**RUSSIAN NATIONAL COMMERCIAL BANK**
**(Open Joint Stock Company)**

Financial Statements for the Year Ended 31 December 2008 together with Independent Auditor's Report

BDO

**BDO Unicon**
Auditors and Consultants

# Contents

BDO Unicon
Auditors and Consultants

Closed joint-stock company

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# Independent Auditor's Report

**To the Shareholders and the Board of Directors of RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company)**

We have audited the accompanying financial statements of Russian National Commercial Bank (open joint stock company), which comprise the balance sheet as at 31 December 2008, and the statement of income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Russian National Commercial Bank (open joint stock company) as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alexander I. Verenkov
Partner
FCCA

15 June 2009
BDO Unicon CJSC
Section 11, Building 1, 125, Warshavskoye Shosse, Moscow, Russian Federation

## Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2008

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company) (the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2008, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Bank's management the financial statements for the year ended 31 December 2008 were authorised for issue on 15 June 2009 by:

| | |
|---|---|
| I.V.Kravchenko<br>President | O.N. Safina<br>Chief Accountant |

RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company)

Moscow

15 June 2009

*RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company)*
***Balance Sheet as at 31 December 2008***
***(in thousands of Russian Roubles)***

| | Note | 2008 | 2007 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 114 326 | 60 577 |
| Mandatory cash balances with the Central Bank of the Russian Federation | | 3 330 | 27 398 |
| Financial assets at fair value through profit or loss | 6 | 746 076 | 976 351 |
| Due from other banks | 7 | 134 417 | 70 469 |
| Loans to customers | 8 | 406 898 | 525 730 |
| Financial assets available for sale | 9 | 30 817 | 109 820 |
| Investment property | 10 | 213 791 | 109 150 |
| Premises and equipment | 11 | 33 140 | 30 768 |
| Other assets | 12 | 197 101 | 39 207 |
| Current tax assets | | 6 640 | - |
| **Total assets** | | **1 886 536** | **1 949 470** |
| **Liabilities** | | | |
| Due to other banks | 13 | 232 358 | 17 005 |
| Customer accounts | 14 | 728 409 | 1 159 275 |
| Other liabilities | 15 | 37 253 | 11 850 |
| Current tax liabilities | | - | 6 671 |
| Deferred tax liabilities | 21 | 34 136 | 14 470 |
| **Total liabilities** | | **1 032 156** | **1 209 271** |
| **Equity** | | | |
| Share capital | 16 | 1 133 435 | 1 133 435 |
| Revaluation reserve for financial assets available for sale | | (5 313) | - |
| Revaluation reserve for premises and equipment | | 57 918 | 56 272 |
| Accumulated deficit | | (331 660) | (449 508) |
| **Total equity** | | **854 380** | **740 199** |
| **Total liabilities and equity** | | **1 886 536** | **1 949 470** |

I.V.Kravchenko
President

15 June 2009

O.N. Safina
Chief Accountant

***RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company)***
***Statement of Income for the Year Ended 31 December 2008***
***(in thousands of Russian Roubles)***

| | Note | 2008 | 2007 |
|---|---|---|---|
| Interest income | 18 | 166 911 | 119 799 |
| Interest expense | 18 | (44 795) | (38 343) |
| **Net interest income** | | **122 116** | **81 456** |
| Provision for impairment of loans to customers | 8 | (32 794) | 20 925 |
| **Net interest income after provision for impairment of loans to customers** | | **89 322** | **102 381** |
| Gains less losses arising from financial assets at fair value through profit or loss | | 25 709 | 8 690 |
| Gains less losses arising from financial assets available for sale | | (1 243) | 2 173 |
| Gains less losses from dealing in foreign currencies | | 35 198 | 45 831 |
| Foreign exchange translation gains less losses | | 417 | (134) |
| Fee and commission income | 19 | 264 581 | 195 292 |
| Fee and commission expense | 19 | (2 354) | (1 055) |
| Proceeds from revaluation of investment property | | 104 641 | - |
| Provision for impairment of financial assets available for sale | 9 | (3 426) | 1 772 |
| Provision for impairment of other assets | 12 | (68) | 200 |
| Dividends received | | 15 | 211 |
| Other operating income | | 32 164 | 24 583 |
| **Net income** | | **544 956** | **379 944** |
| Operating expenses | 20 | (385 492) | (303 053) |
| **Profit before taxation** | | **159 464** | **76 891** |
| Income tax expense | 21 | (33 632) | (22 350) |
| **Net profit** | | **125 832** | **54 541** |

I.V.Kravchenko
President

15 June 2009

O.N. Safina
Chief Accountant

*The notes set out on pages 9 to 46 are an integral part of these financial statements.*

*(in thousands of Russian Roubles)*

| | 2008 | 2007 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 169 253 | 116 870 |
| Interest paid | (47 475) | (34 007) |
| Gains less losses arising from financial assets at fair value through profit or loss | 105 893 | 9 752 |
| Gains less losses arising from dealing in foreign currencies | 35 198 | 45 831 |
| Fees and commissions received | 264 581 | 163 478 |
| Fees and commissions paid | (2 354) | (1 055) |
| Other operating income | 32 064 | 24 584 |
| Operating expenses paid | (387 413) | (298 356) |
| Income tax paid | (11 434) | (11 066) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **157 313** | **16 031** |
| **Net (increase)/decrease in operating assets** | | |
| Mandatory cash balances with the Central Bank of the Russian Federation | 28 177 | (8 658) |
| Financial assets at fair value through profit or loss | 148 728 | (172 235) |
| Due from other banks | (64 050) | (36 020) |
| Loans to customers | 99 985 | (167 956) |
| Other assets | (157 963) | (4 086) |
| **Net increase/(decrease) in operating liabilities** | | |
| Due to other banks | 215 335 | (122 987) |
| Customer accounts | (458 532) | 550 113 |
| Debt securities issued | | - |
| Other liabilities | 15 838 | 11 300 |
| **Net cash flows from operating activities** | **(20 169)** | **65 502** |
| **Cash flows from investing activities** | | |
| Purchase of financial assets available for sale (Note 9) | (22 624) | (81 498) |
| Purchase of premises and equipment (Note 11) | (4 116) | (6 076) |
| Proceeds from sale of financial assets available for sale | 90 757 | 47 314 |
| Proceeds from sale of premises and equipment | 767 | 81 |
| Dividends received | 15 | 211 |
| **Net cash flows from investing activities** | **64 799** | **(39 968)** |
| **Cash flows from financing activities** | | |
| Dividends paid (Note 22) | (9 618) | (9 622) |
| **Net cash flows from financing activities** | **(9 618)** | **(9 622)** |
| Effect of exchange rate changes on cash and cash equivalents | 12 737 | (458) |
| **Net change in cash and cash equivalents** | **53 749** | **15 454** |
| Cash and cash equivalents at the beginning of the year (Note 5) | 60 577 | 45 123 |
| **Cash and cash equivalents at the end of the year (Note 5)** | **114 326** | **60 577** |

I.V.Kravchenko
President

O.N. Safina
Chief Accountant

15 June 2009

*The notes set out on pages 9 to 46 are an integral part of these financial statements.*

*(in thousands of Russian Roubles)*

| | Share capital | Fair value reserve for financial assets available for sale | Revaluation reserve for premises and equipment | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| **Balance as at 1 January 2007** | 1 133 435 | - | 57 522 | (496 065) | 694 892 |
| Depreciation of revaluation reserve for premises and equipment less taxation | - | - | (1 250) | 1 645 | 395 |
| Dividends declared for the year 2006 (Note 22) | - | - | - | (9 629) | (9 629) |
| Net profit for the year 2007 | - | - | - | 54 541 | 54 541 |
| **Balance as at 31 December 2007** | 1 133 435 | - | 56 272 | (449 508) | 740 199 |
| Net loss on revaluation of financial assets available for sale (Note 9) | - | (6 641) | - | - | (6 641) |
| Deferred taxation with respect to revaluation of financial assets available for sale | - | 1 328 | - | - | 1 328 |
| Depreciation of revaluation reserve for premises and equipment less taxation | - | - | (1 316) | 1 645 | 329 |
| Effect of change in income tax rate with respect to revaluation reserve for premises and equipment | - | - | 2 962 | - | 2 962 |
| Dividends declared for the year 2007 (Note 22) | - | - | - | (9 629) | (9 629) |
| Net profit for the year 2008 | - | - | - | 125 832 | 125 832 |
| **Balance as at 31 December 2008** | 1 133 435 | (5 313) | 57 918 | (331 660) | 854 380 |

I.V.Kravchenko
President

15 June 2009

O.N. Safina
Chief Accountant

*(in thousands of Russian Roubles)*

## 1. Principal Activities of the Bank

RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company) (the Bank) was established by the decision of the shareholders and registered by the State Bank of the RSFSR on 25 January 1991 under No. 1354 as Russian National Commercial Bank (limited liability partnership). On 4 July 1997, the Bank was reorganized into an open joint stock company. The main state registration number of the Bank is 1027700381290, state registration date is 31 October 2002.

The Bank operates under General Banking License No. 1354 for conducting banking transactions in roubles and foreign currency issued by the Central Bank of the Russian Federation (CBR) on 6 February 2003. The Bank also holds licenses of the professional securities market participant.

The principal activities of the Bank are commercial and retail banking services on the territory of the Russian Federation.

The Bank has no branches.

The Bank's legal address is: 9/5 Krasnoproletarskaya str., Moscow, 127030.

Since 24 February 2005, the Bank has been a member of the obligatory deposit insurance system regulated by the state corporation Deposit Insurance Agency.

The average number of the Bank's employees for the year 2008 was 203 (2007: 193).

Below is the information about the Bank's main shareholders.

| Shareholder | 2008 | 2007 |
|---|---|---|
| OJSC Moscow Interrepublican Winery | 46.3% | 46.3% |
| Joint Stock Commercial Bank –Bank of Moscow (Open Joint Stock Company) | 20.0% | 20.0% |
| Shareholders with shareholdings less than 5% of the Bank's share capital | 33.7% | 33.7% |
| **Total** | **100.0%** | **100.0%** |

As at 31 December 2008, the largest equity interests were held by:

- Valeris Kolodinskis (29.2%).
- Moscow Government (11.7%);
- I.V. Kravchenko (7.2%);
- D.V. Maslov (4.2%).

## 2. Operating Environment of the Bank

### *General*

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, existence of currency controls which cause the national currency to be illiquid outside of Russia, relatively high inflation rates and also considerable economic growth over the recent years. The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes.

The international financial crisis which commenced in the middle of 2008 led to a substantial reduction in Russia's international reserves, outflow of foreign capital and decline in oil prices. As a result, the sovereign ratings of Fitch, Moody's and Standard & Poor's changed accordingly: Moody's – "Baa1" with "stable" outlook (12 December 2008); Standard&Poor's – "BBB" with "negative" outlook (8 December 2008); Fitch Ratings – "BBB+" with "negative" outlook (10 November 2008), "BBB" with "negative" outlook (4 February 2009).

The large-scale economic crisis made the Russian Government and the Central Bank of the Russian Federation step up their efforts to resolve the issues that have been accumulating in the economic, financial and tax systems of the country for a number of years. On 7 November 2008 the Government adopted a package of anti-crisis measures. The plan sets forth 55 tasks covering the main sectors of the economy.

In the second half of 2008, the Government took steps to buy out shares on the equity market and allocated funds to refinance the debts on foreign loans of large Russian enterprises and banks. Support of the real sector includes price preferences granted to Russian companies under state and municipal procurement programs, expanded subsidising of interest rates on loans for technological modernisation of production and the started program of state guarantees for loans to enterprises. These guarantees will be issued in addition to the collateral that the enterprises provide or will provide to the banks. A state program is being developed to help those individuals with mortgage loans who have lost their jobs or a substantial part of income as a result of the crisis.

*(in thousands of Russian Roubles)*

To increase the liquidity of the banking system the CBR has lowered the mandatory reserve requirements; expanded the range of assets accepted as collateral against CBR loans and issues loans to commercial banks through collateral-free auctions; for interbank market revival the CBR entered into an agreement with a number of major Russian banks to compensate part of interbank market losses. On 1 December 2008 the refinancing rate was increased from 12% to 13% p.a.

Since 2003 the obligatory Deposit Insurance System has been functioning in the Russian Federation. According to the deposit insurance legislation, 100% is compensated to the depositor if the deposit amount does not exceed RUR 700 thousand. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the CBR at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

Since 1 January 2009 the corporate income tax rate has been reduced from 24% to 20%. Small businesses using the simplified taxation system can be granted an income tax reduction from 15% to 5% of profits.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

***Inflation***

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

| Year ended: | Inflation for the period |
|---|---|
| 31 December 2008 | 13.3% |
| 31 December 2007 | 11.9% |
| 31 December 2006 | 9.0% |
| 31 December 2005 | 10.9% |
| 31 December 2004 | 11.7% |

***Currency transactions***

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of RUR relative to USD and EUR:

| Date: | USD | EUR |
|---|---|---|
| 31 December 2008 | 29.3804 | 41.4411 |
| 31 December 2007 | 24.5462 | 35.9332 |
| 31 December 2006 | 26.3311 | 34.6965 |
| 31 December 2005 | 28.7825 | 34.1850 |
| 31 December 2004 | 27.7487 | 37.8104 |

***Financial market transactions***

The international financial crisis has resulted in, among other things, global liquidity crunch which led to contraction of the international and domestic capital market, lower liquidity levels across the Russian banking sector and very high uncertainty in the domestic and foreign equity markets. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and other countries. Currently, it is impossible to fully assess the influence of the ongoing crisis or avoid its impact.

At present investors are re-evaluating their exposure to risks, which results in reduced or closed limits on transactions conducted in the Russian Federation, which added to volatility. Such circumstances could affect the ability of the Bank to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers and debtors of the Bank may also be affected by the repercussion of the financial crisis, which could in turn impact their ability to meet their financial obligations to the Bank. To the extent that information is available, management has adequately reflected revised estimates of expected future cash flows in their impairment assessments. These financial statements do not include adjustments reflecting the impact of further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets on the Bank's financial position.

## 3. Basis of Presentation

### *General principles*

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations. The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

The financial statements are presented in Russian Roubles, which are the functional and presentation currency of the Bank.

Preparation of financial statements requires application of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. The matters demanding the best estimate and being the most material to financial statements are disclosed in Notes 3 and 4.

### *Going concern*

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The Bank's management cannot predict the impact of the above factors on the financial position of the Bank. The accompanying financial statements do not include the adjustments associated with this risk.

These financial statements were prepared on a going concern assumption. The Bank's liquidity position disclosed in Note 23 indicates that the Bank has sufficient funds to meet its current obligations.

For prompt management of liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Central Bank of Russian Federation and in the interbank lending market. Diversification of liquidity sources allows minimising the Bank's dependence on any source and ensuring full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional fund-raising allow the Bank to continue its operation as a going concern in the long term.

### *Changes in Accounting Policies*

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations:

- Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" (effective for annual periods beginning on 1 July 2008);
- IFRIC 12 "Service Concession Agreements" (effective for annual periods beginning on 1 January 2008);
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on 1 July 2008);
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on 1 January 2008);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on 1 October 2008).

### *IFRSs and IFRIC interpretations not yet effective*

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 1 " Presentation of Financial Statements" amended in September 2007 (effective for annual periods beginning on 1 January 2009);
- IFRS 8 "Operating Segments" (effective for annual periods beginning on1 January 2009);
- IAS 23 "Borrowing Costs" (revised in March 2007) (effective for annual periods beginning on 1 January 2009);

*(in thousands of Russian Roubles)*

- IFRS 3 "Business Combinations" (effective for annual periods beginning on 1 July 2009);
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on 1 January 2009);
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on 1 July 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on 1 July 2009).

***Changes in the presentation format***

***Reclassification***

The following changes have been made in the corresponding figures of the balance sheet at 31 December 2007 to conform to the 2008 presentation format:

| Before restatement | Restated item | Financial statement data for 2007 | Amount of adjustment | Adjusted data for 2007 | Comments |
|---|---|---|---|---|---|
| Premises and equipment and investment property | Premises and equipment | 139 918 | (109 150) | 30 768 | Separation of investment property |
| | Investment property | - | 109 150 | 109 150 | |

## 4. Summary of Significant Accounting Policies

***Cash and cash equivalents***

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Bank. All other interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances held with the Central Bank of the Russian Federation.

***Mandatory cash balances with the Central Bank of the Russian Federation***

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

***Financial assets***

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- financial assets available for sale.

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

***Initial recognition of financial instruments***

The Bank recognises financial assets on its balance sheet when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset.

***Fair value measurement***

The fair value of financial instruments traded on the active market as at the balance sheet date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the balance sheet is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgement. Judgement is based on the time value of money, credit risk level, volatility, market risk level and other applicable factors.

***Derecognition of financial assets***

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; 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. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include trading securities at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are recognised at fair value. Interest earned on trading securities is reflected as interest income in the statement of income using the effective interest method. Dividends are recognised as dividends received when the Bank's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the statement of income as gains less losses from financial assets at fair value through profit or loss in the period in which they arise.

***Due from other banks***

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity.

***Loans to customers***

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method, less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

The Bank does not acquire loans from third parties.

***Financial assets available for sale***

Financial assets available for sale are non-derivative financial assets not included into any of the above categories.

Financial assets available for sale are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties or determined on the basis of indicative quotations for purchase/sale of each type of securities published by information agencies or provided by professional securities market participants. If there is no active market and it is impossible to determine the fair value of equity financial asset using reliable methods, investments are allowed to be recognised at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised in equity are included in the statement of income as gains less losses arising from financial assets available for sale. Disposals of financial assets available fore sale are recorded on a FIFO basis.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of income as interest income. Dividends received on equity investments available for sale are recorded in the statement of income as other operating income when the Bank's right to receive dividends is established and dividends are likely to be received.

***Promissory notes purchased***

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

***Impairment of financial assets***

The Bank assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of income as they are incurred 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 amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

***(1) Impairment of due from other banks and loans to customers***

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data about one or more of the following events in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss 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. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

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 improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the statement of income.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Bank shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan.

***(2) Impairment of financial assets available for sale***

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

In case of equity investments classified as available for sale, the main criterion used for determining objective evidence of loss from impairment would be the public disclosure of information about significant financial difficulties of the issuer. To determine if there is any indication of impairment, the Bank assesses the issuer's activity including the impact of economic factors, such as the effect of changes that occurred in technical, market or legal environment in which the issuer operates. The Bank also assesses other factors such as volatility of price per share. Cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of income, is transferred from equity to the statement of income.

Impairment losses on equity instruments are not reversed in the statement of income: increases in the fair value after impairment are recognised directly in equity.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within interest income in the statement of income.

If in the next year the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed in the statement of income of the current reporting period.

***Financial liabilities***

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Bank at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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 lender 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.

***Financial liabilities carried at amortised cost***

Financial liabilities carried at amortised cost include due to other banks, customer accounts and debt securities issued.

*Due to other banks.*Due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks.

*Customer accounts.* Customer accounts are non-derivative financial liabilities to individuals and corporate customers.

*Debt securities issued.* Debt securities issued include deposit certificates issued by the Bank and are recorded within other liabilities.

***Repurchase and reverse repurchase agreements***

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, the securities are not reclassified. The corresponding liability is presented within amounts due to other banks or customer accounts.

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

***Premises and equipment***

Premises and equipment are stated at cost less accumulated depreciation and impairment provision.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of income.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of income.

Repairs and maintenance are charged to the statement of income when the expense is incurred.

***Depreciation***

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets using the following rates:

- Buildings - 50 years;
- Furniture – 7 years;
- Office and computer equipment – 6 years;
- Motor vehicles – 5 years.

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

***Investment property***

Investment property is the property held by the Bank to earn rental income or capital appreciation or both, but not for: (a) use during ordinary activities of the Bank; or (b) sale during ordinary activities.

Originally, the investment property is recognised at acquisition cost. Subsequently, investment property is remeasured at fair value that is based on its market value. The market value of the Bank's investment property is determined by an independent professional appraiser, with experience in valuation of properties with similar location and category. Changes in the fair value of investment property are recorded in the statement of income as a separate item. Moreover, rental income; direct operating expenses from income generating investment property and other direct operating expenses from non-income generating investment property will be recorded in the statement of income within other income.

If the Bank elects to use the investment property for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

### *Intangible Assets*

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Bank;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets acquired separately are initially carried at cost.

Intangible assets have a limited useful life and are amortized during this term, which makes from 1 to 10 years. They are reviewed for impairment if any indication of impairment of an intangible asset exists. Terms and procedure of amortization of intangible assets with a limited useful life are analyzed at least every year at the end of each reporting year.

Intangible assets are recorded within other assets.

### *Finance Lease – the Bank as Lessee*

Leases where all the risks and rewards of ownership of the asset are substantially transferred from lessor to lessee are classified as finance leases.

The Bank recognises finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property, or at the present value of the minimum lease payments, if this amount is less than the fair value of the asset. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Bank's borrowing rate shall be used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Costs directly related to lessee's activities under the finance lease are recorded within leased assets.

### *Operating lease - the Bank as Lessee*

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

### *Operating lease – the Bank as Lessor*

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the statement of income on a straight-line basis over the lease term as other operating income.

### *Share capital*

Ordinary shares are recorded within share capital. Contributions to share capital made before 1 January 2003 are recorded at cost adjusted for inflation and contributions to share capital made after 1 January 2003 are recorded at cost.

### *Dividends*

Dividends are recognized as liabilities and are deducted from the equity as at the reporting date only if they were declared prior to the reporting date inclusively. Information on dividends is disclosed in the financial statements, if they were recommended prior to the reporting date, or were recommended or declared after the reporting date, but prior to the approval date of the financial statements.

### *Contingent liabilities*

Contingent liabilities are not recognised in the balance sheet but are disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

### *Credit related commitments*

The Bank enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances of the Bank to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans and guarantees. With respect to credit risk on commitments to extend credits, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### *Taxation*

The income tax charge comprises current tax and deferred tax and is recorded in the statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded, directly in equity.

Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

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

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in the financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are recorded within operating expenses in the statement of income.

### *Income and expense recognition*

Interest income and expense are recorded in the statement of income for all debt instruments on an accrual basis using the effective interest 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 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 but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis over the period the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of the effective interest rate on the loan.

### *Employee benefits and social insurance contributions*

The Bank pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. These expenses are recognised as incurred and are included in staff costs. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

*(in thousands of Russian Roubles)*

*Foreign currency translation*

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CBR exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the statement of income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of CBR in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

## 5. Cash and Cash Equivalents

| | 2008 | 2007 |
|---|---|---|
| Cash on hand | 27 021 | 27 201 |
| Cash balances with the CBR (other than mandatory cash balances) | 11 026 | 10 364 |
| Correspondent accounts in other banks of: | | |
| - the Russian Federation | 16 743 | 8 183 |
| - other countries | 24 792 | 14 648 |
| Cash for settlements at Stock Exchange | 34 744 | 181 |
| **Total cash and cash equivalents** | **114 326** | **60 577** |

Cash for settlements at Stock Exchange represent cash that is not limited in use and is intended for participation in the trade sessions and settlements at the Moscow Interbank Currency Exchange.

## 6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the balance sheet as at 31 December 2008 and 31 December 2007 include trading securities. The Bank does not have other types of financial instruments classified into this category.

| | 2008 | 2007 |
|---|---|---|
| Government and municipal debt securities | | |
| - Russian Federation bonds (OFZ) | 37 412 | 27 161 |
| - Municipal bonds | 102 344 | 112 894 |
| Corporate debt securities | | |
| - Corporate bonds | 396 795 | 729 798 |
| - Corporate eurobonds | 180 711 | - |
| - Promissory notes | 28 814 | 79 352 |
| Corporate equity securities | | |
| - Corporate shares | - | 27 146 |
| **Total financial assets at fair value through profit or loss** | **746 076** | **976 351** |

Russian Federation bonds (OFZ) are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2008, OFZ bonds in the Bank's portfolio have maturity dates from January 2010 to February 2036 (2007: from January 2010 to January 2019), and coupon rates ranging from 6.90% to 8.50% (2007: from 7.40% to 8.00%), depending on the issue.

Municipal bonds are Rouble-denominated interest-bearing securities issued by subjects of the Russian Federation and local administrations and freely tradable on the MICEX. As at 31 December 2008, municipal bonds in the Bank's portfolio have maturity dates from May 2009 to November 2012 (2007: from November 2008 to November 2012), and coupon rates ranging from 6.00% to 12.00% (2007: from 8.00% to 12.00%).

Corporate bonds are represented by Rouble-denominated securities issued by large Russian companies and credit institutions. As at 31 December 2008, corporate bonds in the Bank's portfolio have maturity dates from February 2009 to October 2015 (2007: from April 2008 to October 2015), and coupon rates ranging from 6.95% to 18.00% (2007: from 6.95% to 14.00%).

Corporate Eurobonds are represented by Rouble- and US dollar-denominated securities issued by Russian companies and credit institutions. As at 31 December 2008, corporate Eurobonds in the Bank's portfolio have maturity dates from September to December 2009 (2007: none), coupon rates ranging from 7.25% to 10.5% (2007: none).

*(in thousands of Russian Roubles)*

Promissory notes in the Bank's portfolio represent promissory notes of Veles Capital Investment Company LLC with maturity date in June 2009 (2007: February 2008) and yield to maturity 10.01% (2007: from 8.69% to 7.35%).

As at 31 December 2007, corporate shares are represented by Rouble-denominated shares of Russian companies and credit institutions including Bank of Moscow, Savings Bank of the Russian Federation, OJSC Gazprom, Norilsk Nickel Mining and Smelting Company.

As trading securities are stated at fair value determined on the basis of observable market quotations, the Bank does not analyse or monitor the impairment indicators.

The credit quality analysis of debt securities as at 31 December 2008 and 2007 has shown that all of debt securities at fair value through profit or loss in the total amount of RUR 746 076 thousand (2007: RUR 949 205 thousand) are current.

There are no overdue debt securities at fair value through profit or loss.

There are no revised balances representing the carrying value of debt securities with revised conditions that would otherwise be overdue.

Debt securities are not collateralized.

The table below presents the credit quality analysis of financial assets at fair value through profit or loss as at 31 December 2008 in accordance with available ratings of the international rating agencies:

| | S&P | Moody's | Fitch | Amount | Without rating | Total |
|---|---|---|---|---|---|---|
| Government and municipal debt securities | | | | | | |
| - Russian Federation bonds (OFZ) | BBB+ | Baa2 | BBB+ | 37 412 | - | 37 412 |
| - Municipal bonds | | | | 102 344 | - | 102 344 |
| Volgograd region | BB- | - | - | 3 761 | | |
| Irkutsk region | B+ | - | - | 15 026 | | |
| Karelia | - | - | BB- | 20 392 | | |
| Moscow | BBB | Baa2 | BBB+ | 12 162 | | |
| Nizhny Novgorod region | - | Ba2 | BB- | 9 048 | | |
| Novosibirsk region | - | - | BB- | 15 348 | | |
| Tomsk region | B+ | - | - | 4 835 | | |
| Yakutia (Sakha) | BB- | - | BB | 11 754 | | |
| Yaroslavl region | - | - | BB- | 10 018 | | |
| Corporate debt securities | | | | | | |
| - Corporate bonds | | | | 146 089 | 250 706 | 396 795 |
| VTB 24 OJSC | BBB | A1 | BBB+ | 2 957 | | |
| Bank for Foreign Trade OJSC | BBB | A1 | BBB+ | 6 030 | | |
| Bank Zenith OJSC | - | Ba3 | B+ | 19 251 | | |
| CB "Moscow Mortgage Agency" OJSC | - | Ba2 | - | 31 163 | | |
| Nomos-Bank OJSC | - | Ba3 | B+ | 19 263 | | |
| CB Kedr CJSC | - | B2 | - | 20 421 | | |
| TransKreditBank OJSC | BB | Ba1 | - | 2 890 | | |
| Mortgage Housing Credit Agency OJSC | BBB | A3 | - | 7 393 | | |
| Wimm-Bill-Dunn Food Stuffs OJSC | BB- | Ba3 | - | 20 492 | | |
| Gazprom OJSC | BBB | A3 | BBB | 10 082 | | |
| Moscow Region Investment Trust Company OJSC | SD | - | - | 1 383 | | |
| Federal Grid Company of Unified Energy System OJSC | BBB | Baa2 | - | 4 764 | | |
| - Corporate eurobonds | | | | 180 711 | - | 180 711 |
| Bank of Moscow | - | A3 | BBB | 105 985 | | |
| Gazprom OJSC | BBB | A3 | BBB | 60 403 | | |
| Megafon OJSC | BB+ | Ba2 | | 14 323 | | |
| - Promissory notes | BB- | - | - | 28 814 | - | 28 814 |
| **Total financial assets at fair value through profit or loss** | | | | | | **746 076** |

*(in thousands of Russian Roubles)*

The table below presents the credit quality analysis of financial assets at fair value through profit or loss as at 31 December 2007 in accordance with available ratings of the international rating agencies:

| | S&P | Moody's | Fitch | Amount | Without rating | Total |
|---|---|---|---|---|---|---|
| Government and municipal debt securities | | | | | | |
| - Russian Federation bonds (OFZ) | BBB+ | Baa2 | BBB+ | 27 161 | - | 27 161 |
| - Municipal bonds | | | | 102 503 | 10 391 | 112 894 |
| Volgograd region | BB- | - | - | 10 055 | | |
| Irkutsk region | B+ | - | - | 20 603 | | |
| Kirov region | - | Ba3 | B | 1 770 | | |
| Moscow | BBB+ | Baa2 | BBB+ | 12 719 | | |
| Nizhny Novgorod region | - | Ba2 | BB- | 20 395 | | |
| Novosibirsk | B+ | - | - | 11 246 | | |
| Novosibirsk region | - | - | BB- | 9 984 | | |
| Yakutia (Sakha) | B+ | - | BB- | 15 731 | | |
| Corporate debt securities | | | | | | |
| - Corporate bonds | | | | 162 891 | 566 907 | 729 798 |
| Mortgage Housing Credit Agency OJSC | - | A3 | - | 9 090 | | |
| Gazprom OJSC | BBB | A3 | BBB- | 20 647 | | |
| CB Kedr CJSC | - | B2 | - | 20 084 | | |
| CB "Moscow Mortgage Agency" OJSC | - | Ba2 | - | 24 367 | | |
| Mirax Group LLC | - | B2 | B | 26 002 | | |
| Moscow Region Investment Trust Company | B | - | - | 4 927 | | |
| Sibir Telecom OJSC | - | - | B+ | 32 158 | | |
| Uralsvyaz-Inform OJSC | BB- | - | B+ | 20 471 | | |
| Federal Grid Company of Unified Energy System OJSC | BB+ | Baa2 | - | 5 145 | | |
| - Promissory notes | | | | 79 352 | - | 79 352 |
| Bank "Petrokommerts" OJSC | B+ | Ba3 | - | 19 835 | | |
| Bank Zenith OJSC | - | Ba3 | B | 59 517 | | |
| Corporate equity securities | | | | | | |
| - Corporate shares | | | | 27 146 | - | 27 146 |
| Bank of Moscow | - | Baa2 | BBB | 10 590 | | |
| Sberbank of Russia OJSC | - | Baa2 | BBB+ | 2 056 | | |
| Norilsk Nickel Mining and Smelting Company | BBB- | Baa2 | BBB- | 3 245 | | |
| Oil Company "Rosneft" OJSC | BB+ | Baa2 | BBB- | 4 631 | | |
| Gazprom OJSC | BBB | A3 | BBB- | 3 453 | | |
| RAO UES of Russia | BB | - | - | 3 171 | | |
| **Total financial assets at fair value through profit or loss** | | | | | | **976 351** |

## 7. Due from Other Banks

| | 2008 | 2007 |
|---|---|---|
| Loans and deposits with other banks | 117 821 | 41 803 |
| Reverse repo agreements with other banks | 16 596 | 28 666 |
| **Total due from other banks** | **134 417** | **70 469** |

As at 31 December 2008, the Bank had cash balance above 10% of the Bank's capital with one counterparty bank (2007: none), the aggregate amount of these funds equalled RUR 117 527 thousand or 87.4% of total due from other banks.

As at 31 December 2008 due from other banks in the amount of RUR 16 596 thousand (2007: RUR 28 666 thousand) were collateralized by the securities acquired under reverse repo agreements with the fair value of RUR 16 535 thousand (2007: RUR 31 410 thousand).

The credit quality analysis of due from other banks as at 31 December 2008 and 2007 has shown that all the above classes of due from other banks in the total amount of RUR 134 417 thousand (2007: RUR 70 469 thousand) are current.

There are no overdue amounts due from other banks.

*(in thousands of Russian Roubles)*

## 8. Loans to Customers

| | 2008 | 2007 |
|---|---|---|
| Corporate loans | 441 788 | 236 722 |
| Loans to individual entrepreneurs, small and medium business | 8 893 | 494 |
| Consumer loans to individuals | 7 132 | 833 |
| Reverse repo agreements | - | 305 802 |
| Less: provision for impairment of loans to customers | (50 915) | (18 121) |
| **Total loans to customers** | **406 898** | **525 730** |

As at 31 December 2008, the accrued interest income on impaired loans amounted to RUR 49 thousand (2007: RUR 53 thousand).

As at 31 December 2007, loans to customers in the amount of RUR 305 802 thousand were collateralized by the securities acquired under reverse repo agreements with the fair value of RUR 337 004 thousand.

There are no revised balances representing the carrying value of loans to customers with revised conditions that would otherwise be overdue.

In 2008, in view of the world financial crisis, the Bank applied a more conservative approach to assessing the loan quality and considerably increased the amount of provisions.

The table below presents movements in the provision for impairment of loans to customers during 2008:

| | Corporate loans | Loans to individual entrepreneurs, small and medium business | Consumer loans to individuals | Total |
|---|---|---|---|---|
| **Provision for impairment of loans to customers as at 1 January** | **17 627** | **494** | **-** | **18 121** |
| Provision for loan impairment during the year | 30 959 | 1 764 | 71 | 32 794 |
| **Provision for impairment of loans to customers as at 31 December** | **48 586** | **2 258** | **71** | **50 915** |

The table below presents movements in the provision for impairment of loans to customers during 2007:

| | Reverse repo agreements | Corporate loans | Loans to individual entrepre-neurs, small and medium business | Consumer loans to individuals | Total |
|---|---|---|---|---|---|
| **Provision for impairment of loans to customers as at 1 January** | **1 765** | **35 363** | **1 761** | **157** | **39 046** |
| Recovery of provision for impairment during the year | (1 765) | (17 736) | (1 267) | (157) | (20 925) |
| **Provision for impairment of loans to customers as at 31 December** | **-** | **17 627** | **494** | **-** | **18 121** |

The table below presents economic sector concentrations within the Bank's loan portfolio:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Manufacturing | 199 325 | 43,5 | 160 527 | 29,5 |
| Financial services | 129 856 | 28,4 | 382 491 | 70,3 |
| Real estate services | 121 500 | 26,5 | - | - |
| Individuals | 7 132 | 1,6 | 833 | 0,2 |
| **Total loans to customers (gross)** | **457 813** | **100,0** | **543 851** | **100,0** |

As at 31 December 2008, the Bank issued loans to 3 borrowers (2007: 3 borrowers) with the total loan amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 412 407 thousand (2007: RUR 322 859 thousand).

The table below presents information on the collateral held as security as at 31 December 2008:

*(in thousands of Russian Roubles)*

| | Corporate loans | Loans to individual entrepreneurs, small and medium business | Consumer loans to individuals | Total |
|---|---|---|---|---|
| Guarantees | 325 165 | 661 | 58 622 | 384 448 |
| Rights to claim property | 272 851 | - | - | 272 851 |
| Rights of claim | 247 750 | - | - | 247 750 |
| Construction equipment | 125 146 | - | - | 125 146 |
| Goods in operation | 83 237 | - | - | 83 237 |
| Motor vehicles | - | 7 792 | - | 7 792 |
| Bank guarantee | - | - | 890 | 890 |
| Equipment | - | 665 | - | 665 |
| **Total collateral** | **1 054 149** | **9 118** | **59 512** | **1 122 779** |

The table below presents information on the collateral held as security as at 31 December 2007:

| | Reverse repo agreements | Corporate loans | Loans to individual entrepre-neurs, small and medium business | Consumer loans to individuals | Total |
|---|---|---|---|---|---|
| Marketable securities | 337 004 | - | - | - | 337 004 |
| Guarantees | - | 218 188 | 661 | 2 765 | 221 614 |
| Goods in operation | - | 136 816 | - | - | 136 816 |
| Rights of claim | - | 100 000 | - | - | 100 000 |
| Construction equipment | - | 78 342 | - | - | 78 342 |
| Transport | - | 10 188 | - | - | 10 188 |
| Bank guarantee | - | - | - | 890 | 890 |
| Equipment | - | - | 665 | - | 665 |
| **Total collateral** | **337 004** | **543 534** | **1 326** | **3 655** | **885 519** |

The fair value of collateral may differ from its carrying value.

The credit quality analysis as at 31 December 2008 has shown that all loans to customers totalling RUR 406 898 thousand are classified as individually impaired.

As at 31 December 2008, there are no current and unimpaired loans to customers.

The table below presents the analysis of impaired loans to customers as at 31 December 2008:

| | Outstanding | Past due more than 1 year | Total |
|---|---|---|---|
| Corporate loans | 441 788 | - | 441 788 |
| Loans to individual entrepreneurs, small and medium business | 8 399 | 494 | 8 893 |
| Consumer loans to individuals | 7 132 | - | 7 132 |
| Less: provision for impairment of loans to customers | (50 421) | (494) | (50 915) |
| **Total impaired loans to customers** | **406 898** | **-** | **406 898** |

*(in thousands of Russian Roubles)*

The table below presents the analysis of loans to customers as at 31 December 2007:

| | Outstanding and unimpaired | Individually impaired | Total |
|---|---|---|---|
| Reverse repo agreements | 305 802 | - | 305 802 |
| Corporate loans | 6 004 | 230 718 | 236 722 |
| Loans to individual entrepreneurs, small and medium business | - | 494 | 494 |
| Consumer loans to individuals | 833 | - | 833 |
| Less: provision for impairment of loans to customers | - | (18 121) | (18 121) |
| **Total loans to customers** | **312 639** | **213 091** | **525 730** |

The table below presents the analysis of impaired loans to customers as at 31 December 2007:

| | Outstanding | Past due more than 1 year | Total |
|---|---|---|---|
| Corporate loans | 230 718 | - | 230 718 |
| Loans to individual entrepreneurs, small and medium business | - | 494 | 494 |
| Less: provision for impairment of loans to customers | (17 627) | (494) | (18 121) |
| **Total impaired loans to customers** | **213 091** | **-** | **213 091** |

## 9. Financial Assets Available for Sale

| | 2008 | 2007 |
|---|---|---|
| Government and municipal debt securities | | |
| - Federal currency bonds | - | 1 155 |
| - Eurobonds of Russian Federation | 96 | 3 158 |
| Corporate debt securities | | |
| - Corporate bonds | 3 986 | 94 009 |
| Corporate equity securities | | |
| - Shares in share capitals of other organisations | 18 638 | - |
| - Units of unit investment funds | 12 775 | 12 775 |
| - Corporate shares | 288 | 263 |
| Less: provision for impairment of financial assets available for sale | (4 966) | (1 540) |
| **Total financial assets available for sale** | **30 817** | **109 820** |

As at 31 December 2007, the federal currency bonds (OVGVZ) in the Bank's portfolio are state debt securities denominated in US dollars. They carry an annual coupon of 3%. As at 31 December 2007, these bonds in the Bank's portfolio have maturity date in May 2008.

As at 31 December 2008, the Eurobonds of Russian Federation in the Bank's portfolio are state debt securities denominated in US dollars. They carry an annual coupon of 8.25%. As at 31 December 2008, these bonds in the Bank's portfolio have maturity date in March 2010 (2007: from March 2010 to March 2030).

Corporate bonds are represented by Rouble-denominated securities issued by Volzhskaya Textile Company OJSC with the maturity date until December 2008 and a coupon rate of 14.00%. The securities issued by Volzhskaya Textile Company OJSC are overdue, a 100% provision is created as at 31 December 2008.

Corporate bonds as at 31 December 2007 are represented by Rouble-denominated securities issued by Russian companies. As at 31 December 2007, these bonds in the Bank's portfolio have maturity dates from September 2009 to July 2012, and coupon rates ranging from 8.42 % to 12.50%.

Shares in share capitals of other organizations are represented by investment in the share capital of LLC Pension Reserve.

Units of unit investment funds include Rouble-denominated unit investment funds "Kuznetsky Most", "Trading Floor – MICEX Index", "Red Square – Shares of Companies with State Interest".

Corporate shares are represented by shares of major stock exchanges, companies and credit institutions, denominated in Russian roubles, Lithuanian litas, euros: Vilnius Stock Exchange JSC, Siberian Interbank Currency Exchange, JV "Stock Exchange Congress" CJSC, SWIFT Company, RusServiceBusiness JSC, JS Bank "Caucasian Bank".

*(in thousands of Russian Roubles)*

Movements in provision for impairment of financial assets available for sale during 2008 and 2007 are as follows:

| | Government and municipal securities | Corporate debt securities | Corporate equity securities | Total |
|---|---|---|---|---|
| **Provision for impairment as at 1 January 2007** | **783** | **601** | **1 928** | **3 312** |
| Recovery of provision for impairment during 2007 | (783) | (601) | (388) | (1 772) |
| **Provision for impairment as at 31 December 2007** | **-** | **-** | **1 540** | **1 540** |
| Provision /(recovery of provision) for impairment during 2008 | - | 3 986 | (560) | 3 426 |
| **Provision for impairment as at 31 December 2008** | **-** | **3 986** | **980** | **4 966** |

The table below presents credit quality analysis of the financial assets available for sale as at 31 December 2008 according to the available ratings of international rating agencies:

| | S&P | Moody's | Fitch | Amount | Without rating | Total |
|---|---|---|---|---|---|---|
| Government and municipal debt securities | | | | | | |
| - Eurobonds of Russian Federation | BBB+ | Baa2 | BBB+ | 96 | - | 96 |
| Corporate debt securities | | | | | | |
| - Corporate bonds | - | - | - | - | 3 986 | 3 986 |
| Corporate equity securities | | | | | | |
| - Shares in share capitals of other organisations | - | - | - | - | 18 638 | 18 638 |
| - Units of unit investment funds | - | - | - | - | 12 775 | 12 775 |
| - Corporate shares | - | - | - | - | 288 | 288 |
| **Total financial assets available for sale (gross amount)** | | | | | | **35 783** |

The table below presents credit quality analysis of the financial assets available for sale as at 31 December 2007 according to the available ratings of international rating agencies:

| | S&P | Moody's | Fitch | Amount | Without rating | Total |
|---|---|---|---|---|---|---|
| Government and municipal debt securities | | | | | | |
| - Federal currency bonds | BBB+ | Baa2 | BBB+ | 1 155 | - | 1 155 |
| - Russian Federation Eurobonds | BBB+ | Baa2 | BBB+ | 3 158 | - | 3 158 |
| Corporate debt securities | | | | | | |
| - Corporate bonds | | | | 30 170 | 63 839 | 94 009 |
| AVB Bank OJSC | - | Caa1 | - | 10 285 | | |
| JS Commercial Bank "Spurt" OJSC | - | - | B- | 9 902 | | |
| SB Bank (Ltd.) | - | B3 | - | 9 983 | | |
| Corporate equity securities | | | | | | |
| - Units of unit investment funds | - | - | - | - | 12 775 | 12 775 |
| - Corporate shares | - | - | - | - | 263 | 263 |
| **Total financial assets available for sale (gross amount)** | | | | | | **111 360** |

*(in thousands of Russian Roubles)*

The table below presents information on the movements in the portfolio of financial assets available for sale:

| | 2008 | 2007 |
|---|---|---|
| **Carrying value as at 1 January** | **111 360** | **73 550** |
| Accrued interest income | 4 117 | 14 698 |
| Interest received | (3 859) | (12 760) |
| Acquisitions | 22 624 | 81 498 |
| Disposals | (91 848) | (45 141) |
| Revaluation | (6 641) | - |
| Exchange differences | 30 | (485) |
| **Carrying value as at 31 December** | **35 783** | **111 360** |

The credit quality analysis of debt securities has shown that as at 31 December 2008 and 2007 all debt securities available for sale in the total amount RUR 4 082 thousand (2007: RUR 98 322 thousand) are current.

There are no overdue debt securities available for sale.

There are no revised balances representing the carrying value of debt securities with revised conditions that would otherwise be overdue.

Debt securities are not collateralized.

## 10. Investment Property

The table below presents information on changes in the fair value of investment property:

| | 2008 | 2007 |
|---|---|---|
| **Cost at 1 January** | **109 150** | **111 654** |
| Change in fair value during the year | 104 641 | (2 504) |
| **Cost at 31 December** | **213 791** | **109 150** |

Investment property includes buildings in Moscow located at 33/1 Bolshaya Nikitskaya Street and 12/1 Bolshaya Molchanovka Street leased to earn rental income.

The fair value of the Bank's investment property as at 31 December 2008 was determined by independent valuation firm NEO Centre LLC and is based on the market value. Gain on revaluation of investment property in the amount of RUR 104 641 thousand is included in the income statement within 'proceeds from revaluation of investment property'.

During 2008, the direct operating expenses relating to investment property that generates a rental income amounted to RUR 2 630 thousand (2007: RUR 2 396 thousand). The rental income for 2008 amounted to RUR 24 113 thousand (2007: RUR 22 090 thousand).

## 11. Premises and Equipment

| | Buildings and structures | Furniture | Computers and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| **Net book value as at 31 December 2007** | **-** | **5 173** | **8 025** | **17 570** | **30 768** |
| **Cost** | | | | | |
| Balance as at 1 January 2008 | - | 8 818 | 26 657 | 30 992 | 66 467 |
| Acquisitions | 816 | - | 790 | 2 510 | 4 116 |
| Purchases under lease contracts | - | - | - | 7 469 | 7 469 |
| Disposals | - | - | (174) | (3 833) | (4 007) |
| **Balance as at 31 December 2008** | **816** | **8 818** | **27 273** | **37 138** | **74 045** |
| **Accumulated depreciation** | | | | | |
| Balance as at 1 January 2008 | - | 3 645 | 18 632 | 13 422 | 35 699 |
| Depreciation charge | 10 | 883 | 1 795 | 4 455 | 7 143 |
| Depreciation of premises and equipment acquired under lease contracts | - | - | - | 1 407 | 1 407 |
| Disposals | - | - | (97) | (3 247) | (3 344) |
| **Balance as at 31 December 2008** | **10** | **4 528** | **20 330** | **16 037** | **40 905** |
| **Net book value as at 31 December 2008** | **806** | **4 290** | **6 943** | **21 101** | **33 140** |

*(in thousands of Russian Roubles)*

| | Furniture | Computers and office equipment | Motor vehicles | Total |
|---|---|---|---|---|
| **Net book value as at 31 December 2006** | 5 012 | 6 281 | 14 821 | 26 114 |
| **Cost** | | | | |
| Balance as at 1 January 2007 | 12 576 | 30 540 | 26 181 | 69 297 |
| Acquisitions | 991 | 3 290 | 1 795 | 6 076 |
| Purchases under lease contracts | - | - | 5 724 | 5 724 |
| Disposals | (4 749) | (7 173) | (2 708) | (14 630) |
| **Balance as at 31 December 2007** | **8 818** | **26 657** | **30 992** | **66 467** |
| **Accumulated depreciation** | | | | |
| Balance as at 1 January 2007 | 7 564 | 24 259 | 11 360 | 43 183 |
| Depreciation charge | 830 | 1 595 | 1 144 | 3 569 |
| Depreciation of premises and equipment acquired under finance lease contracts | - | - | 3 295 | 3 295 |
| Disposals | (4 749) | (7 222) | (2 377) | (14 348) |
| **Balance as at 31 December 2007** | **3 645** | **18 632** | **13 422** | **35 699** |
| **Net book value as at 31 December 2007** | **5 173** | **8 025** | **17 570** | **30 768** |

Premises and equipment in the Bank's balance sheet include long-term lease premises and equipment received by the Bank under finance lease contracts.

As at 31 December 2008, the carrying value of the motor vehicles received by the Bank under finance lease contracts amounted to RUR 12 149 thousand (2007: RUR 11 200 thousand).

As at 31 December 2008, the carrying value of the finance lease liabilities amounted to RUR 7 100 thousand including short-term liabilities amounting to RUR 4 957 thousand, long-term liabilities amounting to RUR 2 143 thousand (2007 : RUR 4 910 thousand, including short-term liabilities amounting to RUR 4 299 thousand, long-term liabilities amounting to RUR 611 thousand) (Note 15).

## 12. Other Assets

| | 2008 | 2007 |
|---|---|---|
| Settlements related to conversion transactions | 140 357 | - |
| Receivables | 47 819 | 31 814 |
| Deferred expenses | 6 633 | 5 466 |
| Advance payments | 1 792 | 1 832 |
| Prepaid taxes (other than income tax) | 654 | 250 |
| Intangible assets | 9 | 10 |
| Other | 101 | 31 |
| Less: provision for impairment of other assets | (264) | (196) |
| **Total other assets** | **197 101** | **39 207** |

The table below presents movements in the provision for impairment of other assets during 2007 and 2008:

| | 2008 | 2007 |
|---|---|---|
| **Provision for impairment as at 1 January** | **196** | **396** |
| Provision /(recovery of provision) for impairment of other assets | 68 | (200) |
| **Provision for impairment as at 31 December** | **264** | **196** |

The table below presents the credit quality analysis of other financial assets as at 31 December 2008:

| | Outstanding | Past due over 1 year | Total |
|---|---|---|---|
| Receivables | 47 658 | 161 | 47 819 |
| Less: provision for impairment of receivables | - | (115) | (115) |
| **Total** | **47 658** | **46** | **47 704** |

As at 31 December 2008, a provision in the amount of RUR 57 thousand was created for advance payments and RUR 92 thousand for other receivables.

*(in thousands of Russian Roubles)*

The credit quality analysis of receivables has shown that as at 31 December 2007 all receivables in the total amount RUR 31 814 thousand are current.

Receivables are not collateralized.

## 13. Due to Other Banks

| | 2008 | 2007 |
|---|---|---|
| Deposits of other banks | - | 17 005 |
| Correspondent accounts | 146 902 | - |
| Direct repo agreements with CBR | 85 456 | - |
| **Total due to other banks** | **232 358** | **17 005** |

As at 31 December 2008, the Bank had cash balances above 10% of its capital of one counterparty bank (2007: none). The aggregate amount of these balances as at 31 December 2008 was RUR 146 902 thousand.

## 14. Customer Accounts

| | 2008 | 2007 |
|---|---|---|
| **Legal entities** | | |
| - Current/settlement accounts | 323 555 | 425 813 |
| - Term deposits | 183 169 | 400 776 |
| **Individuals** | | |
| - Current/demand accounts | 30 388 | 31 715 |
| -Term deposits | 191 297 | 300 971 |
| **Total customer accounts** | **728 409** | **1 159 275** |

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

The table below presents economic sector concentrations within customer accounts:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Financial services | 240 440 | 33,0 | 495 535 | 42,7 |
| Individuals | 221 685 | 30,4 | 332 686 | 28,7 |
| Lease of immovable property | 74 211 | 10,2 | 194 408 | 16,8 |
| Service sector | 56 005 | 7,7 | 55 184 | 4,8 |
| Manufacturing | 51 656 | 7,1 | 14 308 | 1,2 |
| Trade | 22 418 | 3,1 | 6 728 | 0,6 |
| Transport services | 23 377 | 3,2 | 30 541 | 2,6 |
| Other | 38 617 | 5,3 | 29 885 | 2,6 |
| **Total customer accounts** | **728 409** | **100,0** | **1 159 275** | **100,0** |

As at 31 December 2008, the Bank had cash balances above 10% of its capital of one customer (2007: 3 customers). The aggregate amount of these funds was RUR 167 469 thousand or 23% of the total customer accounts (2007: RUR 533 372 thousand or 46% of the total customer accounts).

The carrying value of each category of customer accounts approximates their fair value.

## 15. Other Liabilities

| | Note | 2008 | 2007 |
|---|---|---|---|
| Payables | | 6 146 | 4 722 |
| Finance lease liabilities | 11 | 7 100 | 4 910 |
| Remuneration to employees payable | | 2 085 | 1 857 |
| Taxes other than income tax | | 21 464 | - |
| Dividends payable | 22 | 53 | 42 |
| Debt securities issued | | 2 | 2 |
| Other | | 403 | 317 |
| **Total other liabilities** | | **37 253** | **11 850** |

*(in thousands of Russian Roubles)*

Other taxes include value added tax in the amount of RUR 20 680 thousand.

As at 31 December 2008, other liabilities of the Bank included certificates of deposit in the amount of RUR 2 thousand (2007: RUR 2 thousand). The above certificates of deposit matured in 1994 but were not claimed for payment on their maturity.

## 16. Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Nominal value** | **Inflation adjusted value** | **Number of shares** | **Nominal value** | **Inflation adjusted value** |
| Ordinary shares | 32 097 200 | 320 972 | 1 133 435 | 32 097 200 | 320 972 | 1 133 435 |

All ordinary shares have a nominal value of RUR 10 per share. Each share gives the right of one vote.

## 17. Retained Earnings according to the Russian Legislation

According to Russian legislation only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed as dividends among the Bank's shareholders. As at 31 December 2008, the Bank's retained earnings amounted to RUR 359 441 thousand (2007: RUR 317 151 thousand). The retained earnings reflected in the Bank's statutory records include a reserve fund in the amount of RUR 48 146 thousand (2007: RUR 48 146 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general banking risks, including future losses and other unforeseen risks or contingent liabilities.

## 18. Interest Income and Expense

| | **2008** | **2007** |
|---|---|---|
| **Interest income** | | |
| Financial assets at fair value through profit or loss | 108 659 | 77 402 |
| Loans to customers | 46 237 | 27 108 |
| Due from other banks | 7 898 | 2 529 |
| Financial assets available for sale | 4 117 | 12 760 |
| **Total interest income** | **166 911** | **119 799** |
| **Interest expense** | | |
| Deposits of individuals | 19 774 | 19 418 |
| Deposits of legal entities | 16 978 | 16 541 |
| Term deposits of banks | 6 843 | 353 |
| Other | 1 200 | 2 031 |
| **Total interest expense** | **44 795** | **38 343** |
| **Net interest income** | **122 116** | **81 456** |

*(in thousands of Russian Roubles)*

## 19. Fee and Commission Income and Expense

| | 2008 | 2007 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on cash collection | 254 363 | 188 228 |
| Commission on settlement transactions | 2 573 | 2 274 |
| Commission on foreign currency transactions | 1 286 | 562 |
| Commission on cash transactions | 1 061 | 1 090 |
| Other | 5 298 | 3 068 |
| **Total fee and commission income** | **264 581** | **195 292** |
| **Fee and commission expense** | | |
| Commission on settlement transactions | 408 | 431 |
| Commission on foreign currency transactions | 273 | 76 |
| Commission on cash transfer services | 590 | 61 |
| Commission on securities transactions | 958 | 373 |
| Commission on transactions with plastic cards | 92 | 102 |
| Other | 33 | 12 |
| **Total fee and commission expense** | **2 354** | **1 055** |
| **Net fee and commission income** | **262 227** | **194 237** |

## 20. Operating Expenses

| | Note | 2008 | 2007 |
|---|---|---|---|
| Staff costs | | 148 757 | 116 116 |
| Professional services (security, communications, etc.) | | 80 744 | 61 326 |
| Rent | | 64 224 | 47 954 |
| Taxes other than income tax | | 33 639 | 28 449 |
| Administrative expenses | | 32 356 | 12 354 |
| Other expenses related to premises and equipment | | 14 876 | 12 856 |
| Depreciation of premises and equipment | 11 | 8 550 | 6 864 |
| Other | | 2 346 | 17 134 |
| **Total operating expenses** | | **385 492** | **303 053** |

## 21. Income Tax

Income tax expense comprises the following:

| | 2008 | 2007 |
|---|---|---|
| Current income tax expense | 9 347 | 16 217 |
| Effect of change in income tax rate | (2 412) | - |
| Deferred taxation movement due to origination and reversal of temporary differences | 22 078 | 5 738 |
| Less: change in the income tax rate, charged directly to equity | 2 962 | - |
| Less: deferred taxation in respect of revaluation reserve of financial assets available for sale, charged directly to equity | 1 328 | - |
| Less: deferred taxation in respect of revaluation reserve of premises and equipment, charged directly to equity | 329 | 395 |
| **Income tax expense for the year** | **33 632** | **22 350** |

The current tax rate applicable to the majority of the Bank's profit is 24% (2007: 24%).

*(in thousands of Russian Roubles)*

The table below presents reconciliation between the theoretical and the actual taxation charge.

| | 2008 | 2007 |
|---|---|---|
| **IFRS profit before taxation** | **159 464** | **76 891** |
| Theoretical tax charge at the applicable statutory rate (2008: 24%; 2007: 24%) | 38 271 | 18 454 |
| Use of prior year tax losses | (7 055) | (6 228) |
| Income on government securities taxed at 15% | (1 375) | (1 097) |
| Income on securities taxed at 9% | (1 403) | (1 407) |
| Non-deductible expenses less non-taxable income | 5 744 | - |
| Effect of change in income tax rate | (550) | - |
| Other differences | - | 12 628 |
| **Income tax expense for the year** | **33 632** | **22 350** |

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank profits tax purposes. On 1 January 2009 the income tax rate in the Russian Federation was set at 20%. Therefore, deferred tax assets / (deferred tax liabilities) are recognised at the rate of 20% as at 1 January 2009 (2007: 24%).

| | 2008 | Movement | Effect of change in income tax rate | 2007 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Revaluation of financial assets available for sale | 1 328 | 1 328 | - | - |
| Revaluation of financial assets at fair value through profit or loss | 519 | (1 499) | (404) | 2 422 |
| Provision for impairment of loans to customers and financial assets available for sale | - | (181) | (36) | 217 |
| Other | 2 041 | 688 | (271) | 1 624 |
| **Gross deferred tax assets** | **3 888** | **336** | **(711)** | **4 263** |
| **Tax effect of taxable temporary differences** | | | | |
| Provision for impairment of assets | 819 | 819 | - | - |
| Revaluation of premises and equipment | 14 478 | (329) | (2 962) | 17 769 |
| Revaluation of investment property | 20 928 | 20 928 | - | - |
| Premises and equipment | 1 799 | 996 | (161) | 964 |
| **Gross deferred tax liabilities** | **38 024** | **22 414** | **(3 123)** | **18 733** |
| **Total net deferred tax liability** | **(34 136)** | **(22 078)** | **2 412** | **(14 470)** |

| | 2007 | Movement | 2006 |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| Provision for impairment of assets | 217 | 217 | - |
| Revaluation of financial assets at fair value through profit or loss | 2 422 | 2 422 | - |
| Other | 1 624 | (10 144) | 11 768 |
| **Gross deferred tax assets** | **4 263** | **(7 505)** | **11 768** |
| **Tax effect of taxable temporary differences** | | | |
| Revaluation of financial assets at fair value through profit or loss | - | (1 656) | 1 656 |
| Revaluation of premises and equipment | 17 769 | (395) | 18 164 |
| Premises and equipment | 964 | 964 | - |
| Other | - | (680) | 680 |
| **Gross deferred tax liabilities** | **18 733** | **(1 767)** | **20 500** |
| **Total net deferred tax liability** | **(14 470)** | **(5 738)** | **(8 732)** |

The net deferred tax assets represent income taxes recoverable through future revenues and are recorded as deferred tax assets in the balance sheet. The deferred tax assets are recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profits will be available for compensation.

*(in thousands of Russian Roubles)*

The Bank has tax losses in the amount of RUR 5 979 thousand (2007: RUR 13 034 thousand) that may be offset against future taxable income in the period not later than the year 2011. The tax losses in the amount of RUR 7 055 thousand (2007: RUR 6 228 thousand) were offset against current year's profit in the amount not exceeding 30% of the statutory taxable profit.

As at 31 December 2008, the total deferred tax liability in the amount of RUR 14 478 thousand (2007: RUR 17 769 thousand) was calculated in respect of positive revaluation of buildings at fair value and recorded within the Bank's capital in accordance with IAS 16.

As at December 2008, the deferred tax asset in the amount of RUR 1 328 thousand (2007: none) was calculated in respect of positive revaluation at fair value of financial assets available for sale. The deferred tax asset within the capital is transferred to the statement of income at disposal of the financial assets available for sale.

## 22. Dividends

| | 2008 | 2007 |
|---|---|---|
| **Dividends payable as at 1 January** | **42** | **35** |
| Dividends declared during the year | 9 629 | 9 629 |
| Dividends paid during the year | (9 618) | (9 622) |
| **Dividends payable as at 31 December** | 53 | 42 |

All dividends are declared and paid in Russian Roubles.

## 23. Risk Management

Risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate risks), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

***Credit risk.*** The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers. Such risks are monitored by the Bank on a regular basis, the limits being subject to an annual or more frequent review.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading instruments such as forward foreign exchange contracts. Actual exposures are monitored against limits daily.

Credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral, corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying value 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 is equal to total liabilities (Note 25).

The Bank performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on maturities and other information on credit risk, as described in Notes 8.

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

***Market risk.*** The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

*(in thousands of Russian Roubles)*

***Geographical risk.***

The table below presents geographical concentrations of the Bank's assets and liabilities as at 31 December 2008:

| | Russia | OECD | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 89 495 | 24 731 | 100 | 114 326 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 3 330 | | | 3 330 |
| Financial assets at fair value through profit or loss | 579 666 | 166 410 | - | 746 076 |
| Due from other banks | 16 893 | 117 524 | - | 134 417 |
| Loans to customers | 384 863 | - | 22 035 | 406 898 |
| Financial assets available for sale | 30 817 | - | - | 30 817 |
| Investment property | 213 791 | - | - | 213 791 |
| Premises and equipment | 33 140 | - | - | 33 140 |
| Other assets | 197 017 | 84 | - | 197 101 |
| Current tax assets | 6 640 | - | - | 6 640 |
| **Total assets** | **1 555 652** | **308 749** | **22 135** | **1 886 536** |
| **Liabilities** | | | | |
| Due to other banks | 232 358 | - | - | 232 358 |
| Customer accounts | 647 530 | 943 | 79 936 | 728 409 |
| Other liabilities | 37 253 | - | - | 37 253 |
| Deferred tax liabilities | 34 136 | | | 34 136 |
| **Total liabilities** | **951 277** | **943** | **79 936** | **1 032 156** |
| **Net balance sheet position** | **604 375** | **307 806** | **(57 801)** | **854 380** |
| **Credit related commitments** | **5 871** | **-** | **-** | **5 871** |

The table below presents geographical concentrations of the Bank's assets and liabilities as at 31 December 2007:

| | Russia | OECD | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 45 929 | 14 046 | 602 | 60 577 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 27 398 | - | - | 27 398 |
| Financial assets at fair value through profit or loss | 976 351 | - | - | 976 351 |
| Due from other banks | 28 740 | - | 41 729 | 70 469 |
| Loans to customers | 503 923 | - | 21 807 | 525 730 |
| Financial assets available for sale | 109 820 | - | - | 109 820 |
| Investment property | 109 150 | - | - | 109 150 |
| Premises and equipment | 30 768 | | | 30 768 |
| Other assets | 39 207 | - | - | 39 207 |
| **Total assets** | **1 871 286** | **14 046** | **64 138** | **1 949 470** |
| **Liabilities** | | | | |
| Due to other banks | 17 005 | - | - | 17 005 |
| Customer accounts | 1 044 396 | 110 068 | 4 811 | 1 159 275 |
| Other liabilities | 11 850 | - | - | 11 850 |
| Current tax liabilities | 6 671 | - | - | 6 671 |
| Deferred tax liabilities | 14 470 | - | - | 14 470 |
| **Total liabilities** | **1 094 392** | **110 068** | **4 811** | **1 209 271** |
| **Net balance sheet position** | **776 894** | **(96 022)** | **59 327** | **740 199** |
| **Credit related commitments** | **46 443** | **-** | **-** | **46 443** |

*(in thousands of Russian Roubles)*

***Currency risk.*** The Bank takes on exposure to effects of foreign currency exchange rates volatility on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below presents the Bank's position on currency as 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 currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 64 724 | 24 690 | 24 628 | 284 | 114 326 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 3 330 | | | | 3 330 |
| Financial assets at fair value through profit or loss | 664 045 | 82 031 | - | - | 746 076 |
| Due from other banks | 16 597 | 117 819 | 1 | - | 134 417 |
| Loans to customers | 379 686 | 22 035 | 5 177 | - | 406 898 |
| Financial assets available for sale | 30 721 | 96 | - | - | 30 817 |
| Investment property | 213 791 | | | | 213 791 |
| Premises and equipment | 33 140 | | | | 33 140 |
| Other assets | 197 017 | 84 | - | - | 197 101 |
| Current tax assets | 6 640 | | | | 6 640 |
| **Total assets** | **1 609 691** | **246 755** | **29 806** | **284** | **1 886 536** |
| **Liabilities** | | | | | |
| Due to other banks | 85 456 | 146 902 | - | - | 232 358 |
| Customer accounts | 549 521 | 155 984 | 22 763 | 141 | 728 409 |
| Other liabilities | 37 253 | - | - | - | 37 253 |
| Deferred tax liabilities | 34 136 | | | | 34 136 |
| **Total liabilities** | **706 366** | **302 886** | **22 763** | **141** | **1 032 156** |
| **Net balance sheet position** | **903 325** | **(56 131)** | **7 043** | **143** | **854 380** |
| **Credit related commitments** | **5 871** | **-** | **-** | **-** | **5 871** |

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

| | RUR | USD | EUR | Other currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 33 427 | 10 610 | 15 738 | 802 | 60 577 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 27 398 | - | - | - | 27 398 |
| Financial assets at fair value through profit or loss | 976 351 | - | - | - | 976 351 |
| Due from other banks | 28 740 | 41 729 | - | - | 70 469 |
| Loans to customers | 407 962 | 117 768 | - | - | 525 730 |
| Financial assets available for sale | 105 507 | 4 313 | - | - | 109 820 |
| Investment property | 109 150 | - | - | - | 109 150 |
| Premises and equipment | 30 768 | | | | 30 768 |
| Other assets | 39 207 | - | - | - | 39 207 |
| **Total assets** | **1 758 510** | **174 420** | **15 738** | **802** | **1 949 470** |
| **Liabilities** | | | | | |
| Due to other banks | 17 005 | - | - | - | 17 005 |
| Customer accounts | 991 534 | 145 171 | 22 484 | 86 | 1 159 275 |
| Other liabilities | 11 850 | - | - | - | 11 850 |
| Current tax liabilities | 6 671 | - | - | - | 6 671 |
| Deferred tax liabilities | 14 470 | - | - | - | 14 470 |
| **Total liabilities** | **1 041 530** | **145 171** | **22 484** | **86** | **1 209 271** |
| **Net balance sheet position** | **716 980** | **29 249** | **(6 746)** | **716** | **740 199** |
| **Credit related commitments** | **46 443** | **-** | **-** | **-** | **46 443** |

*(in thousands of Russian Roubles)*

The Bank issued loans in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The table below shows the change in the financial result and equity as a result of possible fluctuations of exchange rates used as at the balance sheet date if all other conditions remain unchanged. A reasonably possible change was determined based on the analysis of historical exchange rates for December 2008:

| | 2008 | |
|---|---|---|
| | **Effect on profit before taxation** | **Effect on equity** |
| USD appreciation by 7% | (3 422) | (2 594) |
| USD depreciation by 7% | 3 422 | 2 594 |
| EUR appreciation by 18% | 1 277 | 971 |
| EUR depreciation by 18% | (1 277) | (971) |
| Appreciation of other currency by 5% | 7 | 5 |
| Depreciation of other currency by 5% | (7) | (5) |

| | 2007 | |
|---|---|---|
| | **Effect on profit before taxation** | **Effect on equity** |
| USD appreciation by 5% | 1 161 | 885 |
| USD depreciation by 5% | (1 161) | (885) |
| EUR appreciation by 5% | (526) | (395) |
| EUR depreciation by 5% | 526 | 395 |

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

***Liquidity risk.*** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The Bank's approach to liquidity management is to ensure sufficient liquidity to meet its liabilities when due (both under normal and unexpected conditions) without incurring unacceptable losses and risking damage to the Bank's reputation. The liquidity risk is managed Treasury Department of the Bank. To assess the liquidity risk, the Bank analyses the incoming payments and write offs on which basis the liquidity is balanced by maturity and cash flow dates. The assessment is based on management of assets and liabilities and planning of the expected margin income from asset- and liability-related transactions.

The Bank is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Bank is required to analyse the level of liquid assets needed to settle the liabilities on their maturity; to provide access to various sources of financing; to draw up plans to solve the problems with financing and exercising control over compliance of the balance sheet liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2008, this ratio was 45.23 % (2007: 28.1%).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. As at 31 December 2008, this ratio was 84.16 % (2007: 84.2%).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2008, this ratio was 31.64 % (2007: 24.6%).

The Treasury of the Bank receives information about financial assets and liabilities. The Treasury of the Bank then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, bank deposits and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury.

*(in thousands of Russian Roubles)*

The table below shows the liabilities as at 31 December 2008 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows including the total finance lease liabilities (before deducting future financial payments), prices specified in currency forward contracts for the purchase of financial assets for cash, contractual amounts to be swapped under currency swaps settled on a gross basis and the total commitments to provide loans. These undiscounted cash flows differ from the amounts recorded in the balance sheet as the balance sheet amounts are based on discounted cash flows. The derivative financial instruments settled on a net basis are shown as net amounts payable.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the balance sheet date. Foreign currency payments are translated using the spot exchange rates effective at the balance sheet date.

The table below shows the maturity analysis of financial liabilities as at 31 December 2008:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 232 610 | - | - | - | 232 610 |
| Customer accounts | 495 845 | 237 026 | 2 054 | - | 734 925 |
| Financial lease liabilities | 631 | 2 904 | 2 456 | 2 300 | 8 291 |
| **Total potential future payments under financial liabilities** | **729 086** | **239 930** | **4 510** | **2 300** | **975 826** |

The table below shows the maturity analysis of financial liabilities as at 31 December 2007:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 17 026 | - | - | - | 17 026 |
| Customer accounts | 700 015 | 464 833 | 1 303 | - | 1 166 151 |
| Finance lease liabilities | 461 | 2 086 | 1 963 | 1 139 | 5 649 |
| **Total potential future payments under financial liabilities** | **717 502** | **466 919** | **3 266** | **1 139** | **1 188 826** |

Payments in respect of forward contracts (gross amount) will be accompanied by the respective cash inflows. The customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

*(in thousands of Russian Roubles)*

The Bank does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Bank monitors the expected maturity limits that are shown in the table below as at 31 December 2008:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 114 326 | - | - | - | - | 114 326 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 3 330 | 3 330 |
| Financial assets at fair value through profit or loss | 746 076 | - | - | - | - | 746 076 |
| Due from other banks | 134 417 | - | - | - | - | 134 417 |
| Loans to customers | - | 5 999 | 121 868 | 279 031 | - | 406 898 |
| Financial assets available for sale | - | - | - | 96 | 30 721 | 30 817 |
| Investment property | - | - | - | - | 213 791 | 213 791 |
| Premises and equipment | - | - | - | - | 33 140 | 33 140 |
| Other assets | 188 868 | 1 407 | 1 305 | 4 601 | 920 | 197 101 |
| Current tax assets | - | 6 640 | - | - | - | 6 640 |
| **Total assets** | **1 183 687** | **14 046** | **123 173** | **283 728** | **281 902** | **1 886 536** |
| **Liabilities** | | | | | | |
| Due to other banks | 232 358 | - | - | - | - | 232 358 |
| Customer accounts | 493 807 | 232 578 | 2 024 | - | - | 728 409 |
| Other liabilities | 7 101 | 23 840 | 4 169 | 2 143 | - | 37 253 |
| Deferred tax liabilities | - | - | - | - | 34 136 | 34 136 |
| **Total liabilities** | **733 266** | **256 418** | **6 193** | **2 143** | **34 136** | **1 032 156** |
| **Net liquidity gap as at 31 December 2008** | **450 421** | **(242 372)** | **116 980** | **281 585** | **247 766** | **854 380** |
| **Cumulative liquidity gap as at 31 December 2008** | **450 421** | **208 049** | **325 029** | **606 614** | **854 380** | |

*(in thousands of Russian Roubles)*

The table below shows the expected maturity analysis as at 31 December 2007:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 60 577 | - | - | - | - | 60 577 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 27 398 | 27 398 |
| Financial assets at fair value through profit or loss | 976 351 | - | - | - | - | 976 351 |
| Due from other banks | 70 469 | - | - | - | - | 70 469 |
| Loans to customers | 305 802 | 120 247 | 6 368 | 93 313 | - | 525 730 |
| Financial assets available for sale | | 1 154 | | 97 168 | 11 498 | 109 820 |
| Investment property | - | - | - | - | 109 150 | 109 150 |
| Premises and equipment | - | - | - | - | 30 768 | 30 768 |
| Other assets | 39 197 | - | - | - | 10 | 39 207 |
| **Total assets** | **1 452 396** | **121 401** | **6 368** | **190 481** | **178 824** | **1 949 470** |
| **Liabilities** | | | | | | |
| Due to other banks | 17 005 | - | - | - | - | 17 005 |
| Customer accounts | 699 418 | 458 011 | 1 846 | - | - | 1 159 275 |
| Other liabilities | 410 | 1 826 | 1 705 | 971 | 6 938 | 11 850 |
| Current tax liabilities | - | 6 671 | - | - | - | 6 671 |
| Deferred tax liabilities | - | - | - | - | 14 470 | 14 470 |
| **Total liabilities** | **716 833** | **466 508** | **3 551** | **971** | **21 408** | **1 209 271** |
| **Net liquidity gap as at 31 December 2007** | **735 563** | **(345 107)** | **2 817** | **189 510** | **157 416** | **740 199** |
| **Cumulative liquidity gap as at 31 December 2007** | **735 563** | **390 456** | **393 273** | **582 783** | **740 199** | |

As the above analysis as at 31 December 2008 and 31 December 2007 is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "On demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

Mandatory cash balances with the CBR are classified within "No stated maturity" as the Bank is unable to use them for operational management of its liquidity position.

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

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

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

***Interest rate risk.*** The Bank takes on exposure to the effects of market interest rates volatility on 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.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Interest rates that are fixed in contracts on both assets and liabilities may change upon mutual consent depending on the current market conditions.

The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

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

| | **On demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 114 326 | - | - | - | - | 114 326 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 3 330 | 3 330 |
| Financial assets at fair value through profit or loss | 746 076 | - | - | - | - | 746 076 |
| Due from other banks | - | 16 601 | - | - | 117 816 | 134 417 |
| Loans to customers | - | 5 999 | 121 868 | 279 031 | - | 406 898 |
| Financial assets available for sale | - | - | - | 96 | 30 721 | 30 817 |
| Investment property | - | - | - | - | 213 791 | 213 791 |
| Premises and equipment | - | - | - | - | 33 140 | 33 140 |
| Other assets | - | - | - | - | 197 101 | 197 101 |
| Current tax assets | - | - | - | - | 6 640 | 6 640 |
| **Total assets** | **860 402** | **22 600** | **121 868** | **279 127** | **602 539** | **1 886 536** |
| **Liabilities** | | | | | | |
| Due to other banks | 85 456 | - | - | - | 146 902 | 232 358 |
| Customer accounts | 493 807 | 232 578 | 2 024 | - | - | 728 409 |
| Other liabilities | 497 | 2 376 | 2 084 | 2 143 | 30 153 | 37 253 |
| Deferred tax liabilities | - | - | - | - | 34 136 | 34 136 |
| **Total liabilities** | **579 760** | **234 954** | **4 108** | **2 143** | **211 191** | **1 032 156** |
| **Net interest rate gap as at 31 December 2008** | **280 642** | **(212 354)** | **117 760** | **276 984** | **391 348** | **854 380** |
| **Cumulative interest rate gap as at 31 December 2008** | **280 642** | **68 288** | **186 048** | **463 032** | **854 380** | |

*(in thousands of Russian Roubles)*

The table below summarises the Bank' exposure to interest rate risks as at 31 Decemoer 2007.

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | - | - | - | - | 60 577 | 60 577 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 27 398 | 27 398 |
| Financial assets at fair value through profit or loss | - | 114 582 | 148 047 | 686 576 | 27 146 | 976 351 |
| Due from other banks | 70 469 | - | - | - | - | 70 469 |
| Loans to customers | 305 802 | 120 247 | 6 368 | 93 313 | - | 525 730 |
| Financial assets available for sale | - | 1 154 | - | 97 168 | 11 498 | 109 820 |
| Investment property | - | - | - | - | 109 150 | 109 150 |
| Premises and equipment | - | - | - | - | 30 768 | 30 768 |
| Other assets | - | - | - | - | 39 207 | 39 207 |
| **Total assets** | **376 271** | **235 983** | **154 415** | **877 057** | **305 744** | **1 949 470** |
| **Liabilities** | | | | | | |
| Due to other banks | 17 005 | - | - | - | - | 17 005 |
| Customer accounts | 699 418 | 458 011 | 1 846 | - | - | 1 159 275 |
| Other liabilities | 410 | 1 826 | 1 705 | 971 | 6 938 | 11 850 |
| Current tax liabilities | - | - | - | - | 6 671 | 6 671 |
| Deferred tax liabilities | - | - | - | - | 14 470 | 14 470 |
| **Total liabilities** | **716 833** | **459 837** | **3 551** | **971** | **28 079** | **1 209 271** |
| **Net interest rate gap as at 31 December 2007** | **(340 562)** | **(223 854)** | **150 864** | **876 086** | **277 665** | **740 199** |
| **Cumulative interest rate gap as at 31 December 2007** | **(340 562)** | **(564 416)** | **(413 552)** | **462 534** | **740 199** | |

The change as at 31 December 2008 and 2007 in the interest rates by 50 basis points would not have materially affected the profit as all liabilities and financial instruments reflected above have fixed interest rates.

*(in thousands of Russian Roubles)*

The Bank performs monitoring of financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Bank's key managers as at 31 December 2008 and 2007:

| | | | 2008 | | | 2007 |
|---|---|---|---|---|---|---|
| | RUR | USD | EUR | RUR | USD | EUR |
| **Assets** | | | | | | |
| Financial assets at fair value through profit or loss | 8.7% | 8.0% | - | 8.1% | - | - |
| Due from other banks | 10.0% | - | - | 8.0% | 3.7% | - |
| Loans to customers | 14.4% | 10.0% | 9.0% | 11.5% | 10.0% | - |
| Financial assets available for sale | - | 8.25% | - | 8.7% | 5.4% | - |
| **Liabilities** | | | | | | |
| Due to other banks | 9.8% | - | - | 5.0% | - | - |
| Customer accounts | | | | | | |
| - current and settlement accounts | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| - term deposits of legal entities | 8.7% | - | - | 5.6% | - | - |
| - term deposits of individuals | 7.9% | 6.3% | 4.9% | 8.3% | 6.7% | 5.1% |
| Other liabilities | 11.3% | - | - | 21% | - | - |

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

***Concentration of other risks.*** The management provides monitoring and disclosure of credit risk concentration on the basis of received reports containing information on borrowers with aggregate loan amounts above 10% of the Bank's capital (Notes 7 and 8).

## 24. Capital Management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation; to ensure the Bank's ability to operate as a going concern and maintain capital base at the level required to sustain capital adequacy ratio at 10% as required by the Central Bank of the Russian Federation. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised on the basis of monthly reports that contain corresponding calculations that are verified and signed by the Chairman of the Board and Chief Accountant of the Bank. Other capital management objectives are assessed on an annual basis.

In accordance with the current capital requirements set by the CBR, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level.

The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Russian legislation:

| | 2008 | 2007 |
|---|---|---|
| Core capital | 630 149 | 562 289 |
| Additional capital | 360 146 | 162 822 |
| **Total regulatory capital** | **990 295** | **725 111** |
| Capital adequacy ratio | 62.7% | 42.0% |

During 2008 and 2007 the Bank complied with all external capital requirements. The minimum admissible value of H1 is set at 10%.

## 25. Contingent Liabilities

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

The Bank did not make a provision for litigation losses.

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

*(in thousands of Russian Roubles)*

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

***Operating lease commitments.*** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of premises and motor vehicles are as follows:

| | 2008 | 2007 |
|---|---|---|
| Less than 1 year | 18 305 | 19 174 |

***Credit related commitments.*** The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of guarantees and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. With respect to credit risk on undrawn credit lines, the Bank is less exposed to the risk of loss since in the case of impairment of loans issued the Bank will not repay the remaining amounts. Therefore, a provision for these credit related commitments is equal to zero. In 2007 the Bank did not make a provision for guarantees as the Bank's management believes that the risk of losses is insignificant.

The table below presents credit related commitments of the Bank:

| | 2008 | 2007 |
|---|---|---|
| Undrawn credit lines | 5 871 | 30 717 |
| Guarantees issued | - | 15 726 |
| **Total credit related commitments** | **5 871** | **46 443** |

## 26. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. Quoted financial instruments in active market provide the best evidence of fair value. As no readily liquid market exists for major part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The table below presents the estimated fair value of the Bank's financial instruments as at 31 December 2008 and 2007:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | 752 231 | 752 231 | 976 351 | 976 351 |
| Due from other banks | 134 417 | 134 417 | 70 469 | 70 469 |
| Loans to customers | 406 898 | 406 898 | 525 730 | 525 730 |
| Financial assets available for sale | 24 216 | 24 216 | 109 820 | 109 820 |
| **Financial liabilities** | | | | |
| Due to other banks | 232 358 | 232 358 | 17 005 | 17 005 |
| Customer accounts | 728 409 | 728 409 | 1 159 275 | 1 159 275 |

***Financial instruments carried at fair value.*** Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the balance sheet at their fair value. Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Bank based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

***Due from other banks.*** The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

*(in thousands of Russian Roubles)*

***Loans to customers.*** Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that fair values of loans to customers as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

***Due to other banks.*** The fair value of due to other banks approximates their carrying value due to their short-term maturity (less than one month).

***Customer accounts.*** The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and without a quoted market price is based on discounted cash flows using interest rates for debts with similar maturity. The Bank believes that fair values of customer accounts as at 31 December 2008 and 31 December 2007 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

## 27. Reconciliation of Categories of Financial Instruments to Balance Sheet

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

The table below shows reconciliation of categories of financial assets with the above measurement categories as at 31 December 2008:

| | Financial assets at fair value through profit or loss | Loans and receivables | Financial assets available for sale | Total |
|---|---|---|---|---|
| **Cash and cash equivalents** | 114 326 | - | - | 114 326 |
| **Financial assets at fair value through profit or loss** | | | | |
| - Government and municipal debt securities | 139 756 | - | - | 139 756 |
| - Corporate debt securities | 606 320 | - | - | 606 320 |
| **Due from other banks** | | | | |
| - Loans and deposits with other banks | - | 117 821 | - | 117 821 |
| - Reverse repo agreements with other banks | - | 16 596 | - | 16 596 |
| **Loans to customers** | | | | |
| - Corporate loans | - | 393 202 | - | 393 202 |
| - Loans to individual entrepreneurs, small and medium business | - | 6 635 | - | 6 635 |
| - Consumer loans to individuals | - | 7 061 | - | 7 061 |
| **Financial assets available for sale** | | | | |
| - Government and municipal debt securities | - | - | 96 | 96 |
| - Corporate equity securities | - | - | 30 721 | 30 721 |
| **Other financial assets** | | | | |
| - Settlements related to conversion transactions | - | 140 357 | - | 140 357 |
| - Receivables | - | 47 704 | - | 47 704 |
| **Total financial assets** | **860 402** | **729 376** | **30 817** | **1 620 595** |
| Non-financial assets | | | | 265 941 |
| **Total assets** | | | | **1 886 536** |

*(in thousands of Russian Roubles)*

The table below shows reconciliation of categories of financial assets with the above measurement categories as at 31 December 2007:

| | Financial assets at fair value through profit or loss | Loans and receivables | Financial assets available for sale | Total |
|---|---|---|---|---|
| **Cash and cash equivalents** | 60 577 | - | - | 60 577 |
| **Financial assets at fair value through profit or loss** | | | | |
| - Government and municipal debt securities | 140 055 | - | - | 140 055 |
| - Corporate debt securities | 809 150 | - | - | 809 150 |
| - Corporate equity securities | 27 146 | - | - | 27 146 |
| **Due from other banks** | | | | |
| - Loans and deposits with other banks | - | 41 803 | - | 41 803 |
| - Reverse repo agreements with other banks | - | 28 666 | - | 28 666 |
| **Loans to customers** | | | | |
| - Corporate loans | - | 219 095 | - | 219 095 |
| - Consumer loans to individuals | - | 833 | - | 833 |
| - Reverse repo agreements | - | 305 802 | - | 305 802 |
| **Financial assets available for sale** | | | | |
| - Government and municipal debt securities | - | - | 4 313 | 4 313 |
| - Corporate debt securities | - | - | 94 009 | 94 009 |
| - Corporate equity securities | - | - | 11 498 | 11 498 |
| **Other financial assets** | | | | |
| - Receivables | - | 31 814 | - | 31 814 |
| **Total financial assets** | **1 036 928** | **628 013** | **109 820** | **1 774 761** |
| Non-financial assets | | | | 174 709 |
| **Total assets** | | | | **1 949 470** |

All financial liabilities of the Bank are carried at amortised cost.

*(in thousands of Russian Roubles)*

## 28. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control 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 economic substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into banking transactions with its major shareholders, directors, and key management personnel. These transactions include settlements, issuance of loans and guarantees, deposit taking. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The table below presents the outstanding balances at the year end, asset-related transactions with related parties for 2008 and 2007:

| | Shareholders | |
|---|---|---|
| | 2008 | 2007 |
| **Due from other banks** | | |
| Due from other banks as at 1 January (gross) | 7 322 | 5 394 |
| Due from other banks issued during the year | 496 591 | 1 231 801 |
| Due from other banks repaid during the year | (487 984) | (1 229 873) |
| **Due from other banks as at 31 December (gross)** | **15 929** | **7 322** |
| **Loans to customers** | | |
| Loans to customers as at 1 January (gross) | 32 526 | 64 731 |
| Loans to customers issued during the year | | - |
| Loans to customers repaid during the year | (32 526) | (32 205) |
| **Loans to customers as at 31 December (gross)** | **-** | **32 526** |
| **Provisions for impairment of loans to customers** | | |
| Provision for impairment of loans to customers as at 1 January | 6 830 | 7 602 |
| Recovery of provision of loans to customers during the year | (6 830) | (772) |
| **Provision for impairment of loans to customers as at 31 December** | **-** | **6 830** |
| **Loans to customers as at 1 January (less provision for loan impairment)** | **25 696** | **57 129** |
| **Loans to customers as at 31 December (less provision for loan impairment)** | **-** | **25 696** |

The table below presents the outstanding balances at the year end, liability-related transactions with related parties for 2008 and 2007:

| | Shareholders | | Directors and key management personnel | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Due to other banks** | | | | |
| Due to other banks as at 1 January | 17 000 | 40 000 | - | - |
| Due to other banks received during the year | - | 601 000 | - | - |
| Due to other banks repaid during the year | (17 000) | (624 000) | - | - |
| **Due to other banks as at 31 December** | **-** | **17 000** | **-** | **-** |
| **Customer accounts** | | | | |
| Customer accounts as at 1 January | 1 492 | 1 140 | 1 330 | 1 068 |
| Customer accounts received during the year | 53 759 | 338 233 | 20 205 | 8 620 |
| Customer accounts repaid during the year | (52 282) | (337 881) | (9 874) | (8 358) |
| **Customer accounts as at 31 December** | **2 969** | **1 492** | **11 661** | **1 330** |

*(in thousands of Russian Roubles)*

The table below presents other assets and liabilities related to third party transactions as at 31 December 2008 and 2007:

| | Shareholders | |
|---|---|---|
| | 2008 | 2007 |
| Guarantees issued by the Bank | - | 15 726 |
| Guarantees received by the Bank | 39 084 | 27 001 |

The table below presents income and expense items with related parties for the years 2008 and 2007:

| | Shareholders | |
|---|---|---|
| | 2008 | 2007 |
| Interest income | 295 | 3 801 |
| Interest expense | 153 | - |
| Fee and commission income | 164 | 3 858 |

The table below presents The information on remuneration and compensation to key management:

| | 2008 | 2007 |
|---|---|---|
| **Short-term payments:** | | |
| - Wages and salaries | 10 462 | 8 330 |
| - Payments in kind | - | 35 |
| **Total** | **10 462** | **8 365** |

Short-term bonuses shall be paid in full within 12 months from the expiry of the period in which the management provided the respective services.