SBERBANK
(SAVINGS BANK OF THE RUSSIAN FEDERATION)

Consolidated Financial Statements and Independent Auditor’s Report

31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Sberbank (Savings Bank of the Russian Federation):

1 We have audited the accompanying consolidated financial statements of Sberbank (Savings Bank of the Russian Federation) (the "Bank") and its subsidiaries (together referred to as the "Group" or "Sberbank (Savings Bank of the Russian Federation) Group"), which comprise the consolidated statement of financial position as of 31 December 2008 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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 consolidated 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

3 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.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
6 April 2009

In millions of Russian Roubles	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	803 749	242 231
Mandatory cash balances with the Bank of Russia		7 643	56 790
Trading securities	8	78 603	246 221
Other securities at fair value through profit or loss	9	130 503	247 024
Due from other banks	10	2 756	5 071
Loans and advances to customers	10	5 077 882	3 921 546
Investment securities available for sale	11	284 572	10 094
Deferred income tax asset	28	-	68
Premises and equipment	12	251 478	146 850
Other assets	13	99 296	52 913
TOTAL ASSETS		**6 736 482**	**4 928 808**
LIABILITIES			
Due to other banks	14	302 539	80 321
Deposits from individuals	15	3 112 102	2 681 986
Customer accounts	15	1 683 130	1 195 634
Debt securities in issue	16	138 902	163 827
Other borrowed funds	17	159 080	112 025
Deferred income tax liability	28	10 516	-
Other liabilities	18	43 830	32 754
Subordinated debt	19	536 221	25 064
TOTAL LIABILITIES		**5 986 320**	**4 291 611**
EQUITY			
Share capital	20	87 742	87 742
Share premium		232 493	232 493
Revaluation reserve for premises		74 981	14 815
Fair value reserve for investment securities available for sale		(33 185)	733
Foreign currency translation reserve		101	-
Retained earnings		388 030	301 414
TOTAL EQUITY		**750 162**	**637 197**
TOTAL LIABILITIES AND EQUITY		**6 736 482**	**4 928 808**

Approved for issue and signed on behalf of the Board on 6 April 2009.

Herman Gref
Chairman of the Board and CEO

Andrey Kruzhalov
Chief Accountant

In millions of Russian Roubles	Note	2008	2007
Interest income	22	619 952	428 666
Interest expense	22	(241 795)	(175 905)
Net interest income		**378 157**	**252 761**
Provision for loan impairment	10	(97 881)	(17 633)
Net interest income after provision for loan impairment		**280 276**	**235 128**
Fee and commission income	23	90 246	68 319
Fee and commission expense	23	(4 052)	(2 444)
(Losses, net of gains)/gains less losses arising from trading securities		(16 892)	4 312
Losses, net of gains arising from other securities at fair value through profit or loss		(15 195)	(1 003)
Gains less losses arising from investment securities available for sale		1 032	688
Impairment of investment securities available for sale	11	(6 259)	-
Gains arising from disposal of investment securities held to maturity		-	19 436
Gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses	24	25 182	5 209
(Losses, net of gains)/gains less losses arising from operations with precious metals and precious metals derivatives		(1 069)	1 347
Other operating income		7 255	4 521
Operating income		**360 524**	**335 513**
Administrative and operating expenses	25	(221 739)	(195 764)
Other operating expenses	26	(8 864)	-
Profit before tax		**129 921**	**139 749**
Income tax expense	28	(32 175)	(33 260)
PROFIT FOR THE YEAR		**97 746**	**106 489**
Other comprehensive income			
Gains on remeasurement of premises	12	74 819	-
(Losses)/ gains on investment securities available for sale		(42 445)	964
Foreign currency translation gains less losses		101	-
Deferred income tax relating to components of other comprehensive income	28	(5 597)	(231)
Other comprehensive income for the year, net of tax	**27**	**26 878**	**733**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**124 624**	**107 222**
Earnings per ordinary share, basic and diluted (expressed in RR per share)	**29**	**4.5**	**5.1**

In millions of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Fair value reserve for investment securities available for sale	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 1 January 2007		**79 981**	**10 016**	**15 344**	**-**	**-**	**203 183**	**308 524**
Changes in equity for 2007								
Issue of ordinary shares		7 761	222 477	-	-	-	-	230 238
Dividends declared	30	-	-	-	-	-	(8 787)	(8 787)
Total comprehensive income recognised for 2007	27	-	-	(529)	733	-	107 018	107 222
Balance as at 31 December 2007		**87 742**	**232 493**	**14 815**	**733**	**-**	**301 414**	**637 197**
Changes in equity for 2008								
Dividends declared	30	-	-	-	-	-	(11 659)	(11 659)
Total comprehensive income recognised for 2008	27	-	-	60 166	(33 918)	101	98 275	124 624
Balance as at 31 December 2008		**87 742**	**232 493**	**74 981**	**(33 185)**	**101**	**388 030**	**750 162**

In millions of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
Interest received		630 069	427 832
Interest paid		(230 234)	(163 800)
Fees and commissions received		89 197	67 509
Fees and commissions paid		(4 052)	(2 412)
(Losses incurred)/ gains received from trading securities		(2 002)	4 396
(Losses incurred)/ gains received from other securities at fair value through profit or loss		(5 009)	74
Income received from trading in foreign currencies and from operations with foreign currency derivatives		12 568	8 444
(Losses incurred)/ gains received from operations with precious metals and precious metals derivatives		(1 442)	1 110
Other operating income received		7 085	2 583
Administrative and other operating expenses paid		(208 116)	(171 028)
Income tax paid		(37 667)	(36 369)
Cash flows from operating activities before changes in operating assets and liabilities		**250 397**	**138 339**
Changes in operating assets and liabilities			
Net decrease in mandatory cash balances with the Bank of Russia		49 147	21 125
Net decrease/ (increase) in trading securities		156 173	(37 454)
Net decrease/ (increase) in securities at fair value through profit or loss		106 805	(10 323)
Net decrease in due from other banks		3 066	623
Net increase in loans and advances to customers		(1 142 868)	(1 430 103)
Net increase in other assets		(38 400)	(11 674)
Net increase in due to other banks		219 914	36 301
Net increase in deposits from individuals		374 162	643 040
Net increase in customer accounts		418 251	423 667
Net (decrease)/ increase in debt securities in issue		(21 149)	37 998
Net increase in other liabilities		14 567	2 936
Net cash from / (used in) operating activities		**390 065**	**(185 525)**
Cash flows from investing activities			
Purchase of investment securities available for sale		(350 296)	(16 119)
Proceeds from disposal and redemption of investment securities available for sale		36 748	7 692
Proceeds from disposal of investment securities held to maturity		-	43 777
Acquisition of premises and equipment	12	(60 592)	(42 540)
Proceeds from disposal of premises and equipment including insurance payments		5 381	3 375
Investments in subsidiaries		-	(2 875)
Dividend income received		168	364
Net cash used in investing activities		**(368 591)**	**(6 326)**
Cash flows from financing activities			
Issue of ordinary shares		-	230 238
Other borrowed funds received		43 794	19 763
Redemption of other borrowed funds		(21 050)	(8 316)
Payment of interest on other borrowed funds		(5 021)	(5 980)
Subordinated debt received	19	500 000	-
Payment of interest on subordinated debt		(1 516)	(1 615)
Dividends paid	30	(11 640)	(8 741)
Net cash from financing activities		**504 567**	**225 349**
Effect of exchange rate changes on cash and cash equivalents		**35 477**	**(870)**
Net increase in cash and cash equivalents		**561 518**	**32 628**
Cash and cash equivalents at the beginning of the year		242 231	209 603
Cash and cash equivalents at the end of the year	**7**	**803 749**	**242 231**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Sberbank (Savings Bank of the Russian Federation) (the “Bank”) and its subsidiaries (together referred to as the “Group” or “Sberbank (Savings Bank of the Russian Federation) Group”). Principal subsidiaries of the Group are disclosed in Note 39.

The Bank is an open joint stock commercial bank established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank’s principal shareholder, the Central Bank of the Russian Federation (the “Bank of Russia”), owns 60.3% of ordinary shares or 57.6% of the issued and outstanding shares at 31 December 2008.

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also includes representatives from the Bank’s other shareholders. Two Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

Principal activity. The Group’s principal business activity is corporate and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Bank of Russia since 1991.

The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. Up to 1 October 2008 the State Deposit Insurance Agency guaranteed repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments. In October 2008 the guarantee repayment of 100% of individual deposits under the State deposit insurance scheme was increased up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments.

The Bank has 17 (2007: 17) regional head offices, 734 (2007: 791) branches and 19 675 (2007: 19 499) sub-branches within the Russian Federation as at 31 December 2008. The average number of the Bank’s employees during 2008 was 259 999 (2007: 251 208).

Registered address and place of business. The Bank’s registered address is: Vavilova str., 19, Moscow, Russian Federation.

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

2 Operating Environment of the Group

The Group principally operates within the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Despite strong economic growth in recent years, the financial situation in the Russian market deteriorated during 2008 and significantly worsened in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.90 at 1 April 2009.

2 Operating Environment of the Group (Continued)

Due to increased market volatility, one-day MosPrime rate fluctuated between 4.75% p.a. and 22.67% p.a. during the period from 1 October 2008 to 31 December 2008.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 427 080 000 thousand at 31 December 2008 to USD 385 300 000 thousand at 20 March 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 111.19 at 29 September 2008 to USD 34.81 at 26 December 2008 and USD 43.96 at 20 March 2009.

The Government of the Russian Federation has undertaken a number of measures to support the Russian financial market during the period from September to December 2008, including the following:

- the Bank of Russia reduced mandatory reserves ratio to 0.5%;
- the guarantee repayment of individual deposits under the State deposit insurance scheme was raised up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments;
- The Bank of Russia significantly extended the list of assets which can be pledged under repurchase agreements with the Bank of Russia;
- The Bank of Russia is committed to partially compensate losses that could be incurred by the number of Russian top-10 banks on inter-bank lending market;
- The Government of the Russian Federation is committed to provide up to RR 950 000 million as subordinated loans to support liquidity of the Russian financial market.

Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the future financial position of the Group.

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

Recent volatility in global and Russian financial markets. While the Group does not have any exposure to the US sub-prime market, the ongoing global liquidity crisis, which commenced in the middle of 2007, has resulted in, among other things, a lower level of capital markets funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial market, have also led to bank failures and bank rescues in the United States of America, Western Europe and other countries including Russia. In the fourth quarter 2008 several banks from Russian top-50 banks list were acquired by state-controlled banks and companies due to their liquidity problems. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation, which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

2 Operating Environment of the Group (Continued)

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

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

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, revaluation of available for sale financial assets, financial assets at fair value through profit or loss and all derivative contracts.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

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

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank deposits and deals with securities purchased under agreements to resell ("reverse repurchase agreements") with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the balance sheet date.

Plastic cards settlements. Plastic cards settlements are accounted for on the accruals basis and are carried at amortised cost. Plastic cards settlements are recorded when the legal right to receive the payment arises under the agreement.

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

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

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

The following principal criteria are used to determine if there is objective evidence that an impairment loss has occurred:

- Corporate loans are deemed impaired in case of the borrower's poor financial position or unsatisfactory debt servicing.

- Retail loans are deemed impaired when the principal and/or interest payment becomes more than 90 days overdue.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

If a loan has been written down, the loss is measured based on the interest rate used to discount future cash flows.

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

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

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

Investment securities available for sale are carried at fair value. Interest income on available for sale securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of economic benefits is probable. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in other comprehensive income, the impairment loss is reversed through current period's profit or loss. According to the assessment of the Group as of 31 December 2008 impairment of investment securities available for sale comprised RR 6 259 million (31 December 2007: nil) and was recognised in profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment losses are presented in other comprehensive income in losses and gains on investment securities available for sale.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell (“reverse repo agreements”) are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as gains less losses arising from trading securities in the statement of comprehensive income. The obligation to return the securities is recorded at fair value in due to other banks.

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognised in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

Premises have been revalued to market value at 31 December 2008. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was fair value.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following annual rates are applied for the main categories of premises and equipment:

Premises	2.5-3.3%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income.

Subsequent expenditure of investment property is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently depreciated.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit and savings certificates issued by the Group. Debt securities in issue are stated at amortised cost.

Other borrowed funds. Other borrowed funds represent medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of liquidation. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward and futures foreign exchange contracts and forwards with precious metals settled net in cash, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in consolidated statement of comprehensive income as Gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses and Losses, net of gains arising from operations with precious metals and precious metals derivatives. The Group does not apply «hedge accounting» according to IAS 39.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Dividend payments in excess of that minimum level are determined at the Bank's annual shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

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

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

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

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded rateably over the period the service is provided.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(II) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency translation gains less losses in other comprehensive income include the result of translation of net assets revaluation arising on the consolidation of the Group's subsidiaries whose functional currency differs from the Group's presentation currency (Russian Rouble). The cumulative balance of currency translation differences presented in equity at 31 December 2008 amounted to a gain of RR 101 million (31 December 2007: nil).

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

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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

Earnings per share. Preference shares are not redeemable and are considered to be not participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately.

Changes in estimates and presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications on the consolidated statement of comprehensive income is as follows:

(In millions of Russian Roubles)	**2007**
Increase in	
Foreign exchange translation losses net of gains	3 746
Gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses	5 209
Losses, net of gains arising from operations with precious metals and precious metals derivatives	1 347
Decrease in	
Net gains from trading in foreign currencies	7 902
Net gains from operations with foreign currencies and precious metals derivatives	1 227
Other operating income	1 173

Effects on the consolidated statement of cash flows for the year ended 31 December 2007:

(In millions of Russian Roubles)	**2007**
Increase in	
(Losses incurred) / income received from operations with precious metals and precious metals derivatives	1 110
Decrease in	
Other operating income received	1 110

For the purpose of a more accurate presentation of assets, liabilities and results of its operations the Group improved its internal methodology and management information on segment analysis and inter-segment allocation. The Group separated a new business-segment on the basis of internal management information: operations on financial markets. Consequently, operations of the Group are organised in three business-segments: corporate banking, retail banking and financial markets. The Group management believes that the new presentation format of information on segment analysis provides better understanding of its business. The corresponding figures in the Note 31 have been adjusted to be consistent with the new presentation of segment reporting.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The effect of the adjustment of comparative information on segment reporting disclosures is as follows:

(In millions of Russian Roubles)	Corporate banking	Retail banking	Financial markets	Intra-Group items	Total
Total assets as at 31 December 2007					
As previously reported at 31 December 2007	3 599 176	1 073 153	-	256 479	4 928 808
Effect of adjustment of segment reporting disclosures	(510 774)	123 964	641 712	(254 902)	-
Adjusted at 1 January 2008	**3 088 402**	**1 197 117**	**641 712**	**1 577**	**4 928 808**
Total liabilities as at 31 December 2007					
As previously reported at 31 December 2007	1 565 847	2 719 103	-	6 661	4 291 611
Effect of adjustment of segment reporting disclosures	(218 514)	648	217 866	-	-
Adjusted at 1 January 2008	**1 347 333**	**2 719 751**	**217 866**	**6 661**	**4 291 611**
Profit before tax (segment result) for the year ended 31 December 2007					
As previously reported	92 176	47 573	-	-	139 749
Effect of adjustment of segment reporting disclosures	882	(13 878)	12 996	-	-
Adjusted profit before tax (segment result) for the year ended 31 December 2007	**93 058**	**33 695**	**12 996**	**-**	**139 749**
Segment revenue for the year ended 31 December 2007					
As previously reported	326 961	294 870	-	-	621 831
Effect of adjustment of segment reporting disclosures	(45 579)	11 264	45 579	-	11 264
Adjusted segment revenue for the year ended 31 December 2007	**281 382**	**306 134**	**45 579**	**-**	**633 095**
Capital expenditure incurred (additions of fixed assets) for the year ended 31 December 2007					
As previously reported	18 615	23 925	-	-	42 540
Effect of adjustment of segment reporting disclosures	(2 019)	1 645	374	-	-
Adjusted capital expenditure incurred (additions of fixed assets) for the year ended 31 December 2007	**16 596**	**25 570**	**374**	**-**	**42 540**
Depreciation of premises and equipment for the year ended 31 December 2007					
As previously reported	6 313	11 223	-	-	17 536
Effect of adjustment of segment reporting disclosures	(947)	772	175	-	-
Adjusted depreciation of premises and equipment for the year ended 31 December 2007	**5 366**	**11 995**	**175**	**-**	**17 536**

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Group's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. For new types of loans, where the Group has not collected statistics of historical losses, market information on historical losses of similar groups of loans is used to assess incurred but not yet reported losses.

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used, which could arise from a mixture combination of differences in amounts and timing of the cash flows, will result in an additional charge for loan loss impairment of RR 2 592 million (31 December 2007: 1 687 million) or lower charge for loan loss impairment of RR 2 654 million (31 December 2007: 1 823 million), respectively.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

Fair Value of Financial Instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Capital Adequacy Ratio. Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires Management judgement, for example, treatment of off-balance sheet commitments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 37 and 38.

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

Revaluation of premises. Premises have been revalued to market value at 31 December 2008. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was fair value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2009. Judgement is required to determine the difference between the carrying value and the fair value as at reporting date and the decision on the frequency of the revaluation as well as decision on application of market analogues based on the current prices in the active market for similar property in the same location and conditions and determination of physical deterioration, functional and economic obsolescence of premises compared to their technical condition and functional utility. The independent appraiser made the valuation based on sample of the premises and developed a system of coefficients for valuation of the premises with the fixed number of traits which influence the revalued amount. The premises were divided into three categories: premises located in Moscow, premises located in the regions with developed real estate market and premises located in the regions with limited real estate market. Premises located in Moscow and in the regions with developed real estate market were valued based on the value of the analogues, comparative approach without detailed calculations and comparative approach based on average values for each districts of the cities. Premises located in the regions with limited real estate market were valued based on the factor of proportionality to the value of the premises in the cities. The factors were established for each region identified.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value of equity instruments available for sale below cost been considered significant or prolonged, the Group would suffer an additional loss of RR 1 109 million (2007: nil), being the transfer of the total debit balance for relevant assets in the fair value reserve to profit or loss.

5 Adoption of New or Revised Standards and Interpretations

The Group decided to early adopt revised IAS 1, Presentation of Financial Statements, in its consolidated financial statements for the year ended 31 December 2008. The revised IAS 1 affected the presentation of the Group's consolidated financial statements but had no impact on the recognition or measurement of specific transactions and balances. The main change is the replacement of the consolidated statement of income by a consolidated statement of comprehensive income and consolidated balance sheet with a consolidated statement of financial position. The change does not impact on the consolidated statement of financial position at 31 December 2007 or earlier balance sheet dates when compared to the previously issued by the Group consolidated balance sheets.

The presentation of comparative figures has been adjusted retrospectively.

Certain new interpretations became effective for the Group from 1 January 2008:

IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). Management does not believe the interpretation is relevant for the Group;

IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). Management does not believe the interpretation is relevant for the Group;

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). Management does not believe the interpretation is relevant for the Group.

These interpretations did not have any significant effect on the Group's consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Reclassification of Financial Assets. Amendment to IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures and a subsequent amendment Reclassification of Financial Assets: Effective Date and Transition (effective with retrospective application for the periods beginning on or after 1 July 2008 but up to 1 November 2008; any reclassification made in periods beginning on or after 1 November 2008 will be effective only prospectively) permits reclassification of certain assets at fair value through profit or loss in rare circumstances and if the asset is no longer held for trading in the near term, except financial assets designated at fair value through profit or loss upon initial recognition and derivatives. It also permits reclassification of financial assets that meet the definition of loans and receivables out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Group decided not to apply the optional reclassification in these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group expects the standard to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

Puttable Financial Instruments and Obligations Arising on Liquidation — IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its future consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediate recognition as an expense of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Management does not expect the revised standard to have any material impact on the future consolidated financial statements of the Group.

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not believe that the amendment will have any material impact on the consolidated financial statements of the Group.

6 New Accounting Pronouncements (Continued)

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the Interpretation on its future consolidated financial statements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its future consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Group does not expect the amendment to affect its future consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's future consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Group's future consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its future consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group does not expect the amendment to affect its future consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group does not expect the amendment to affect its future consolidated financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2008**	**2007**
Cash on hand	307 456	123 087
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	82 028	24 782
Correspondent accounts and overnight placements with other banks with original maturities of less than one month		
- Russian Federation	31 625	1 232
- Other countries	370 608	80 587
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	12 032	12 543
Total cash and cash equivalents	**803 749**	**242 231**

At 31 December 2008 cash equivalents of RR 12 032 million (2007: RR 12 543 million) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 17 024 million (2007: RR 13 319 million), of which the Group has a right to sell or repledge securities with a fair value of RR 17 024 million (2007: RR 13 319 million).

Correspondent accounts and placements with other banks with original maturities of less than one month and deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month mostly represent balances with the largest and well-known foreign banks and top rated Russian banks. Analysis by credit quality of the balances with counterparty banks at 31 December 2008 is made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Correspondent accounts and overnight placements with other banks with original maturities of less than one month				
- Russian Federation	14 821	4 527	12 277	31 625
- Other countries	362 108	228	8 272	370 608
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	-	9 199	2 833	12 032
Total correspondent accounts and overnight placements with other banks and deals with securities purchased under "reverse-repo agreements" with original maturity of less than one month	**376 929**	**13 954**	**23 382**	**414 265**

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of the balances with counterparty banks at 31 December 2007 was made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Correspondent accounts and overnight placements with other banks with original maturities of less than one month				
- Russian Federation	109	-	1 123	1 232
- Other countries	77 816	189	2 582	80 587
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	1 063	5 605	5 875	12 543
Total correspondent accounts and overnight placements with other banks and deals with securities purchased under “reverse-repo agreements” with original maturity of less than one month	**78 988**	**5 794**	**9 580**	**94 362**

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

As at 31 December 2008 and 31 December 2007 all cash and cash equivalents are neither past due nor impaired.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 32. The information on related party balances is disclosed in Notes 37 and 38.

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In millions of Russian Roubles	**2008**	**2007**
Non-cash financing activities	**-**	**-**
Collateral received	6 917	-
Loan settlement	(6 917)	-
Non-cash financing activities	**-**	**-**

8 Trading securities

In millions of Russian Roubles	2008	2007
Federal loan bonds (OFZ bonds)	34 257	89 044
Russian Federation Eurobonds	19 291	24 507
Corporate bonds	12 844	27 455
Municipal and subfederal bonds	11 410	19 316
VneshEconomBank bonds (VEB bonds)	14	2 735
Bonds of the Bank of Russia	-	83 081
Total debt trading securities	**77 816**	**246 138**
Corporate shares	787	83
Total trading securities	**78 603**	**246 221**

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from March 2009 to February 2036 (2007: from April 2008 to February 2036), coupon rates from 0% to 10% p.a. (2007: from 0% to 10% p.a.) and yield to maturity from 7% to 12% p.a. (2007: from 6% to 7% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2007: from March 2010 to March 2030), coupon rates from 8% to 13% p.a. (2007: from 8% to 13% p.a.) and yield to maturity from 9% to 11% p.a. (2007: from 5% to 6% p.a.), depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds have maturity dates from January 2009 to June 2018 (2007: from March 2008 to June 2014), coupon rates from 6% to 16% p.a. (2007: from 6% to 14% p.a.) and yield to maturity from 6% to 25% p.a. (2007: from 6% to 17% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from March 2009 to December 2015 (2007: from April 2008 to December 2015), coupon rates from 6% to 15% p.a. (2007: from 7% to 14% p.a.) and yield to maturity from 8% to 31% p.a. (2007: from 5% to 12% p.a.), depending on the type of bond issue.

VEB bonds are bearer interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds carry an annual coupon of 3% p.a., have maturity date in May 2011 (2007: from May 2008 to May 2011) and yield to maturity 5% p.a. (2007: 6% p.a.).

Corporate shares are quoted shares of large Russian companies.

Fair value of trading securities is based on their market quotations.

Trading securities are carried at fair value which reflects credit risk related write downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities.

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Current (not past due)				
Federal loan bonds (OFZ bonds)	34 257	-	-	34 257
Russian Federation Eurobonds	19 291	-	-	19 291
Corporate bonds	4 179	4 412	4 253	12 844
Municipal and subfederal bonds	690	10 288	432	11 410
VneshEconomBank bonds (VEB bonds)	14	-	-	14
Total debt trading securities at 31 December 2008	**58 431**	**14 700**	**4 685**	**77 816**

Analysis by credit quality of debt trading securities outstanding at 31 December 2007 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Current (not past due)				
Federal loan bonds (OFZ bonds)	89 044	-	-	89 044
Bonds of the Bank of Russia	-	-	83 081	83 081
Corporate bonds	11 828	3 519	12 108	27 455
Russian Federation Eurobonds	24 507	-	-	24 507
Municipal and subfederal bonds	8 501	2 231	8 584	19 316
VneshEconomBank bonds (VEB bonds)	2 735	-	-	2 735
Total debt trading securities at 31 December 2007	**136 615**	**5 750**	**103 773**	**246 138**

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

At 31 December 2008 included in trading securities are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 41 863 million (2007: nil). Refer to Notes 14, 33 37.

At 31 December 2008 and 31 December 2007 there were no renegotiated balances that would otherwise be past due. Trading debt securities are not collateralised.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 32. The information on trading securities issued by related parties is disclosed in Notes 37 and 38.

9 Other Securities at Fair Value through Profit or Loss

In millions of Russian Roubles	2008	2007
Federal loan bonds (OFZ bonds)	116 730	196 383
Corporate bonds	7 125	16 286
Municipal and subfederal bonds	5 325	29 966
Foreign federal bodies bonds	-	1 618
Total other debt securities at fair value through profit or loss	**129 180**	**244 253**
Corporate shares	1 323	2 771
Total other securities at fair value through profit or loss	**130 503**	**247 024**

OFZ bonds have maturity dates from March 2009 to August 2025 (2007: from September 2008 to August 2025), coupon rates from 0% to 10% p.a. (2007: from 0% to 10% p.a.) and yield to maturity from 7% to 12% p.a. (2007: from 5% to 7% p.a.), depending on the type of bond issue.

Corporate bonds have maturity dates from May 2009 to September 2013 (2007: from March 2008 to September 2013), coupon rates from 8% to 16% p.a. (2007: from 8% to 14% p.a.) and yield to maturity from 10% to 31% p.a. (2007: from 6% to 17% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds have maturity dates from April 2009 to June 2015 (2007: from April 2008 to June 2015), coupon rates from 8% to 14% p.a. (2007: from 8% to 14% p.a.) and yield to maturity from 9% to 31% p.a. (2007: from 5% to 12% p.a.), depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management of the Group assesses performance of these investments based on their fair values in accordance with a documented risk management or investment strategy.

Fair value of other securities at fair value through profit or loss is based on their market quotations.

Other securities designated at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. As the securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Current (not past due)				
Federal loan bonds (OFZ bonds)	116 730	-	-	116 730
Corporate bonds	-	2 868	4 257	7 125
Municipal and subfederal bonds	3 993	1 201	131	5 325
Total other debt securities at fair value through profit or loss at 31 December 2008	**120 723**	**4 069**	**4 388**	**129 180**

9 Other Securities at Fair Value through Profit or Loss (Continued)

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2007 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Current (not past due)				
Federal loan bonds (OFZ bonds)	196 383	-	-	196 383
Municipal and subfederal bonds	27 064	815	2 087	29 966
Corporate bonds	-	4 842	11 444	16 286
Foreign federal bodies bonds	1 618	-	-	1 618
Total other debt securities at fair value through profit or loss at 31 December 2007	**225 065**	**5 657**	**13 531**	**244 253**

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

At 31 December 2008 included in other securities at fair value through profit or loss are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 108 385 million (2007: nil). Refer to Notes 14, 33 and 37.

At 31 December 2008 and 31 December 2007 there are no renegotiated balances that would otherwise be past due. Other debt securities at fair value through profit or loss are not collateralised.

Geographical, currency and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 32. The information on other securities at fair value through profit or loss issued by related parties is disclosed in Note 38.

10 Loans and Advances to Customers and Due from Other Banks

In millions of Russian Roubles	2008	2007
Commercial loans to legal entities	2 135 374	1 757 870
Specialised loans to legal entities	1 883 931	1 329 236
Loans to individuals - consumer and other loans	762 987	657 805
Mortgage loans to individuals	497 875	288 123
Due from other banks	2 756	5 071
Less: Provision for loan impairment	(202 285)	(111 488)
Total loans and advances to customers and due from other banks	**5 080 638**	**3 926 617**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Loans are provided for the terms up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing, contract financing and also developers' financing. As a rule the loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of corporate commercial loans. The principal and interest may be repaid by cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acqusition, construction and reconstruction. These loans include loans for current needs, auto loans and overdrafts.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term.

Due from other banks include term loans with original maturity of more than one month.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Quality of the Loan Portfolio. The table below shows the Group's loan portfolio credit quality by loan classes as at 31 December 2008:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Speciali-sed loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Due from other banks**	**Total**
Not past due loans, assessed for impairment on a collective basis						
- 1 group	123 512	162 412	9 556	5 452	1 581	302 513
- 2 group	1 277 554	712 232	715 289	473 709	1 175	3 179 959
- 3 group	645 505	900 334	3 828	3 343	-	1 553 010
Total not past due loans, assessed for impairment on a collective basis	**2 046 571**	**1 774 978**	**728 673**	**482 504**	**2 756**	**5 035 482**
Past due loans, assessed for impairment on a collective basis						
- less than 30 days overdue	13 260	26 390	5 356	2 650	-	47 656
- 30 to 60 days overdue	8 841	13 616	2 582	1 710	-	26 749
- 60 to 90 days overdue	5 090	1 517	1 450	804	-	8 861
- over 90 days overdue	34 940	13 568	-	-	-	48 508
Total past due loans, assessed for impairment on a collective basis	**62 131**	**55 091**	**9 388**	**5 164**	**-**	**131 774**
Individually impaired loans to legal entities and impaired loans to individuals	**26 672**	**53 862**	**24 926**	**10 207**	**-**	**115 667**
Total loans and advances to customers and due from other banks before provision for loan impairment	**2 135 374**	**1 883 931**	**762 987**	**497 875**	**2 756**	**5 282 923**
Less provisions for loan impairment						
- provisions for individually impaired loans to legal entities	(14 332)	(14 973)	-	-	-	(29 305)
- provisions for not past due and past due loans, assessed for impairment on a collective basis	(68 376)	(60 332)	(31 661)	(12 611)	-	(172 980)
Total loans and advances to customers and due from other banks net of provision for loan impairment	**2 052 666**	**1 808 626**	**731 326**	**485 264**	**2 756**	**5 080 638**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

The table below shows the Group's loan portfolio quality by loan classes as at 31 December 2007:

In millions of Russian Roubles	Commercial loans to legal entities	Speciali-sed loans to legal entities	Loans to individuals - consumer and other loans	Mortgage loans to individuals	Due from other banks	Total
Not past due loans, assessed for impairment on a collective basis						
- 1 group	139 873	121 885	5 824	7 973	-	275 555
- 2 group	1 067 359	574 944	622 847	268 543	3 509	2 537 202
- 3 group	517 185	624 156	784	1 602	1 562	1 145 289
Total not past due loans, assessed for impairment on a collective basis	**1 724 417**	**1 320 985**	**629 455**	**278 118**	**5 071**	**3 958 046**
Past due loans, assessed for impairment on a collective basis						
- less than 30 days overdue	3 751	602	4 262	1 384	-	9 999
- 30 to 60 days overdue	1 683	160	2 235	729	-	4 807
- 60 to 90 days overdue	2 138	85	1 497	1 156	-	4 876
- over 90 days overdue	24 460	2 482	-	-	-	26 942
Total past due loans, assessed for impairment on a collective basis	**32 032**	**3 329**	**7 994**	**3 269**	**-**	**46 624**
Individually impaired loans to legal entities and impaired loans to individuals	**1 421**	**4 922**	**20 356**	**6 736**	**-**	**33 435**
Total loans and advances to customers and due from other banks before provision for loan impairment	**1 757 870**	**1 329 236**	**657 805**	**288 123**	**5 071**	**4 038 105**
Less provisions for loan impairment						
- provisions for individually impaired loans to legal entities	(714)	(2 780)	-	-	-	(3 494)
- provisions for not past due and past due loans, assessed for impairment on a collective basis	(44 784)	(29 626)	(25 458)	(8 126)	-	(107 994)
Total loans and advances to customers and due from other banks net of provision for loan impairment	**1 712 372**	**1 296 830**	**632 347**	**279 997**	**5 071**	**3 926 617**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as 'Neither past due nor individually impaired' until a specific objective evidence of impairment of the loan is identified. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

For analysis and effective management of the credit portfolio the Group internally classifies its loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower may also be taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of these consolidated financial statements, all current loans are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality.

The 1-st group of current loans to legal entities includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group of current loans includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group of current loans includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of credit quality analysis, loans to individuals are grouped into homogeneous sub-portfolios with similar risk characteristics. Sub-portfolios are ranged by type of credit product and borrower quality (loan servicing). The Group analyses each portfolio in terms of its historical loss and recovery rate. Loans to individuals not grouped into homogeneous sub-portfolios are assessed on the basis of the borrower's financial position and loan servicing quality. For the purpose of presenting information in these consolidated financial statements, all current loans to individuals are combined into three groups presented in the tables above. The 1-st group of loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

Loans, which have past due payment on principal and/or interest amount, are analyzed by the ageing of overdue period. A loan is considered past due when the borrower fails to make any payment due under the loan at the balance sheet date. In this case, as described in the table above, a past due amount is recognised as the aggregate amount of all payments due from the borrower under the loan agreement including accrued interest and commissions.

As at 31 December 2008 the past due part of loans (which do not include the full outstanding balance of installments and other amounts that are not yet past due) amounted to RR 98 444 million (2007: RR 39 553 million).

The Group also separates and analyses individually impaired loans. These are loans that meet specific indicators of impairment and are significant. Loan is considered significant, when, if fully impaired, its amount would have a material impact on the Group's expected average level of operating profit. Corporate loans are deemed impaired in case of the borrower's poor financial position or unsatisfactory debt servicing. Individually impaired loans to legal entities include both not past due loans and loans which have past due payments on principal and/or interest amount. Retail loans are deemed impaired when the principal and/or interest payment becomes more than 90 days overdue.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Information about not past due loans, assessed for impairment on a collective basis, with the terms of lending renegotiated, as at 31 December 2008 and 31 December 2007 is presented in the table below. There were no loans due from other banks which were renegotiated in 2008 and 2007. Lending terms review means amendments to main terms of the loan agreement that have been made from the moment of issuing a loan until the reporting date mainly upon the client's initiative. There is a probability that in certain circumstances loans with renegotiated lending terms presented in the table below could have become past due or impaired under the initial terms of lending.

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2008	60 896	17 685	578	1 470	80 629
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2007	25 349	8 184	242	16	33 791

Provisions for Loan Impairment. The analysis of changes in provisions for credit portfolio impairment in 2008 by loan classes is presented in the table below:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Provision for loan impairment at 1 January 2008	**45 498**	**32 406**	**25 458**	**8 126**	**111 488**
Provision for impairment during the year	42 270	43 259	7 777	4 575	97 881
Amounts written off during the year as uncollectible	(5 060)	(360)	(1 574)	(90)	(7 084)
Provision for loan impairment at 31 December 2008	**82 708**	**75 305**	**31 661**	**12 611**	**202 285**

The analysis of changes in provisions for credit portfolio impairment in 2007 by loan classes is presented in the table below:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Loans to individuals - consumer and other loans**	**Mortgage loans to individuals**	**Total**
Provision for loan impairment at 1 January 2007	**47 174**	**26 202**	**23 837**	**3 664**	**100 877**
Provision for impairment during the year	2 958	7 169	2 975	4 531	17 633
Amounts written off during the year as uncollectible	(4 634)	(965)	(1 354)	(69)	(7 022)
Provision for loan impairment at 31 December 2007	**45 498**	**32 406**	**25 458**	**8 126**	**111 488**

10 Loans and Advances to Customers and Due from Other Banks (Continued)

There are no changes in provisions for impairment of due from other banks in tables above as the Group was not required to recognise provision for these types of loans in 2008 or 2007. Provisions for loan impairment are made to cover losses that objectively exist as at the balance sheet date. Provisions do not cover losses, which are expected to be incurred after the balance sheet date. In determining provisions for loan impairment the Group applies principles described in the Note 3.

Estimating loan portfolio impairment provision involves the following steps:

- Identification of loans that are individually significant, i.e., those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating profit.

- Determination of whether an individually significant loan shows objective evidence of impairment. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Group expects to collect all interest and principal due in full, but it is probable that those cash flows would be received later than the date agreed in the original contract, an impairment assessment is performed. Other impairment indicators include, but are not limited to, significant financial difficulties, an actual breach of the loan contract, a high probability of bankruptcy or other financial reorganisation of the borrower.

- An impairment review of individually significant loans that show objective evidence of impairment. The impairment review requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.

- All remaining loans that have not been identified as individually significant are to be assessed on a portfolio basis. For the purpose of such a review, loan portfolios are grouped in pools, based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Pools are formed on the basis of credit products and internal ratings. Provision for impairment on individually significant loans without individually identifiable evidence of impairment is also assessed on a pool basis. The Group determines the provision for each pool on the basis of statistical data on actual losses and non-recoverable loans over past years. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Loan Security. As a rule the Group requires collateral and/or guarantees for loans to legal entities (commercial and specialised loans). Acceptable collateral includes real estate, securities (within the Group's risk limits for such securities), transport and production equipment, inventory, precious metals, certain contract rights and certain personal property. Guarantees can be provided by controlling shareholders (or other controlling persons) of small businesses, government entities, banks and other solvent legal entities (all within risk limits for such guarantees). A guarantor is evaluated on the same basis as the borrower itself. The Group assesses value of collateral on the basis of an internal expert evaluation performed by the Group's specialists, an independent appraiser's evaluation or on the basis of the discounted book value of the collateral. In accordance with the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of three months. Borrowers must either insure the collateral or make a payment to the Group reflecting the increase in credit risk due to the lack of insurance.

The Group usually requires collateral and/or guarantees for loans to individuals (mortgage, consumer and other loans). Acceptable collateral includes real estate, personal property, government and the Bank's securities, precious metals, motor vehicles and other liquid assets. The Group accepts guarantees from its clients, both individuals and legal entities. According to the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of at least a year. The Group determines the value of collateral on the basis of internal or independent evaluation or its discounted carrying amount. Individual guarantors are evaluated on the same basis as the borrower itself.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

As a rule, amounts due from other banks are not secured.

Collateral held by the Group for past due loans, assessed for impairment on a collective basis, is similar to collateral received for other loans (see description above). Per the Group`s assessment the fair value of collateral received for past due loans, assessed for impairment on a collective basis to individuals exceeds the carrying amount of such loans.

Fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2008 and 31 December 2007 is presented in the table below:

	2008		2007	
In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Commercial loans to legal entities**	**Specialised loans to legal entities**
Fair Value of collateral for past due loans, assessed for impairment on a collective basis, when collateral is :				
- real estate	30 997	24 592	9 192	2 494
- transportation and production equipment	23 436	27 893	17 338	4 870
- goods in turnover	22 215	528	14 944	105
- tradable securities	7 683	34 376	194	69
- other assets	11 153	35 348	4 569	1 337
Fair Value of collateral for individually impaired loans to legal entities, when collateral is :				
- real estate	5 764	585	474	-
- goods in turnover	3 803	47	151	56
- transportation and production equipment	4 146	7 766	117	586
- tradable securities	-	8 535	-	4 071
- other assets	2 550	29 618	-	-
Total	**111 747**	**169 288**	**46 979**	**13 588**

Fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2008 and 31 December 2007 was estimated by the Bank`s credit departments using Group`s internal methodology.

Actual net realisable value of collateral may differ from the value disclosed above due to potential difficulties during the foreclosure which can not be predicted.

10 Loans and Advances to Customers and Due from Other Banks (Continued)

Economic sector risk concentration. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2008 and 31 December 2007 are as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Individuals	1 260 862	23.9	945 928	23.4
Trade	868 559	16.4	730 641	18.1
Services	724 037	13.7	617 947	15.3
Food and agriculture	430 173	8.1	309 802	7.7
Machine building	335 704	6.4	253 797	6.3
Oil, gas and chemical	291 913	5.5	209 064	5.2
Transport, aviation, space industry	289 374	5.5	176 470	4.4
Construction	281 506	5.3	183 177	4.5
Metallurgy	211 051	4.0	180 881	4.5
Energy	124 604	2.4	90 581	2.2
Telecommunications	96 123	1.8	78 740	1.9
Government and municipal bodies	58 899	1.1	25 917	0.6
Timber industry	36 888	0.7	28 579	0.7
Other	273 230	5.2	206 581	5.2
Total loans and advances to customers (before provision for loan impairment)	**5 282 923**	**100.0**	**4 038 105**	**100.0**

At 31 December 2008 the Group had 20 borrowers with aggregated loan amounts above RR 25 900 million (2007: 20 borrowers with loan amounts above RR 17 700 million). The total aggregate amount of these loans was RR 1 179 644 million or 22.3% of the total gross loan portfolio (2007: RR 881 471 million or 21.8%).

At 31 December 2008 the estimated fair value of loans and advances to customers and due from other banks was RR 4 911 322 million (2007: RR 3 926 617 million). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers and due from other banks are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

11 Investment Securities Available for Sale

In millions of Russian Roubles	**2008**	**2007**
Federal loan bonds (OFZ bonds)	113 084	-
Corporate bonds	67 218	1 515
Municipal and subfederal bonds	58 694	301
Russian Federation Eurobonds	32 710	-
Foreign federal bodies bonds	1 988	-
Total debt investment securities available for sale	**273 694**	**1 816**
Corporate shares	10 878	8 278
Total investment securities available for sale	**284 572**	**10 094**

OFZ bonds have maturity dates from March 2009 to February 2036, coupon rates from 0% to 10% p.a. and yield to maturity from 6% to 12% p.a., depending on the type of bond issue.

11 Investment Securities Available for Sale (Continued)

Corporate bonds have maturity dates from January 2009 to October 2040 (2007: November 2012), coupon rates from 6% to 20% p.a. (2007: 10% p.a.) and yield to maturity from 6% to 31% p.a. (2007: 10% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds have maturity dates from April 2009 to June 2017 (2007: in November 2012), coupon rate from 7% to 18% p.a. (2007: 9% p.a.) and yield to maturity from 9% to 31% p.a. (2007: 10% p.a.).

Russian Federation Eurobonds have maturity dates from July 2018 to March 2030, coupon rates from 8% to 13% p.a. and yield to maturity from 9% to 11% p.a., depending on the type of bond issue.

Foreign federal bodies bonds have maturity dates from January 2009 to March 2014, coupon rates from 3% to 9% and yield to maturity from 6% to 11% p.a., depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

Investment securities available for sale are carried at fair value which reflects credit risk related to write downs. According to the assessment of the Group of investment securities available for sale as of 31 December 2008 impairment of investment securities available for sale comprised RR 6 259 million and was recognised in profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment loss are recognised in other comprehensive income and presented in equity in fair value reserve for investment securities available for sale in the amount of RR 33 185 million. As at 31 December 2008 and 31 December 2007, investment securities available for sale are not past due. None of the securities were renegotiated.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Current (not past due)				
Federal loan bonds (OFZ bonds)	113 084	-	-	113 084
Corporate bonds	39 270	19 485	8 463	67 218
Municipal and subfederal bonds	38 652	20 007	35	58 694
Russian Federation Eurobonds	32 710	-	-	32 710
Foreign federal bodies bonds	1 988	-	-	1 988
Total debt investment securities available for sale at 31 December 2008	**225 704**	**39 492**	**8 498**	**273 694**

At 31 December 2007 no ratings were assigned by international rating agencies to debt investment securities available for sale represented by corporate bonds and municipal and subfederal bonds.

Rating definitions in the tables above coincide with the rating scale developed by the international rating agencies.

At 31 December 2008 included in investment securities available for sale are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 91 872 million (2007: nil) and with other banks at a fair value of RR 628 million (2007: nil). Refer to Notes 14, 33 and 37.

At 31 December 2008 the estimated fair value of investment securities available for sale was RR 284 572 million (2007: RR 10 094 million). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

12 Premises and Equipment

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Cost or valuation at 1 January 2007		88 883	55 833	10 185	8 722	163 623
Accumulated depreciation		(2 646)	(30 325)	(5 436)	-	(38 407)
Carrying amount at 1 January 2007		**86 237**	**25 508**	**4 749**	**8 722**	**125 216**
Additions		11 921	17 413	1 668	11 538	42 540
Transfers		8 806	-	-	(8 806)	-
Disposals – at cost		(2 408)	(1 793)	(1 145)	(1 078)	(6 424)
Disposals - accumulated depreciation		116	1 793	1 145	-	3 054
Depreciation charge	25	(3 032)	(13 049)	(1 455)	-	(17 536)
Carrying amount at 31 December 2007		**101 640**	**29 872**	**4 962**	**10 376**	**146 850**
Cost or valuation at 31 December 2007		107 202	71 453	10 708	10 376	199 739
Accumulated depreciation		(5 562)	(41 581)	(5 746)	-	(52 889)
Carrying amount at 31 December 2007		**101 640**	**29 872**	**4 962**	**10 376**	**146 850**
Additions		22 753	19 580	2 972	15 287	60 592
Transfers		13 546	-	-	(13 546)	-
Disposals – at cost		(3 427)	(2 875)	(986)	(2 405)	(9 693)
Disposals - accumulated depreciation		121	2 530	986	-	3 637
Depreciation charge	25	(3 566)	(15 877)	(1 806)	-	(21 249)
Devaluation of premises	26	(3 478)	-	-	-	(3 478)
Revaluation of premises	27	74 819	-	-	-	74 819
Carrying amount at 31 December 2008		**202 408**	**33 230**	**6 128**	**9 712**	**251 478**
Cost or valuation at 31 December 2008		202 408	88 158	12 694	9 712	312 972
Accumulated depreciation		-	(54 928)	(6 566)	-	(61 494)
Carrying amount at 31 December 2008		**202 408**	**33 230**	**6 128**	**9 712**	**251 478**

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

Premises were independently valued at 31 December 2008. The valuation was carried out by an independent firm of valuers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was fair value. Fair values were estimated using appropriate valuation techniques and using observable market prices in an active market. Included in the above carrying amount is RR 71 341 million representing revaluation surplus relating to premises of the Group. At 31 December 2008 the carrying amount of premises would have been RR 112 256 million (2007: RR 82 132 million) had the premises been carried at cost less depreciation. The depreciation related to revalued premises in the amount of RR 9 007 million has been netted with into revaluation surplus for premises. At 31 December 2008 included in office and computer equipment are fully depreciated items in the amount of RR 22 626 million (2007: RR 17 044 million) and in vehicles and other equipment in the amount of RR 2 891 million (2007: RR 2 881 million).

13 Other Assets

In millions of Russian Roubles	2008	2007
Other financial assets		
Receivables on plastic cards settlements	32 035	23 562
Derivative financial instruments	3 497	783
Funds in settlement	1 232	895
Other financial assets	3 005	1 068
Provision for impairment of other financial assets	(1 158)	-
Total other financial assets	**38 611**	**26 308**
Other non-financial assets		
Precious metals	24 499	6 229
Prepayments for premises and other assets	9 303	9 950
Prepayment on income tax	7 923	-
Investment property	7 099	-
Tax settlements (other than on income)	5 452	2 593
Goodwill	-	4 902
Prepaid expenses	2 919	2 204
Inventory of non-banking subsidiaries	2 111	-
Other non-financial assets	1 637	727
Provision for impairment of other non-financial assets	(258)	-
Total other non-financial assets	**60 685**	**26 605**
Total other assets	**99 296**	**52 913**

As at 31 December 2008 receivable on plastic cards settlements of RR 32 035 million (2007: RR 23 562 million) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

Included in investment property is collateral, which the Group repossessed during 2008 from its borrowers. The collateral includes premises leased to tenants in the amount of RR 6 917 million. The Group currently evaluates possibilities of using or disposing these premises.

Movements in the provision for impairment of other assets during 2008 are as follows:

In millions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2008	-	-	-	-	-
Provision for impairment during the year	545	613	114	144	1 416
Provision for impairment at 31 December 2008	**545**	**613**	**114**	**144**	**1 416**

The Group tests goodwill arising upon acquisition of its subsidiaries for impairment. The Bank assessed internal and external factors, which influence the subsidiaries acquired. As at 31 December 2008 the Group recognised an impairment charge in the full amount of goodwill.

13 Other Assets (Continued)

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2008	2007
Carrying amount at 1 January		**4 902**	**2 644**
Impairment loss	26	3 970	-
Acquisition of subsidiary	40	-	2 258
Other		932	-
Carrying amount at 31 December		**-**	**4 902**

Carrying value of each class of other financial assets approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of other financial assets was RR 38 611 million (2007: RR 26 308 million). Refer to Note 35.

Geographical, currency and maturity analyses of other assets are disclosed in Note 32.

14 Due to Other Banks

In millions of Russian Roubles	2008	2007
Correspondent accounts and overnight placements of other banks	33 134	32 273
Current term placements of other banks	35 485	48 048
Sale and repurchase agreements with the Bank of Russia and other banks	233 920	-
Total due to other banks	**302 539**	**80 321**

At 31 December 2008, included in amounts due to other banks are liabilities of RR 233 920 million (2007: nil) received under sale and repurchase agreements with Bank of Russia and other banks. The total fair value of securities sold under these agreements with the Bank of Russia is included in the portfolio of trading securities in the amount of RR 41 863 million (2007: nil), in the portfolio of other securities at fair value through profit or loss in the amount of RR 108 385 million (2007: nil) and in the portfolio of investment securities available for sale in the amount of RR 91 872 million (2007: nil) in the consolidated statement of financial position of the Group. The total fair value of securities sold under these agreements with other banks is included in the portfolio of investment securities available for sale in the amount of RR 628 million. Refer to Notes 8,9,11, 33 and 37.

Carrying value of each class of due to other banks approximately equals fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of due to other banks was RR 302 539 million (2007: RR 80 321 million). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 32. The information on related party balances is disclosed in Notes 37 and 38.

15 Deposits from Individuals and Customer Accounts

In millions of Russian Roubles	2008	2007
Individuals		
- Current/demand accounts	395 090	302 339
- Term deposits	2 717 012	2 379 647
State and public organisations		
- Current/settlement accounts	160 540	64 546
- Term deposits	58 914	16 653
Other legal entities		
- Current/settlement accounts	850 621	686 806
- Term deposits	613 055	427 629
Total deposits from individuals and customer accounts	**4 795 232**	**3 877 620**

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	3 112 102	64.9	2 681 986	69.2
Oil, gas and chemical	361 004	7.5	270 985	7.0
Trade	228 049	4.8	177 105	4.6
Services	223 566	4.7	177 554	4.6
Construction	208 891	4.4	94 092	2.4
Municipal bodies and state organisations	96 901	2.0	44 642	1.1
Machine building	89 078	1.9	58 281	1.5
Energy	85 025	1.8	68 753	1.8
Food and agriculture	65 082	1.4	53 196	1.4
Metallurgy	60 310	1.3	41 293	1.0
Other	265 224	5.5	209 733	5.4
Total deposits from individuals and customer accounts	**4 795 232**	**100.0**	**3 877 620**	**100.0**

At 31 December 2008 included in customer accounts are deposits of RR 95 722 million (2007: RR 65 159 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

At 31 December 2008 the Group had 20 customers with balances above RR 5 600 million (2007: 20 customers with balances above RR 4 600 million). The aggregate balance of these customers was RR 587 291 million (2007: RR 418 924 million) or 12.2% (2007: 10.8%) of total deposits from individuals and customer accounts.

At 31 December 2008 the estimated fair value of deposits from individuals and customer accounts was RR 4 772 064 million (2007: RR 3 877 620 million). Refer to Note 35.

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

16 Debt Securities in Issue

In millions of Russian Roubles	2008	2007
Promissory notes	119 408	142 090
Savings certificates	17 095	18 984
Deposit certificates	2 399	2 753
Total debt securities in issue	**138 902**	**163 827**

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in RR, USD and Euro and have maturity dates from ”on demand” to December 2012 (2007: from ”on demand” to April 2012). Interest or discount rates on promissory notes issued by the Group vary from 0.3% to 11.0% p.a. (2007: from 3.5% to 8.7% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Group. They are denominated in RR and have maturity dates from ”on demand” to December 2011 (2007: from “on demand” to December 2009). Interest rates on these securities vary from 5.3% to 9.7% p.a. (2007: from 5.0% to 8.8% p.a.).

At 31 December 2008 the estimated fair value of debt securities in issue was RR 132 526 million (2007: RR 157 532 million). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 32.

17 Other Borrowed Funds

In millions of Russian Roubles	2008	2007
Long-term loans received	153 531	106 057
Term borrowings	5 549	5 968
Total other borrowed funds	**159 080**	**112 025**

At 31 December 2008 included in long-term loans received is a syndicated loan in the amount of USD 1 500 million, which was received by the Group in October 2006 from a consortium of foreign banks. As at 31 December 2008 the loan was accounted for at amortised cost of RR 44 357 million (2007: RR 37 107 million). This loan matures in October 2009 and has contractual floating interest rate of 3 months LIBOR + 0.30%. As at 31 December 2008 the effective interest rate on the loan was 4.4% p.a. (2007: 5.8% p.a.).

In May 2006 the Group entered into USD 10 000 million loan participation notes (MTN) issuance programme. In May 2006 the Group received the first loan under this programme in the amount of USD 500 million, which is included in long-term loans received. As at 31 December 2008 this loan was accounted for at amortised cost of RR 14 793 million (2007: RR 12 360 million). This loan matures in May 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2008 the effective interest rate on the loan was 6.6% p.a. (2007: 6.6% p.a.).

In November 2006 the Group attracted the second loan under the MTN issuance programme in the amount of USD 750 million, which is also included in long-term loans received. As at 31 December 2008 this loan was accounted for at amortised cost of RR 22 190 million (2007: RR 18 533 million). This loan matures in November 2011 and has contractual fixed interest rate of 5.9% p.a. As at 31 December 2008 the effective interest rate on the loan was 6.0% p.a. (2007: 6.0% p.a.).

17 Other Borrowed Funds (Continued)

In December 2007 the Group received a syndicated loan in the amount of USD 750 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2008 the loan was accounted for at amortised cost of RR 21 937 million (2007: RR 18 295 million). This loan matures in December 2010 and has contractual floating interest rate of 3 months LIBOR + 0.45%. As at 31 December 2008 the effective interest rate on the loan was 2.2% p.a. (2007: 5.7% p.a.).

In July 2008 the Group attracted the third loan under the MTN issuance programme in the amount of USD 500 million, which is also included in long-term borrowings received. As at 31 December 2008 this loan was accounted for at amortised cost of RR 15 144 million. This loan matures in July 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2008 the effective interest rate on the loan was 6.6% p.a.

In October 2008 the Group received syndicated loan in the amount of USD 1 200 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2008 the loan was accounted for at amortised cost of RR 35 110 million. This loan matures in October 2011 and has contractual floating interest rate of 3 months LIBOR + 0.85%. As at 31 December 2008 the effective interest rate on the loan was 5.2% p.a.

Term borrowings represent funding received by the Group from foreign export agencies via foreign banks, which was used by the Group for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2008 these term borrowings were accounted for at amortised cost of RR 5 549 million (2007: RR 5 968 million), had interest rates varying from 2.0% to 7.0% p.a. (2007: from 4.7% to 6.8% p.a.) and maturity dates from May 2009 to January 2016 (2007: from May 2008 to January 2016).

At 31 December 2008 the estimated fair value of other borrowed funds was RR 147 336 million (2007: RR 111 881 million). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 32.

18 Other Liabilities

In millions of Russian Roubles	**2008**	**2007**
Other financial liabilities		
Plastic card payables	7 842	3 269
Funds in settlement	6 391	961
Derivative financial instruments	5 072	130
Trade payables	1 849	2 619
Other	1 827	692
Total other financial liabilities	**22 981**	**7 671**
Other non-financial liabilities		
Accrued employee benefit costs	10 180	14 995
Taxes payable other than on income	4 992	3 860
Deposit insurance system fees payable	2 927	3 251
Income tax payable	-	2 556
Deferred commissions received on guarantees issued	733	203
Other	2 017	218
Total other non-financial liabilities	**20 849**	**25 083**
Total other liabilities	**43 830**	**32 754**

18 Other Liabilities (Continued)

Carrying value of each class of other financial liabilities approximately equals fair value at 31 December 2008 and 31 December 2007. At 31 December 2008 the estimated fair value of other financial liabilities was RR 22 981 million (2007: RR 7 671 million). Refer to Note 35.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 32.

19 Subordinated Debt

In millions of Russian Roubles	2008	2007
Subordinated debt received by the Group from the Bank of Russia	504 634	-
Subordinated debt received by the Group on international financial markets	30 012	25 064
Subordinated debt received by subsidiaries	1 575	-
Total subordinated debt	**536 221**	**25 064**

In February 2005 the Group received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of an aggregate principal amount of USD 1 000 million Loan Participation Notes at contractual interest rate of 6.2% p.a. and maturity in February 2015, which are issued for the sole purpose of financing a ten-year subordinated loan to the Group. As at 31 December 2008 this subordinated debt was accounted for at amortised cost of RR 30 012 million (2007: RR 25 064 million), the effective interest rate on the loan was 6.4% p.a. (2007: 6.4% p.a.).

In December 2008 the Group received a subordinated loan from the Bank of Russia in the amount of RUR 500 000 million which was organised in three tranches. As at 31 December 2008 the loan was accounted for at amortised cost of RR 504 634 million. The loan matures in December 2019 and has a contractual fixed interest rate of 8.0% p.a. As at 31 December 2008 the effective interest rate on the loan was 8.0% p.a.

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

As at 31 December 2008 the estimated fair value of subordinated debt was RR 525 347 million (2007: RR 24 891 million). Refer to Note 35.

Geographical, currency and maturity analyses of subordinated debt are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

20 Share Capital

	2008			2007		
In millions of Russian Roubles, except for number of shares	**Number of shares, in thousands**	**Nominal amount**	**Inflation adjusted amount**	**Number of shares, in thousands**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	21 586 948	64 761	83 337	21 586 948	64 761	83 337
Preference shares	1 000 000	3 000	4 405	1 000 000	3 000	4 405
Less: Treasury shares						
- Ordinary shares	(2 012)	(6)	-	(1 679)	(5)	-
Total share capital	**22 584 936**	**67 755**	**87 742**	**22 585 269**	**67 756**	**87 742**

20 Share Capital (Continued)

The movement in the number of ordinary shares for the years ended 31 December 2008 and 31 December 2007 is as follows:

In thousands	2008	2007
Amount of ordinary shares as at the 1 January	**21 585 269**	**18 998 213**
Issue of ordinary shares	-	2 586 948
Purchase of treasury shares	(333)	(5)
Disposal of treasury shares	-	113
Amount of ordinary shares as at the 31 December	**21 584 936**	**21 585 269**

For the purposes of accurate presentation the number of ordinary shares as at the 1 January 2007 is adjusted to the results of the nominal value split of the Bank's shares approved by the Bank of Russia on 19 July 2007.

On 21 December 2006, the Supervisory Board of the Bank approved the issuance of 3 500 000 additional ordinary shares with a nominal value of RR 3 000 by way of a public offering in Russia in the first quarter of 2007. The issue's results were approved by the Bank of Russia on 29 March 2007. The number of shares placed under this issue was 2 586 948. The amount of cash raised through the share issue was RR 230 238 million.

As at 31 December 2008 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 21.7% p.a. in 2008 for the year ended 31 December 2007 (2007: 15.5% p.a. for the year ended 31 December 2006). Preference share dividends rank above ordinary dividends.

21 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves recognised in separate financials statements under Russian Accounting Rules at 31 December 2008 are RR 470 377 million (2007: RR 375 903 million).

22 Interest Income and Expense

In millions of Russian Roubles	2008	2007
Interest income		
Loans and advances to customers	582 207	383 320
Other debt securities at fair value through profit or loss	13 248	16 186
Debt trading securities	10 103	17 039
Debt investment securities available for sale	8 863	15
Due from other banks	4 434	7 747
Correspondent accounts with other banks	1 097	1 365
Investment securities held to maturity	-	2 994
Total interest income	**619 952**	**428 666**
Interest expense		
Deposits of individuals	155 271	132 925
Term deposits of legal entities	46 560	18 420
Current/settlement accounts	13 175	9 617
Debt securities in issue	9 960	4 693
Subordinated debt	6 403	1 600
Other borrowed funds	5 551	6 145
Term placements of other banks	4 170	1 705
Correspondent accounts of other banks	705	800
Total interest expense	**241 795**	**175 905**
Net interest income	**378 157**	**252 761**

23 Fee and Commission Income and Expense

In millions of Russian Roubles	2008	2007
Fee and commission income		
Cash and settlement transactions with legal entities	33 299	25 668
Cash and settlement transactions with individuals	29 471	23 059
Plastic cards operations	14 576	10 295
Operations with foreign currency	5 987	3 222
Cash collection	3 713	2 937
Guarantees issued	1 175	837
Transactions with securities	1 152	759
Fiduciary management operations	24	49
Other	849	1 493
Total fee and commission income	**90 246**	**68 319**
Fee and commission expense		
Settlement transactions	3 329	1 732
Operations with foreign currency	306	430
Cash collection	137	115
Other	280	167
Total fee and commission expense	**4 052**	**2 444**
Net fee and commission income	**86 194**	**65 875**

24 Gains less Losses Arising from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation Gains less Losses

In millions of Russian Roubles	2008	2007
Gains less losses arising from trading in foreign currencies	14 794	7 902
Foreign exchange translation gains less losses/(losses, net of gains) including:	15 410	(3 746)
- foreign exchange translation gains less losses/(losses, net of gains) arising on operations with securities at fair value through profit or loss	3 226	(2 620)
(Losses net of gains)/Gains less losses from operations with foreign currency derivatives	(5 022)	1 053
Total gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses	**25 182**	**5 209**

Operations of trading in foreign currencies and foreign currency derivatives include both operations with clients and the Group's proprietary operations for liquidity management. The Group's proprietory operations are represented by swap transactions.

25 Administrative and Operating Expenses

In millions of Russian Roubles	Note	2008	2007
Staff costs		132 962	118 370
Telecommunication and office supplies expenses		23 721	19 808
Depreciation of premises and equipment	12	21 249	17 536
State deposit insurance system membership fee		13 861	12 783
Other costs of premises and equipment		9 898	7 768
Operating lease expense for premises and equipment		6 427	4 067
Taxes other than on income		5 901	5 810
Advertising and marketing services		3 428	2 484
Other		4 292	7 138
Total administrative and operating expenses		**221 739**	**195 764**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 18 865 million (2007: RR 17 352 million).

26 Other Operating Expenses

In millions of Russian Roubles	Note	2008	2007
Devaluation of premises	12	3 478	-
Goodwill impairment	13	3 970	-
Provision for other assets	13	1 416	-
Total other operating expenses		**8 864**	**-**

27 Disclosure of Components of Other Comprehensive Income

In millions of Russian Roubles	Note	2008	2007
Premises and equipment:			
- Gains on remeasurement of premises	12	74 819	-
Investment securities available for sale:			
- Losses / gains on operations with securities		(47 672)	1 652
- Impairment of investment securities available for sale	11	6 259	-
- Reclassification adjustments for gains included in profit or loss		(1 032)	(688)
Foreign currency translation gains less losses		101	-
Other comprehensive income for the year before tax		**32 475**	**964**
Deferred income tax relating to components of other comprehensive income			
- Premises and equipment remeasurement		(14 124)	-
- Investment securities available for sale		8 527	(231)
Other comprehensive income for the year, net of tax		**26 878**	**733**

28 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2008	2007
Current tax	27 188	37 163
Deferred tax	10 584	(3 672)
Less: Deferred tax recorded directly in equity	(5 597)	(231)
Income tax expense for the year	**32 175**	**33 260**

The income tax rate applicable to the majority of the Group's income for 2008 is 24% (2007: 24%). On 21 November 2008 the State Duma of the Russian Federation introduced an amendment to the Russian Tax Code under which the income tax rate was decreased from 24% to 20%. The amendment takes effect from 1 January 2009.

28 Income Taxes (Continued)

Reconciliation between the expected and the actual taxation charge is provided below:

In millions of Russian Roubles	2008	2007
IFRS profit before tax	**129 921**	**139 749**
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	31 181	33 540
Income on government securities taxed at different rates	(2 307)	(2 362)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	2 145	2 756
- Impact of change in tax rate to 20% effective from 1 January 2009	71	-
- Other non-deductible expenses	932	552
- Other non-temporary differences	153	(1 226)
Income tax expense for the year	**32 175**	**33 260**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%), except for income on state securities that is taxed at 15%, 9% and 0% (2007: 15%, 9% and 0%).

In millions of Russian Roubles	31 December 2007	Credited/ charged) to profit or loss	Charged directly to equity	31 December 2008
Tax effect of deductible temporary differences				
Deferred fees and commissions income	4 388	1 394	-	5 782
Accrued employee benefit costs	3 942	(1 778)	-	2 164
Low value items write-off	1 072	59	-	1 131
Fair valuation of investment securities available for sale	(231)	1 254	8 527	9 550
Other	(818)	1 215	-	397
Gross deferred tax asset	**8 353**	**2 144**	**8 527**	**19 024**
Tax effect of taxable temporary differences				
Loan impairment provision	1 056	5 437	-	6 493
Premises and equipment	5 311	842	14 124	20 277
Fair valuation of trading securities and other securities at fair value through profit or loss	1 918	852	-	2 770
Gross deferred tax liability	**8 285**	**7 131**	**14 124**	**29 540**
Total net deferred tax asset /(liability)	**68**	**(4 987)**	**(5 597)**	**(10 516)**

28 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2006	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2007
Tax effect of deductible temporary differences				
Deferred fees and commissions income	3 059	1 329	-	4 388
Accrued employee benefit costs	2 676	1 266	-	3 942
Low value items write-off	1 230	(158)	-	1 072
Other	507	(75)	-	432
Gross deferred tax asset	**7 472**	**2 362**	**-**	**9 834**
Tax effect of taxable temporary differences				
Loan impairment provision	(1 605)	2 661	-	1 056
Premises and equipment	8 369	(3 058)	-	5 311
Fair valuation of trading securities and other securities at fair value through profit or loss	3 515	(1 597)	-	1 918
Fair valuation of investment securities available for sale	-	-	231	231
Amortisation of investment securities held to maturity	677	(677)	-	-
Other	120	1 130	-	1 250
Gross deferred tax liability	**11 076**	**(1 541)**	**231**	**9 766**
Total net deferred tax asset /(liability)	**(3 604)**	**3 903**	**(231)**	**68**

As of 31 December 2008, the temporary difference associated with investments in subsidiaries on the balance sheet of the parent company amounted to RR 4 037 million (2007: RR 3 107 million). In accordance with IAS 12 “Income taxes” respective deferred tax liability of RR 807 million (2007: RR 746 million) was not recognized in the financial statements.

29 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2008	2007
Profit for the year	97 746	106 489
Less: preference dividends (Note 30)	(650)	(465)
Profit attributable to the Bank’s ordinary shareholders	**97 096**	**106 024**
Weighted average number of ordinary shares in issue (millions)	21 585	20 962
Basic and diluted earnings per ordinary share (expressed in RR per share)	**4.5**	**5.1**

30 Dividends

	2008		2007	
In millions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	100	23	59	18
Dividends declared during the year	11 009	650	8 322	465
Dividends paid during the year	(10 996)	(644)	(8 281)	(460)
Dividends payable at 31 December	**113**	**29**	**100**	**23**
Dividends per share declared during the year (RR per share)	**0.51**	**0.65**	**0.39**	**0.47**

All dividends are declared and paid in Russian Roubles.

31 Segment Analysis

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

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

- Retail banking – representing private customer current accounts, savings, deposits, custody, debit cards, consumer loans and mortgages.
- Corporate banking – representing corporate current accounts, deposits, overdrafts, loan and other credit facilities.
- Financial markets – representing operations with securities, interbank placements and funding, long-term funding received on capital markets, foreign currency and derivative products and other operations on financial markets.

Intra-Group items include other operations of the Group, which, based on their size, do not comprise a separately reportable segment.

In 2008 the Group measured business segment revenues, expenses and results on the basis of inter-segment prices used for internal management purposes only. Internal transfer pricing rates were established, approved and regularly revised by the Management of the Group.

For the purposes of these consolidated financial statements segment revenue consists of interest income and fee and commission income in the amount of RR 454 267 million for corporate banking, in the amount of RR 381 486 million for retail banking and RR 38 552 million for financial markets for the year ended 31 December 2008 (2007: RR 281 382 million, RR 306 134 million and RR 45 579 million respectively).

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

31 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities per business segments as at 31 December 2008 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Financial markets	Intra-Group items	Total
Assets					
Cash and cash equivalents	-	307 456	496 293	-	803 749
Mandatory cash balances with the Bank of Russia	2 904	4 663	76	-	7 643
Trading securities	-	-	78 603	-	78 603
Other securities at fair value through profit or loss	-	-	130 503	-	130 503
Due from other banks	-	-	2 756	-	2 756
Loans and advances to customers	3 861 292	1 216 590	-	-	5 077 882
Investment securities available for sale	-	-	284 572	-	284 572
Premises and equipment	79 891	169 346	2 241	-	251 478
Other assets	10 612	42 084	30 327	16 273	99 296
Total assets	**3 954 699**	**1 740 139**	**1 025 371**	**16 273**	**6 736 482**
Liabilities					
Due to other banks	-	-	302 539	-	302 539
Deposits from individuals	-	3 112 102	-	-	3 112 102
Customer accounts	1 683 130	-	-	-	1 683 130
Debt securities in issue	121 075	17 827	-	-	138 902
Other borrowed funds	-	-	159 080	-	159 080
Deferred tax liability	-	-	-	10 516	10 516
Other liabilities	5 172	18 671	5 325	14 662	43 830
Subordinated debt	-	-	536 221	-	536 221
Total liabilities	**1 809 377**	**3 148 600**	**1 003 165**	**25 178**	**5 986 320**
Other disclosures					
Capital expenditure incurred (additions of fixed assets)	19 299	40 756	537	-	60 592
Depreciation of premises and equipment	6 764	14 296	189	-	21 249

31 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses per business segments for the year ended 31 December 2008 is as follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Financial markets	Total
Interest income	407 430	174 777	37 745	619 952
Interest expense	(68 553)	(156 413)	(16 829)	(241 795)
Inter-segment (expense) and income	(142 619)	164 107	(21 488)	-
Fee and commission income	46 837	42 602	807	90 246
Fee and commission expense	(891)	(3 148)	(13)	(4 052)
Losses, net of gains arising from trading securities	-	-	(16 892)	(16 892)
Losses, net of gains arising from other securities at fair value through profit or loss	-	-	(15 195)	(15 195)
Gains less losses arising from investment securities available for sale	-	-	1 032	1 032
Impairment of investment securities available for sale	-	-	(6 259)	(6 259)
Gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses	-	14 047	11 135	25 182
(Losses, net of gains)/Gains less losses arising from operations with precious metals and precious metals derivatives	85	1 381	(2 535)	(1 069)
Other operating income	2 129	4 285	841	7 255
Operating income before provision for loan impairment	**244 418**	**241 638**	**(27 651)**	**458 405**
Provision for loan impairment	(85 529)	(12 352)	-	(97 881)
Operating income	**158 889**	**229 286**	**(27 651)**	**360 524**
Administrative and operating expenses	(67 246)	(152 670)	(1 823)	(221 739)
Other operating expenses	(2 515)	(2 348)	(4 001)	(8 864)
Profit before tax (Segment result)	**89 128**	**74 268**	**(33 475)**	**129 921**

31 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities per business segments as at 31 December 2007 is as follows:

Adjusted *(In millions of Russian Roubles)*	**Corporate banking**	**Retail banking**	**Financial markets**	**Intra-Group items**	**Total**
Assets					
Cash and cash equivalents	-	123 087	119 144	-	242 231
Mandatory cash balances with the Bank of Russia	17 605	38 049	1 136	-	56 790
Trading securities	-	-	246 221	-	246 221
Other securities at fair value through profit or loss	-	-	247 024	-	247 024
Due from other banks	-	-	5 071	-	5 071
Loans and advances to customers	3 009 202	912 344	-	-	3 921 546
Investment securities available for sale	-	-	10 094	-	10 094
Deferred income tax asset	-	-	-	68	68
Premises and equipment	48 514	96 919	1 417	-	146 850
Other assets	13 081	26 718	11 605	1 509	52 913
Total assets	**3 088 402**	**1 197 117**	**641 712**	**1 577**	**4 928 808**
Liabilities					
Due to other banks	-	-	80 321	-	80 321
Deposits from individuals	-	2 681 986	-	-	2 681 986
Customer accounts	1 195 634	-	-	-	1 195 634
Debt securities in issue	143 552	20 275	-	-	163 827
Other borrowed funds	-	-	112 025	-	112 025
Other liabilities	8 147	17 490	456	6 661	32 754
Subordinated debt	-	-	25 064	-	25 064
Total liabilities	**1 347 333**	**2 719 751**	**217 866**	**6 661**	**4 291 611**
Other disclosures					
Capital expenditure incurred (additions of fixed assets)	16 596	25 570	374	-	42 540
Depreciation of premises and equipment	5 366	11 995	175	-	17 536

31 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses per business segments for the year ended 31 December 2007 is as follows:

Adjusted *(In millions of Russian Roubles)*	**Corporate banking**	**Retail banking**	**Financial markets**	**Total**
Interest income	246 517	136 803	45 346	428 666
Interest expense	(31 670)	(133 985)	(10 250)	(175 905)
Inter-segment (expense) and income	(90 700)	136 110	(45 410)	-
Fee and commission income	34 865	33 221	233	68 319
Fee and commission expense	(488)	(1 954)	(2)	(2 444)
Gains less losses arising from trading securities	-	-	4 312	4 312
Losses, net of gains arising from other securities at fair value through profit or loss	-	-	(1 003)	(1 003)
Gains less losses arising from investment securities available for sale	-	-	688	688
Gains arising from disposal of investment securities held to maturity	-	-	19 436	19 436
Gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses	-	4 668	541	5 209
Gains less losses arising from operations with precious metals and precious metals derivatives	-	494	853	1 347
Other operating income	2 240	2 133	148	4 521
Operating income before provision for loan impairment	**160 764**	**177 490**	**14 892**	**353 146**
Provision for loan impairment	(10 127)	(7 506)	-	(17 633)
Operating income	**150 637**	**169 984**	**14 892**	**335 513**
Administrative and other operating expenses	(57 579)	(136 289)	(1 896)	(195 764)
Profit before tax (Segment result)	**93 058**	**33 695**	**12 996**	**139 749**

31 Segment Analysis (Continued)

Geographical segments. Geographical segment information is based on the Group's activity among its central head office and 17 regional head offices. The Group has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny Severo-Zapadny Tsentralno-Chernozemny Volgo-Vyatsky Povolzhsky Srednerussky Severo-Kavkazsky Yugo-Zapadny	Yaroslavl Saint-Petersburg Voronezh Nizhniy Novgorod Samara Moscow Stavropol Rostov-on-Don
Ural	Zapadno-Uralsky Uralsky	Perm Ekaterinburg
Western Siberia	Sibirsky Altaisky Zapadno-Sibirsky	Novosibirsk Barnaul Tumen
Eastern Siberia and Far East	Severo-Vostochny Dalnevostochny Vostochno-Sibirsky Baikalsky	Magadan Khabarovsk Krasnoyarsk Irkutsk

Operations of foreign subsidiaries are included in other and intra-Group items.

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

The Group's reporting by geographical segments as of 31 December 2008 is as follows:

In millions of Russian Roubles	**Moscow**	**European Russia**	**Ural**	**Western Siberia**	**Eastern Siberia and Far East**	**Other and Intra-Group items**	**Total**
Total assets	2 905 767	2 250 107	597 195	437 213	391 622	154 578	6 736 482
Interest income	212 633	242 076	65 491	49 424	46 829	3 499	619 952
Fee and commission income	17 018	44 718	8 697	9 084	10 027	702	90 246
Segment revenue	**229 651**	**286 794**	**74 188**	**58 508**	**56 856**	**4 201**	**710 198**
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	12 163	28 312	6 862	6 545	6 400	310	60 592
Provision for loan impairment during the year	(64 197)	(20 853)	(3 621)	(2 637)	(5 454)	(1 119)	(97 881)

31 Segment Analysis (Continued)

The Group's reporting by geographical segments as of 31 December 2007 is as follows:

In millions of Russian Roubles	**Moscow**	**European Russia**	**Ural**	**Western Siberia**	**Eastern Siberia and Far East**	**Other and Intra-Group items**	**Total**
Total assets	2 161 431	1 603 661	434 150	307 003	295 055	127 508	4 928 808
Interest income	156 080	159 896	42 293	33 323	33 777	3 297	428 666
Fee and commission income	9 088	36 848	7 337	6 862	7 811	373	68 319
Segment revenue	**165 168**	**196 744**	**49 630**	**40 185**	**41 588**	**3 670**	**496 985**
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	7 190	18 408	4 022	3 938	3 826	5 156	42 540
Provision for loan impairment during the year	(6 680)	(6 437)	(1 800)	(1 248)	(1 201)	(267)	(17 633)

32 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, market, liquidity risk and operational risk. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

The Group's Board under authority delegated by the Shareholders Meeting sets the Group's general risk policy as well as specific policies for managing each type of major risk. The Bank's Interest Rates and Limits Committee (IRLC) and Credit and Investment Committee (CIC) in the Central Head Office set limits for operations that create risk exposure according to principles determined by risk policies of the Group and drafted by the departments responsible for monitoring and controlling risk. The risk-controlling departments operate separately from the business departments involved in operations creating exposure.

The Group performs stress-testing for all major types of risk at least once a year. Test results are reviewed and discussed by the Group's Board.

The Supervisory Board is informed about all main types of risk on a quarterly basis.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

The Group's lending policies focus on the improvement of the credit quality and profitability of its loan portfolio and minimisation and diversification of credit risks. To minimise credit risk at the branch level, the CIC at the Bank's Central Head Office sets lending limits for the Regional Head Offices and branches that report to the Bank's Central Head Office directly. The Regional Head Offices then allocate these lending limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the CIC of the Bank's Central Head Office. The Group usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Group accepts guarantees from controlling shareholders (or other controlling persons), government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to reduce credit risk, several types of collateral may be used simultaneously.

32 Financial Risk Management (Continued)

Exposure Limits. To manage its credit risk, the Group places its counterparties into risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Group has procedures for calculation and review of risk limits for the following categories: corporate clients, Russian Federation subjects, municipal bodies, domestic and foreign banks. Exposure limits are also set for foreign countries, single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of Russian Federation subjects and municipal bodies is evaluated on the basis of their financial position and the level of development. The financial position is evaluated on the basis of credit history, debt level and compliance with its budget and budgetary norms. The level of development is evaluated on the basis of the current socio-economic development level, future socio-economic development potential and tax proceeds sources. The Group sets three types of exposure limits for federation subjects and municipal bodies: short-term (for transactions with a term of no more than a year), temporary (for transactions that take place before their budgets are approved and have a term of no more than three months) and long-term (for transactions with a term of over a year). These limits are calculated on the basis of the Russian Federation subjects' budgets for the current year and reports relating to compliance with their budgets for a previous year. Exposure limits are not set and credit operations are not performed if a federation subject has no legal basis for loan operations or where its financial position or level of development indicate that credit transactions are not advisable.

Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Group. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client.

Risk Concentration. In order to reduce and diversify its credit risk, the Group monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees made to related parties. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Bank's Central Head Office level.

Monitoring. The Group constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and interim financial information, for federation subjects and municipal bodies twice a year on the basis of their approved budgets, for resident banks on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis, if required.

For the purpose of monitoring credit risk credit departments of the Group compile regular reports based on a structured analysis of the client's business and financial results. All information about the existing exposures against customers with deteriorating creditworthiness is reported to the management for further consideration. The Group uses formalized internal credit ratings for monitoring credit risk. Management monitors and follow-up control of past due balances. Refer to Note 10.

Lending divisions of the Group perform a credit analysis by maturity and follow-up overdue balances. That is why the Group disclosed ageing analysis and other information on credit risk in Notes 7, 8, 9, 10 and 11.

32 Financial Risk Management (Continued)

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

Market Risk. Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices. The Group manages its market risk in accordance with the Policy of the Bank on Market Risk Management. The main goal of Market Risk Management is to optimize risk/return ratio, minimize loss given unfavorable developments and to reduce the deviation of actual financial result from the expected result.

The Group categorises market risk into:

- interest rate risk,
- equity risk and
- currency risks.

The Group manages its market risks through controlling open positions in bonds, stock, currencies and derivatives. For this purpose the IRLC sets open position, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The IRLC develops market risk management methodologies and sets limits on particular operations for the Bank's Central Head Office and Regional Head Offices. The Regional Head Offices have their own interest rates and limits committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by IRLC of the Bank's Central Head Office. If necessary, the Regional Head Offices develop their own methodologies based on the methodology of the Head Office.

Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing as well as regulatory requirements of the Bank of Russia.

The Group makes market risk assessment both by components and in aggregate, determining market risk concentration ("the input" of each component), and the diversification effect.

Interest Rate Risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on the value of debt securities and cash flows.

The Group defines two types of interest rate risk:

1. Interest rate risk on debt securities at fair value through profit or loss or the equity.

The Group is exposed to interest rate risk of its debt securities portfolio, when changing interest rates impact the fair value of government, subfederal, municipal and corporate bonds. Starting from the fourth quarter 2008 regional offices do not perform trading operations with bonds.

For managing and limiting interest rate risk across the debt securities portfolio, the IRLC guided by the market risk policy sets the following limits and controls: aggregate limits for bond categories (government, corporate, subfederal and municipal); limits on investing in the same issue of one issuer, loss limits on trading operations, limits on the maturities structure of investments in government bonds, minimum return of investments, limits on repo and reverse repo agreements.

This type of interest rate risk is assessed using Value-at-Risk (hereinafter - VaR) methodology described below.

The Group assesses interest rate risk by portfolio type: separately for the securities at fair value through profit or loss, and separately for the securities available for sale. For each portfolio risk is measured by government, subfederal, municipal and corporate bonds issuers, the level of interest rate risk is defined for each class of the portfolio, concentration and the effect of diversification of investments are measured as well.

32 Financial Risk Management (Continued)

2. Interest rate risk resulting from maturities mismatch (interest rates repricing) across assets and liabilities that are interest rate sensitive (interest rate risk of non-trading positions).

The Group accepts risk of market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basic risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is to reduce the impact of interest rates on net interest income. To manage interest rate risk the IRLC sets maximum interest rates on corporate funds and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on long-term assets bearing inherently the maximum interest rate risk. The Group's Board approves fixed interest rates on deposits from individuals and individual loans for the Bank's Central Head Office and Regional Head Offices, which require preliminary approval from the IRLC. As a rule interest rates on retail loans and deposits depend on loan and deposit maturity date, amount and the client's category.

IRLC of each regional bank approves interest rates for legal entities taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the IRLC of the Bank's Central Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the scenario analysis. Interest rate risk is evaluated through a gap analysis by distributing assets and liabilities with fixed interest rates by contractual maturity dates and by the repricing periods in case of floating interest rates separately for Russian Roubles and foreign currency.

The table below shows the impact of 100 bps interest rates increase and decrease on net profit as at 31 December 2008:

Change in net profit as at 31 December 2008 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	2 198	(610)	1 588
Increase in interest rates by 100 bps	(2 198)	610	(1 588)

The table below shows the impact of 100 bps interest rates increase and decrease on net profit as at 31 December 2007:

Change in net profit as at 31 December 2007 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	793	187	980
Increase in interest rates by 100 bps	(793)	(187)	(980)

32 Financial Risk Management (Continued)

The sensitivity analysis above shows changes in net interest income given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. Moreover, interest rate risk is assessed considering the following simplifications: the calculation disregards possible early repayment or call of instruments.

The Group regularly stress-tests interest rate risk measuring interest income and expense changes given significant interest rate change, including the risk of interest repricing and early repayment of loans (before the contractual date).

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

	2008		2007	
In % p.a.	RR	Other currencies	RR	Other currencies
Assets				
Cash and cash equivalents	3.3	0.9	0.6	3.0
Debt trading securities	15.2	10.0	6.4	5.6
Other debt securities at fair value through profit or loss	11.9	-	6.4	-
Due from other banks	22.4	5.7	8.5	8.0
Loans and advances to customers	13.4	10.5	11.5	9.0
Investment securities available for sale	14.3	10.3	10.3	-
Liabilities				
Due to other banks	9.1	1.1	1.9	0.9
Deposits from individuals	5.7	5.1	5.8	5.3
Customer accounts	4.3	3.4	3.0	4.1
Debt securities in issue	7.3	2.8	5.8	5.0
Other borrowed funds	-	4.9	-	5.9
Subordinated debt	7.9	6.4	-	6.4

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

Equity Price Risk. The Group is exposed to equity price risk through investments in corporate shares that may lose value when their market quotations change. In order to limit equity price risk the IRLC shortlists the issuers eligible for investing (this list includes exclusively "blue chips"), sets limits for the aggregate investments into their stock, limits on investment into a single issuer, stop-loss limits for the aggregate trading portfolio. The regional offices do not perform trading operations with shares.

Equity price risk analysis is based of the VaR methodology described below.

Equity price risk is analyzed by portfolio – separately for the portfolio of securities at fair value through profit or loss and for the portfolio of securities available for sale. The Group also performs analysis by issuer and by share category (preferred and ordinary shares of the same issuer are considered as different shares), as well as risk concentration and diversification effect for the portfolio.

Currency Risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RUB and EUR/RUB exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for regional head offices and Moscow branches. Besides limits and control system is in place for Treasury arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

32 Financial Risk Management (Continued)

The Bank's Central Head Office Treasury undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group's currency risk exposure on a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for hedging risk.

The table below summarises the Group's exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and off-balance sheet notional position at 31 December 2008:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	327 805	245 377	215 549	15 018	803 749
Mandatory cash balances with the Bank of Russia	7 643	-	-	-	7 643
Debt trading securities	58 511	19 305	-	-	77 816
Other debt securities at fair value through profit or loss	129 180	-	-	-	129 180
Due from other banks	2 287	428	41	-	2 756
Loans and advances to customers	4 274 439	691 100	87 103	25 240	5 077 882
Debt investment securities available for sale	236 756	34 108	377	2 453	273 694
Other financial assets (less fair value of derivatives)	33 898	516	687	13	35 114
Total monetary assets	**5 070 519**	**990 834**	**303 757**	**42 724**	**6 407 834**
Liabilities					
Due to other banks	273 793	11 484	14 747	2 515	302 539
Deposits from individuals	2 586 989	223 697	256 779	44 637	3 112 102
Customer accounts	1 133 345	374 968	156 764	18 053	1 683 130
Debt securities in issue	137 783	661	458	-	138 902
Other borrowed funds	-	156 496	2 584	-	159 080
Other financial liabilities (less fair value of derivatives)	11 991	4 665	1 110	143	17 909
Subordinated debt	504 633	30 222	-	1 366	536 221
Total monetary liabilities	**4 648 534**	**802 193**	**432 442**	**66 714**	**5 949 883**
Net balance sheet position	**421 985**	**188 641**	**(128 685)**	**(23 990)**	**457 951**
Off-balance sheet notional position on currency and precious metals derivatives (Note 34)	**71 746**	**(221 627)**	**137 189**	**11 117**	**(1 575)**
Credit related commitments (Note 33)	**316 056**	**376 000**	**92 160**	**21 942**	**806 158**

32 Financial Risk Management (Continued)

The table below summarises the Group's risk exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and off-balance sheet notional position at 31 December 2007:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	153 156	11 082	69 663	8 330	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	-	-	56 790
Debt trading securities	218 896	27 242	-	-	246 138
Other debt securities at fair value through profit or loss	242 325	-	-	1 928	244 253
Due from other banks	3 549	1 522	-	-	5 071
Loans and advances to customers	3 333 393	508 131	63 184	16 838	3 921 546
Debt investment securities available for sale	1 816	-	-	-	1 816
Other financial assets (less fair value of derivatives)	25 291	103	131	-	25 525
Total monetary assets	**4 035 216**	**548 080**	**132 978**	**27 096**	**4 743 370**
Liabilities					
Due to other banks	76 576	1 411	703	1 631	80 321
Deposits from individuals	2 409 336	141 140	113 716	17 794	2 681 986
Customer accounts	895 775	226 043	68 877	4 939	1 195 634
Debt securities in issue	159 202	3 062	100	1 463	163 827
Other borrowed funds	-	109 074	2 951	-	112 025
Other financial liabilities (less fair value of derivatives)	7 352	92	97	-	7 541
Subordinated debt	-	25 064	-	-	25 064
Total monetary liabilities	**3 548 241**	**505 886**	**186 444**	**25 827**	**4 266 398**
Net balance sheet position	**486 975**	**42 194**	**(53 466)**	**1 269**	**476 972**
Off-balance sheet notional position on currency and precious metals derivatives (Note 34)	**3 248**	**(58 248)**	**47 408**	**8 245**	**653**
Credit related commitments (Note 33)	**291 771**	**312 031**	**68 686**	**4 402**	**676 890**

The Group provided loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss. To eliminate currency risk on loans and advances to customers the Group made a decision to transfer loans to individuals issued in foreign currency to Russian Roubles on demand.

The Group's analysis of currency risk is based on the VaR methodology described below.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon. The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates).

32 Financial Risk Management (Continued)

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 500 trading days preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices and price indices;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days or not more than 5 times within 2 years.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

To measure interest rate risk for non-trading positions, the Group applies scenario analysis rather than the VaR methodology.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2008:

In millions of Russian Roubles	**Value as at 31 December 2008**	**Average value for 2008**	**Maximum value for 2008**	**Minimum value for 2008**	**Impact on equity**	**Impact on profit**
Interest rate risk of debt securities	21 603	7 498	22 278	3 562	0.94%	6.82%
Equity price risk	3 035	1 873	4 134	689	0.23%	1.70%
Currency risk	1 066	904	7 177	289	0.11%	0.82%
Market risk including diversification effect	21 914	8 716	22 752	3 492	1.09%	7.93%
Diversification effect	(3 790)	(1 559)	-	-	-	-

32 Financial Risk Management (Continued)

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2007:

In millions of Russian Roubles	**Value as at 31 December 2007**	**Average value for 2007**	**Maximum value for 2007**	**Minimum value for 2007**	**Impact on equity**	**Impact on profit**
Interest rate risk of debt securities	3 501	3 548	4 403	2 313	0.62%	3.04%
Equity price risk	14	680	3 255	-	0.12%	0.58%
Currency risk	325	95	357	13	0.02%	0.08%
Market risk including diversification effect	3 495	3 716	4 477	2 319	0.65%	3.18%
Diversification effect	345	607	-	-	-	-

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

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

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:

- maintains a stable and diversified liabilities structure including both term resources and funds on demand,
- reserves capacity for immediate borrowing of funds on financial markets, and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

Policy and Procedures. The Treasury of the Bank together with the Financial department perform analysis and forecasts, and advise on regulation of current and short-term liquidity of the Group. Analysis, forecasts and proposals on regulation of medium-term and long-term liquidity are produced by the Financial department of the Bank. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the IRLC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision and "Policies of the Bank for Management and Control of Liquidity".

These Policy provisions lay the guidelines for organizing the liquidity management in the regional head offices of the Bank. Board of the Bank's regional head office is responsible for efficiently managing and controlling regional head office liquidity. It is also responsible for monitoring limits and controls required by the Group's internal regulations. Guided by the limits, controls, requirements and policies regional head offices select evaluation methods and the necessary level of liquidity and develop and implement measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the regional head office (according to an established procedure) in the required amount.

Liquidity risk management includes the following procedures:

- forecasting payment flows by major currencies and the necessary volume of liquid assets;
- monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- ensuring diversified funding sources;
- planning of loans issuing; and
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods.

32 Financial Risk Management (Continued)

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2008 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	302 914	124	8	177	164	303 387
Deposits from individuals	579 503	729 104	568 446	1 305 085	129 993	3 312 131
Customer accounts	1 187 622	205 953	151 945	172 989	22	1 718 531
Debt securities in issue	32 006	60 149	26 393	40 666	10	159 224
Other borrowed funds	1 700	2 197	48 342	91 148	36 036	179 423
Other financial liabilities	16 297	1 037	178	136	261	17 909
Derivative financial instruments						
- net settled	277	661	-	-	-	938
- inflow gross settled	(33 507)	(7)	-	-	-	(33 514)
- outflow gross settled	37 641	7	-	-	-	37 648
Subordinated debt	-	915	40 915	83 661	857 362	982 853
Total liabilities	**2 124 453**	**1 000 140**	**836 227**	**1 693 862**	**1 023 848**	**6 678 530**
Loan commitments - credit lines and overdrafts	353 723	-	-	-	-	353 723
Total liabilities including credit lines and overdrafts	**2 478 176**	**1 000 140**	**836 227**	**1 693 862**	**1 023 848**	**7 032 253**

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2007 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	80 362	-	-	-	-	80 362
Deposits from individuals	492 127	715 835	557 751	913 149	154 021	2 832 883
Customer accounts	843 955	81 224	67 132	234 616	52	1 226 979
Debt securities in issue	37 810	45 843	35 991	55 380	10	175 034
Other borrowed funds	633	12 304	13 161	64 293	39 006	129 397
Other financial liabilities (including net currency and precious metals derivatives)	6 508	17 539	407	3 987	6	28 447
Subordinated debt	-	765	765	3 058	31 428	36 016
Total liabilities	**1 461 395**	**873 510**	**675 207**	**1 274 483**	**224 523**	**4 509 118**
Loan commitments - credit lines and overdrafts	328 114	-	-	-	-	328 114
Total liabilities including credit lines and overdrafts	**1 789 509**	**873 510**	**675 207**	**1 274 483**	**224 523**	**4 837 232**

32 Financial Risk Management (Continued)

The above analysis is based on undiscounted cash flows on liabilities of the Group taking into account all future payments (including future payments of interest throughout life of the relevant liability). The liabilities were included in the time intervals according to the earliest possible repayment date. For example:

- Demand liabilities (including demand deposits) are included in the earliest time interval; and
- Credit lines and overdrafts are included in the earliest period when they may be called;

However, in accordance with the Civil Code of the Russian Federation individuals have the right to withdraw their deposits from any accounts (including time deposit accounts) prior to maturity if they forfeit their right to accrued interest. The Group utilises a wide range of market instruments to maintain its own liquidity on the level sufficient for timely execution of the current and forecasted financial obligations including the disposal of liquid assets or funding in domestic and international capital markets.

The table below shows assets and liabilities at 31 December 2008 by their remaining expected maturity. The Bank manages its Liquidity Risk using management accounts based on statutory balances. For the purpose of presentation in the consolidated financial statements the tables below approximate the data in those management accounts. The Bank uses internal software system and the internal system of forecasts, which allows to classify the deposits from individuals and customer accounts balances in accordance with the expected terms of settlements based on the internal statistics of the Bank and macroeconomic trends.

32 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities at 31 December 2008 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	803 749	-	-	-	-	-	803 749
Mandatory cash balances with the Bank of Russia	855	1 604	788	1 532	2 864	-	7 643
Trading securities	78 603	-	-	-	-	-	78 603
Other securities at fair value through profit or loss	130 503	-	-	-	-	-	130 503
Due from other banks	2 058	698	-	-	-	-	2 756
Loans and advances to customers	275 743	973 510	1 038 260	1 432 780	1 357 589	-	5 077 882
Investment securities available for sale	75	7 426	8 892	52 061	205 241	10 877	284 572
Premises and equipment	-	-	-	-	-	251 478	251 478
Other assets	64 714	15 497	2 044	8 370	586	8 085	99 296
Total assets	**1 356 300**	**998 735**	**1 049 984**	**1 494 743**	**1 566 280**	**270 440**	**6 736 482**
Liabilities							
Due to other banks	302 068	122	8	177	164	-	302 539
Deposits from individuals	65 853	223 189	246 610	784 904	1 791 546	-	3 112 102
Customer accounts	475 141	782 598	249 900	175 425	66	-	1 683 130
Debt securities in issue	32 116	52 208	23 569	31 001	8	-	138 902
Other borrowed funds	-	21	44 453	81 307	33 299	-	159 080
Deferred income tax liability	-	-	-	-	-	10 516	10 516
Other liabilities	27 162	8 555	177	136	262	7 538	43 830
Subordinated debt	-	-	-	-	536 221	-	536 221
Total liabilities	**902 340**	**1 066 693**	**564 717**	**1 072 950**	**2 361 566**	**18 054**	**5 986 320**
Net liquidity surplus/(gap)	**453 960**	**(67 958)**	**485 267**	**421 793**	**(795 286)**	**252 386**	**750 162**
Cumulative liquidity surplus at 31 December 2008	**453 960**	**386 002**	**871 269**	**1 293 062**	**497 776**	**750 162**	

32 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities at 31 December 2007 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	242 231	-	-	-	-	-	242 231
Mandatory cash balances with the Bank of Russia	12 503	3 956	4 026	13 281	23 024	-	56 790
Trading securities	246 221	-	-	-	-	-	246 221
Other securities at fair value through profit or loss	247 024	-	-	-	-	-	247 024
Due from other banks	3 549	614	614	-	294	-	5 071
Loans and advances to customers	173 359	681 047	1 107 451	1 004 106	955 583	-	3 921 546
Investment securities available for sale	-	-	-	-	1 817	8 277	10 094
Deferred income tax asset	-	-	-	68	-	-	68
Premises and equipment	-	-	-	-	-	146 850	146 850
Other assets	34 143	2 451	1 950	2 885	162	11 322	52 913
Total assets	**959 030**	**688 068**	**1 114 041**	**1 020 340**	**980 880**	**166 449**	**4 928 808**
Liabilities							
Due to other banks	80 321	-	-	-	-	-	80 321
Deposits from individuals	61 186	187 792	207 674	667 930	1 557 404	-	2 681 986
Customer accounts	284 087	473 536	151 524	257 943	28 544	-	1 195 634
Debt securities in issue	38 222	44 352	37 076	44 170	7	-	163 827
Other borrowed funds	-	-	19 762	55 402	36 861	-	112 025
Other liabilities	21 143	1 858	1 045	4 626	6	4 076	32 754
Subordinated debt	-	-	-	-	25 064	-	25 064
Total liabilities	**484 959**	**707 538**	**417 081**	**1 030 071**	**1 647 886**	**4 076**	**4 291 611**
Net liquidity surplus/(gap)	**474 071**	**(19 470)**	**696 960**	**(9 731)**	**(667 006)**	**162 373**	**637 197**
Cumulative liquidity surplus at 31 December 2007	**474 071**	**454 601**	**1 151 561**	**1 141 830**	**474 824**	**637 197**	**-**

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

32 Financial Risk Management (Continued)

The entire portfolio of trading securities and other securities at fair value through profit or loss is classified within demand and less than one month category as the portfolio is liquid, and Management believes this is a fairer portrayal of the Group's liquidity position.

Management believes that in spite of a substantial portion of customer accounts and deposits from individuals being on demand (as at 31 December 2008 total customer deposits and deposits from individuals on demand amounted to RR 1 767 125 million (2007: RR 1 336 082 million), diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts and deposits from individuals provide a long-term and stable source of funding.

The Group's liquidity is assessed through all time intervals under different economy development scenarios. For each term to maturity the liquidity ratios are calculated as the ratio of assets redeemable during the term to liabilities callable during the same term in accordance with scenario applicable at the moment of calculation.

Currently there are four different scenarios of changes in macroeconomic environment that are approved by collective bodies of the Group. They are: basic (the most probable) scenario, two scenarios of macroeconomic deterioration and crisis scenario (similar to the crisis of 1998). The trigger for switching between scenarios is the average Urals oil price for the last 6 months which is the primary factor reflecting external economic environment. Individual liquidity ratios are independently approved for every scenario.

According to the basic scenario, the minimum liquidity ratio value is 1, i.e. possible outflow of customers' funds should be completely covered by the disposal of assets. Other scenarios imply liquidity ratios below 1, which indicates possible shortage of liquidity. However, in case of switching from basic scenario or if there's a threat of trespassing minimal liquidity ratios approved by the IRLC, special liquidity supporting measures are implemented. Actual liquidity ratios are calculated on a monthly basis.

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

In millions of Russian Roubles	**Russia**	**Other countries**	**Total**
Assets			
Cash and cash equivalents	431 942	371 807	803 749
Mandatory cash balances with the Bank of Russia	7 643	-	7 643
Trading securities	78 603	-	78 603
Other securities at fair value through profit or loss	130 503	-	130 503
Due from other banks	2 059	697	2 756
Loans and advances to customers	5 018 854	59 028	5 077 882
Investment securities available for sale	282 119	2 453	284 572
Premises and equipment	249 569	1 909	251 478
Other assets	98 635	661	99 296
Total assets	**6 299 927**	**436 555**	**6 736 482**
Liabilities			
Due to other banks	289 494	13 045	302 539
Deposits from individuals	3 095 103	16 999	3 112 102
Customer accounts	1 657 726	25 404	1 683 130
Debt securities in issue	138 902	-	138 902
Other borrowed funds	-	159 080	159 080
Deferred tax liability	10 285	231	10 516
Other liabilities	42 891	939	43 830
Subordinated debt	504 634	31 587	536 221
Total liabilities	**5 739 035**	**247 285**	**5 986 320**
Net balance sheet position	**560 892**	**189 270**	**750 162**
Credit related commitments (Note 33)	**679 645**	**126 513**	**806 158**

32 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand, and premises and equipment have been allocated based on the country in which they are physically held.

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

In millions of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	161 645	80 586	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	56 790
Trading securities	246 221	-	246 221
Other securities at fair value through profit or loss	245 070	1 954	247 024
Due from other banks	3 549	1 522	5 071
Loans and advances to customers	3 824 166	97 380	3 921 546
Investment securities available for sale	10 094	-	10 094
Deferred income tax asset	68	-	68
Premises and equipment	144 519	2 331	146 850
Other assets	48 094	4 819	52 913
Total assets	**4 740 216**	**188 592**	**4 928 808**
Liabilities			
Due to other banks	64 500	15 821	80 321
Deposits from individuals	2 667 601	14 385	2 681 986
Customer accounts	1 182 425	13 209	1 195 634
Debt securities in issue	162 364	1 46	163 827
Other borrowed funds	-	112 025	112 025
Other liabilities	32 169	585	32 754
Subordinated debt	-	25 064	25 064
Total liabilities	**4 109 059**	**182 552**	**4 291 611**
Net balance sheet position	**631 157**	**6 040**	**637 197**
Credit related commitments (Note 33)	**566 244**	**110 646**	**676 890**

33 Contingencies and Commitments

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

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

33 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2008 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 9 113 million (2007: RR 11 202 million) and in respect of computer equipment installation of RR 522 million (2007: RR 585 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Russian Roubles	2008		2007	
	Lease payments under cancellable operating lease	**Lease payments under non-cancellable operating lease**	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**
Not later than 1 year	4 287	676	3 599	462
Later than 1 year and not later than 5 years	8 112	1 264	6 981	672
Later than 5 years	7 849	1 154	6 718	886
Total operating lease commitments	**20 248**	**3 094**	**17 298**	**2 020**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank. Management believes that the Bank is in compliance with covenants as at 31 December 2008 and as at 31 December 2007.

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

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

In millions of Russian Roubles	**2008**	**2007**
Undrawn credit lines and commitments to extent credit	353 723	328 114
Export letters of credit	237 050	208 085
Import letters of credit and letters of credit for domestic settlements	128 120	111 066
Guarantees issued	87 265	29 625
Total credit related commitments	**806 158**	**676 890**

33 Contingencies and Commitments (Continued)

At 31 December 2008 included in customer accounts are deposits of RR 95 722 million (2007: RR 65 159 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 15.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash payments, as these financial instruments may expire or terminate without being funded.

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	**2008 Nominal value**	**2007 Nominal value**
State savings bonds and OFZ bonds	179 267	103 333
Corporate shares	122 744	52 624
Promissory notes	24 022	49 921
Corporate bonds	4 952	3 471
Debt securities of municipal and subfederal bodies of the Russian Federation	740	1 451
VneshEconomBank bonds (VEB bonds)	7	662
Bonds of the Bank of Russia	-	605
Other securities	620	1 115

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

	Notes	**2008**		**2007**	
In thousands of Russian Roubles		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Trading securities	8, 14	41 863	40 319	-	-
Other securities at fair value through profit or loss	9, 14	108 385	104 422	-	-
Investment securities available for sale	11, 14	92 500	89 179	-	-
Total		**242 748**	**233 920**	**-**	**-**

Mandatory cash balances with the Bank of Russia in the amount of RR 7 643 million (2007: RR 56 790 million) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

As at 31 December 2008 the Group has pledged federal loan bonds (OFZ bonds) with fair value of RR 73 911 million (2007: RR 71 704 million) on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia.

34 Derivative Financial Instruments

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

34 Derivative Financial Instruments (Continued)

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

	Domestic counterparties				Foreign counterparties			
2008:	**Principal or agreed amount at fair value of asset purchased**	**Principal or agreed amount at fair value of asset sold**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount at fair value of asset purchased**	**Principal or agreed amount at fair value of asset sold**	**Assets Positive fair value**	**Liabilities Negative fair value**
Forwards								
Foreign currency								
- purchase AUD/sale USD	-	-	-	-	18	(18)	-	-
- purchase CHF/sale USD	-	-	-	-	27	(27)	-	-
- purchase EUR/sale GBP	-	-	-	-	82	(82)	-	-
- purchase EUR/sale USD	-	-	-	-	137 948	(136 479)	1 673	(204)
- purchase GBP/sale USD	-	-	-	-	56	(55)	1	-
- purchase JPY/sale USD	-				50	(50)	-	-
- purchase RUR/sale USD	42 975	(42 764)	266	(55)	60 886	(65 181)	321	(4 616)
- purchase SGD/sale USD	-	-	-	-	3	(3)	-	-
- purchase USD/sale EUR	824	(841)	-	(17)	-	-	-	-
- purchase USD/sale RUR	317	(256)	61	-	1 475	(1 123)	352	-
- purchase USD/sale KZT	-	-	-	-	2 984	(2 984)	-	-
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	14 049	(13 306)	753	(10)
- purchase USD/sale precious metals	-	-	-	-	20	(20)	-	-
Futures								
Foreign currency								
- purchase USD/sale RUR	30 704	(30 801)	70	(167)	-	-	-	-
Options								
Foreign currency								
- purchase RUR/sale USD	65	(68)	-	(3)	-	-	-	-
Total	**74 885**	**(74 730)**	**397**	**(242)**	**217 598**	**(219 328)**	**3 100**	**(4 830)**

34 Derivative Financial Instruments (Continued)

2007:	Domestic counterparties: Principal or agreed amount at fair value of asset purchased	Domestic counterparties: Principal or agreed amount at fair value of asset sold	Domestic counterparties: Assets Positive fair value	Domestic counterparties: Liabilities Negative fair value	Foreign counterparties: Principal or agreed amount at fair value of asset purchased	Foreign counterparties: Principal or agreed amount at fair value of asset sold	Foreign counterparties: Assets Positive fair value	Foreign counterparties: Liabilities Negative fair value
Forwards								
Foreign currency								
- purchase CAD/sale USD	-	-	-	-	1 125	(1 118)	7	-
- purchase JPY/sale USD	-	-	-	-	590	(582)	8	-
- purchase KZT/sale USD	-	-	-	-	2 484	(2 455)	29	-
- purchase RR/sale USD	3 537	(3 543)	-	(6)	1 401	(1 395)	7	(1)
- purchase RR/sale EUR	208	(206)	2	-	-	-	-	-
- purchase USD/sale KZT	-	-	-	-	1 227	(1 240)	-	(13)
- purchase USD/sale RR	2 255	(2 301)	1	(47)	-	-	-	-
- purchase EUR/sale USD	-	-	-	-	47 503	(47 012)	550	(59)
- purchase EUR/sale RR	39	(39)	-	-	-	-	-	-
- purchase EUR/sale CHF	-	-	-	-	72	(72)	-	-
- purchase UAH/sale USD	49	(49)	-	-	-	-	-	
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	5 066	(4 888)	178	-
- purchase precious metals/sale RR	578	(577)	1	-	-	-	-	-
- purchase USD/sale precious metals	-	-	-	-	331	(335)	-	(4)
Futures								
Foreign currency								
- purchase RR/sale USD	1 019	(1 019)	-	-	-	-	-	-
Total	**7 685**	**(7 734)**	**4**	**(53)**	**59 799**	**(59 097)**	**779**	**(77)**

During the year the Group has incurred a net loss on foreign currency derivatives in the amount of RR 5 022 million (2007: net gain of RR 1 053 million) and earned net gain on precious metals derivatives in the amount of RR 570 million (2007: net gain of RR 174 million), which is recorded in the Group's consolidated statement of comprehensive income within gains less losses arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains less losses, and losses, net of gains arising from operations with precious metals and precious metals derivatives correspondingly.

35 Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss including those classified as financial derivatives and available for sale financial assets are carried on the consolidated statement of financial position at their fair value. The fair value is based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Interest rates on loans and advances to customers and due from other banks as at 31 December 2008 and 31 December 2007 were as follows:

	2008	2007
Loans and advances to customers and Due from other banks – Note 10		
Corporate loans	7.90% to 15.97% p.a.	8.27% to 10.94% p.a.
Loans to individuals - consumer loans	11.48% to 14.65% p.a.	11.65% to 15.16% p.a.
Due from other banks	7.00% to 35.00% p.a.	7.00% to 9.50% p.a.

Refer to Note 10 for the estimated fair values of due from other banks and loans and advances to customers.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 14, 15, 16, 17 and 19 for the estimated fair values of due to other banks, deposits of individuals and customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.2% p.a. to 12.0% p.a. (2007: from 0.3% p.a. to 10.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 34.

35 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

	31 December 2008		31 December 2007	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents				
- Cash on hand	307 456	307 456	123 087	123 087
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	82 028	82 028	24 782	24 782
- Correspondent accounts and overnight placements with other banks with original maturities of less than one month	402 233	402 233	81 819	81 819
- Securities purchased under "reverse-repo agreements" with original maturities of less than one month	12 032	12 032	12 543	12 543
Mandatory cash balances with the Bank of Russia	7 643	7 643	56 790	56 790
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	2 052 666	2 019 315	1 712 372	1 712 372
- Specialized loans to legal entities	1 808 626	1 672 661	1 296 830	1 296 830
- Loans to individuals - consumer and other loans	731 326	731 326	632 347	632 347
- Mortgage loans to individuals	485 264	485 264	279 997	279 997
- Due from other banks	2 756	2 756	5 071	5 071
Other financial assets carried at amortised cost				
- Receivables on plastic cards settlements	32 035	32 035	23 562	23 562
- Funds in settlement	1 232	1 232	895	895
- Other financial assets carried at amortised cost	1 847	1 847	1 068	1 068
Financial assets carried at fair value				
Trading securities	78 603	78 603	246 221	246 221
Other securities at fair value through profit or loss	130 503	130 503	247 024	247 024
Investment securities available for sale	284 572	284 572	10 094	10 094
Other financial assets carried at fair value	3 497	3 497	783	783
Total financial assets	**6 424 319**	**6 236 673**	**4 755 285**	**4 755 285**

35 Fair Value of Financial Instruments (Continued)

	31 December 2008		31 December 2007	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities carried at amortised cost				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	33 134	33 134	32 273	32 273
- Current term placements of other banks	35 485	35 485	48 048	48 048
- Sale and repurchase agreements with Bank of Russia and other banks	233 920	233 920	-	-
Deposits from Individuals				
- Current/demand accounts	395 090	395 090	302 339	302 339
- Term deposits	2 717 012	2 695 489	2 379 647	2 379 647
Customer accounts				
- Current/settlement accounts of state and public organisations	160 540	160 540	64 546	64 546
- Term deposits of state and public organisations	58 914	58 770	16 653	16 653
- Current/settlement accounts of other legal entities	850 621	850 621	686 806	686 806
- Term deposits of other legal entities	613 055	611 554	427 629	427 629
Debt securities in issue				
- Promissory notes	119 408	113 032	142 090	135 795
- Savings certificates	17 095	17 095	18 984	18 984
- Deposit certificates	2 399	2 399	2 753	2 753
Other borrowed funds				
- Long-term loans received	153 531	141 787	106 057	105 913
- Term borrowings	5 549	5 549	5 968	5 968
Other financial liabilities carried at amortised cost				
- Plastic card payables	7 842	7 842	3 269	3 269
- Funds in settlement	6 391	6 391	961	961
- Trade payables	1 849	1 849	2 619	2 619
- Other financial liabilities carried at amortised cost	1 827	1 827	692	692
Subordinated debt				
- Subordinated debt received by the Bank from the Bank of Russia	504 634	504 634	-	-
- Subordinated debt received by the Bank on international financial markets	30 012	19 138	25 064	24 891
- Subordinated debt received by subsidiaries	1 575	1 575	-	-
Financial liabilities carried at fair value				
Other financial liabilities carried at fair value	5 072	5 072	130	130
Total financial liabilities	**5 954 955**	**5 902 793**	**4 266 528**	**4 259 916**

36 Reconciliation of Classes of Financial Instruments with Measurement Categories

According to IAS 39 "*Financial Instruments: Recognition of Measurement"* Group classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as liabilities held for trading.

36 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Financial assets at fair value through profit or loss**	**Total**
ASSETS				
Cash and cash equivalents	803 749	-	-	803 749
Mandatory cash balances with the Bank of Russia	7 643	-	-	7 643
Trading securities				
- Federal loan bonds (OFZ bonds)	-	-	34 257	34 257
- Russian Federation Eurobonds	-	-	19 291	19 291
- Corporate bonds	-	-	12 844	12 844
- Municipal and subfederal bonds	-	-	11 410	11 410
- Corporate shares	-	-	787	787
- VneshEconomBank bonds (VEB bonds)	-	-	14	14
Other securities at fair value through profit or loss				
- Federal loan bonds (OFZ bonds)	-	-	116 730	116 730
- Corporate bonds	-	-	7 125	7 125
- Municipal and subfederal bonds	-	-	5 325	5 325
- Corporate shares	-	-	1 323	1 323
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	2 052 666	-	-	2 052 666
- Specialized loans to legal entities	1 808 626	-	-	1 808 626
- Loans to individuals - consumer and other loans	731 326	-	-	731 326
- Mortgage loans to individuals	485 264	-	-	485 264
- Due from other banks	2 756	-	-	2 756
Investment securities available for sale				
- Federal loan bonds (OFZ bonds)	-	113 084	-	113 084
- Corporate bonds	-	67 218	-	67 218
- Municipal and subfederal bonds	-	58 694	-	58 694
- Russian Federation Eurobonds	-	32 710	-	32 710
- Corporate shares	-	10 878	-	10 878
- Foreign federal bodies bonds	-	1 988	-	1 988
Other financial assets	35 114	-	3 497	38 611
Total financial assets	**5 927 144**	**284 572**	**212 603**	**6 424 319**

36 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Financial assets at fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	242 231	-	-	242 231
Mandatory cash balances with the Bank of Russia	56 790	-	-	56 790
Trading securities				
- Federal loan bonds (OFZ bonds)	-	-	89 044	89 044
- Bonds of the Bank of Russia	-	-	83 081	83 081
- Corporate bonds	-	-	27 455	27 455
- Russian Federation Eurobonds	-	-	24 507	24 507
- Municipal and subfederal bonds	-	-	19 316	19 316
- VneshEconomBank bonds (VEB bonds)	-	-	2 735	2 735
- Corporate shares	-	-	83	83
Other securities at fair value through profit or loss				
- Federal loan bonds (OFZ bonds)	-	-	196 383	196 383
- Municipal and subfederal bonds	-	-	29 966	29 966
- Corporate bonds	-	-	16 286	16 286
- Corporate shares	-	-	2 771	2 771
- Foreign federal bodies bonds	-	-	1 618	1 618
Loans and advances to customers and due from other banks				
- Commercial loans to legal entities	1 712 372	-	-	1 712 372
- Specialized loans to legal entities	1 296 830	-	-	1 296 830
- Loans to individuals - consumer and other loans	632 347	-	-	632 347
- Mortgage loans to individuals	279 997	-	-	279 997
- Due from other banks	5 071	-	-	5 071
Investment securities available for sale	-	10 094	-	10 094
Other financial assets	25 525	-	783	26 308
Total financial assets	**4 251 163**	**10 094**	**494 028**	**4 755 285**

37 Related Party Transactions

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

The Group's parent is the Bank of Russia (refer to Note 1). As the Group continues to apply IAS 24 "Related Party Disclosures" (revised), respective disclosures are made in Note 38 for transactions with state-controlled entities and government bodies.

At 31 December 2008 and 31 December 2007, the outstanding balances with the Bank of Russia were as follows:

In millions of Russian Roubles	Note	2008	2007
Assets			
Mandatory cash balances with the Bank of Russia		7 643	56 790
Account with the Bank of Russia (other than mandatory cash balances)	7	82 028	24 782
Bonds of the Bank of Russia (yield to maturity is from 6% to 7%	8	-	83 081
Liabilities			
Due to other banks (contractual interest rate: 10.0%)	14	233 317	667
Subordinated debt (contractual interest rate: 8.0%)	19	504 634	-

At 31 December 2008 amounts due to other banks represent amounts received under sale and repurchase agreements with the Bank of Russia. The total fair value of securities sold under these agreements is included in the portfolio of trading securities in the amount of RR 41 863 million, in the portfolio of other securities at fair value through profit or loss in the amount of RR 108 385 million and in the portfolio of investment securities available for sale in the amount of RR 91 872 million in the consolidated statement of financial position of the Group. Refer to Notes 8,9,11 and 14.

Income and expense items with the Bank of Russia for the year were as follows:

In millions of Russian Roubles	2008	2007
Interest income	1 501	10 204
Interest expense	(1 827)	(342)
Interest expense on subordinated debt	(4 634)	-
Gains less losses arising from trading securities	100	2 687
Losses, net of gains arising from investment securities available for sale	(47)	-
Other operating expenses	(797)	(306)

In 2008, remuneration of members of the key management personnel comprised salaries and bonuses totalling RR 934 million (2007: RR 1 202 million).

The Group has zero liability to key management as at 31 December 2008. As at 31 December 2007 the Group had a liability of RR 29 million to key management.

38 Transactions with State-Controlled Entities and Government Bodies

As stated in Note 37, the Group continues to apply IAS 24 "Related Party Disclosures" revised. Disclosures are made below for transactions with state-controlled entities and government bodies.

Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Group disclosed only information that its current internal management accounting system allows to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These consolidated financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Group's transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) 100% State subsidiaries and government bodies and 2) largest entities where the State controls over 50% of its share capital.

Transactions with government bodies and state-controlled entities are entered into the normal course of business and priced at market rates. At 31 December 2008, the outstanding balances with state-controlled entities and government bodies were as follows:

	2008		**2007**	
In millions of Russian Roubles	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**
Cash and cash equivalents (contractual rates from: 14.0% to 25.0%)	1	2 149	1	1 220
Trading securities (yield to matuirty from 5.0% to 31.0%)	65 160	4 500	142 061	7 887
Other securities at fair value through profit and loss (yield to matuirty from 7.0% to 31.0%)	122 055	1 607	226 384	2 772
Gross amount of loans and advances to customers (contractual interest rate: 1.5%-17.0%)	286 180	155 033	185 419	125 936
Impairment provisions for loans and advances to customers	(4 232)	(2 220)	(2 317)	(636)
Investment securities available for sale (from 5.8% to 31.0%)	230 158	9 806	301	-
Due to other banks (contractual rates from: 1.0% to 10.0%)	-	8 203	3 286	10 901
Customer accounts (contractual rates from: 0.02% to 14.1%)	222 682	40 423	82 230	28 926

38 Operations with State-Controlled Entities and Government Bodies (Continued)

Income and expense items with state-controlled entities and government bodies for the reporting period were as follows:

In millions of Russian Roubles	2008 100% owned state subsidiaries and government bodies	2008 Entities where the state controls over 50% of share capital	2007 100% owned state subsidiaries and government bodies	2007 Entities where the state controls over 50% of share capital
Interest income	51 734	11 680	41 248	5 920
Interest expense	(14 842)	(2 551)	(3 886)	(1 435)
Losses, net of gains arising from trading securities	(14 752)	(828)	72	316
Losses, net of gains arising from other securities at fair value through profit or loss	(12 412)	(1 496)	(697)	(149)
(Losses, net of gains)/ gains less losses arising from investment securities available for sale	(11)	420	-	-
Impairment of investment securities available for sale	-	(3 600)	-	-
Gains arising from disposal of investment securities held to maturity	-	-	19 436	-
Fee and commission income	2 967	373	2 501	350

Transactions with the State include taxes, which are detailed in Note 28.

39 Principal Subsidiaries

The table below provides detail on major consolidated subsidiaries of the Group as at 31 December 2008:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
ZAO Russian-German Leasing Company	leasing	100%	100%	Russia
LLC Sberbank Capital	services	100%	100%	Russia
DB AO Sberbank	banking	100%	100%	Kazakhstan
ZAO Sberbank of Russia (former ZAO Bank NRB)	banking	100%	100%	Ukraine

On 30 September 2008 the Bank incorporated a 100% subsidiary, LLC Sberbank Capital. The company was incorporated to manage the projects not directly related to the Bank`s main operating activities.

40 Business combinations

On 27 December 2007 the Group acquired 100% of the share capital of ZAO Bank NRB in Ukraine for RR 3 186 million. Net assets of ZAO Bank NRB provisionally assessed at the date of acquisition were RR 1 225 million. The transaction resulted in recognition of goodwill in the amount of RR 2 258 million as at 31 December 2007 on provisional basis. During 2008 purchase price allocation procedure was performed by independent appraiser and the amount of goodwill was adjusted to RR 1 308 million. The acquired subsidiary contributed no revenue and profit to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group’s net profit for 2007 would have been RR 106 592 million.

40 Business Combinations (Continued)

The details of the assets and liabilities acquired and goodwill arising are as follows:

In millions of Russian Roubles	**IFRS carrying amount immediately before business combination**	**Fair value**
Cash and cash equivalents	608	311
Loans and advances to customers	7 545	8 248
Other assets	1 512	1 807
Due from other banks	(3 147)	(3 773)
Customer accounts	(4 713)	(4 122)
Other liabilities	(580)	(593)
Fair value of net assets of subsidiary	**1 225**	**1 878**
Fair value of acquired interest in net assets of subsidiary	**-**	**1 878**
Goodwill arising from the acquisition	-	1 308
Total purchase consideration	**-**	**3 186**
Less: cash and cash equivalents of subsidiary acquired	-	(311)
Outflow of cash and cash equivalents on acquisition	**-**	**2 875**

As at 31 December 2007 the goodwill was primarily attributable to the profitability of the acquired business, synergies and combined costs savings expected to arise. Based on test for goodwill impairment performed by the Group as at 31 December 2008, goodwill was fully impaired. Refer to Note 13.

The purchase consideration comprises cash and cash equivalents paid of RR 3 186 million.

41 Management of Capital and Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern. The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%. Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation.

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above minimum level of 10%. The Bank's Interest Rates and Limits Committee (IRLC) sets minimum level of capital ratio of 11%. This level exceeds both minimum level set by the Bank of Russia (10%) and Basel Committee (8%) and allows the Bank to participate in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Guarantees on Bank Deposits of Individuals in the Russian Federation" dated 23 December 2003. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises RR 1 156 913 million as of 31 December 2008 (2007: RR 681 581 million). Management believes the Bank meets all the requierments in relation to the minimum amount of regulatory capital set by the Bank of Russia.

41 Management of Capital and Capital Adequacy Ratio (Continued)

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (adopted July 1988, updated November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2008**	**2007**
Tier 1 capital	712 196	621 117
Tier 2 capital	391 144	28 551
Total Basel 1 capital	**1 103 340**	**649 668**

The Bank has complied with all externally imposed capital requirements throughout 2008 and 2007.

As of 31 December 2008, Capital Adequacy Ratio calculated by the Bank in accordance with the International Convergence of Capital Measurement and Capital Standards (adopted July 1988, updated November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I, requirements was as follows:

	2008	**2007**
Core capital adequacy ratio (Tier 1)	12.2%	13.9%
Total capital adequacy ratio (Tier 1 and Tier 2)	18.9%	14.5%

42 Subsequent events

On 12 March 2009 the Group has acquired 25% share in OAO "Krasnaya Poliana", a Russian-based company involved in construction of sport complexes in Russia, for RR 2 685 million. The Group currently evaluates the possible treatment of this company as an associate in accordance with IAS 28 in its future consolidated financial statements.

On 20 March 2009 the Group repossessed property rights for the amount of RR 13 934 million and signed a co-investment agreement for RR 3 044 million under the settlement of the loan with a borrower. The Group currently evaluates possible treatment of these property rights in its future consolidated financial statements.