

Financial statements and auditors' report

Asian - Pacific Bank

31 December 2008



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## Auditor's report

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To the Shareholders of  
Asian-Pacific Bank  
Amurskaya st., 225  
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We have audited the accompanying balance sheet of JSC Asian-Pacific Bank (“the Bank”) as of 31 December 2008 and the related income statement, statement of cash flows and statement of changes in shareholders’ equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

The Bank management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 Bank'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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRANT THORNTON ZAO

Moscow, Russian Federation  
1 April 2009

## Income statements

	Notes	2008 RUR'000	2007 RUR'000
Interest income	5	2,689,781	1,755,784
Interest expense	5	(871,033)	(480,539)
<b>Net interest income</b>		<b>1,818,748</b>	<b>1,275,245</b>
Provision for loan impairment	8	(694,371)	(389,225)
<b>Net interest income after provision for loan impairment</b>		<b>1,124,377</b>	<b>886,020</b>
Fee and commission income		245,337	108,310
Fee and commission expense		(41,364)	(11,898)
<b>Net commission income</b>		<b>203,973</b>	<b>96,412</b>
Net gain from financial instruments at fair value through profit or loss		(17,334)	913
Net foreign exchange result		30,313	5,680
Net result from precious metals		10,190	3,477
Other income	6	201,866	127,494
Provision for other assets	8	(19,077)	-
<b>Operating income</b>		<b>1,534,308</b>	<b>1,119,996</b>
General administrative expenses	7	(1,148,375)	(675,142)
Income before tax		385,933	444,854
Income tax expense	9	(141,848)	(144,739)
<b>Net income</b>		<b>244,085</b>	<b>300,115</b>

The financial statements were approved by the Board of the Bank on 1 April 2009.

Chairman of the Board



E.V. Aksenov

Chief Accountant



K.V. Trubnikov

See accompanying notes to the financial statements

## Balance Sheet

	Notes	31 December 2008 RUR'000	31 December 2007 RUR'000
<b>ASSETS</b>			
Cash		816,534	422,607
Due from the Central Bank of Russia	10	562,411	270,410
Placements with banks and other financial institutions	11	1,846,343	515,238
Financial assets at fair value through profit or loss	12		
- Unpledged		47,126	19,263
- Pledged under repurchase agreements and funds borrowed		262,790	-
Loans to customers	13	9,103,035	7,864,924
Financial assets available-for-sale	14	39,685	-
Other assets	15	188,507	66,879
Property and equipment	16	1,194,167	775,140
Intangible assets	17	53,015	41,442
<b>Total assets</b>		<b>14,113,613</b>	<b>9,975,903</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Deposits and balances from banks and other financial institutions	18	1,265,448	1,436,056
Current accounts and deposits from customers	19	9,618,949	6,459,233
Amounts due to budget and non-budget funds	20	8,413	11,023
Debt securities issued	21	450,568	412,089
Subordinated debt	22	150,964	126,133
Other liabilities	23	69,636	70,319
Current tax liabilities		17,210	20,052
Deferred tax liabilities	24	81,158	98,771
<b>Total Liabilities</b>		<b>11,662,346</b>	<b>8,633,676</b>
<b>Shareholder's Equity</b>	25		
Share capital		395,522	318,022
Share premium		1,192,723	405,268
Retained earnings		863,022	618,937
<b>Total Shareholder's Equity</b>		<b>2,451,267</b>	<b>1,342,227</b>
Commitments and Contingent liabilities	27-29	-	-
<b>Total Liabilities and Shareholder's Equity</b>		<b>14,113,613</b>	<b>9,975,903</b>

See accompanying notes to the financial statements

## Statement of Cash Flows

	Note	2008 RUR'000	2007 RUR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		2,919,075	1,858,433
Interest and fee and commission payments		(912,226)	(478,609)
Net receipts from foreign exchange		4,276	3,988
Net receipts / (payments) from financial instruments		(96)	913
Net receipts from precious metals		10,190	3,477
Other operational income		201,866	127,494
Revenue based taxes		(80,535)	(27,860)
General and administrative expenses paid		(984,435)	(597,833)
		<b>1,158,115</b>	<b>890,003</b>
<b>(Increase)/decrease in operating assets</b>			
Reserve deposit with the Central Bank of Russia		91,347	(55,634)
Placements with banks and other financial institutions		(38,033)	-
Financial instruments at fair value through profit or loss		(341,261)	-
Loans to customers		(1,852,289)	(4,827,652)
Other operating assets		(140,067)	(16,639)
<b>Increase/(decrease) in operating liabilities</b>			
Derivative financial instruments		-	(3,254)
Deposits and balances from banks and other financial institutions		(193,763)	122,220
Current accounts and deposits from customers		3,085,506	4,069,313
Amounts due to budget and non-budget funds		-	(1,497)
Debt securities issued		(6,473)	170,819
Other liabilities		(31,696)	252
Net cash provided from operating activities before income taxes paid		<b>1,731,386</b>	<b>347,931</b>
Income taxes paid		(162,303)	(89,035)
<b>Cash flows from operations</b>		<b>1,569,083</b>	<b>258,896</b>

## Statement of Cash Flows (continued)

	Note	2008 RUR'000	2007 RUR'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Financial assets available-for-sale		(20,750)	-
Net purchase of property and equipment		(468,727)	(306,252)
Net purchase of intangible assets		(14,527)	(21,829)
<b>Cash flows from investing activities</b>		<b>(504,004)</b>	<b>(328,081)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of shares		914,635	435,268
<b>Cash flows from financing activities</b>		<b>914,635</b>	<b>435,268</b>
<b>Effect of changes in exchange rates in cash and cash equivalents</b>		<b>86,272</b>	<b>(703)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,065,986</b>	<b>365,380</b>
Cash and cash equivalents at beginning of year		1,102,372	736,826
<b>Cash and cash equivalents at end of year</b>	31	<b>3,168,358</b>	<b>1,102,206</b>

See accompanying notes to the financial statements

## Statement of Changes in Shareholder's Equity

	Share capital	Share Premium	Retained earnings	Total
	RUR'000	RUR'000	RUR'000	RUR'000
<b>Balance as of 1 January 2007</b>	<b>288,022</b>	-	<b>318,822</b>	<b>606,844</b>
Net income	-	-	300,115	<b>300,115</b>
Issue of shares	30,000	405,268	-	<b>435,268</b>
<b>Balance as of 1 January 2008</b>	<b>318,022</b>	<b>405,268</b>	<b>618,937</b>	<b>1,342,227</b>
Net income	-	-	244,085	<b>244,085</b>
Issue of shares	77,500	787,455	-	<b>864,955</b>
<b>Balance as at 31 December 2008</b>	<b>395,522</b>	<b>1,192,723</b>	<b>863,022</b>	<b>2,541,267</b>

See accompanying notes to the financial statements

## 1. Background

### 1.1 Principal activities

Amurpromstroybank (the “Bank”) was formed in February 14, 1992 as a closed joint stock company under the laws of the Russian Federation. The Bank is a successor of Stroybank of the USSR, which was founded in 1923. In 2006 the Bank was reorganised from closed joint stock company to opened joint stock company and renamed to Asian-Pacific Bank by decision of the shareholder’s meeting. In 1996 the Bank faced a liquidity crisis caused by a number of borrowers defaulting on loans. The situation was aggravated by the financial crisis in Russia in 1998. In 1999 management of the bank was transferred to the Agency for Restructuring of Credits Institution (“ARKO”), which became the main shareholder of the Bank. On January 3, 2001 the Bank signed an amicable agreement with creditors and restructured most of its debts into long-term promissory notes. The amicable agreement specified a payment schedule for the debts to state budget and non-budget funds. At the beginning of 2002 ARKO announced a public tender and sold its shares to OOO “Saiga-M”.

In 2005 the Bank became a part of the Bank holding company (the “Holding”), which consisted of the managing company OOO Petropavlovsk FINANCE (Moscow), CB Expobank OOO (Moscow), OAO Kolyma-bank (Magadan), OAO CB Magadansky Bank (Magadan), EXPO-leasing (a leasing company, Moscow) and Gelios Reserve Insurance Company (Moscow). The Holding is primarily engaged in providing retail and corporate banking services in Moscow, Eastern Siberia and Far East regions of the Russian Federation. In April 2006 the participants of the Banking Holding have disposed its interests in CB Magadansky to the third party and in June 2008 - its interest in CB Expobank OOO.

As of 31 December 2008 the shareholders of the Bank are OOO Petropavlovsk FINANCE (65,26%), East Capital Explorer Financial Institutions Fund AB (Sweden) (17,50%), Aksenov E.V. (7,23%), International Finance Corporation (World Bank Group) (10,00%) and other individuals and legal entities (0,01%).

The Bank operates under an extended banking licenses issued by the Central Bank of the Russian Federation (the “Central Bank of Russia”) on June 25, 1997 as well as licenses for trust management, brokerage, dealing and custody operations with securities, issued by the Federal Service on Financial Markets and license for bullion operations.

Bank is a member of the state deposit insurance scheme in the Russian Federation.

The principal activities of the Bank are deposit taking, lending, settlement operations, as well as operations with securities, precious metals and foreign exchange. Before 2007 the priority activity of the Bank was granting loans to individuals. In 2007 the Bank’s strategy was to achieve a balance between retail and corporate banking.

Head office of the Bank is located in Blagoveshensk. Besides the Bank has 104 branches including Head office, 6 regional branches, 78 additional offices, 18 credit-cash office. Bank operates in regions of Far East and Eastern Siberia and has regional branches in Amurskaya, Sakhalinskaya, Irkutskaya area; Zabaikalskiy, Khbarovkiy, Krasnoyarskiy and Primorski Krai; Republic Saha (Yakutiya), Khakasia and Buryatiya; Evreiskaya autonomous region and Moscow.

The average number of persons employed by the Bank during 2008 was approximately 2067 (2007: 1,449).

## 1. Background (continued)

### 1.2 Russian business environment

Whilst there have been improvements in recent years, the Russian Federation still experience political and economic changes which has affected, and may continue to affect, the activities of enterprises operating in this environment. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Bank's control.

The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced and continues to introduce a range of stabilization measures aimed at providing liquidity and emergency access to capital for Russian banks and companies, there continues to be uncertainty regarding the timing of access to capital and cost of capital for the Bank its counterparties, which could affect the Bank's financial position, results of operations and business prospects. Also, the borrowers of the Bank may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Bank. Due to the fall in prices in global and Russian securities markets, the Bank may face a significant decrease in the fair value of securities. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment. While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

## 2. Basis of preparation

### 2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

### 2.2 Basis of measurement

The financial statements are prepared on the historical cost or amortised cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial instruments available-for-sale.

### 2.3 Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUR"). The Russian rouble is the functional and presentation currency used in the preparation of these financial statements. The RUR has been used as the functional and presentation currency as management considers that the RUR reflects the economic effects of the underlying transactions, events and conditions relevant to the Bank.

All amounts in the financial statements have been rounded to the nearest thousand.

## 2. Basis of preparation (continued)

### 2.4 Inflation accounting

In the years prior to 1 January 2003, Russia was considered to be a hyperinflationary economy as defined in IAS 29 “Financial Reporting in Hyperinflationary Economies”, which required that financial statements be expressed in terms of the measuring unit current as of the balance sheet date. Accordingly, amounts indicated in the Bank’s financial statements prior to 1 January 2003, have been restated to account for changes in the general purchasing power of the RUR. The restatement is based on relevant price indices at the balance sheet date. The indices are derived from the inflation rates, which are issued by the State Statistical Committee of the Russian Federation (“Goskomstat”).

As from 1 January 2003 the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Bank’s assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

### 2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant estimates and assumptions relate to managements’ estimate of the provision for loan impairment, which is described in more detail in Notes:

- Note 3 “Significant accounting policies” (3.7 “Impairment”) and Note 13 “Loans to customers” in respect of loan impairment allowance
- Note 29.3 “Taxation contingencies” in respect of tax contingencies.

## 3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied

### 3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

### 3. Significant accounting policies (continued)

#### 3.2 Cash and cash equivalents

The Bank considers cash, nostro accounts with the CBR, placement with other banks and financial institutions, as well as financial assets at fair value through profit or loss with contractual maturities less than 3 months to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be cash equivalent due to restrictions on its withdrawability.

Cash and cash equivalents are reflected at amortised cost in the balance sheet

#### 3.3 Financial instruments

The Bank classified its financial instruments into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at its fair value including transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

##### *Financial instruments at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or is a derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as at fair value through profit or loss. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value are recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

##### *Available-for-sale financial instruments*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

### 3. Significant accounting policies (continued)

#### 3.3 Financial instruments (continued)

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value are recognized directly in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is recognized when it is extinguished.

#### 3.4 Offsetting

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

#### 3.5 Property and equipment

Items of property and equipment are stated at cost amounts, less accumulated depreciation and impairment losses. The cost of property and equipment includes all expenses directly attributable to their acquisition. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognized in the income statement as an expense incurred.

### 3. Significant accounting policies (continued)

#### 3.5 Property and equipment (continued)

Depreciation on items of property and equipment is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from time an asset is completed and ready for use. The estimated useful lives are as follows:

Buildings	50 years
Leasehold improvements	Up to 50 years
Fixtures and fittings	5 years
Computers and equipment	5 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### 3.6 Intangible Assets

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, which is equal:

Licenses	25 years
Software	3-5 years

#### 3.7 Impairment

The carrying amounts of Bank's financial assets carried at amortised cost/cost and non financial assets, non including deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

##### *Financial assets carried at amortised cost*

The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 3. Significant accounting policies (continued)

#### 3.7 Impairment (continued)

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivables original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

#### *Non financial assets*

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

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

#### 3.8 Leases

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The related asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at commencement of the lease, less accumulated depreciation and impairment losses. A corresponding amount is recognised as a finance lease liability.

Subsequent accounting for assets held under finance lease agreements correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

Payments made under operating lease are recognised in the income statement on a straight-line basis over the term of the lease.

### 3. Significant accounting policies (continued)

#### 3.9 Borrowed funds (including subordinated debt)

Borrowings are recognized initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over period of the borrowings using the effective interest rate method.

Borrowings originated at interest rate different from market rates are measured at origination to their fair value, being future interest payments and principal repayments discounted at market rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest rate method.

#### 3.10 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the period of the security issue using the effective interest rate method.

#### 3.11 Equity

Ordinary shares are classified as equity. Flotation costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

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

#### 3.12 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

### 3. Significant accounting policies (continued)

#### 3.13 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

#### 3.14 Interest income and interest expense

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### 3.15 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

#### 3.16 Net result on financial instruments at fair value through profit or loss

Net result on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

## 4. New standards and Interpretations

### 4.1 New Standards and interpretations effective in the current period

During the current period a number of new standards and interpretations that are applicable to the activities of the Bank became effective. At the reporting date the Bank has adopted the following standards:

- Reclassification of Financial Assets - Amendments to IAS 39, “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” (issued in October 2008; effective from 1 July 2008). In October 2008, the IASB issued amendments to IAS 39 “Financial Instruments: Recognition and Measurement”, and IFRS 7 “Financial Instruments: Disclosures”. The amendments to IAS 39 permit certain reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the trading category if they are no longer held for the purpose of selling or repurchasing them in the near term to either the held to maturity, loans and receivables or available-for-sale categories and also allow the reclassification of financial assets from the available-for-sale category to the loans and receivables category in particular rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term. Any reclassified instruments should subsequently be reviewed for impairment using the IAS 39 impairment rules for the categories into which they are classified. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39.

Also, four interpretations are effective for the current period. These are:

- IFRIC 12 “Service Concession Arrangements” (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)

## 4. New standards and Interpretations (continued)

### 4.2 New Standards and interpretations not yet effective

A number of new Standards and Interpretations are not yet effective at 31 December 2008 and the date of authorisation of these financial statements, and have not been applied by the Bank in preparing these financial statements. These new Standards and Interpretations are:

- IAS 1 “Presentation of Financial Statements” (Revised 2008) (effective from 1 January 2009).
- Amendment to IAS 23 “Borrowing Costs” (effective from 1 January 2009). The amendments require that borrowing costs relating to the acquisition, construction or production of a qualifying asset be capitalised as part of the cost of the asset. All other borrowing costs should be expensed as incurred.
- IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008) (effective from 1 July 2009). The revised Standard requires that the difference between the consideration paid or received and the recorded non-controlling interest is recognised in equity. In the case of divestment of a subsidiary, any retained interest will be remeasured to fair value and the difference between fair value and the previous carrying value will be recognised immediately in the income statement.
- Amendment to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective from 1 January 2009).
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective from 1 July 2009). The amendments allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified features.
- Amendment to IFRS 2 “Share-based Payment — Vesting Conditions and Cancellations” (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.
- IFRS 3 (Revised) “Business Combinations”. IFRS 3 (Revised) (effective to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2008). Amongst other changes, the new Standard will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs to be recognised immediately in the income statement. Fair value gains or losses on existing investments in an acquired company will be recognised in the income statement at the date of acquisition.
- IFRS 8 “Operating segments” (effective from 1 January 2009). The standard specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers.
- Amendments to IFRS 7 “Financial Instruments Disclosures”: Improving Disclosures about Financial Instruments (effective from 1 January 2009).
- Annual Improvements 2008 (most of these amendments become effective in annual periods beginning on or after 1 January 2009);
- IFRIC 15 “Agreements for the Construction of Real Estate”.
- IFRIC 17 “Distributions of Non-cash Assets to Owners” (effective from 1 July 2009).
- IFRIC 18 “Transfers of Assets From Customers”.

## 5. Interest income and interest expense

	2008 RUR'000	2007 RUR'000
<b>Interest income</b>		
Loans to customers	2,648,092	1,739,710
Debt securities	25,229	9,321
Placements with banks and other financial institutions	16,460	6,753
<b>Total interest income</b>	<b>2,689,781</b>	<b>1,755,784</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	731,811	387,908
Deposits and balances from banks and other financial institutions	82,054	69,584
Securities issued	57,168	23,047
<b>Total interest expense</b>	<b>871,033</b>	<b>480,539</b>

## 6. Other income

	2008 RUR'000	2007 RUR'000
Fines received	173,288	102,271
Rental income	15,359	17,120
Other income	13,219	8,103
<b>Total other income</b>	<b>201,866</b>	<b>127,494</b>

## 7. General administrative expenses

	2008 RUR'000	2007 RUR'000
Employee compensation	684,591	390,762
Revenue based taxes	80,535	27,860
Occupancy	60,841	36,452
Depreciation	52,654	32,400
Repairs and maintenance	50,374	38,085
Advertising and marketing	45,075	44,143
Communication and information services	36,228	21,792
Inventories	29,456	19,049
Obligatory insurance contributions	26,018	11,380
Security	20,687	14,522
Insurance expenses	11,979	17,017
Charitable contributions	10,000	-
Other	39,937	21,680
<b>Total general administrative expense</b>	<b>1,148,375</b>	<b>675,142</b>

## 8. Provision for impairment losses

### Analysis of movements in the provision for loan impairment

	2008 RUR' 000	2007 RUR'000
Balance at beginning of year	588,474	360,571
Provision for impairment losses	694,371	389,225
Write-offs	(21,135)	(161,322)
<b>Balance at the end of year</b>	<b>1,261,710</b>	<b>588,474</b>

### Analysis of movements in the provision for other assets

	2008 RUR'000	2007 RUR'000
Balance at beginning of year	-	-
Provision for impairment losses	19,077	-
<b>Balance at the end of year</b>	<b>19,077</b>	<b>-</b>

## 9. Income tax expense

	2008 RUR'000	2007 RUR'000
<i>Current tax expense</i>		
Income tax for current year	(159,461)	(109,087)
<i>Deferred tax expense</i>		
Origination / (reversal) of timing differences	1,381	(35,652)
Effect of change in tax rate	16,232	-
<b>Total income tax expense</b>	<b>(141,848)</b>	<b>(144,739)</b>

The Bank's applicable tax rate for 2008 was 24% (2007 – 24%). Deferred tax balances as of 31 December 2008 were measured using a tax rate of 20% (2007 – 24%), which is an announced tax rate for the period beginning from 1 January 2009 and is the period when the Bank will recover (settle) the carrying amount of the asset (liability). Income tax rate on interest income from government and municipal financial instruments is 15%.

## 9. Income tax expense (continued)

### Reconciliation of theoretical income tax expenses with actual income tax expenses

	2008 RUR'000	2007 RUR'000
Income before tax	385,933	444,854
Theoretical income tax expense at the applicable statutory rate	92,624	106,765
Tax effect of items taxes at different tax rates	(1,722)	(338)
Tax effect of change in tax rate	(16,232)	-
Tax effect of non-deductible costs and non-taxable income	67,178	38,312
<b>Total income tax expense</b>	<b>141,848</b>	<b>144,739</b>

## 10. Due from the Central Bank of Russia

	31 December 2008 RUR'000	31 December 2007 RUR'000
Nostro accounts	547,875	164,527
Minimum reserve deposit	14,536	105,883
<b>Total due from the Central Bank of Russia</b>	<b>562,411</b>	<b>270,410</b>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

## 11. Placements with banks and other financial institutions

	31 December 2008 RUR'000	31 December 2007 RUR'000
Nostro accounts	1,554,939	515,238
Deposits	291,404	-
<b>Total placements with banks and other financial institutions</b>	<b>1,846,343</b>	<b>515,238</b>

## 11. Placements with banks and other financial institutions (continued)

### Significant exposures

As of 31 December 2008 the Bank had accounts in four groups of related banks (2007: two banks) whose balance exceeded 10% of the placements with banks and other financial institutions. The gross value of this exposure as of 31 December 2008 was 1,583,882 RUR'000 (2007: 497,146 RUR'000).

## 12. Financial instruments at fair value through profit or loss

### 12.1 Unpledged financial assets at fair value through profit or loss

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
<b>Debt instruments</b>		
Municipal debt securities	15,094	19,263
Bank bonds	32,032	-
<b>Total unpledged financial instruments at fair value through profit or loss</b>	<b>47,126</b>	<b>19,263</b>

### 12.2 Pledged financial assets at fair value through profit or loss

	<b>31 December 2008 RUR' 000</b>	<b>31 December 2007 RUR' 000</b>
OFZ	262,790	-
<b>Total pledged financial instruments at fair value through profit or loss</b>	<b>262,790</b>	<b>-</b>

The following table provides details of Bank's debt securities of the Bank as of 31 December 2008:

	<b>Maturity</b>		<b>Interest range</b>	
	<b>minimum</b>	<b>maximum</b>	<b>minimum</b>	<b>maximum</b>
Municipal bonds	23.12.2010	11.06.2013	9,00%	9,25%
Banks bonds	09.02.2011	19.07.2012	7,99%	12,20%
OFZ	20.01.2010	17.07.2013	5,80%	10,00%

### 13. Loans to customers

	31 December 2008 RUR'000	31 December 2007 RUR'000
Loans to commercial customers and entrepreneur activity	2,511,108	2,709,262
Loans to individuals	7,853,637	5,744,136
<b>Total loans before impairment</b>	<b>10,364,745</b>	<b>8,453,398</b>
Provision for loan impairment	(1,261,710)	(588,474)
<b>Total loans to customers</b>	<b>9,103,035</b>	<b>7,864,924</b>

The Bank has reviewed its loan portfolio as of 31 December 2008 and recognised loan impairment as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
<b>Commercial loans</b>				
Collectively assessed for impairment				
Standard loans not past due	415,424	(42,251)	373,173	10,17%
Overdue loans	55,682	(55,196)	486	99,12%
Individually assessed for impairment				
Standard loans not past due	1,725,541	(37,838)	1,687,703	2,66%
Watch list loans not past due	290,675	(111,283)	179,392	39,06%
Overdue loans	23,786	(21,847)	1,939	90,85%
<b>Total commercial loans</b>	<b>2,511,108</b>	<b>(268,415)</b>	<b>2,242,693</b>	
<b>Retail loans</b>				
Collectively assessed for impairment				
Mortgage loans	979,340	(19,584)	959,756	2,00%
Overdrafts	6,370	(496)	5,874	11,00%
Consumer loans	6,867,927	(973,215)	5,894,712	14,53%
<b>Total retail loans</b>	<b>7,853,637</b>	<b>(993,295)</b>	<b>6,860,342</b>	
<b>Total loans to customers</b>	<b>10,364,745</b>	<b>(1,261,710)</b>	<b>9,103,035</b>	

### 13. Loans to customers (continued)

The Bank has reviewed its loan portfolio as of 31 December 2007 and recognised loan impairment as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
<b>Commercial loans</b>				
Collectively assessed for impairment				
Standard loans not past due	743,377	(8,920)	734,457	1,20%
Individually assessed for impairment				
Standard loans not past due	1,733,871	(17,301)	1,716,570	1,00%
Watch list loans not past due	210,135	(27,528)	182,607	13,10%
Overdue loans	21,879	(13,776)	8,103	62,97%
<b>Total commercial loans</b>	<b>2,709,262</b>	<b>(67,525)</b>	<b>2,641,737</b>	
<b>Retail loans</b>				
Collectively assessed for impairment				
Mortgage loans	528,801	(7,932)	520,869	1,5%
Overdrafts	1,125	(122)	1,003	10,7%
Consumer loans	5,214,210	(512,895)	4,701,315	9,8%
<b>Total retail loans</b>	<b>5,744,136</b>	<b>(520,949)</b>	<b>5,223,187</b>	
<b>Total loans to customers</b>	<b>8,453,398</b>	<b>(588,474)</b>	<b>7,864,924</b>	

The following table shows the ageing analysis of loans as of 31 December 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
<b>Commercial loans</b>				
Not past due	2,431,640	(191,372)	2,240,268	8,29%
Overdue less than 90 days	12,088	(9,890)	2,198	80,78%
Overdue 91-180 days	26,900	(26,882)	18	99,13%
Overdue more than 181 day	40,480	(40,271)	209	98,48%
<b>Total commercial loans</b>	<b>2,511,108</b>	<b>(268,415)</b>	<b>2,242,693</b>	
<b>Retail loans</b>				
Not past due	7,351,059	(565,079)	6,785,980	7,4%
Overdue less than 90 days	30,755	(5,082)	25,673	25,00%
Overdue 91-180 days	21,629	(12,738)	8,891	62,00%
Overdue more than 181 days	450,194	(410,396)	39,798	95,00%
<b>Total retail loans</b>	<b>7,853,637</b>	<b>(993,295)</b>	<b>6,860,342</b>	
<b>Total loans to customers</b>	<b>10,364,745</b>	<b>(1,261,710)</b>	<b>9,103,035</b>	

### 13. Loans to customers (continued)

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as of 31 December 2008:

	Commercial loans	Retail loans	Total	Impairment to gross loans (%)
Cash and cash equivalents	335,671	-	335,671	5,5%
Promissory notes issued by the Bank	39,101	-	39,101	0,00%
Real estate	678,164	992,672	1,670,836	15,97%
Vehicles	119,899	76,293	196,192	9,95%
Other realizable collateral	213,500	18,183	231,683	19,47%
Corporate and personal guarantees	426,321	442,869	869,190	7,98%
Securities	1,194	539	1,733	5,24%
Unsecured	428,843	5,329,786	5,758,629	12,39%
<b>Total loans to customers</b>	<b>2,242,693</b>	<b>6,860,342</b>	<b>9,103,035</b>	

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as of 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
<b>Commercial loans</b>				
Not past due	2,687,383	(53,748)	2,633,635	2,0%
Overdue less than 90 days	5,275	(2,710)	2,565	51,38%
Overdue 91-180 days	624	(209)	415	33,43%
Overdue more than 180 day	15,980	(10,858)	5,122	67,94%
<b>Total commercial loans</b>	<b>2,709,262</b>	<b>(67,525)</b>	<b>2,641,737</b>	
<b>Retail loans</b>				
Not past due	5,417,785	(255,794)	5,161,991	4,7%
Overdue less than 90 days	27,317	(2,946)	24,371	10,9%
Overdue 91-180 days	23,057	(13,830)	9,227	60,0%
Overdue more than 180 day	275,977	(248,379)	27,598	90,0%
<b>Total retail loans</b>	<b>5,744,136</b>	<b>(520,949)</b>	<b>5,223,187</b>	
<b>Total loans to customers</b>	<b>8,453,398</b>	<b>(588,474)</b>	<b>7,864,924</b>	

### 13. Loans to customers (continued)

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as of 31 December 2007:

	Commercial loans	Retail loans	Total	Impairment to gross loans (%)
Cash and cash equivalents	114,691	-	114,691	1,47%
Promissory notes issued by the Bank	2,325	-	2,325	0,03%
Real estate	1,321,261	212,284	1,533,545	19,47%
Vehicles	160,118	39,692	199,810	2,57%
Other realizable collateral	492,307	15,793	508,100	6,51%
Other collateral	32,791	-	32,791	0,42%
Corporate and personal guarantees	383,614	457,737	841,351	10,73%
Securities	4,875	248,524	253,399	3,21%
Unsecured	129,755	4,249,157	4,378,912	55,59%
<b>Total loans to customers</b>	<b>2,641,737</b>	<b>5,223,187</b>	<b>7,864,924</b>	

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	31 December 2008 RUR'000	31 December 2007 RUR'000
Retail customers	7,853,637	5,744,136
Trade	606,878	1,017,200
Services	467,459	647,697
Construction	324,895	144,989
Entrepreneurs	279,840	284,389
Gold mining	189,782	37,244
Timber	175,842	94,058
Insurance	171,200	103,979
Manufacturing	123,571	-
Agriculture and food industry	117,928	31,882
Real estate	44,791	-
Municipality	5,292	25,332
Machinery	-	78,386
Occupancy	-	10,342
Transport	-	9,528
Leather and furs	-	6,017
Other	3,630	218,219
	<b>10,364,745</b>	<b>8,453,398</b>
Provision for loan impairment	<b>(1,261,710)</b>	<b>(588,474)</b>
<b>Total loans to customers</b>	<b>9,103,035</b>	<b>7,864,924</b>

## 13. Loans to customers (continued)

### Critical accounting estimates and judgements

The Bank has estimated the provision for impairment on loans to customers in accordance with accounting policy described in Note 3.7 "Impairment". Management estimates the likelihood of repayment of loans and advances to customers based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history with the customer, timeliness of payments and collateral, if any.

As retail lending is relatively new to Russia, the Bank and the industry have limited historical experience in this type of lending on which to base the assessment of impairment.

If actual repayments be less than the Bank's Management estimations, recognition of additional losses from loan impairment will be required.

## 14. Financial assets available-for-sale

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Municipal debt securities	<b>39,685</b>	-

Financial assets available-for-sale is comprised of bonds of municipal education of Blagoveshensk with maturity in December 2009 and coupon rate 12%.

## 15. Other assets

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Prepayments for property	<b>103,268</b>	-
Prepayments	<b>66,920</b>	40,770
Supplies	<b>7,928</b>	3,643
Tax prepayments	<b>5,108</b>	1,939
Other	<b>24,360</b>	20,527
	<b>207,584</b>	66,879
Provision for other assets impairment	<b>(19,077)</b>	-
<b>Total other assets</b>	<b>188,507</b>	66,879

## 16. Property and equipment

<u>In thousands of RUR</u>		<b>Leasehold improve- ment</b>	<b>Computers and equipment</b>	<b>Fixtures and fittings</b>	<b>Vehicles</b>	<b>Capital expendi- ture</b>	<b>Total</b>
	<b>Buildings</b>						
<b>Cost</b>							
At 1 January 2008	683,387	15,529	92,814	149,337	4,439	67,476	1,012,982
Additions	345,629	15,204	48,915	29,861	6,258	23,210	469,077
Transfer	59,424	59	6,704	-	-	(66,187)	-
Disposals	-	-	-	(20)	(356)	-	(376)
<b>At 31 December 2008</b>	<b>1,088,440</b>	<b>30,792</b>	<b>148,433</b>	<b>179,178</b>	<b>10,341</b>	<b>24,499</b>	<b>1,481,683</b>
<b>Depreciation</b>							
At 1 January 2007	53,268	174	46,529	135,510	2,361	-	237,842
Depreciation charge	18,297	1,271	22,118	6,764	1,250	-	49,700
Disposals	-	-	-	(3)	(23)	-	(26)
<b>At 31 December 2008</b>	<b>71,565</b>	<b>1,445</b>	<b>68,647</b>	<b>142,271</b>	<b>3,588</b>	<b>-</b>	<b>287,516</b>
<b>Carrying value</b>							
At 31 December 2007	630,119	15,355	46,285	13,827	2,078	67,476	775,140
<b>At 31 December 2008</b>	<b>1,016,875</b>	<b>29,347</b>	<b>79,786</b>	<b>36,907</b>	<b>6,753</b>	<b>24,499</b>	<b>1,194,167</b>

## 17. Intangible assets

<u>In thousands of RUR</u>		<b>Trademark</b>	<b>Licenses</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
At 1 January 2008		37	39,091	5,407	44,535
Additions		-	7,381	7,146	14,527
<b>At 31 December 2008</b>		<b>37</b>	<b>46,472</b>	<b>12,553</b>	<b>59,062</b>
<b>Amortisation</b>					
At 1 January 2008		-	2,043	1,050	3,093
Amortisation charge		5	1,804	1,145	2,954
<b>At 31 December 2008</b>		<b>5</b>	<b>3,847</b>	<b>2,195</b>	<b>6,047</b>
<b>Carrying amount</b>					
At 31 December 2007		37	37,048	4,357	41,442
<b>At 31 December 2008</b>		<b>32</b>	<b>42,625</b>	<b>10,358</b>	<b>53,015</b>

## 18. Deposits and balances from banks and other financial institutions

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Term deposits	<b>449,583</b>	1,299,914
Vostro accounts	<b>815,865</b>	136,142
<b>Total deposits and balances from banks and other financial institutions</b>	<b>1,265,448</b>	<b>1,436,056</b>

### Significant exposures

As of 31 December 2008 there were accounts with three group of related banks (2007: four banks), whose balance comprised more than 10% of deposits and balances from banks and other financial institutions. The gross value of this exposure as of 31 December 2008 was 1,235,297 RUR'000 (2007: 1,436,049 RUR'000).

### Securities pledged

The Bank pledged the following securities held for trading as collateral for amounts owed under deposits from banks (Note 12 "Financial assets at fair value through profit or loss"):

	<b>31 December 2008 RUR' 000</b>	<b>31 December 2007 RUR' 000</b>
<b>OFZ</b>	<b>262,790</b>	-

## 19. Current accounts and deposits from customers

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Term deposits		
- commercial customers	<b>1,099,855</b>	787,368
- retail customers	<b>5,815,596</b>	3,730,421
Current accounts and demand deposits		
- commercial customers	<b>2,004,940</b>	1,325,097
- retail customers	<b>698,558</b>	616,347
<b>Total current accounts and deposits from customers</b>	<b>9,618,949</b>	<b>6,459,233</b>

## 20. Amounts due to budget and non-budget funds

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
<b>Amounts due to budget and non-budget funds</b>	<b>8,413</b>	<b>11,023</b>

The amounts due to budget and non-budget funds include primarily the Bank's clients tax payments that were not transferred to budget accounts as of 31 December 2008 and 2007 respectively, due to limitations imposed by Russian regulations of restructuring procedures, and also fines and penalties to budget as well as other settlements with budget and non-budget funds. The amounts had been originated in prior years and were blocked while the Bank was under the supervision of ARKO. The amount of payments to budget stated as of the date of approval of amicable agreement by Arbitration court is payable in equal installments on a quarterly basis during six years starting from 3 January 2001. Funds due to budget and non-budget fund are stated at amortized cost, which is calculated on the basis of the Central Bank for Russia refinancing rate of 25% valid as of the date of amicable agreement.

## 21. Promissory notes

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
<b>Debt securities issued</b>	<b>450,568</b>	<b>412,089</b>

As of 31 December 2008 the Bank had issued non-interest promissory notes with the total nominal value of 28,019 RUR'000 (2007: 28,019 RUR'000) with repayment period in 2011 - 2027. Majority of these promissory notes were issued as part of the amicable agreement with creditors of the Bank, approved by the Arbitration court of Amur region. These promissory notes are stated at amortised cost in the amount of 3,964 RUR'000 (2007: 3,366 RUR'000) which is calculated on the basis of the Central Bank of Russia refinancing rate valid at the date of issue of these promissory notes.

## 22. Subordinated debt

In 2005 the Bank's related party granted to the Bank a subordinated loan, denominated in USD with maturity in 2011. Effective interest rate of this loan is 11%. As of 31 December 2008 the outstanding balance of subordinated loan is 146,902 RUR'000 and accrued interest is 4,062 RUR'000.

## 23. Other liabilities

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Payables to employees	<b>43,090</b>	17,049
Payables to other suppliers	<b>14,942</b>	18,901
Taxes payable	<b>11,191</b>	1,513
Other	<b>413</b>	359
Payables for acquired property and equipment	-	32,497
<b>Total other liabilities</b>	<b>69,636</b>	<b>70,319</b>

## 24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

<u>In thousands of RUR</u>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>31 December 2008</b>	31 December 2007	<b>31 December 2008</b>	31 December 2007	<b>31 December 2008</b>	31 December 2007
Financial assets at fair value through profit or loss	<b>3,446</b>	-	-	-	<b>3,446</b>	-
Loans to customers	-	-	<b>(15,133)</b>	(42,010)	<b>(15,133)</b>	(42,010)
Property and equipment	-	-	<b>(75,504)</b>	(57,272)	<b>(75,504)</b>	(57,272)
Intangible assets	-	-	<b>(48)</b>	(146)	<b>(48)</b>	(146)
Other assets	-	51	<b>(19)</b>	-	<b>(19)</b>	51
Amounts due to budget	<b>1,683</b>	2,646	-	-	<b>1,683</b>	2,646
Debt securities issued	-	-	<b>(4,933)</b>	(6,131)	<b>(4,933)</b>	(6,131)
Other liabilities	<b>9,350</b>	4,091	-	-	<b>9,350</b>	4,091
<b>Tax assets/(liabilities)</b>	<b>14,479</b>	6,788	<b>(95,637)</b>	(105,559)	<b>(81,158)</b>	(98,771)

## 24. Deferred tax assets and liabilities (continued)

### Movement in temporary differences during the year

<u>In thousands of RUR</u>	<b>Balance 1 January 2008</b>	<b>Recognised in income statement</b>	<b>Effect of change in tax rate</b>	<b>Balance 31 December 2008</b>
Financial assets at fair value through profit or loss	-	4,136	(690)	<b>3,446</b>
Loans to customers	(42,010)	23,850	3,027	<b>(15,133)</b>
Property and equipment	(57,272)	(33,333)	15,101	<b>(75,504)</b>
Intangible assets	(146)	88	10	<b>(48)</b>
Other assets	51	(74)	4	<b>(19)</b>
Amounts due to budget	2,646	(626)	(337)	<b>1,683</b>
Debt securities issued	(6,131)	211	987	<b>(4,933)</b>
Other liabilities	4,091	7,129	(1,870)	<b>9,350</b>
<b>Tax liabilities</b>	<b>(98,771)</b>	<b>1,381</b>	<b>16,232</b>	<b>(81,158)</b>

## 25. Share capital

At 31 December 2008 Share capital of the Bank consists of 3,459,821,429,250,000 ordinary shares with nominal value of 0.000000112 ruble per share each and 250,000 preferred shares with nominal value of 0.000000112 ruble each. The Bank has the right to issue additionally 8,325,892,856,357,145 ordinary shares with nominal value of 0.000000112 ruble each and 100,000,000,000,000 preferred shares with nominal value of 0.000000112 ruble each.

	2008	2007
<b>Issued and fully paid shares as of 1 January</b>		
- ordinary shares	<b>2,767,857,142,499,990</b>	2,499,999,999,642,850
- preferred shares	<b>250,000</b>	250,000
<b>Issue of shares</b>		
- ordinary shares	<b>691,964,286,500,000</b>	267,857,142,857,142
<b>Issued and fully paid as of 31 December</b>		
- ordinary shares	<b>3,459,821,429,250,000</b>	2,767,857,142,499,990
- preferred shares	<b>250,000</b>	250,000

No dividends were declared on preferred and ordinary shares as of the results of the year 2008. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation retained earnings available for distribution amounted to RUR 114,028 thousand. The holders of preferred shares are entitled to receive fixed non-cumulative dividends in the amount of 40% of the nominal value of the share.

## 26. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

### 26.1 Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

The Board of Directors has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures.

The Board of the Bank is responsible for the monitoring and implementation of risk mitigation measures and oversight that the Bank operates within the established risk parameters.

Credit, market (price, interest rate, currency risks) and liquidity risks are managed and controlled through a system of Committees, created by the Board of the Bank.

#### *Credit Risk management*

The Board of the Bank forms and approves credit risk policy and approves key credit risk related transactions. Where necessary the Board of the Bank approves Credit Committee decisions and establishes limits of authority.

Credit Committee is taking decisions on:

- Expediency and procedure for loans granting process, securities acquisition, guarantees issue, government programs financing, allocation of own and borrowed funds in the amount exceeding the limits established by Bank orders on solely decision making by officials of Bank/branches/additional offices.
- Establishment / review of limits and credit parameters to Credit committee and authorized officials of branches/additional offices.
- Decision to granting significant loans taking into account the credit department conclusion.
- Establishment the authorities of the Credit committees of branches within the frames of limits and credit parameters to establish limits and credit parameters for the Credit Committees of additional offices.

Credit Committee consider the collateral of loans issued by the Bank and secured by the pledge, personal and corporate guarantee and other liabilities accepted by the banking practice.

## 26. Risk management (continued)

### 26.1 Credit risk (continued)

In order to facilitate efficient decision-making, the Bank has established a hierarchy of the different types of Credit Committees:

- Senior Credit Committee approves the credit risk transactions with commercial legal entities and individuals where credit limit exceed 500,000 RUR including the loans outside of established credit parameters for different types of transactions. The limit for the related group of borrowers does not exceed 5% of the share capital.
- Junior Credit Committee approves the credit risk transactions with commercial legal entities and individuals where credit limit does not exceed 500,000 RUR including the loans outside of established credit parameters for different types of transactions. The limit for the related group of borrowers does not exceed does not exceed 1,500,000 RUR.
- Senior Credit Committee of Amur region Department approves the credit risk transactions with commercial legal entities and individual entrepreneur where credit limit does not exceed 1,500,000 RUR. The limit for the related group of borrowers does not exceed does not exceed 1,500,000 RUR.
- Junior Credit Committee of Amur region Department approves the credit risk transactions with individuals where credit limit does not exceed 500,000 RUR. The limit for the related group of borrowers does not exceed does not exceed 500,000 RUR.
- Senior Credit Committee of braches approves the credit risk transactions with individuals (except of insiders) where credit limit does not exceed 500,000 RUR and with commercial legal entities in amount from 500,000 RUR till 3,000,000 RUR depending upon the branches. The limit for the related group of borrowers does not exceed does not exceed from 500,000 RUR till 3,000,000 RUR depending upon the branches.

The Bank has also established a list of authorized employees with personal limits. An authorized employee within the allowed personal limit has the right to approve credit risk transactions with commercial legal entities and individuals within established credit parameters for different types of transactions. If such transaction is outside of the established credit transaction parameters the approval is made by the appropriate Credit Committee.

The main elements of the credit risk management include:

- Organizational support of credit activity;
- Establishment of Limits: geographical limits – the sphere of business is clearly defined (set zones of Bank activities), the zones for banking in regions are established by Bank; risk concentration – the limits on concentration refers to maximum amount of loans for related group of borrowers which equal to 25% of Bank share capital; credit categories limits – e.g. total amount of credits issued by the bank for small business does not exceed 25% of the total Bank credit amount.
- Analyses of the creditworthiness of the customer and analysis of credit offer;
- Definition of interest rate taking into consideration possible loan losses;
- Assignment of authorized in decisions-making process;
- Credit monitoring and loan portfolio management, including non-performing loans.

Credit risk management policy aims to achieve an optimal diversified credit portfolio into various industry sectors which include: different maturities, different currencies, flexible collateral, various types of credit instruments, different interest payments periods, etc.

## 26. Risk management (continued)

### 26.1 Credit risk (continued)

Credit policy of the Bank is aimed at the achievement of an appropriate balance between the accepted level of risk and the return from the credit type of activities.

The key factor in decision - making process for credit applications is credit – related risk estimation.

Every credit application is analyzed by the Bank taking into account the following aspects:

- Analyses of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry;
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors;
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position;
- Analyses of the creditworthiness of the customer is made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

In order to reduce the insolvency risk the Bank carry out finance monitoring of the Borrowers according to their financial statements as well as additional information that allow to take the decision on their non-creditworthiness.

For the analyses of concentration of credit risk, types of collateral, estimated impairments, credit portfolio industry breakdown and other information refer to Note 13 “Loans to customers”.

#### *Collateral and other credit enhancements*

Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument). In order to improve the quality of credits one of the main requirements at credit granting under pledge (real estate, vehicles, equipment, current assets, etc.) is insurance of this property till loan maturity from all (or the main) the insurance cases (fire, flood, stealing, illegal acts of the third parties).

The main condition of the credit rendering under the pledge of real estate is market value of the estate and the liquidity of this property by the independent appraiser recommended by the Bank. Bank advices on appraiser after the first credit project consideration and preparing own preliminary appraisal.

## 26. Risk management (continued)

### 26.1 Credit risk (continued)

In certain instances, depending on the financial position of the borrower and type of credit instrument the Bank can grant unsecured or partially secured credit facility (subject to the approval of the appropriate Credit Committee). Even in these cases the Bank tries to obtain cash equivalent collateral, or personal or related companies corporate guarantees.

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

Collateral value is determined by means of adjusting the fair (market) value of the collateral by certain coefficients which are established by the Bank and apply to the type of the collateral.

While defining the degree of collateral liquidity the Bank is based on the fact that the whole legal documentation on charging lien must be completed in order not to exceed the period on pledge sell which is 180 calendar days starting from the day when the charging lien for the Bank is active.

#### *Allowance for loan losses*

The Bank establishes an allowances for loan losses and credit related commitments, including issued guarantees, confirmed letters of credit, undrawn overdraft facilities and loan commitments, including credit card limits.

The Bank uses its own credit risk assessment method based on analysis of borrower's financial performance and collateral after which an allowance amount is determined.

The Bank writes off a loan balance including the loans from the homogenous loan portfolio from provision created for the appropriate loan (homogenous loans portfolio). Simultaneously the Bank writes off the interest income for uncollectible loans.

The credit facility is recognized as uncollectible when the Bank's Credit Committee determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after significant changes in the financial performance of the borrower and when the collateral realization proceeds are not sufficient to cover the amount of the credit facility.

Preliminary decision to write off a credit facility is making by the Board of Bank and approving by the Board of Directors.

#### *Settlement risk*

The Bank's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

These limits are the part of counterparty limit approval/monitoring described above.

## 26. Risk management (continued)

### 26.1 Credit risk (continued)

#### *Maximum exposure to credit risk*

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure does not lead to significant credit risk mitigation.

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 procedures and methodologies, as defined by the Bank's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit facilities.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location.

During normal course of business the Bank also uses methodologies prescribed by the Central Bank of Russia for determining the ratios of maximum credit risk exposures, as well as other best practices.

### 26.2 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

#### *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

The following table details the Bank's sensitivity analysis and possible effect on the income statement and shareholders' equity as of 31 December 2007 assuming a 10% change in the functional currency against the relevant foreign currency.

	RUR'000
Price risk of fixed income securities	33,529

## 26. Risk management (continued)

### 26.2 Market risk (continued)

#### *Foreign exchange rate risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the Central Bank of Russia limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Board of Bank.

The following table details the Bank's sensitivity analysis and possible effect on the income statement and shareholders' equity as of 31 December 2008 assuming a 10% change in the functional currency against the relevant foreign currency.

	RUR'000
Foreign exchange risk	23,823

Note 35 "Currency analysis".

#### *Interest rate risk*

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Board of Management is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows. Department of conducting with payment positions of the Bank is responsible for interest rate risk management.

The Bank monitors the structure of its assets and liabilities and reviews the interest rates according to the market changes.

An analyses of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's income statement and shareholders' equity is presented as follows:

	RUR'000
100 bp parallel increase	(12,746)
100 bp parallel decrease	12,746

Note 33 "Average effective interest rates" shows analyses of Bank's interest bearing assets and liabilities to their corresponding average effective interest rates for all major currencies.

## 26. Risk management (continued)

### 26.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Assets and Liabilities Management Committee (“ALCO”) establish the limits of Bank’s operations, draw the structure of assets of liabilities and set other requirements to comply the current and prosperous liquidity positions; approves the limits for coefficient of surplus/deficit of liquidity; approves the limits for Bank’s counterparties.

Finance Committee of the Bank approves the limits for possible losses for Bank’s operations, the financial schemes that have influence on the structure of the balance sheet, new operations and establish the limits for them.

Treasury is responsible for current, mid - and - long - term liquidity and on a daily basis maintain control for payment positions of the Bank.

Finance – analytical department and ALCO, as well as Internal control department are responsible for monitoring of liquidity positions.

The liquidity management policy of the Bank includes:

- Drawing up and maintaining on a monthly basis a payment calendar and on a weekly basis when negative GAP is forecasted (standard and current scenario);
- Forecasting the ratios on monthly basis and on a weekly basis if some “problems” are forecasted (standard and current scenario);
- Analysis of surplus/deficit of liquidity calculated on cumulative basis as the difference between the assets and liabilities that computed on cumulative basis according to maturity;
- Establishing and control of internal ratios (assets and liabilities ratios limits for certain maturities)

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios include:

- Instant liquidity ratio (N2), which shows liquidity risk position within one operational day and is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which shows liquidity risk position within the next 30 calendar days and is calculated as the ration of liquid assets to liabilities maturing within 30 calendar days;
- Lond-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year

The Bank was in compliance with the above ratios during the year ended 31 December 2008.

For more effective liquidity risk management ALCO has the right to set stricter liquidity ratio values.

See also Note 34 “Maturity analysis”.

## 26. Risk management (continued)

### 26.4 Capital management

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

The allocation of capital between the specific operations and activities is driven to optimization of the return achieved on capital allocated. Although maximization of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations and activities, it is not the sole basis used for decision making. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. The Bank's policies in respect of capital management and allocation are regularly reviewed by the Board of Directors through approval and review of annual budgets for various business activities.

The Central Bank of Russia sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("Capital Adequacy Ratio") above the prescribed minimum level. As of 31 December 2008 and 31 December 2007 this minimum level was 10%.

As of 1 January 2009 the Capital Adequacy Ratio as set by the requirements of the Central Bank of Russia was 18.6% (as of 1 January 2008 14,8%).

## 27. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1-3 years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
<b>Contracted amount</b>		
Guarantees and letters of credit	<b>401,737</b>	81,247
Undrawn overdraft facilities	<b>189,347</b>	185,940
Undrawn loan commitments	<b>47,788</b>	71,621
<b>Total commitments</b>	<b>638,872</b>	<b>338,808</b>

Some of the above commitments may expire or terminate without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash outflows.

## 27. Commitments (continued)

### Commitments to purchase and sell precious metals

As of 31 December 2008 the Bank has commitments to purchase 176,5 kg of gold (2007: 234 kg) under contracts to be settled at the market prices at the date of maturity. The market value of precious metals under these contracts as of 31 December 2008 was 145,006 RUR'000 (2007: 152,896 RUR'000)

## 28. Operating leases

The Bank leases a number of premises under operating lease. Non-cancellable operating lease rentals are payable as follows:

	<b>31 December 2008 RUR'000</b>	<b>31 December 2007 RUR'000</b>
Less than one year	<b>27,712</b>	33,329
Between one and five years	<b>46,277</b>	25,106
More than five years	<b>2,307</b>	3,147
<b>Total operating leases</b>	<b>76,296</b>	<b>61,582</b>

## 29. Contingencies

### 29.1 Insurance

The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

### 29.2 Litigation

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

### 29.3 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

### 30. Fair value of financial instruments

As required by IAS 32 “Financial Instruments: Disclosure and Presentation” the Bank estimates fair value of the financial assets and liabilities:

Management of the Bank considers that estimated fair values of all financial assets and liabilities as of 31 December 2008 and 31 December 2007 are not materially different from their carrying amounts.

The estimated fair values are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of financial instruments at fair value through profit or loss is based on quoted market prices and exchange rates ruling at the balance sheet date without any deduction for transaction costs.

The estimated fair values of financial assets and liabilities with floating interest rates are usually equal to the carrying amounts. The estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

### 31. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flow is composed of the following items:

	<b>31 December 2008 RUR’000</b>	<b>31 December 2007 RUR’000</b>
Cash	<b>816,534</b>	422,607
Due from the Central Bank of Russia – Nostro accounts	<b>547,875</b>	164,527
Placements with banks and other financial institutions	<b>1,803,949</b>	515,072
<b>Total cash and cash equivalents</b>	<b>3,168,358</b>	1,102,206

## 32. Related party transactions

As of 31 December 2008, the ultimate beneficial owners of the Bank were Mr. Andrey Vdovin (the owner of 16,31%), Mr. Kirill Yakubovsky (the owner of 16,31%), Mr. Pavel Maslovsky (the owner of 16,31%), Mr. Peter Hambro (the owner of 16,31%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17,50%), International Finance Corporation (World Bank Group) (10,00%) and Mr. Evgeniy Aksenov (the owner of 7,23%).

### 32.1 Transactions with Directors and senior management

The outstanding balances and average interest rates as of 31 December 2008 and 31 December 2007 with Directors and senior management are as follows:

	<b>31 December 2008 RUR'000</b>	<b>Average Interest Rate</b>	<b>31 December 2007 RUR'000</b>	<b>Average Interest Rate</b>
<b>Assets</b>				
Loans to customers	<b>2,235</b>	<b>13,34%</b>	-	-
<b>Liabilities</b>				
Current accounts and deposits of Directors and senior management	<b>55,269</b>	<b>10,52%</b>	63,964	13,3%
Other liabilities	<b>19,792</b>	-	1,094	-

Amounts included in the income statement in relation to transactions with Directors and senior management are as follows:

	<b>2008 RUR'000</b>	<b>2007 RUR'000</b>
Compensation	<b>86,867</b>	31,940
Interest income	<b>158</b>	4,930
Interest expense	<b>2,834</b>	361
Commission income	<b>37</b>	-
Net foreign exchange income	<b>107</b>	-

## 32. Related party transactions (continued)

### 32.2 Transactions with shareholders

The outstanding balances and average interest rates as of 31 December 2008 and 31 December 2007 with shareholders are as follows:

	<b>31 December 2008 RUR'000</b>	<b>Average Interest Rate</b>	<b>31 December 2007 RUR'000</b>	<b>Average Interest Rate</b>
<b>Liabilities</b>				
Current accounts and deposits of banks and other financial institutions	<b>562,596</b>	<b>11%</b>	563,863	11%

Amounts included in the income statement in relation to transactions with shareholders are as follows:

	<b>2008 RUR'000</b>	<b>2007 RUR'000</b>
Interest expense	<b>61,963</b>	63,496
Commission expense	<b>5,674</b>	-
Other expense	<b>2,510</b>	-

### 32.3 Transactions with Banking Holding Group

	<b>31 December 2008 RUR'000</b>	<b>Average Interest Rate</b>	<b>31 December 2007 RUR'000</b>	<b>Average Interest Rate</b>
<b>Assets</b>				
Placements with banks and other financial institutions	<b>23,544</b>	<b>15%</b>	284,554	2%
Loans to customers	<b>21,744</b>	<b>14%</b>	51,464	17%
Other assets	<b>23</b>	-	-	-
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	<b>448,087</b>	-	368,692	10%
Current accounts and deposits from customers	<b>162,005</b>	<b>2,91%</b>	12	-
Other liabilities	-	-	3,866	-

## 32. Related party transactions (continued)

### 32.3 Transactions with Banking Holding Group (continued)

Amounts included in the income statement in relation to transactions with Banking Holding are as follows:

	<b>2008</b> <b>RUR'000</b>	2007 RUR'000
Interest income	<b>4,483</b>	9,264
Interest expense	<b>32,940</b>	32,418
Commission income	<b>159</b>	6,115
Commission expense	<b>23</b>	9,433
Net foreign exchange income	-	(15,516)
Net precious metals income	-	273
Other income	-	17
Other expense	-	7,120

### 32.4 Transactions with other related parties

	<b>31</b> <b>December</b> <b>2008</b> <b>RUR'000</b>	<b>Average</b> <b>Interest</b> <b>Rate</b>	<b>31</b> <b>December</b> <b>2007</b> <b>RUR' 000</b>	<b>Average</b> <b>Interest</b> <b>Rate</b>
<b>Assets</b>				
Placements with banks and other financial institutions	<b>654,605</b>	<b>8%</b>	-	-
Loans to customers	<b>517,010</b>	<b>13%</b>	350,842	15%
Other assets	<b>103,268</b>	-	-	-
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	<b>444</b>	-	-	-
Current accounts and deposits from customers	<b>657,587</b>	<b>10%</b>	316,032	8%
Debt securities issued	-	-	406,421	10%
Subordinated debt	<b>150,964</b>	<b>11%</b>	126,133	11%

Amounts included in the income statement in relation to transactions with other related parties are as follows:

	<b>2008</b> <b>RUR'000</b>	2007 RUR'000
Interest income	<b>71,181</b>	33,795
Interest expense	<b>42,827</b>	13,680
Commission income	<b>878</b>	92
Net foreign exchange income	<b>4,173</b>	3,763
Other income	<b>207</b>	5,995
Other expense	<b>16,982</b>	13,115
Provision for impairment losses	<b>15,227</b>	-

### 33. Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as of 31 December 2008 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>Average Effective Interest Rate</b>	<b>Average Effective Interest Rate</b>
<b>Interest Bearing Assets</b>		
<b>Due from the Central Bank of Russia</b>	-	-
<b>Placements with banks and other financial institutions</b>		
- Roubles	2%	2%
- USD and other currencies	1%	0%
<b>Financial assets at fair value through profit or loss</b>		
- Roubles	7%	12%
<b>Loans to customers</b>		
- Roubles	40%	38%
- USD and other currencies	13%	15%
<b>Financial assets available-for-sale</b>		
- Roubles	12%	-
<b>Interest Bearing Liabilities</b>		
<b>Placements with banks and other financial institutions</b>		
- Roubles	3%	7%
- USD and other currencies	3%	8%
<b>Current accounts and deposits from customers</b>		
- Roubles	9%	8%
- USD and other currencies	9%	8%
<b>Amounts due to budget and non-budget funds</b>		
- Roubles	25%	25%
<b>Debt securities issued</b>		
- Roubles	11%	10%
- USD and other currencies	13%	-
<b>Subordinated debts</b>		
- USD and other currencies	11%	11%

## 34. Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2008 due to the fact that substantially all the financial instruments of the Bank are fixed rate contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

## 34. Maturity analysis (continued)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
<b>Assets</b>							
Cash	816,534	-	-	-	-	-	816,534
Due from the Central Bank of Russia	552,215	1,684	5,518	2,994	-	-	562,411
Placements with banks and other financial institutions	1,807,504	23,299	-	15,540	-	-	1,846,343
Financial assets at fair value through profit or loss	-	-	-	309,916	-	-	309,916
Loans to customers	210,807	656,876	1,676,941	5,573,156	985,255	-	9,103,035
Financial assets available-for-sale	-	-	-	39,685	-	-	39,685
Other assets	188,507	-	-	-	-	-	188,507
Property and equipment	-	-	-	-	-	1,194,167	1,194,167
Intangible assets	-	-	-	-	-	53,015	53,015
<b>Total assets</b>	<b>3,575,567</b>	<b>681,859</b>	<b>1,682,459</b>	<b>5,941,291</b>	<b>985,255</b>	<b>1,247,182</b>	<b>14,113,613</b>
<b>Liabilities</b>							
Deposits and balances from banks and other financial institutions	800,344	336,513	113,041	15,550	-	-	1,265,448
Current accounts and deposits from customers	2,871,238	1,114,071	3,651,574	1,982,066	-	-	9,618,949
Amounts due to budget and non-budget funds	-	815	2,447	5,151	-	-	8,413
Debt securities issued	288,330	864	2,467	110,855	1,527	46,525	450,568
Subordinated debts	-	-	-	-	150,964	-	150,964
Other liabilities	41,545	-	-	-	-	28,091	69,636
Current tax liabilities	17,210	-	-	-	-	-	17,210
Deferred tax liabilities	-	-	-	-	-	81,158	81,158
<b>Total liabilities</b>	<b>4,018,667</b>	<b>1,452,263</b>	<b>3,769,529</b>	<b>2,113,622</b>	<b>152,491</b>	<b>155,774</b>	<b>11,662,346</b>
<b>Net position as of 31 December 2008</b>	<b>(443,100)</b>	<b>(770,404)</b>	<b>(2,087,070)</b>	<b>3,827,669</b>	<b>832,764</b>	<b>1,091,408</b>	<b>2,451,267</b>
Net position as of 31 December 2007	(1,160,503)	(607,342)	(515,683)	2,467,127	457,866	700,762	1,342,227

### 34. Maturity analysis (continued)

The following table shows the undiscounted cash flows as of 31 December 2008 of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analyses:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 year	No maturity	Total gross nominal inflow/ outflow	Carrying amounts
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
<b>Non-derivative liabilities</b>								
Deposits and balances from banks and other financial institutions	613,840	535,982	114,923	17,452	-	-	1,282,197	<b>1,265,448</b>
Current accounts and deposits from customers	2,989,604	1,325,302	3,890,445	2,335,479	2,796	-	10,543,626	<b>9,618,949</b>
Amounts due to budget and non-budget funds	-	5,366	-	6,707	-	-	12,073	<b>8,413</b>
Debt securities issued	335,986	881	2,577	155,012	23,835	-	518,291	<b>450,568</b>
Subordinated debts	4,073	-	12,086	150,845	-	-	167,004	<b>150,964</b>
Other liabilities	39,082	1,613	850	-	-	28,091	69,636	<b>69,636</b>
Current tax liabilities	17,210	-	-	-	-	-	17,210	<b>17,210</b>
<b>Total liabilities</b>	<b>3,999,795</b>	<b>1,869,144</b>	<b>4,020,881</b>	<b>2,665,495</b>	<b>26,631</b>	<b>28,091</b>	<b>12,610,037</b>	<b>11,581,188</b>
<b>Credit related commitments</b>	<b>557,136</b>	<b>-</b>	<b>81,713</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>638,872</b>	<b>638,872</b>

## 35. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2008:

	<b>Roubles</b>	<b>USD</b>	<b>Euro</b>	<b>Precious metals</b>	<b>Other currencies</b>	<b>Total</b>
	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>
<b>Assets</b>						
Cash	731,999	50,864	30,590	-	3,081	<b>816,534</b>
Due from the Central Bank of Russia	562,411	-	-	-	-	<b>562,411</b>
Placements with banks and other financial institutions	877,633	782,278	165,380	20,724	328	<b>1,846,343</b>
Financial assets at fair value through profit or loss	309,916	-	-	-	-	<b>309,916</b>
Loans to customers	8,631,725	471,310	-	-	-	<b>9,103,035</b>
Financial assets available-for-sale	39,685	-	-	-	-	<b>39,685</b>
Other assets	181,186	7,004	317	-	-	<b>188,507</b>
Property and equipment	1,194,167	-	-	-	-	<b>1,194,167</b>
Intangible assets	53,015	-	-	-	-	<b>53,015</b>
<b>Total assets</b>	<b>12,581,737</b>	<b>1,311,456</b>	<b>196,287</b>	<b>20,724</b>	<b>3,409</b>	<b>14,113,613</b>

## 35. Currency analysis (continued)

	Roubles	USD	Euro	Precious metals	Other currencies	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
<b>Liabilities</b>						
Deposits and balances from banks and other financial institutions	1,202,664	45,162	17,622	-	-	1,265,448
Current accounts and deposits from customers	8,351,500	1,017,194	228,287	20,724	1,244	9,618,949
Amounts due to budget and non-budget funds	8,413	-	-	-	-	8,413
Debt securities issued	162,259	288,309	-	-	-	450,568
Subordinated debts	-	150,964	-	-	-	150,964
Other liabilities	69,039	376	221	-	-	69,636
Current tax liabilities	17,210	-	-	-	-	17,210
Deferred tax liabilities	81,158	-	-	-	-	81,158
<b>Total liabilities</b>	<b>9,892,243</b>	<b>1,502,005</b>	<b>246,130</b>	<b>20,724</b>	<b>1,244</b>	<b>11,662,346</b>
<b>Net on balance sheet position as of 31 December 2008</b>	<b>2,689,494</b>	<b>(190,549)</b>	<b>(49,843)</b>	<b>-</b>	<b>2,165</b>	<b>2,451,267</b>
Net off balance sheet position as of 31 December 2008	-	-	-	-	-	-
<b>Net (short) / long position as of 31 December 2008</b>	<b>2,689,494</b>	<b>(190,549)</b>	<b>(49,843)</b>	<b>-</b>	<b>2,165</b>	<b>2,422,695</b>
Net (short) / long position as of 31 December 2007	1,433,525	(69,290)	(22,988)	-	980	1,342,227