest-Invest	Investment activity	Shareholder
Mahauri H.D.	Shareholder of OOO Sintar	Member of the Board of Directors, Shareholder
OOO Alkor Holding	Trade	Shareholder
Kirin D.N.	Individual	Shareholder
OOO Nevskiy Capital	Trade	Shareholder
OOO Vetka	Power generation	Shareholder
II. Entities under common control		
OOO AMO Trade	Trade	-
BF Optika	Social activity	-
ZAO Agrofirma Rosa	Agriculture	-
OOO Alkor Technologies	Manufacturing	-
ZAO Alkor Technologies Inc	Real Estate	-
ZAO Alkor-Techinvest	Services	-
Advantex Service Company Limited	Services	-
OAO Alkor Paycash	Trade	-
OOO Alkor Optics	Manufacturing	-
OOO Alkor Technologies Inc	Real Estate	-
OOO Alyans Invest	Real Estate	-
AOZT Alkor Art Business Inc	Finance	-
Astromex Limited	Construction	-
OOO Ardis	Services	-
OOO Argo	Services	-
ZAO Alkor Telecom	Services	-
AFB Trading VAN Inc	Trade	-
ZAO Baltpak	Manufacturing	-
OOO Baltiyskiy Torgoviy Dom	Trade	-
ZAO Volzhskiy Disel Imeni Maminih	Manufacturing	-
OOO Zelenaya Roscha	Trade	-
ISK Sfera OOO	Construction	-
OAO VDM	Manufacturing	-
OAO Viborgskaya Tzelluloza	Manufacturing	-
Viborg Limited	Manufacturing	-
Bronley Technologies Ltd.	Various	-

(continued)

34. Related Party Transactions (continued)

Name	Type of activity	Type of relationship
II. Entities under common control		
OOO Baltiyskiy Alyans	Real Estate	-
OOO Baro	Trade	-
OOO Delovoy Alyans	Marketing Services	-
OOO Delovoy Tzentr	Real Estate	-
OOO Drive	Services	-
Diesel Limited	Manufacturing	-
OOO Diesel-A	Manufacturing	-
Gardim Platinum Teorana	Consulting	-
OOO Golden Motors	Trade	-
OOO Intar	Telecommunication	-
OOO Zvezda	Real Estate	-
OOO Zelenaya Derevnya	Real Estate	-
OOO I-Diler	Real Estate	-
OOO I-Dinero	Investment Activity	-
Kan'on OOO	Manufacturing	-
OOO Kvadro	Real Estate	-
OOO Kizhi	Construction	-
OOO Kinostudia "Gerakl"	Services	-
OOO Kosmos	Social activity	-
OOO KPS	Trade	-
OOO KarreraInvest	Trade	-
Hope Capital and Investments Corporation	Finance	-
OAO Kotlasskaya ptitzefabrica	Agriculture	-
ZAO Kommertz-Tzentr	Trade	-
ZAO Krasniy gorod	Real Estate	-
OAO KAD-L	Services	-
OOO LGT-Estate	Real Estate	-
OOO Luga-Les	Manufacturing	-
OOO Lovetzkoe	Services	-
OOO Loki	Services	-
ZAO Liviz	Manufacturing	-
OOO Liviz	Manufacturing	-
OOO NUK	Construction	-
OOO MK Splav	Trade	-
OOO MPK Splav	Investment Activity	-
OOO NBR-Tzentr	Services	-
OOO Nevskiy 61	Real Estate	-
OOO M-111	Services	-
Maxim distribution Inc.	Services	-
OOO Mezhregionalnya Com-panya Splav	Trade	-
OOO Mezhregionalnaya Com-panya Splav-3	Investment activity	-
OOO Neera	Services	-
OOO Niotek	Manufacturing	
NPK Elektronnogo mashino-stroeniya	Production	
OOO OP Gruvet	Services	
ZAO Pervaya Liniya	Trade	
OOO Petro-Optics	Production	
OOO Piko	Investment Activity	
OOO Plank	Real Estate	

(continued)

34. Related Party Transactions (continued)

Name	Type of activity	Type of relationship
II. Entities under common control		
OOO Portal	Real Estate	
OOO Pitertech	Manufacturing	
OOO Rasdolie	Real Estate	
Prinsmounttrade Limited	Trade	
OOO Russkiy Diesel	Production	
OOO SevZapManufactura	Trade	
OOO Sevenergosbit	Trade	
OOO Sintar	Trade	
OOO Sport-Mobile	Services	
OOO Smolmyaso	Agriculture	
OOO Sanworld	Services	
OOO Stellit	Services	
OOO San-Point-2	Services	
OOO San-Point-3	Services	
OOO San-Point-5	Services	
OOO San-Point-9	Services	
OOO TD SPb ZPS	Industry	
OOO Techkomplekt	Manufacturing	
OOO Torgoviy Dom Neva	Trade	
OOO Femto	Investment Activity	
OOO TSAIS	Science	
OOO EnergoTzentr	Consulting	
OOO UB Preobrazhenskoe	Services	
OOO UZC	Construction	
OOO Yandex.Dengi	Services	
OOO Regionalniy Pravovoi Tzentr Prioriet	Trade	
TSZH Glavnaya 25	Real Estate	
OOO Five Key Invest	Investment Activity	
OAO Tehnoloicheskoe Osno-schenie	Manufacturing	
OOO Energoimpeks	Construction	
OOO TD Pragmatika	Trade	
Taxnetwork Inc.	Services	
III. Key management personnel of the Bank		
Somov S.A.	Chairman of the Executive Board	Member of the Board of Directors
Alimov O.V.	General Director of OOO "Niotek"	Member of the Board of Directors
Ribalchenko V.V.	General director of OAO "KAD – Lenoblast"	Member of the Board of Directors
Karlsen U.M.	Representative of SpareBank 1 Nord-Norge	Member of the Board of Directors
Goncharova L.A.	Chief Accountant	Member of the Executive Board
Kozlova E.V.	Deputy of the Chairman of the Executive Board	Member of the Executive Board
Kushnir A.I.	Deputy of the Chairman of the Executive Board	Member of the Executive Board
Garkusha D.V.	Deputy of the Chairman of the Executive Board	Member of the Executive Board
Leonteva N.A.	Head of Judicial Department	Member of the Executive Board

(continued)

34. Related Party Transactions (continued)

Name	Type of activity	Type of relationship
IV. Associated Companies		
ZAO Insurance Company Avesta"	Insurance	-
ZAO IFK Chetvertoye Izmereniye	Finance	-
V. Other related parties		
Zaharzhevskaya T.P.	Individual	-
Zaharzhevskaya I.O.	Individual	-
Alimov S.V.	Individual	-
Kuznetzova I.V.	Individual	-
Kuznetzova A.I.	Individual	-
Somova A.P.	Individual	-
Somova D.S.	Individual	-
Makhauri R.D.	Individual	-
Itkin Gariy Y.	Individual	-
Gurevich E.M.	Individual	-
Leitis I.I.	Individual	-

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties. These transactions included settlements, loans, deposit taking, trade finance and foreign currency transactions. Many of these transactions are priced at preferential rates.

(continued)

(in thousands of Russian Roubles)

34. Related Party Transactions (continued)

During the year the Bank performed the following transactions and had the following balances with related parties:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	782,675	602,937
Issued during the year	3,987,139	1,362,536
Repaid during the year	(1,177,644)	(1,182,798)
Loans outstanding as at the end of the year	**3,592,170**	**782,675**
Allowance for impairment	(45,153)	(6,652)
Loans granted to related parties as at the end of the year, net	**3,547,017**	**776,023**
Deposits and current accounts		
At the beginning of the year	622,770	320,059
Received during the year	23,042,900	7,208,691
Repaid during the year	(23,077,850)	(6,905,980)
Deposits and current accounts outstanding as at the end of the year	**587,820**	**622,770**
Interest expense accrued on deposits	4,017	8,767
Debt securities issued		
At the beginning of the year	695,474	78,759
Received during the year	817,326	1,792,654
Repaid during the year	(1,464,927)	(1,275,939)
Debt securities issued outstanding as at the end of the year	**47,874**	**695,474**
Interest expense accrued on debt securities	1,404	-
Income Statement Items		
Interest income earned	309,066	63,796
Interest expense	(45,085)	(26,400)
Discount expense	(32,858)	(18,197)
Commission income	-	309
Other expenses (rent)	(11,907)	-
Salary and premiums	(25,909)	(23,071)
Dividends paid	**78,298**	**48,991**
Guarantees issued	**167,255**	**30,864**

(continued)

(in thousands of Russian Roubles)

34. Related Party Transactions (continued)

Related party transactions, outstanding balances at the end of the year, and related expense and income for the year for the first group of related parties – Entities and individuals with joint control and significant influence over the Bank – are as follows:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	-	45,565
Issued during the year	40,204	1,500
Repaid during the year	(20,839)	(47,065)
Loans outstanding as at the end of the year	**19,365**	**-**
Allowance for impairment	(1,572)	-
Loans granted to related parties as at the end of the year, net	**17,793**	**-**
Deposits and current accounts		
At the beginning of the year	219,398	235,920
Received during the year	3,410,193	508,440
Repaid during the year	(3,468,457)	(524,962)
Deposits and current accounts outstanding as at the end of the year	**161,134**	**219,398**
Interest expense accrued on deposits	1,251	210
Debt securities issued		
At the beginning of the year	44,140	1,127
Received during the year	58,262	121,981
Repaid during the year	(99,402)	(78,968)
Debt securities issued outstanding as at the end of the year	**3,000**	**44,140**
Income Statement Items		
Interest income earned	1,937	13
Interest expense	(7,439)	(6,150)
Discount income	4,038	1,066
Dividends paid	**59,446**	**33,390**

(continued)

(in thousands of Russian Roubles)

34. Related Party Transactions (continued)

Related party transactions, outstanding balances at the end of year, and related expense and income for the year for the second group of related parties – Entities under common control – are as follows:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	605,843	529,860
Issued during the year	3,797,603	529,643
Repaid during the year	(1,110,820)	(453,660)
Loans outstanding as at the end of the year	**3,292,626**	**605,843**
Allowance for impairment	(40,306)	(6,652)
Loans granted to related parties as at the end of the year, net	**3,252,320**	**599,191**
Deposits and current accounts		
At the beginning of the year	30,993	13,913
Received during the year	14,215,259	4,057,505
Repaid during the year	(14,030,642)	(4,040,425)
Deposits and current accounts outstanding as at the end of the year	**215,610**	**30,993**
Debt securities issued		
At the beginning of the year	88,000	24,450
Received during the year	137,967	416,350
Repaid during the year	(225,967)	(352,800)
Debt securities issued outstanding as at the end of the year	**-**	**88,000**
Income Statement Items		
Interest income earned	275,562	63,324
Interest expense	(2,341)	-
Discount expense	(8,428)	(6,381)
Other expenses	(11,907)	-
Commission income	2,901	306
Dividends paid	**7,749**	**2,584**
Guarantees issued	**167,255**	**17,423**

Related party transactions, outstanding balances at the end of the year, and related expense and income for the year for the third group of related parties – Key management personnel of the Bank – are as follows:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	185	1,592
Issued during the year		7,486
Repaid during the year	(185)	(8,893)
Loans outstanding as at the end of the year	**-**	**185**
Interest income accrued at the and of the year	-	1
Loans granted to related parties as at the end of the year, net	**-**	**186**

(continued)

(in thousands of Russian Roubles)

34. Related Party Transactions (continued)

	2008	2007
Deposits and current accounts		
At the beginning of the year	273,084	70,226
Received during the year	1,948,250	1,309,530
Repaid during the year	(2,116,006)	(1,106,672)
Deposits and current accounts outstanding as at the end of the year	**105,328**	**273,084**
Interest expense accrued on deposits	1,460	7,897
Debt securities issued		
At the beginning of the year	35,437	6,496
Received during the year	44,875	41,077
Repaid during the year	(35,438)	(12,136)
Debt securities issued outstanding as at the end of the year	**44,874**	**35,437**
Interest expense accrued on debt securities	1,404	-
Income Statement Items		
Interest income earned	-	400
Interest expense	(28,195)	(21,535)
Discount expenses	(2,059)	(44)
Salary and premiums	(25,909)	(23,071)
Dividends paid	**10,457**	**12,518**

Related party transactions, outstanding balances at the end of the year, and related expense and income for the year for the fourth group of related parties – Associated Companies – are as follows:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	176,647	-
Issued during the year	149,332	821,507
Repaid during the year	(45,800)	(644,860)
Loans outstanding as at the end of the year	**280,179**	**176,647**
Allowance for impairment	(3,275)	-
Loans granted to related parties as at the end of the year, net	**276,904**	**176,647**
Deposits and current accounts		
At the beginning of the year	63,567	-
Received during the year	2,052,120	970,011
Repaid during the year	(2,049,057)	(906,444)
Deposits and current accounts outstanding as at the end of the year	**66,630**	**63,567**

(continued)

(in thousands of Russian Roubles)

34. Related Party Transactions (continued)

	2008	2007
Debt securities issued		
At the beginning of the year	496,993	146,687
Received during the year	544,914	1,182,341
Repaid during the year	(1,041,907)	(832,035)
Debt securities issued outstanding as at the end of the year	**-**	**496,993**
Income Statement Items		
Interest income earned	31,568	-
Interest expense	-	(12,838)
Discount (expense)/income	15,372	-

Related party transactions, outstanding balances at the end of the year, and related expense and in come for the year for the fifth group of related parties – Other related parties – are as follows:

	2008	2007
Balance Sheet Items		
Loans		
At the beginning of the year	-	25,920
Issued during the year	-	2,400
Repaid during the year	-	(28,320)
Loans outstanding as at the end of the year, net	**-**	**-**
Deposits and current accounts		
At the beginning of the year	35,728	-
Received during the year	1,417,078	363,205
Repaid during the year	(1,413,688)	(327,477)
Deposits and current accounts outstanding as at the end of the year	**39,118**	**35,728**
Interest expenses accrued on deposits	1,302	660
Debt securities issued		
At the beginning of the year	30,905	-
Received during the year	31,309	30,905
Repaid during the year	(62,214)	-
Debt securities issued outstanding as at the end of the year	**-**	**30,905**
Income Statement Items		
Interest income earned	-	59
Interest expense	(7,110)	(1,285)
Commission income	2,961	3
Dividends paid	**646**	**498**
Guarantees issued	**-**	**13,441**

(in thousands of Russian Roubles)

35. Capital Management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed according to Russian Accounting Legislation. As of 31 December 2008, the Bank's capital adequacy ratio calculated on this basis was 22.03% (2007: 13.2%), complying with the statutory minimum.

The Bank's international risk based capital adequacy ratio as of 31 December 2008 was 23.70% (2007: 16.14%), which exceeds the minimum ratio of 8% recommended by the Basle Committee on Banking Supervision, (International Convergence of Capital Measurement and Capital Standards - 1998).

The ratio is calculated in accordance with the rules set forth by the Basle Capital Accord, using the following risk weightings:

Weighting	Description
	Balance sheet Items
0%	Cash, amounts with the CBRF and claims on the Government of the Russian Federation denominated in Roubles and funded in Roubles
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued

The CAR of the Bank in accordance with the 1988 Basle Accord guidelines based on the audited financial statements of the Bank as of 31 December 2008 and 31 December 2007 was calculated as follows:

	2008	2007
Tier 1 Capital		
Share capital	2,236,152	1,235,152
Retained Earnings	92,746	130,479
Securities' revaluation reserve	(136,190)	-
Total Tier 1 Capital	**2,192,708**	**1,365,631**
Tier 2 Capital		
Subordinated debt (unamortised portion)	150,000	150,000
Total Tier 2 Capital	**150,000**	**150,000**
Total Capital	**2,342,708**	**1,515,631**
Risk weighted assets	**9,885,823**	**9,389,765**
Capital adequacy ratio	**23.70%**	**16.14%**

36. Events after the Balance Sheet Date

An Extraordinary Shareholders Meeting is planned to take place on 21 July 2009 to declare dividends for the first 6 months of 2009, including the dividends for preference shares amounting RUR 7,300 thousand or 10% of nominal value of share as determined by the Bank's Articles of Association.

The Bank has decided to open a branch in Cherepovets in 2009.

The Bank has purchased buildings for a total value of RUR 215,000 thousand in Murmansk and Kingi - sepp.