

Bank Petrocommerce Group

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and The Board of Directors of Bank Petrocommerce:

- 1 We have audited the accompanying consolidated financial statements of Bank Petrocommerce and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, 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 consolidated 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 consolidated 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

4 May 2009
Moscow, Russian Federation


Bank Petrocommerce Group
Consolidated Balance Sheet

<i>In thousands of Russian Roubles</i>	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	50 035 201	27 142 574
Mandatory cash balances with central banks		374 350	2 465 568
Trading securities	8	2 603 503	14 676 220
Due from other banks	9	1 660 890	1 277 299
Loans and advances to customers	10	123 170 472	135 895 710
Investment securities available for sale	11	4 586 613	1 780 827
Repurchase receivable	12	3 148 713	2 062 174
Prepaid income tax		671 973	249 380
Deferred income tax asset	26	109 217	6 538
Premises and equipment	13	3 991 032	2 851 213
Other assets	14	1 607 195	1 338 318
TOTAL ASSETS		191 959 159	189 745 821
LIABILITIES			
Due to other banks	15	25 896 186	15 965 432
Customer accounts	16	103 429 477	113 359 765
Debt securities in issue	17	12 032 075	15 908 771
Other borrowed funds	18	22 114 276	19 900 489
Current income tax liability		15 696	80 750
Deferred income tax liability	26	86 684	129 814
Other liabilities	19	1 141 741	1 685 566
Subordinated debt	20	4 181 535	3 745 136
TOTAL LIABILITIES		168 897 670	170 775 723
EQUITY			
Share capital	21	7 752 558	6 752 558
Share premium		2 000 000	-
Fair value reserve for investment securities available for sale		(581 945)	(23 253)
Accumulated currency translation differences		(87 480)	(57 404)
Retained earnings	22	13 936 142	12 122 609
Net assets attributable to the Bank's equity holders		23 019 275	18 794 510
Minority interest		42 214	175 588
TOTAL EQUITY		23 061 489	18 970 098
TOTAL LIABILITIES AND EQUITY		191 959 159	189 745 821

Approved for issue and signed on behalf of the Executive Board on 4 May 2009.


Nikitenko V.N.
President




Funtova E.V.
Chief Accountant

Bank Petrocommerce Group
Consolidated Income Statement

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Interest income	23	19 992 561	15 950 564
Interest expense	23	(9 705 994)	(8 211 779)
Net interest income		10 286 567	7 738 785
Provision for loan impairment	9, 10	(4 322 250)	(246 930)
Net interest income after provision for loan impairment		5 964 317	7 491 855
Fee and commission income	24	2 600 511	2 226 257
Fee and commission expense	24	(674 605)	(478 587)
Losses net of gains from trading securities		(1 143 909)	(206 298)
Gains less losses from trading in foreign currencies		790 518	545 069
Losses net of gains from financial derivatives		(959 903)	(118 594)
Foreign exchange translation gains less losses/(losses net of gains)		972 546	(278 091)
Gains less losses/(losses net of gains) arising from investment securities available for sale	11	160 952	(1 281)
Losses net of gains arising from early redemption of loans and receivables		(14 560)	-
Other operating income		173 484	199 271
Administrative and other operating expenses	25	(5 449 735)	(4 972 116)
Share based compensation	30	-	(418 064)
Profit before tax		2 419 616	3 989 421
Income tax expense	26	(525 772)	(1 172 636)
Profit for the year		1 893 844	2 816 785
Profit is attributable to			
Equity holders of the Bank		1 903 659	2 761 435
Minority interest		(9 815)	55 350
Profit for the year		1 893 844	2 816 785

Bank Petrocommerce Group
Consolidated Statement of Changes in Equity

	Note	Attributable to the equity holders of the Bank					Total	Minority interest	Total equity
		Share capital	Share premium	Fair value reserve for investment securities available for sale	Accumulated currency translation differences	Retained earnings			
<i>In thousands of Russian Roubles</i>									
Balance at 1 January 2007		6 752 558		(17 641)	(49 576)	8 943 110	15 628 451	122 530	15 750 981
Investment securities available for sale:									
- Fair value losses net of gains	11	-	-	(9 849)	-	-	(9 849)	(358)	(10 207)
- Disposals	11	-	-	1 231	-	-	1 231	50	1 281
Income tax recorded in equity	26	-	-	1 757	-	-	1 757	59	1 816
Foreign currency translation gains less losses/(losses net of gains)		-	-	1 249	(7 828)	-	(6 579)	(2 043)	(8 622)
Share based compensation	30	-	-	-	-	418 064	418 064	-	418 064
Net (expenses) / income recognised directly in equity		-	-	(5 612)	(7 828)	418 064	404 624	(2 292)	402 332
Profit for the year		-	-	-	-	2 761 435	2 761 435	55 350	2 816 785
Total (expense) / income for 2007		-	-	(5 612)	(7 828)	3 179 499	3 166 059	53 058	3 219 117
Balance at 31 December 2007		6 752 558	-	(23 253)	(57 404)	12 122 609	18 794 510	175 588	18 970 098
Investment securities available for sale:									
- Fair value losses net of gains	11	-	-	(537 733)	-	-	(537 733)	(5 178)	(542 911)
- Disposals	11	-	-	(161 908)	-	-	(161 908)	956	(160 952)
Income tax recorded in equity	26	-	-	138 591	-	-	138 591	986	139 577
Purchase of minority interests in subsidiaries		-	-	-	-	(90 126)	(90 126)	(113 586)	(203 712)
Foreign currency translation gains less losses/(losses net of gains)		-	-	2 358	(30 076)	-	(27 718)	(6 737)	(34 455)
Net expenses recognised directly in equity		-	-	(558 692)	(30 076)	(90 126)	(678 894)	(123 559)	(802 453)
Profit/(loss) for the year		-	-	-	-	1 903 659	1 903 659	(9 815)	1 893 844
Total (expense) / income for 2008		-	-	(558 692)	(30 076)	1 813 533	1 224 765	(133 374)	1 091 391
Issue of shares		1 000 000	2 000 000	-	-	-	3 000 000	-	3 000 000
Balance at 31 December 2008		7 752 558	2 000 000	(581 945)	(87 480)	13 936 142	23 019 275	42 214	23 061 489

The notes set out on pages 5 to 81 form an integral part of these consolidated financial statements.

Bank Petrocommerce Group
Consolidated Statement of Cash Flows

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Cash flows from operating activities			
Interest received		18 058 724	15 486 908
Interest paid		(9 231 890)	(8 207 413)
Income received from trading in trading securities		140 734	1 024 226
Income received from trading in foreign currencies		790 518	545 069
Expenses paid on operations with financial derivatives		(985 446)	(114 411)
Fees and commissions received		2 618 900	2 133 727
Fees and commissions paid		(661 541)	(477 834)
Losses arising from early redemption of loans and receivables		(14 560)	-
Other operating income received		107 136	77 652
Administrative and other operating expenses paid		(5 022 979)	(4 475 338)
Income tax paid		(1 019 651)	(1 047 165)
Cash flows from operating activities before changes in operating assets and liabilities		4 779 945	4 945 421
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with central banks		2 103 100	(225 259)
Net decrease /(increase) in trading securities		4 264 792	(1 346 810)
Net increase in due from other banks		(166 306)	(959 437)
Net decrease/(increase) in loans and advances to customers		17 353 965	(29 308 650)
Net decrease / (increase) in repurchase receivable		312 209	(971 650)
Net increase in other assets		(40 723)	(393 564)
Net increase in due to other banks		8 153 370	2 489 209
Net (decrease) / increase in customer accounts		(14 788 953)	31 085 952
Net (decrease)/increase in debt securities in issue		(4 029 322)	3 992 160
Net (decrease)/increase in other liabilities		(590 520)	566 805
Net cash from operating activities		17 351 557	9 874 177
Cash flows from investing activities			
Acquisition of investment securities available for sale	11,7	(14 507 166)	(4 297 848)
Proceeds from disposal of investment securities available for sale	11	17 032 275	3 572 691
Acquisition of premises and equipment	13	(1 696 704)	(673 880)
Proceeds from disposal of premises and equipment		73 975	96 958
Dividend income received		19 157	119 966
Net cash from/(used in) investing activities		921 537	(1 182 113)
Cash flows from financing activities			
Proceeds from other borrowed funds		2 859 806	6 792 354
Repayment of other borrowed funds		(4 132 331)	(4 424 916)
Proceeds from issue of shares		3 000 000	-
Purchase of minority interests in subsidiaries		(203 712)	-
Dividends paid	27	(25)	(2)
Net cash from financing activities		1 523 738	2 367 436
Effect of exchange rate changes on cash and cash equivalents		3 095 145	(244 522)
Accrued interest income on cash and cash equivalents		650	7 757
Net increase in cash and cash equivalents		22 892 627	10 822 735
Cash and cash equivalents at the beginning of the year		27 142 574	16 319 839
Cash and cash equivalents at the end of the year	7	50 035 201	27 142 574

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2008 for OAO Bank Petrocommerce (the “Bank”) and its subsidiaries (together referred to as the “Group” or “Bank Petrocommerce Group”).

The activities of the Group are regulated by the Central Bank of the Russian Federation (the “CBRF”), legislation of the Russian Federation and that of countries in which the Group subsidiaries are registered.

OAO Bank Petrocommerce is an open joint-stock commercial bank owned by shareholders whose liability is limited. The Bank was established in the Russian Federation as a partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a partnership to an open joint stock company. The principal activities of the Bank include deposit taking and commercial lending, support of clients’ export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank’s operations are conducted in both Russian and international markets. The Bank’s activities are regulated by the Central Bank of the Russian Federation (“the CBRF”).

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. Before October 2008 the State Deposit Insurance Agency guaranteed 100% repayment of individual deposits up to RR 100 thousand per individual and 90% repayment of individual deposits exceeding RR 100 thousand per individual but not exceeding RR 400 thousand in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. On 13 October 2008 amendments were made to Federal Law #177-FZ, according to which individual deposits with the bank with respect to which an insured event occurred shall be repaid in the amount of 100% of deposits with the bank but not in excess of RR 700 thousand.

The Bank’s office is registered at the following address: Petrovka 24, bld 1, Moscow, 127051, Russia. At 31 December 2008 the Bank had 19 branches (2007: 18 branches) in the Russian Federation. The average number of the Bank’s employees during the year was 3 051 (2007: 2 636).

The main shareholder of the Bank is IFD Kapital Group. It owns 88.68% of the voting shares (532 054 303 ordinary shares). IFD Kapital Group is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services, administration of pension funds and the provision of insurance services within the Russian Federation. Also refer to Note 21.

The main subsidiaries of Bank Petrocommerce Group are the following subsidiaries: OAO Komi Regional Bank Ukhtabank, ZAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and Petrocommerce Invest S.A. Also refer to Note 35.

Below is the description of the main activities of the principal subsidiaries.

Joined-Stock Company Komi Regional Bank Ukhtabank (hereinafter, “Ukhtabank”) is a commercial bank owned by shareholders whose liability is limited. The Bank’s principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Oktyabrskaya str., 14, Komi Republic, Ukhta, 169300, Russia. As at 31 December 2008 Ukhtabank had six branches within the Russian Federation (2007: six branches). The average number of the Bank’s employees during the year was 561 (2007: 543). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.

ZAO Bank Petrocommerce-Ukraine (hereinafter, “Petrocommerce-Ukraine”) was registered on 26 September 1996 by the National Bank of Ukraine as a joint-stock company under the name Joint-Stock Bank “Aviatekbank”. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Petrocommerce-Ukraine. The current banking licence #108-1 was received by ZAO Petrocommerce-Ukraine on 9 April 2002. ZAO Petrocommerce-Ukraine’s main activities include provision of various banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. ZAO Petrocommerce-Ukraine’s head office is located in Kiev. As at 31 December 2008 Petrocommerce-Ukraine had two branches in the Ukraine (2007: four branches). The average number of the ZAO Petrocommerce-Ukraine’s employees during the year was 498 (2007: 539).

1 Introduction (Continued)

Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie, an open joint-stock company (hereinafter, "Stavropolpromstroybank"), was created in December 1991 as a result of restructuring of commercial bank "Stavropolye" founded on 26 December 1990. In March 1996, the Bank changed its legal status from a partnership to an open joint stock company. In May 2002, Stavropolpromstroybank was acquired by the Group. Stavropolpromstroybank has banking licence #1288. Stavropolpromstroybank main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroybank head office is located in Stavropol. As at 31 December 2008 Stavropolpromstroybank had six branches within the Russian Federation (2007: seven branches). The average number of Stavropolpromstroybank employees during the year was 726 (2007: 706).

Commercial Bank Unibank S.A. (hereinafter, "Unibank") was created in the Republic of Moldova in August 1992. In December 2002 it was purchased by the Group. Unibank has a type "B" licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. As at 31 December 2008 Unibank had five branches in the Republic of Moldova (2007: five branches). The average number of Unibank's employees during the year was 274 (2007: 242).

Petrocommerce Invest S.A. was founded in February 2006. The country of incorporation is Luxembourg. The registration number is B114800. Main activity of the company is attraction of medium- and long-term funds on international financial markets for the benefit of the Group.

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

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, lending, deposit taking, guarantees, trade finance, operations with securities and foreign currency transactions. At 31 December 2008, a substantial portion of the Group's liabilities (22% of total liabilities) (2007: 26% of total liabilities) are due to related parties. Refer to Note 34.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly 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 32.97 at date of issuance of the accounts.

Due to increased market volatility, one-day MosPrime rate fluctuated between 2.17% p.a. and 25.17% p.a. during the period between 31 December 2007 and 1 May 2009.

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 and to USD 380 600 000 thousand at 24 April 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 98.27 at 29 September 2008 to USD 34.81 at 31 December 2008 and USD 47.49 at 24 April 2009.

2 Operating Environment of the Group (Continued)

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the State deposit insurance scheme to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments;
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

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

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

Recent volatility in global and Russian financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed and this may 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 its impairment assessments.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic 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 properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Russia for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Management is unable to reliably determine 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 growth of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading securities, investment securities available-for-sale and financial derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable banking regulation and companies' law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS. 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 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.

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.

Foreign currency translation gains less losses/(losses net of gains) in the consolidated statement of changes in equity include the result 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).

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

Acquisition of minority interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as gain or loss directly in equity.

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

3 Summary of Significant Accounting Policies (Continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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. Changing any such assumptions to a reasonably possible alternative could result in significantly different profit, income, total assets or total liabilities disclosed in these consolidated financial statements.

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

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

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

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

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

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.

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Precious metals. Precious metals and deposits in precious metals are recognised as the lower of expenses and net value of possible realisation as at the reporting date.

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. normally within twelve months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in other operating income when the Group's right to receive the correspondent payment is established and it is probable that the dividends will be collected. 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 from trading securities in the period in which they arise.

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, including loans provided under factoring agreements, 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 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 in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;

3 Summary of Significant Accounting Policies (Continued)

- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

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

Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt 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 it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity 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 removed from equity 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 profit or loss, the impairment loss is reversed through current period's profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to 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. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement 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.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2% per annum; and
Office and computer equipment	20-33% per annum.

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 were 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.

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

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

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

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

Debt securities in issue. Debt securities in issue include bonds, promissory notes, deposit and saving certificates issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Other borrowed funds. Other borrowed funds include 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 purchases its own other borrowed funds, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is a non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at 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 profit or loss as gains/losses arising from operations with derivatives. The Group does not apply hedge accounting.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

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

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

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Profit distribution is made on the basis of the current year net profit in the statutory reports prepared under applicable legislation.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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, and 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. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

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

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

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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement 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);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

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 and trust activities. Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. Commissions received from fiduciary activities are shown in fee and commission income.

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

3 Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

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

Share based compensation. For equity-settled share-based payment transactions with key management, the Group measures the services received and the corresponding increase in equity, directly, at the fair value of the services received. Because of the difficulty of measuring directly the fair value of the services received by the Group from key management, the Group measures the fair value of the services received by reference to the fair value of the equity instruments granted to key management.

Changes in accounting policies and presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

<i>In thousands of Russian Roubles</i>	2007
Consolidated balance sheet and Consolidated statement of Changes in Equity	
Increase in	
Retained earnings	57 404
Decrease in	
Accumulated currency translation differences	57 404

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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 consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or

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

national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale securities. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This 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 a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have recorded an additional loss of RR 731 952 thousand (2007: RR 30 404 thousand) in its consolidated income statement. At present this loss is recorded in the consolidated statement of changes in equity in accordance with IAS 39.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 *Financial Instruments: Recognition and Measurement* requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Capital adequacy ratio. Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (adopted in July 1988, updated in 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, in particular regarding the accounting of off balance sheet liabilities.

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), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changing the assumptions not supported by observable market data to a reasonably possible alternative could result in different fair values, profit, income, total assets and total liabilities.

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

Special Purpose Entities (SPEs). Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated. Refer to Note 35.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs 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);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008);
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

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

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 early adopted for these consolidated financial statements for 2008:

- **IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009, with earlier application permitted).** 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.
- **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, with earlier application permitted).** 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

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

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.

Reclassification of Financial Assets—Amendments 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. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

After implementing the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets held for trading into 'available for sale' and 'loans and advances to clients' categories.

The reclassification was made on 1 July 2008 based on the International Accounting Standards Board (IASB) amendments to the standards following the crisis on financial markets during the third quarter of 2008, which is a "rare circumstance", as the decrease in quoted market prices significantly exceeded the historical volatility for the period of watching the situation on financial markets.

The Group reclassified from 'trading securities' into 'available for sale' the most reliable bonds included into the Lombard List of the Bank of Russia that are part of liquidity reserves and are used by the Group to manage liquidity (Note 29). The reclassification was made as by placing liquidity reserves into securities the Group does not focus on short-term profitability from changes in market quotations, but at the same time, the Group does not exclude the possibility of selling these securities prior to their maturity.

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

The table below provides information on the reclassification amounts, estimated value of cash flows the Group planned to receive as at the date of the reclassification and the effective interest rates on financial assets:

<i>In thousands of Russian Roubles</i>	Reclassifi- cation amount	Cash flows expected to be recovered	Effective interest rate
Reclassified into loans and advances to customers, including those classified as repurchase receivable as at the date of reclassification			
Corporate bonds	755 775	838 854	13.8
Reclassified into investment securities available for sale, including those classified as repurchase receivable as at the date of reclassification			
Federal loan bonds (OFZ bonds)	5 968 575	5 968 575	6.7
Corporate bonds	1 431 642	1 431 642	8.8
Municipal bonds and bonds of the Russian Federation's regions	518 818	518 818	8.5
Corporate Eurobonds	151 962	151 962	7.6
Total	8 826 772	8 909 851	

At 31 December 2008, the carrying amounts and fair values of debt securities that have been reclassified and which were not yet sold or otherwise derecognised, were as follows:

<i>In thousands of Russian Roubles</i>	Carrying value	Fair value
Reclassified into loans and advances to customers, including those classified as repurchase receivable as at the reporting date		
Corporate bonds	212 724	151 415
Reclassified into investment securities available for sale, including those classified as repurchase receivable as at the reporting date		
Federal loan bonds (OFZ bonds)	3 276 797	3 276 797
Municipal bonds and bonds of the Russian Federation's regions	246 602	246 602
Corporate Eurobonds	124 272	124 272
Total	3 860 395	3 799 086

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

The fair value gain or loss on these debt securities up to the date of reclassification, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

	The fair value gain/(loss) recognised up to the date of reclassification		Income recognised after reclassification*	Loss that would have been recognised if the assets had not been reclassified
	2008	2007		
<i>In thousands of Russian Roubles</i>				
Reclassified into loans and advances to customers, including those classified as repurchase receivable as at the reporting date				
Corporate bonds	240	-	35 251	(75 727)
Reclassified into investment securities available for sale, including those classified as repurchase receivable as at the reporting date				
Federal loan bonds (OFZ bonds)	(7 302)	670	239 440	(315 954)
Municipal bonds and bonds of the Russian Federation's regions	(3 581)	540	27 852	(39 042)
Corporate bonds	(29 497)	-	62 831	(192 300)
Corporate Eurobonds	3 079	-	6 663	(64 975)
Total	(37 061)	1 210	372 037	(687 998)

* Income or loss recognised after reclassification comprises interest income, foreign exchange gains less losses.

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 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. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and Additional amendments to IAS 1 (effective 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 is currently assessing what impact the amendment will have on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense 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 capitalise 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 capitalisation is on or after 1 January 2009. Management is currently assessing what impact this Standard will have on disclosures in the consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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. This Interpretation does not have a significant impact on the Group's consolidated financial statements as Group has no Customer Loyalty Programmes.

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 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. IFRIC 16 is not relevant to the Group's operations because it does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Complementary Amendments (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 consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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 consolidated financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board (IASB) decided to initiate an annual improvements project as a method of making the required, 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 amendment to have a material effect on its consolidated financial statements.

IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.

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. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2005). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	2008	2007
Cash on hand	8 042 087	5 468 688
Cash balances with central banks (other than mandatory reserve deposits)	20 069 293	8 980 778
Correspondent accounts and overnight placements with other banks		
- Russian Federation	6 864 650	635 221
- other countries	3 782 361	1 383 265
Placements with other banks with original maturities of less than three months	9 306 281	5 122 201
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	4 726 381
Settlement accounts with trading systems	1 970 529	826 040
Total cash and cash equivalents	50 035 201	27 142 574

At 31 December 2007 cash and cash equivalents of RR 4 726 381 thousand were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 5 565 887 thousand.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

Transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Non-cash operating activities		
Acquisition of trading securities in exchange for loans and advances to customers	(421 275)	-
Proceeds from disposal of trading securities	176 240	-
Total non-cash operating activities	(245 035)	-
Non-cash investing activities		
Acquisition of investment securities available for sale in exchange for loans and advances to customers	(137 826)	-
Proceeds from disposal of investment securities available for sale	130 635	-
Total non-cash operating activities	(7 191)	-
Total non-cash activities	(252 226)	-

8 Trading Securities

<i>In thousands of Russian Roubles</i>	2008	2007
Corporate bonds	1 558 435	4 863 577
Promissory notes	500 670	-
Municipal bonds and bonds of the Russian Federation's regions	175 938	1 073 639
Corporate Eurobonds	54 442	261 613
Federal loan bonds (OFZ bonds)	1 987	6 681 310
US Treasury Strip securities	-	589 477
Total debt securities	2 291 472	13 469 616
Quoted corporate shares	286 029	1 206 604
American depository receipts	24 856	-
Global depository receipts	1 146	-
Total equity securities	312 031	1 206 604
Total trading securities	2 603 503	14 676 220

Corporate bonds are debt securities denominated in Russian Roubles, issued by large Russian companies in energy and financial economic sectors, automotive sector and other sectors.

Promissory notes represent promissory notes issued by large Russian banks.

Municipal bonds and bonds of Russian Federation's regions represent debt securities denominated in Russian Roubles.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies and are freely tradable internationally on the over-the-counter market.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate shares mainly include shares of major Russian oil and gas, metallurgical and other sectors. These shares are freely tradable in Russia.

The analysis of the Group's trading debt securities at 31 December 2008 is set out below:

<i>In % p.a.</i>	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Corporate bonds	March 2009	August 2013	7.6	18.0	11.0	379.3
Promissory notes	February 2009	March 2010	0.0	0.0	12.1	16.9
Municipal bonds and bonds of the Russian Federation's regions	August 2010	December 2015	7.8	11.5	8.3	34.0
Federal loan bonds (OFZ bonds)	January 2010	December 2010	7.4	8.5	8.5	9.7
Corporate Eurobonds	April 2012	April 2012	8.9	8.9	9.3	9.3

8 Trading Securities (Continued)

The analysis of the Group's trading debt securities at 31 December 2007 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2008	November 2021	5.8	10.0	5.4	6.5
Corporate bonds	September 2008	November 2018	7.0	13.7	6.8	15.6
Municipal bonds and bonds of the Russian Federation's regions	May 2010	April 2014	7.8	12.5	7.0	9.8
US Treasury Strip securities	May 2011	February 2017	0.0	0.0	3.1	4.2
Corporate Eurobonds	February 2009	June 2022	6.7	8.9	7.2	9.3

Trading securities are carried at fair value which also reflects any credit risk. As at 31 December 2008 and 31 December 2007 the Group did not have any past due or impaired securities issued. The credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 29.

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

At 31 December 2007, trading securities with a fair value of RR 2 573 796 thousand were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2007, the Group did not utilise this credit facility with the CBRF. Refer to Note 30.

As at 31 December 2008, the Group had restricted trading securities with fair value of RR 209 908 thousand (2007: nil). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 29. Information on trading securities issued by related parties is disclosed in Note 34.

9 Due from Other Banks

<i>In thousands of Russian Roubles</i>	2008	2007
Term placements with other banks with original maturities of more than three months	1 661 336	1 277 532
Overdue term placements with other banks	9 952	12 450
Less: Provision for impairment of due from other banks	(10 398)	(12 683)
Total due from other banks	1 660 890	1 277 299

9 Due from Other Banks (Continued)

Movements in the provision for impairment of due from other banks are as follows:

	2008		2007	
	Term placements with other banks with original maturities of more than three months	Overdue term placements with other banks	Term placements with other banks with original maturities of more than three months	Overdue term placements with other banks
<i>In thousands of Russian Roubles</i>				
Provision for impairment of due from other banks at 1 January	233	12 450	594	13 473
Provision for/(recovery of) impairment of due from other banks during the year	254	-	(317)	-
Effect of translation to presentation currency	(41)	(2 498)	(44)	(1 023)
Provision for impairment of due from other banks at 31 December	446	9 952	233	12 450

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 and 31 December 2007 is as follows:

	2008		2007	
	Term placements with other banks with original maturities of more than three months	Overdue term placements with other banks	Term placements with other banks with original maturities of more than three months	Overdue term placements with other banks
<i>In thousands of Russian Roubles</i>				
Due from other banks (before provision for impairment)				
- Russian Federation banks	1 239 932	-	1 030 940	-
- Non-OECD countries banks	421 404	9 952	246 592	12 450
Total due from other banks (before provision for impairment)	1 661 336	9 952	1 277 532	12 450
Less: Provision for impairment	(446)	(9 952)	(233)	(12 450)
Total due from other banks	1 660 890	-	1 277 299	-

9 Due from Other Banks (Continued)

The overdue placements with other banks represent placements with other banks past due more than one year.

As at 31 December 2008 term placements with other banks with original maturities of more than three months include a balance of RR 1 189 906 thousand (2007: RR 1 030 940 thousand) that represents placement to a Russian bank collateralised by a real estate with a fair value of RR 1 483 527 thousand (2007: RR 1 655 641 thousand).

At 31 December 2008 term placements with other banks totalling RR 295 418 thousand (2007: RR 246 087 thousand) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 15 and 30.

The fair value of each category of due from other banks is provided in Note 32. Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

10 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	2008	2007
Corporate entities		
Commercial loans	104 772 637	100 008 626
Factoring	8 432 104	10 256 269
Reverse sale and repurchase agreements	1 547 740	18 482 159
Corporate bonds	348 270	-
Individuals		
Loans to individuals	15 279 814	10 637 694
Reverse sale and repurchase agreements	695 110	151 129
Less: Provision for loan impairment	(7 905 203)	(3 640 167)
Total loans and advances to customers	123 170 472	135 895 710

At 31 December 2008 loans and advances to customers of RR 2 242 850 thousand (2007: RR 18 633 288 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 3 716 064 thousand (2007: RR 21 488 151 thousand).

10 Loans and Advances to Customers (Continued)

Movements in provisions for loan impairment are as follows:

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total	
	Commercial loans	Reverse sale and repurchase agreements	Corporate bonds	Factoring	Loans to individuals		Reverse sale and repurchase agreements
Provision for loan impairment at 1 January 2008	3 164 659	-	-	98 623	376 885	-	3 640 167
Provision for loan impairment during the year	3 892 490	-	20 410	17 950	391 146	-	4 321 996
Loans and advances to customers written off during the year as uncollectible	(44 306)	-	-	-	(1 466)	-	(45 772)
Effect of translation to presentation currency	(3 484)	-	-	(1 071)	(6 633)	-	(11 188)
Provision for loan impairment at 31 December 2008	7 009 359	-	20 410	115 502	759 932	-	7 905 203

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
Provision for loan impairment at 1 January 2007	3 263 695	-	109 440	191 057	-	3 564 192
Provision/(recovery) for loan impairment during the year	71 378	-	(10 549)	186 418	-	247 247
Loans and advances to customers written off during the year as uncollectible	(162 414)	-	-	(121)	-	(162 535)
Effect of translation to presentation currency	(8 000)	-	(268)	(469)	-	(8 737)
Provision for loan impairment at 31 December 2007	3 164 659	-	98 623	376 885	-	3 640 167

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2008 is set out below:

In thousands of Russian Roubles	Corporate entities				Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Corporate bonds	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
<i>Current and not impaired loans</i>							
- standard:	89 561 241	1 547 740	348 270	7 879 822	13 349 251	695 110	113 381 434
- customers with credit history over one year	75 485 624	-	-	7 371 610	6 152 992	-	89 010 226
- customers with credit history less than one year	14 075 617	1 547 740	348 270	508 212	7 196 259	695 110	24 371 208
- watch list	1 952 366	-	-	270 004	411 428	-	2 633 798
Total current and not impaired loans	91 513 607	1 547 740	348 270	8 149 826	13 760 679	695 110	116 015 232
<i>Past due but not impaired loans</i>							
- less than 1 month overdue	3 549 050	-	-	11 208	316 586	-	3 876 844
Total past due but not impaired loans	3 549 050	-	-	11 208	316 586	-	3 876 844
<i>Individually impaired loans</i>							
- current	4 756 702	-	-	-	28 217	-	4 784 919
- less than 1 month overdue	101 568	-	-	-	818	-	102 386
- 1 to 3 months overdue	2 486 956	-	-	-	234 111	-	2 721 067
- 3 to 6 months overdue	659 860	-	-	271 070	371 369	-	1 302 299
- 6 to 12 months overdue	710 073	-	-	-	394 810	-	1 104 883
- over 1 year overdue	994 821	-	-	-	173 224	-	1 168 045
Total individually impaired loans	9 709 980	-	-	271 070	1 202 549	-	11 183 599
Total loans and advances to customers (before provision for impairment)	104 772 637	1 547 740	348 270	8 432 104	15 279 814	695 110	131 075 675
Less impairment provision	(7 009 359)	-	(20 410)	(115 502)	(759 932)	-	(7 905 203)
Total loans and advances to customers	97 763 278	1 547 740	327 860	8 316 602	14 519 882	695 110	123 170 472

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
<i>Current and not impaired loans</i>						
- standard:	95 600 601	18 482 159	10 245 922	9 552 662	151 129	134 032 473
- customers with credit history over one year	57 142 628	-	3 018 276	5 468 084	-	65 628 988
- customers with credit history less than one year	38 457 973	18 482 159	7 227 646	4 084 578	151 129	68 403 485
- watch list	1 451 884	-	-	531 073	-	1 982 957
Total current and not impaired loans	97 052 485	18 482 159	10 245 922	10 083 735	151 129	136 015 430
<i>Past due but not impaired loans</i>						
- less than 1 month overdue	1 482 056	-	5 651	366 494	-	1 854 201
Total past due but not impaired loans	1 482 056	-	5 651	366 494	-	1 854 201
<i>Individually impaired loans</i>						
- current	153 878	-	-	27 089	-	180 967
- less than 1 month overdue	3 430	-	-	103	-	3 533
- 1 to 3 months overdue	115 759	-	-	6 568	-	122 327
- 3 to 6 months overdue	110 941	-	4 696	9 857	-	125 494
- 6 to 12 months overdue	397 835	-	-	38 943	-	436 778
- over 1 year overdue	692 242	-	-	104 905	-	797 147
Total individually impaired loans	1 474 085	-	4 696	187 465	-	1 666 246
Total loans and advances to customers (before provision for impairment)	100 008 626	18 482 159	10 256 269	10 637 694	151 129	139 535 877
Less impairment provision	(3 164 659)	-	(98 623)	(376 885)	-	(3 640 167)
Total loans and advances to customers	96 843 967	18 482 159	10 157 646	10 260 809	151 129	135 895 710

10 Loans and Advances to Customers (Continued)

The watch list loans represent loans with credit risk higher than remote. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, individual signs of impairment and realizability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 and 31 December 2007 was as follows:

<i>In thousands of Russian Roubles</i>	Commercial loans	Loans to individuals	Total
31 December 2008			
<i>Fair value of collateral on past due but not impaired loans</i>			
- financial claims to the Group and cash	4 760	-	4 760
- real estate	2 616 537	307 457	2 923 994
- equipment and motor vehicles	727 318	40 174	767 492
- other assets	1 853 606	27 392	1 880 998
<i>Fair value of collaterals individually designated as impaired</i>			
- financial claims to the Group and cash	47 666	-	47 666
- tradable securities	160 396	22 174	182 570
- real estate	6 498 104	946 878	7 444 982
- equipment and motor vehicles	5 585 896	115 187	5 701 083
- other assets	6 095 988	14 280	6 110 268
Total	23 590 271	1 473 542	25 063 813

<i>In thousands of Russian Roubles</i>	Commercial loans	Loans to individuals	Total
31 December 2007			
<i>Fair value of collateral on past due but not impaired loans</i>			
- real estate	2 454 630	405 942	2 860 572
- equipment and motor vehicles	246 829	7 956	254 785
- other assets	64 925	88	65 013
<i>Fair value of collaterals individually designated as impaired</i>			
- financial claims to the Group and cash	2 914	-	2 914
- tradable securities	235 224	503	235 727
- real estate	1 617 468	8 618	1 626 086
- equipment and motor vehicles	307 463	24 191	331 654
- other assets	1 306 936	376	1 307 312
Total	6 236 389	447 674	6 684 063

In this classification, the financial claims to the Group and cash represent the most reliable security.

Fair value of collateral on loans individually assessed as impaired exceeds the amount of carrying value of these loans at 31 December 2008 and 31 December 2007, as in the event of default the collateral is likely to be sold with a discount to its fair value upon completion of all legally required procedures. Refer also to Note 29 for risk management policies applied by the Group in relation to fair value of collateral calculation.

10 Loans and Advances to Customers (Continued)

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

<i>In thousands of Russian Roubles</i>	2008		2007	
	Amount	%	Amount	%
Manufacturing	27 707 303	21	27 401 270	20
Trade	26 481 643	20	28 195 320	20
Construction	17 281 303	13	13 975 319	10
Individuals	15 974 924	12	10 788 823	8
Finance sector	9 963 971	8	21 405 789	15
Transport	9 562 746	8	8 313 536	6
Agriculture	8 437 366	6	11 288 042	8
Food processing	5 332 497	4	7 318 968	5
Oil and energy	4 747 291	4	5 693 641	4
Other	5 586 631	4	5 155 169	4
Total loans and advances to customers (before provision for impairment)	131 075 675	100	139 535 877	100

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2008 is set out below:

<i>In thousands of Russian Roubles</i>	Corporate entities				Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Corporate bonds	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
Unsecured loans	12 312 802	-	348 270	8 432 104	1 863 534	-	22 956 710
Loans collateralised by:							
- financial claims to the Group and cash	643 262	-	-	-	736 292	-	1 379 554
- tradable securities	2 941 106	1 547 740	-	-	67 407	695 110	5 251 363
- real estate	42 316 343	-	-	-	5 384 702	-	47 701 045
- equipment and motor vehicles	15 030 574	-	-	-	427 537	-	15 458 111
- warranties and banking guarantees	24 420 037	-	-	-	6 522 799	-	30 942 836
- other assets	7 108 513	-	-	-	277 543	-	7 386 056
Total loans and advances to customers	104 772 637	1 547 740	348 270	8 432 104	15 279 814	695 110	131 075 675

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Corporate entities			Individuals		Total
	Commercial loans	Reverse sale and repurchase agreements	Factoring	Loans to individuals	Reverse sale and repurchase agreements	
Unsecured loans	9 351 847	-	10 256 269	1 639 271	-	21 247 387
Loans collateralised by:						
- financial claims to the Group and cash	426 933	-	-	481 749	-	908 682
- tradable securities	2 771 934	18 482 159	-	51 018	151 129	21 456 240
- real estate	40 633 673	-	-	2 473 046	-	43 106 719
- equipment and motor vehicles	16 608 709	-	-	334 878	-	16 943 587
- warranties and banking guarantees	17 064 311	-	-	5 646 530	-	22 710 841
- other assets	13 151 219	-	-	11 202	-	13 162 421
Total loans and advances to customers	100 008 626	18 482 159	10 256 269	10 637 694	151 129	139 535 877

Unsecured commercial loans represent mainly loans on which the collateral has not yet been registered with state bodies. On loans issued within factoring agreements the Group has the possibility of claims recourse from the debtor to the seller. Refer to Note 29. If there are several types of collateral, with the aggregate collateral value exceeding the amount of the respective loan, the amount of outstanding loans was presented in the following way: it was allocated to different types of collateral in the order of decreasing liquidity of collateral.

The fair value of each category of loans and advances to customers is provided in Note 32. Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

11 Investment Securities Available for Sale

<i>In thousands of Russian Roubles</i>	2008	2007
Federal loan bonds (OFZ bonds)	2 787 345	-
Corporate bonds	488 400	501 480
Municipal bonds and bonds of the Russian Federation's regions	364 385	233 483
Debt securities of central banks of non-OECD countries	140 373	60 552
Corporate Eurobonds	124 273	2 564
State debt securities of non-OECD countries	62 446	68 114
Promissory notes	-	213 777
Vnesheconombank bonds (OVGVZ)	-	2 227
Total debt securities	3 967 222	1 082 197
Private equity fund investments	615 557	656 898
Quoted corporate shares	1 357	23 259
Unquoted corporate shares	2 477	18 473
Total equity securities	619 391	698 630
Total investment securities available for sale	4 586 613	1 780 827

11 Investment Securities Available for Sale (Continued)

Corporate bonds represent debt securities denominated in Russian Roubles, issued by large Russian companies in energy, oil and gas and other sectors. Corporate bonds are freely tradable in Russia.

Municipal bonds and bonds of Russian Federation's regions represent interest bearing securities denominated in Russian Roubles. These bonds are tradable on the MICEX and other Russian stock exchanges.

Promissory notes represent interest-bearing securities issued by Russian banks.

State debt securities of non-OECD countries represent interest-bearing and zero-coupon bonds issued by the Ministry of Finance of Moldova.

Debt securities of central banks of non-OECD countries represent zero-coupon bonds issued by the Bank of Moldova at a discount.

Private equity fund investments represent investments in a private equity fund which invests mainly in unlisted equity securities of companies from a wide range of industries in the Russian Federation. Private equity fund investments are carried at their estimated fair value. The valuation of private equity fund investments has been performed as at 31 December 2008 by an independent company of professional appraisers. The applied valuation is Discounted Cash Flow.

The analysis of the Group's debt investment securities available for sale at 31 December 2008 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2009	August 2018	5.9	10.1	7.2	11.7
Corporate bonds	February 2009	September 2020	7.2	18.0	8.4	32.9
Municipal bonds and bonds of the Russian Federation's regions	April 2009	April 2014	7.8	10.3	7.2	39.7
Debt securities of central banks of non-OECD countries	January 2009	January 2009	0.0	0.0	15.0	15.0
Corporate Eurobonds	June 2022	June 2022	6.7	6.7	13.0	13.0
State debt securities of non-OECD countries	January 2009	May 2010	0.0	21.9	14.1	22.6

The analysis of the Group's debt investment securities available for sale at 31 December 2007 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Corporate bonds	March 2008	November 2012	7.7	16.0	7.5	18.7
Municipal bonds and bonds of the Russian Federation's regions	June 2008	April 2014	7.0	12.0	5.4	10.8
Promissory notes	February 2008	December 2008	0.0	0.0	7.9	9.4
State debt securities of non-OECD countries	January 2008	December 2009	12.7	17.2	10.0	16.1
Debt securities of central banks of non-OECD countries	January 2008	January 2008	0.0	0.0	13.9	14.3
Corporate Eurobonds	October 2010	October 2010	8.4	8.4	7.3	7.3
Vnesheconombank bonds (OVGVZ)	May 2008	May 2008	3.0	3.0	6.0	6.0

11 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale are as follows:

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Carrying amount at 1 January		1 780 827	1 032 404
Fair value losses net of gains		(703 863)	(8 926)
Reclassification of securities from trading portfolio		7 208 871	-
Reclassification of securities from repurchase receivables		862 126	-
Interest income accrued	23	414 310	96 906
Interest income received		(397 140)	(70 682)
Purchases		14 644 992	4 297 848
Proceeds from disposal of investment securities available for sale		(17 032 275)	(3 572 691)
Sales under direct repo		(2 423 640)	-
Gains less losses/(losses net of gains) arising from investment securities available for sale		160 952	(1 281)
Exchange differences relating to debt securities		36 930	(94)
Effect of translation to presentation currency		34 523	7 343
Carrying amount at 31 December		4 586 613	1 780 827

At 31 December 2008, investment securities available for sale with a fair value of RR 2 540 525 thousand (2007: nil) were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2008, the Group utilised the credit line with CBRF in the amount of RR 404 643 thousand (2007: nil). Refer to Note 30.

Issuers' credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 29. Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 29. The information on related party investment securities available for sale is disclosed in Note 34.

12 Repurchase Receivable

Repurchase receivable represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge.

<i>In thousands of Russian Roubles</i>	2008	2007
Federal loan bonds (OFZ bonds)	1 377 130	1 735 762
Municipal bonds and bonds of the Russian Federation's regions	1 023 257	-
Corporate bonds	748 326	326 412
Total repurchase receivable	3 148 713	2 062 174

The analysis of the Group's repurchase receivable at 31 December 2008 is set out below:

<i>In % p.a.</i>	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2009	November 2012	5.9	9.1	7.2	11.7
Municipal bonds and bonds of the Russian Federation's regions	April 2009	June 2013	7.9	9.0	7.7	34.0
Corporate bonds	February 2017	March 2040	7.3	8.8	9.1	18.3

12 Repurchase Receivable (Continued)

The analysis of the Group's repurchase receivable at 31 December 2007 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	April 2008	August 2018	5.8	10.0	5.4	6.4
Corporate bonds	December 2009	June 2018	7.0	8.3	6.8	7.9

Credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 29. At 31 December 2008 due to other banks includes RR 3 015 300 thousand (2007: RR 1 254 745 thousand) received under repurchase agreements with securities at a fair value of RR 3 148 713 thousand (2007: RR 1 299 743 thousand). Refer to Notes 15 and 30.

As at 31 December 2007, customer accounts include RR 747 193 thousand received under repurchase agreements with securities at a fair value of RR 762 430 thousand. Refer to Notes 16 and 30.

Information on fair value of repurchase receivable is disclosed in Note 32. Geographical, currency, maturity and interest rate analyses of repurchase receivable are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

13 Premises and Equipment

	Land and premises	Office and computer equipment	Construction in progress	Total
<i>In thousands of Russian Roubles</i>				
Carrying amount at 1 January 2007	1 286 251	811 153	541 509	2 638 913
Cost				
Opening balance	1 430 618	1 703 663	541 509	3 675 790
Additions	111 361	398 630	163 889	673 880
Transfers	373 583	102 347	(475 930)	-
Disposals	(86 753)	(72 319)	(254)	(159 326)
Effect of translation to presentation currency	(1 620)	(6 760)	78	(8 302)
Closing balance	1 827 189	2 125 561	229 292	4 182 042
Accumulated depreciation				
Opening balance	144 367	892 510	-	1 036 877
Depreciation charge (Note 25)	33 742	324 903	-	358 645
Disposals	(8 653)	(49 581)	-	(58 234)
Effect of translation to presentation currency	(1 029)	(5 430)	-	(6 459)
Closing balance	168 427	1 162 402	-	1 330 829
Carrying amount at 31 December 2007	1 658 762	963 159	229 292	2 851 213
Cost				
Opening balance	1 827 189	2 125 561	229 292	4 182 042
Additions	969 182	449 577	277 945	1 696 704
Transfers	11 406	156 415	(167 821)	-
Disposals	(40 754)	(55 387)	(1 920)	(98 061)
Effect of translation to presentation currency	(65 988)	(11 261)	287	(76 962)
Closing balance	2 701 035	2 664 905	337 783	5 703 723
Accumulated depreciation				
Opening balance	168 427	1 162 402	-	1 330 829
Depreciation charge (Note 25)	59 831	377 358	-	437 189
Disposals	(2 043)	(42 591)	-	(44 634)
Effect of translation to presentation currency	(1 258)	(9 435)	-	(10 693)
Closing balance	224 957	1 487 734	-	1 712 691
Carrying amount at 31 December 2008	2 476 078	1 177 171	337 783	3 991 032

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, the assets are transferred to the appropriate category of premises and equipment.

14 Other Assets

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Other financial assets			
Conversion deals settlements and deferred deals		613 311	5 048
Derivatives	31	200 359	46 194
Receivables on commissions		158 890	283 049
Settlements on plastic cards operations		131 732	159 645
Dividends receivable		48 753	-
Cash transfers		6 114	12 224
Term deals settlements deposits		5 049	57 806
Other financial assets		12 034	33 547
Total other financial assets		1 176 242	597 513
Other non-financial assets			
Settlements on non-banking operations		183 137	228 404
Receivables and advance payments		86 734	470 653
Prepaid other taxes		23 747	15 513
Settlements on other operations		137 335	26 235
Total other non-financial assets		430 953	740 805
Total other assets		1 607 195	1 338 318

Geographical, currency and maturity analyses of other assets are disclosed in Note 29.

15 Due to Other Banks

<i>In thousands of Russian Roubles</i>	2008	2007
Correspondent accounts and overnight placements of other banks	436 872	260 481
Term deposits of other banks	15 382 758	12 821 032
Term deposits of the CBRF	6 061 256	-
Sale and repurchase agreements with other banks	1 000 000	2 883 919
Sale and repurchase agreements with the CBRF	3 015 300	-
Total due to other banks	25 896 186	15 965 432

At 31 December 2008, the fair value of securities transferred to other banks under sale and repurchase agreements in the amount of RR 1 000 000 thousand (2007: RR 2 883 919 thousand), comprised RR 1 546 823 thousand (2007: RR 3 003 921 thousand). The Group purchased these securities under reverse sale and repurchase agreements ("reverse repo"). Refer to Note 30.

At 31 December 2008, the fair value of securities transferred to the CBRF under sale and repurchase agreements in the amount of RR 3 015 300 thousand (2007: RR 0), comprised RR 3 148 713 thousand (2007: RR 0). These securities are included in repurchase receivable. Refer to Notes 12 and 30.

As at 31 December 2008, term deposits of other banks of RR 293 318 thousand (2007: RR 228 975 thousand) were collateralised by term deposits with other banks of RR 295 418 thousand (2007: RR 246 087 thousand). Refer to Notes 9 and 30.

Refer to Note 32 for the disclosure of the fair value of each class of amounts due to other banks. Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

16 Customer Accounts

<i>In thousands of Russian Roubles</i>	2008	2007
State and public organisations		
- Current/settlement accounts	17 460	6 473 168
- Term deposits	3 889	3 172 381
Corporate entities		
- Current/settlement accounts	21 219 120	18 917 127
- Term deposits	36 243 462	40 030 023
- Sale and repurchase agreements	-	998 151
Individuals		
- Current/demand accounts	8 617 107	9 593 023
- Term deposits	37 328 439	34 175 892
Total customer accounts	103 429 477	113 359 765

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Amount	%	Amount	%
Individuals	45 945 546	44	43 768 915	38
Oil production and refining	17 243 511	17	4 146 031	4
Trade	10 678 111	10	10 194 357	9
Finance sector	8 498 769	8	25 903 219	23
Services	7 926 443	8	6 583 110	6
Construction	4 405 287	4	3 870 909	3
Manufacturing	1 715 024	2	2 562 425	2
Energy	592 066	1	1 199 377	1
State and public organisations	21 349	-	9 645 549	9
Other	6 403 371	6	5 485 873	5
Total customer accounts	103 429 477	100	113 359 765	100

At 31 December 2008 included in customer accounts are deposits of RR 4 239 965 thousand (2007: RR 3 466 626 thousand) held as collateral for irrevocable commitments under import letters of credit and letter of credit for settlements in the Russian Federation. Refer to Note 30.

At 31 December 2007, the fair value of securities transferred to customers under sale and repurchase agreements in the amount of RR 998 151 thousand, comprised RR 1 015 152 thousand. The Group purchased part of these securities with a fair value of RR 252 722 thousand under reverse sale and repurchase agreements ("reverse repo"). The remaining securities with a fair value of RR 762 430 thousand are included in repurchase receivable. Refer to Notes 12 and 30.

Fair value of each category of customer accounts is disclosed in Note 32. Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

17 Debt Securities in Issue

<i>In thousands of Russian Roubles</i>	2008	2007
Bonds	5 973 318	2 950 285
Promissory notes	5 308 108	10 952 984
Deposit and saving certificates	750 649	2 005 502
Total debt securities	12 032 075	15 908 771

17 Debt Securities in Issue (Continued)

In August 2006 the Group made the second issue of bonds with nominal value of RR 3 000 000. These bonds mature in August 2009, have a fixed coupon rate of 8.5% (2007: 8.5%) and yield to maturity of 8.9% (2007: 8.9%).

In July 2008, the Group placed the fourth issue of bonds with nominal value of RR 3 000 000 thousand. The bonds mature in July 2011 and have original coupon rates of 10.0% and yield to maturity of 10.3%.

Issued promissory notes represent debt securities denominated in Russian Roubles, US Dollars and Euro with maturities from "demand" to December 2028 (2007: from "demand" to December 2027). The effective interest rates on these promissory notes range from 0.0% to 14.0% (2007: 0.0%-10.8%).

Deposit and saving certificates are debt securities denominated in Russian Roubles with maturities from January 2009 to August 2010 (2007: from January 2008 to December 2008). The effective interest rates on these deposit and saving certificates range from 9.6% to 15.0% (2007: from 9.5% to 11.1%).

Refer to Note 32 for the disclosure of the fair value of each class of debt securities in issue. Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

18 Other Borrowed Funds

<i>In thousands of Russian Roubles</i>	2008	2007
Term borrowings	18 418 544	15 864 405
Syndicated loans	3 695 732	4 036 084
Total other borrowed funds	22 114 276	19 900 489

Term borrowings represent medium and long-term funds attracted by the Group on the international financial markets.

In March 2006 the Group issued Euro Medium Term Notes with a nominal value of USD 225 000 thousand, a fixed nominal interest rate of 8.0% p.a., maturity in March 2009 and the effective interest rate of 8.7% p.a.

In December 2006 the Group issued Loan Participation Notes with a nominal value of USD 300 000 thousand, a fixed nominal interest rate of 8.75% p.a., maturity in December 2009 and the effective interest rate of 9.3% p.a.

In March 2007 the Group additionally issued Loan Participation Notes with a nominal value of USD 125 000 thousand, a fixed nominal interest rate of 8.75% p.a., maturity in December 2009 and the effective interest rate of 9.3% p.a.

A syndicated loan in the amount of USD 14 000 thousand was received by the Group in October 2005 from two Croatian banks. This loan matures in October 2010 and has an interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2008, the effective interest rate for this loan was 8.6% p.a. (2007: 9.0%).

A syndicated loan in the amount of USD 14 338 thousand was received by the Group in June 2006 from the above two Croatian banks. This loan matures in June 2011 and has an interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2008, the effective interest rate was 6.4% p.a. (2007: 7.2%).

A syndicated loan in the amount of USD 14 398 thousand was received by the Group in October 2006 from the above two Croatian banks. This loan matures in October 2011 and has an interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2008, the effective interest rate for this loan was 6.5% p.a. (2007: 7.1%).

18 Other Borrowed Funds (Continued)

A syndicated loan in the amount of USD 106 000 thousand was received by the Group in October 2008 from a consortium of foreign banks. This loan matures in October 2009 and has an interest rate of 6 month LIBOR plus 1.5% p.a. At 31 December 2008 the effective interest rate on this loan was 10.6%. This syndicated loan was early repaid by the Group in April 2009. Refer to Notes 36.

As at 31 December 2007, the Group had a syndicated loan of USD 135 000 thousand, received in June 2007 from a consortium of Russian and foreign banks. This loan matured in June 2008 and had an interest rate of 6 month LIBOR plus 0.9% p.a. At 31 December 2007 the effective interest rate on this loan was 7.1%. The loan was repaid in due time.

Refer to Note 32 for disclosure of the fair value of each class of other borrowed funds. Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29.

19 Other Liabilities

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Other financial liabilities			
Settlements on factoring operations		225 788	917 334
Derivatives	31	178 570	50 377
Settlements on plastic card operations		144 576	186 712
Accrued financial liabilities		75 847	46 096
Cash transfers		2 193	11 189
Other financial liabilities		22 542	6 478
Total other financial liabilities		649 516	1 218 186
Other non-financial liabilities			
Accrued staff costs		151 913	234 764
Other taxes payable		146 594	64 306
Settlements on bank operations		107 307	74 725
Other non-financial liabilities		86 411	93 585
Total other non-financial liabilities		492 225	467 380
Total other liabilities		1 141 741	1 685 566

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 29.

20 Subordinated Debt

In November 2006, the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% and maturity in May 2012. Under the contract, the loan ranks after all other creditors in case of liquidation of the Bank. As at 31 December 2008, the effective interest rate for this subordinated loan was 6.4% p.a. (2007: 9.1% p.a.).

In October 2007 the Group renegotiated the maturity terms of the subordinated debt till November 2016.

Refer to Note 32 for the disclosure of the fair value of subordinated debt. Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 29. Information on related party balances is disclosed in Note 34.

21 Share Capital

<i>In thousands of Russian Roubles</i>	Number of shares, in thousand units	2008		Number of shares, in thousand units	2007	
		Nominal value	Inflation adjusted amount		Nominal value	Inflation adjusted amount
Ordinary shares	600 000	6 000 000	7 752 558	500 000	5 000 000	6 752 558
Total share capital	600 000	6 000 000	7 752 558	500 000	5 000 000	6 752 558

All ordinary shares have a nominal value of RR 10 per share, rank equally and each share carries one vote. The amount of dividend is determined and approved at the Bank's annual general meeting.

In March 2008 the members of the Bank's General Shareholders Meeting approved the increase the Bank's share capital through an additional issue and private offering placement in favour of the Bank's current shareholders of 100 000 000 ordinary shares of OAO Bank Petrocommerce at a nominal value of RR 10 each. The offering price of these shares established by the Board of Directors is RR 30 per each share. In June 2008 the Central Bank of the Russian Federation registered the decision on an additional issue of the Bank's shares in compliance with the Russian legislation. In August 2008 the Bank placed issue in full and prepared documents for the state registration of the Issue Report which was registered in September 2008.

As a result of the additional issue of ordinary shares, at 31 December 2008 Reserve Invest Holding (Cyprus) Limited obtained title for 88.68% of the Bank's share capital (2007: 87.94%).

22 Retained Earnings

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2008 are RR 13 354 580 thousand (2007: RR 12 014 849 thousand). In accordance with changes in regulatory framework, specifically changes № 1858-U dated 09 September 2007 to Pologenie № 191-P dated 30 July 2002 issued by CB RF and changes № 2055-U dated 26 August 2008 to Ukazanie № 1376 dated 16 January 2004 the recalculation of some balances of The Statutory Consolidated Financial Statements was done. As at 31 December 2007 the Group's reserves under Russian Accounting Rules were RR 11 149 345 thousand.

23 Interest Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Interest income		
Loans and advances to customers	16 704 095	13 206 590
Reverse sale and repurchase agreements ("reverse repo agreements")	1 130 990	1 060 390
Debt trading securities	1 096 631	1 083 617
Correspondent accounts and due from other banks	646 535	503 061
Debt investment securities available for sale	414 310	96 906
Total interest income	19 992 561	15 950 564
Interest expense		
Deposits of individuals	3 153 733	2 534 715
Term deposits of legal entities	2 498 332	1 397 930
Other borrowed funds	1 636 374	1 646 536
Debt securities in issue	1 380 688	1 121 328
Due to other banks	854 358	727 502
Reverse sale and repurchase agreements ("repo agreements")	103 027	433 438
Subordinated debt	71 579	338 520
Current accounts of legal entities	7 853	11 656
Other	50	154
Total interest expense	9 705 994	8 211 779
Net interest income	10 286 567	7 738 785

24 Fee and Commission Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Fee and commission income		
Commission on settlement transactions	1 328 734	1 073 409
Commission on cash transactions	716 031	569 882
Guarantees issued	141 014	105 118
Commission on cash collection	107 389	84 247
Commission for trust management	76 719	143 211
Fiduciary commission	1 214	552
Other	229 410	249 838
Total fee and commission income	2 600 511	2 226 257
Fee and commission expense		
Commission on settlement transactions	389 933	275 298
Commission on cash collection	86 916	66 366
Commission on cash transactions	7 770	32 940
Other	189 986	103 983
Total fee and commission expense	674 605	478 587
Net fee and commission income	1 925 906	1 747 670

25 Administrative and Other Operating Expenses

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Staff costs		3 060 094	2 903 678
Office maintenance		456 911	524 547
Depreciation of premises and equipment	13	437 189	358 645
Rent		347 049	263 549
State deposit insurance system membership fee		220 343	195 456
Advertising and marketing services		138 212	127 572
Taxes other than on income		137 977	87 967
Expenses related to premises and equipment		131 597	81 287
Other		520 363	429 415
Total administrative and other operating expenses		5 449 735	4 972 116

Included in staff costs are statutory social security and pension contributions of RR 421 054 thousand (2007: RR 362 657 thousand).

26 Income Tax

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	2008	2007
Current tax charge	532 004	1 146 164
Deferred tax	(6 232)	26 472
Income tax expense for the year	525 772	1 172 636

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

<i>In thousands of Russian Roubles</i>	2008	2007
IFRS profit before taxation	2 419 616	3 989 421
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24 %)	580 708	957 461
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	53 992	58 374
- Income on government securities taxed at different rates	(103 215)	(100 310)
- Unrecognised tax losses	20 184	63 878
- Share based compensation	-	100 335
- Impact of change in tax rate to 20% effective from 1 January 2009	(30 392)	-
- Other non temporary differences	4 495	92 898
Income tax expense for the year	525 772	1 172 636

On 26 November 2008, the State Duma of the Russian Federation adopted Law No. 224-FZ, under which the Russian income tax rate is reduced from 24% to 20% effective from 1 January 2009.

A deferred tax credit of RR 139 577 thousand has been recorded directly in equity in respect of the fair valuation of investment securities available for sale. Refer to Note 11.

26 Income Tax (Continued)

Differences between IFRS and statutory taxation regulations in Russia and national regulations of subsidiary banks—non-residents being members of the Group give rise to temporary differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement in these temporary differences is recorded at the rate of 20% (2007: 24%), except for income on state securities of the Russian Federation that is taxed at 15% (2007: 15%).

	1 January 2008	Charged to profit or loss	Credited directly to equity	31 December 2008
<i>In thousands of Russian Roubles</i>				
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(136 873)	(41 245)	-	(178 118)
Provision for loan impairment	(200 996)	140 862	-	(60 134)
Accruals	170 151	(12 828)	-	157 323
Fair valuation of investment securities available for sale	(2 752)	(33 937)	139 577	102 888
Fair valuation of trading investments	34 390	(8 591)	-	25 799
Debt securities in issue	(7 279)	10 266	-	2 987
Other	20 083	(48 295)	-	(28 212)
Net deferred tax (liability)/asset	(123 276)	6 232	139 577	22 533
Recognised deferred tax asset	6 538	102 679	-	109 217
Recognised deferred tax liability	(129 814)	(96 447)	139 577	(86 684)
Net deferred tax (liability)/asset	(123 276)	6 232	139 577	22 533

	1 January 2007	Charged to profit or loss	Credited directly to equity	31 December 2007
<i>In thousands of Russian Roubles</i>				
Tax effect of deductible/(taxable) temporary differences				
Provision for loan impairment	208 404	(409 400)	-	(200 996)
Premises and equipment	(97 896)	(38 977)	-	(136 873)
Fair valuation of trading investments	(337 542)	330 263	-	(7 279)
Fair valuation of investment securities available for sale	(3 624)	(944)	1 816	(2 752)
Accruals	124 499	45 652	-	170 151
Debt securities in issue	38 997	(4 607)	-	34 390
Other	(31 458)	51 541	-	20 083
Net deferred tax (liability)/asset	(98 620)	(26 472)	1 816	(123 276)
Recognised deferred tax asset	15 329	(8 791)	-	6 538
Recognised deferred tax liability	(113 949)	(17 681)	1 816	(129 814)
Net deferred tax (liability)/asset	(98 620)	(26 472)	1 816	(123 276)

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

A deferred tax asset in the amount of RR 109 217 thousand (2007: RR 6 538 thousand) and a deferred tax liability in the amount of RR 86 684 thousand (2007: RR 129 814 thousand) have been recorded in the consolidated balance sheet after offsetting of the gross amounts presented above.

27 Dividends

<i>In thousands of Russian Roubles</i>	2008	2007
Dividends payable at 1 January	717	719
Dividends paid during the year	25	2
Dividends payable at 31 December	692	717

In May 2008, the annual general shareholders' meeting resolved not to pay dividends based on the results for the 2007 financial year.

In May 2007, the annual general shareholders' meeting resolved not to pay dividends based on the results for the 2006 financial year.

28 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 the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, trust management, custody, plastic cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, factoring and foreign currency products.
- Financial market transactions – representing stock and money market transactions, brokerage and depositary services, securities, foreign exchange trading and trading in derivative financial instruments, sale and repurchase (repo) agreements, attraction of long-term funds on international financial markets.

Starting from 2007, the Group has been applying a transfer pricing system. Under this system funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group. These rates are determined by reference to the market yield curves. In addition, internal management accounting system allows reallocation of certain operating expenses between the reportable segments.

28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for 2008 and 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Eliminations	Total
2008					
External revenues	3 234 803	16 142 076	3 389 677	-	22 766 556
Intersegment revenues	4 506 021	6 923 318	4 076 538	(15 505 877)	-
Total revenues	7 740 824	23 065 394	7 466 215	(15 505 877)	22 766 556
Total revenues comprise:					
Interest income					19 992 561
Fee and commission income					2 600 511
Other operating income					173 484
Total revenues					22 766 556
Segment results	293 973	3 882 847	5 810	-	4 182 630
Unallocated costs					(1 763 014)
Profit before tax					2 419 616
Income tax expense					(525 772)
Profit for the year					1 893 844
Other segment items					
Capital expenditure	622 494	1 015 791	58 419	-	1 696 704
Depreciation charge	(215 532)	(210 528)	(11 129)	-	(437 189)
Provision for loan impairment	(391 146)	(3 930 850)	(254)	-	(4 322 250)
Segment assets	20 719 943	133 130 152	36 151 571	-	190 001 666
Deferred income tax asset					109 217
Other unallocated assets					1 848 276
Total assets					191 959 159
Segment liabilities	47 102 089	57 808 013	59 336 325	-	164 246 427
Deferred income tax liabilities					86 684
Other unallocated liabilities					4 564 559
Total liabilities					168 897 670

28 Segment Analysis (Continued)

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Financial markets	Eliminations	Total
2007					
External revenues	2 376 602	13 277 894	2 721 596	-	18 376 092
Intersegment revenues	3 208 917	4 799 330	4 099 985	(12 108 232)	-
Total revenues	5 585 519	18 077 224	6 821 581	(12 108 232)	18 376 092
Total revenues comprise:					
Interest income					15 950 564
Fee and commission income					2 226 257
Other operating income					199 271
Total revenues					18 376 092
Segment results	377 178	6 726 255	(482 144)	-	6 621 289
Unallocated costs					(2 631 868)
Profit before tax					3 989 421
Income tax expense					(1 172 636)
Profit for the year					2 816 785
Other segment items					
Capital expenditure	245 690	404 572	23 618	-	673 880
Depreciation charge	(152 925)	(189 036)	(16 684)	-	(358 645)
(Provision)/recovery of provision for loan impairment	(186 418)	(60 829)	317	-	(246 930)
Segment assets	17 122 249	112 461 301	51 667 690	-	181 251 240
Deferred income tax asset					6 538
Other unallocated assets					8 488 043
Total assets					189 745 821
Segment liabilities	46 156 865	69 773 556	50 530 502	-	166 460 923
Deferred income tax liabilities					129 814
Other unallocated liabilities					4 184 986
Total liabilities					170 775 723

28 Segment Analysis (Continued)

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

<i>In thousands of Russian Roubles</i>	Russia	OECD	Other	Total
2008				
Segment assets	173 214 171	8 044 936	10 700 052	191 959 159
Segment liabilities	123 644 953	38 846 336	6 406 381	168 897 670
Credit related commitments	5 044 111	448 126	1 578 295	7 070 532
External revenues	21 525 933	216 553	1 024 070	22 766 556
Capital expenditure	1 680 227	-	16 477	1 696 704
2007				
Segment assets	176 836 366	7 091 425	5 818 030	189 745 821
Segment liabilities	125 892 540	33 025 267	11 857 916	170 775 723
Credit related commitments	6 353 755	522 472	1 793 496	8 669 723
External revenues	17 251 819	361 166	763 107	18 376 092
Capital expenditure	638 206	-	35 674	673 880

External revenues, assets, liabilities and credit related commitments have generally been allocated based on ultimate domicile of the counterparty, i.e. based on their respective geographical locations.

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

29 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The Group's risk management policy is intended to ensure an optimal balance between the acceptable level of risk undertaken by the Group and the return from banking activities to restrict potential adverse effects on the Bank's financial performance, to ensure sustainability of the business of the Group and as well as to protect the rights and interests of the Group's stakeholders - shareholders, clients, counterparties and others. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. The risk management objectives, policies and procedures are similar for the Bank and its subsidiaries.

Taking into account the current crisis in the financial markets and other sectors of economy, the process of risk management was amended accordingly. In particular:

- Requirements to the methods of placing liquidity reserves became more rigorous, taking into account the growing volatility of the resource base, liquidity reserves were increased;
- Approaches to credit risk management were amended (procedures of loans issue and monitoring became more rigorous, limits are revised);
- For the purpose of improving flexibility of the Bank's management, for the period of crisis changes were made in the structure of the Bank's collegial bodies.

Risk management structure. The risk management governance system of the Group includes setting, implementing and controlling risk management policies and procedures and subsequent updating of policies and procedures based on the current economic, business and regulatory environment.

The Board of Directors is responsible for the overall supervision of the risk management system.

29 Financial Risk Management (Continued)

The Executive Board has overall responsibility over asset and liability management including approval of key risk management policies and procedures and large risk exposures, assessment of risk management system bodies and approval of contingency plans.

For the period of crisis, in order to make operating decisions the following bodies were established: the Committee for Business Management (CBM) and the Committee for Management of Liquidity and Finance (CMLF).

For the period of crisis, the Committee for Management of Liquidity and Finance was assigned with the functions exercised by the Bank's Committee for Finance and Economy and the Budget Committee. The Committee for Management of Liquidity and Finance also performs the following functions:

- addressing issues related to the Bank's development projects' management;
- addressing issues related to operational cost management;
- communication of required operating information to interested parties within the Group as to decision making and other information related to liquidity, finance and cost management in the Group.

For the purpose of preparation of materials on individual issues falling within the competence of the Committee for Management of Liquidity and Finance, as well as for control of implementation of its decisions an Operational Monitoring and Control Group was set up.

The following functions were assigned to the Committee of Business Management:

- coordination and control of credit committees' activities;
- addressing issues related to product range, including pricing of products and services (subject to recommendations and pricing policy of the Committee for Management of Liquidity and Finance);
- addressing issues related to customer relations;
- addressing issues related to day-to-day operations of the regional network;
- communication of required operating information to interested parties within the Group as to decision making and other information related to business operations.

The Executive Board, CBM, CMLF and Credit Committees make decisions that set out the risk management procedures that fall within the competence of the respective unit and establish limits to limit risks related to particular operations.

The Risk Control Department (RCD) is directly responsible for the development of policies on assessment of the current level of risks, risk management procedures, identification and analysis of the current risk level and monitoring of compliance with the procedures and set limits limiting the risk level. The RCD is an independent unit, its representatives have the right to vote in CMLF, CBM and credit committees. Moreover, a representative of RCD has veto power in the CBM and credit committees. The RCD reports to the Group's management on a regular basis. The review of major risks is communicated to the Board of Directors on a semi-annual basis in a report on risk management, which includes credit, market, liquidity, operating and reputation risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge of an obligation. Credit risk is the most important risk for the Group's business, management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-balance sheet items, such as guarantees and loan commitments.

The following committees are responsible for approval of corporate and retail transactions which might create credit risk exposure:

29 Financial Risk Management (Continued)

- The Committee for Business Management approves decisions on credit risk management for the 20 largest borrowers of the Bank, as well as on the management of non-performing loans;
- The Committee for Management of Liquidity and Finance establishes credit risk management procedures for REPO transactions, the procedure for use of credit risk limits by counterparty on REPO transactions and settlements, and also determines credit risk limits for banks, including for transactions with their own debt securities, for transactions with government securities and by security type (for investments and reverse REPO transactions);
- CBM sets credit limits for lending business units;
- The Credit Committee approves decisions on credit risk management for transactions (except for transactions falling within the authority of the Committee for Business Development) in the amounts exceeding RR 500 million (RR 30 million for individuals) under standard lending programs, reviews non-standard loan applications and also approves the limits for corporate debt securities;
- The Medium Credit Committee approves decisions on credit risk management for transactions with legal entities (except for transactions falling within the authority of the Committee for Business Development) in the amounts up to RR 500 million under standard lending programs;
- The Small Credit Committee approves decisions on credit risk management for transactions with individuals in the amounts up to RR 30 million;
- The Branch Credit Committee reviews lending applications from customers and takes lending decisions based on the established credit limits.

The credit risk management system implies setting of limits which includes individual counterparty limits, industry limits, as well as limits restricting credit product type, currency, period, type of collateral and other.

The Group has developed a methodology that enables evaluation of creditworthiness and credit quality of all types of counterparties: corporate clients, small and medium businesses, security issuers, banks, individuals, counterparties within the scope of financing on terms of claim assignment (factoring), insurance companies, etc.

The Group's credit risk management system includes a model, which assesses expected losses on the credit portfolio (the 'expected loss model') by using (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default'; and (iii) the likely economic loss ratio on the defaulted obligations (the 'loss given default'). By calculating these measurements the Group determines a risk premium for covering expected losses on the credit portfolio. This model takes into consideration such parameters as financial position of a counterparty, credit risk exposure, lending period, offered collateral and other factors that adjust the final risk premium. The Group continuously improves its credit risk measurement model. However, these measurements can be contrasted with impairment allowances recorded by the Group in these consolidated financial statements as required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses. Refer to Note 3.

The Group actively continues to develop its risk management system for lending to individuals. The scoring models that are used in lending to individuals enable the Group to reduce its risks at credit issue, however, the Group continues to enhance the efficiency of its systems.

Fair value of collateral is determined by the Group's experts in respect of the group of related borrowers. Fair value normally exceeds the amount of established limit by 30%-80%, depending on the borrower's financial position, the type of collateral, the borrower's credit history and information on the borrower. 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.

29 Financial Risk Management (Continued)

The Group usually takes collateral as security for all loans and credit facilities granted to its customers. Loans, even to related parties, are generally over-secured in terms of value of the security. The main types of collateral or credit support taken are financial claims to the Group, guarantees, Russian Government securities, shares in blue-chip companies, liquid promissory notes, real estate, goods, wares and merchandise and similar monetary assets. Pledges of, amongst other things, equipment are a typical form of security taken by the Group. According to the Group's internal procedures, collateral should be provided (where it is required) to cover outstanding liabilities during the whole the term of a loan.

The major part of factoring finance provided by the Group implies the possibility of claim recourse from the Debtor to the Seller. The Group treats this as a security to mitigate its risks.

The Group's transactions may lead to settlement risk exposure at the moment of settlement. Settlement risk is the risk of losses resulting from the counterparty's inability to meet its obligations to provide cash, securities or other assets stipulated by the contract.

For certain types of transactions the Group reduces this risk by making settlements in form of "delivery versus payment" or by clearing agents in order to be sure that final settlements will be completed only after both parties fulfil their contractual obligations in full. Undertaking an exposure to the settlement risk on unconditional settlement transactions requires availability of credit risk limits and (or) special limits of settlement risk by counterparty. Such limits constitute part of the above process of approval/monitoring of limits per counterparty.

Prior to the exacerbation of crisis, the Group made its approaches to credit risk management more rigorous. Principal changes in the process of regulating credit risk include, among others:

- more rigorous general requirements to the borrower's financial position in terms of its debt burden and potential development in the crisis environment;
- introduction of additional and review of earlier existing industry limits, introduction of limits on application of individual credit products and types of collateral;
- more rigorous procedures for review of applications, decrease of limits for independent lending in regional offices;
- enhanced requirements to collateral, increase of discounts, prohibition of precedent conditions regarding collateral, implementation of actions to strengthen the Group's collateral position;
- more rigorous approaches to calculation of solvency in relation to loans to individuals, subject to possible decrease of their level of income;
- more rigorous procedure for monitoring the loan portfolio status.

As part of its measures to manage liquidity reserves, the Group has dramatically enhanced its approaches to placing liquidity reserves and is focused on placing liquidity reserves in correspondent accounts with the most reliable banks, in Lombard list securities and in reverse repurchase transactions with such securities. In an operational mode, limits on banks-counterparties have been revised downwards. Limits on counterparties under repurchase transactions were reduced drastically, and minimal discounts were made more rigorous.

The system of limits on types of collateral and on counterparties, the level of minimal discounts and availability of general agreements signed with counterparties, including those on exchange repurchase transactions, allowed to avoid losses in repurchase market and minimise the impact of crisis in the Russian stock market on the Bank's liquidity position.

Procedures of on-going counterparties' monitoring in relation to transactions in financial markets are in place, procedures for suspension of limits are streamlined.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

29 Financial Risk Management (Continued)

Management of market risks includes limitation of possible losses on own positions that may be incurred by the Group over a specified time horizon with given level of confidence as a result of movements in exchange rates, market prices and interest rates by establishing limits for each type of transactions, and control over compliance with the set limits.

The Financial and Economic Committee is responsible for setting limits to restrict possible losses arising from market risks. Risk Control Department is responsible for developing recommendations on setting and revising limits and risk minimisation procedures.

Market risks are managed on the basis of the following methods:

- diversification of the active portfolio in the money and stock market, using, inter alia, a multilevel system of limits;
- daily revaluations of positions based on market prices;
- setting of and monitoring compliance over aggregate and private limits on all money, stock market instruments;
- setting of and monitoring compliance with stop-out limits to restrict the Group's losses on instruments;
- limits on investments in securities are revised subject to their liquidity (possibility of immediate disposal of portfolio without significant effect on the market price).

Before opening of the limits for debt securities, including repurchase receivables and investment securities available for sale, the Group assesses both the credit quality of the issuer and the liquidity of the securities. The credit quality requirements applied to the issuers are higher than the criteria applied to the borrowers. These criteria additionally include higher requirements to some financial performance indicators (i.e. gearing, financial efficiency etc.), the total assets and net assets of the issuer should not be less than total assets and net assets of the largest borrowers of the Group, the terms of issue stipulate the ability for early redemption in case of the change of the owner, the quality of the issuer assessed in accordance with internal rating methodology should not be worse than the quality of the borrower entitled to receive the unsecured loan for the term similar to the term to maturity of the security, and the holding companies are also obliged to present audited consolidated financial statements.

Additional criteria taken into account in the course of liquidity analysis are the volume of transactions on the organised exchange markets, spread between sale and purchase prices and spread between the security prices and risk-free assets of the same currency and maturity.

The limits for trading securities are opened only in case if the investment plan stipulates the sale of this security within 12 months and the liquidity of the security allows to sell it within 1-3 months without decrease in value.

The Group uses the VaR (value-at-risk) method for most trading positions and stress tests for non-liquid financial instruments. The VaR method is a method of evaluating potential losses that may occur on risk positions as a result of a change in market rates and prices within a certain period of time based on the assumed confidence interval. The VaR model used by the Group is based on a 99% confidence level and stipulates a 1 to 10 day holding period depending on the item category. The VaR model represents forecasting based on historical data. The model builds probability future development scenarios based on historical data of market quotations with consideration of interdependence between different markets and instruments. Potential changes in market prices are calculated with reference to market data for the last twelve months.

Although the VaR methodology is an important instrument for evaluation of the probable market risk value, it has several constraints, especially in respect of low liquid markets:

- Using historical data as the basis for determining future events may not reflect all possible scenarios;
- Using a 1 to 10 day holding period stipulates that the Group considers to sell or hedge the positions within 1 to 10 days. In practice, this is always the case. However, in case of exceptionally low market liquidity even a 10 day period may not be sufficient;

29 Financial Risk Management (Continued)

- A confidence interval of 99% does not consider losses that may occur beyond this level. Probability distribution of losses that may occur beyond the 99% level is not evaluated;
- Since the VaR amount is calculated based on the closing trading sessions data, it does not always reflect intraday fluctuations.

The Group does not confine market risk evaluation to VaR calculation only, as this method is associated with certain constraints described above. Constraints inherent in the VaR method are corrected by revising limits on open positions set with consideration of instruments' liquidity, limits on volumes of transactions in respect of each trading portfolio. In addition, the Group also uses stress tests for modelling possible financial effect of certain exceptional market scenarios for certain types of the Group's capital position.

Information on the level of VaR associated with the Group's currency risk and securities price risk at 31 December 2008 and 31 December 2007 is provided below:

	2008			2007		
	Value of position	Risk	The percentage of risk to value of position	Value of position	Risk	The percentage of risk to value of position
<i>In thousands of Russian Roubles</i>						
Fixed income securities price risk	8 677 598	133 930	1.5%	15 131 620	378 341	2.5%
Equity securities price risk	313 484	114 182	36.4%	1 359 904	245 242	18.0%
Currency rate risk exposure	(295 569)	5 646	1.9%	(1 135 326)	3 540	0.3%

29 Financial Risk Management (Continued)

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

<i>In thousands of Russian Roubles</i>	Russia	OECD	Other	Total
Financial assets				
Cash and cash equivalents	41 617 977	7 910 233	506 991	50 035 201
Mandatory cash balances with central banks	219 915	-	154 435	374 350
Trading securities	2 603 503	-	-	2 603 503
Due from other banks	1 239 932	-	420 958	1 660 890
Loans and advances to customers	114 091 747	469	9 078 256	123 170 472
Investment securities available for sale	4 372 937	2 271	211 405	4 586 613
Repurchase receivable	3 148 713	-	-	3 148 713
Other financial assets	1 042 137	129 034	5 071	1 176 242
Total financial assets	168 336 861	8 042 007	10 377 116	186 755 984
Non-financial assets				
Current income tax prepayment	671 159	-	814	671 973
Deferred income tax asset	80 978	-	28 239	109 217
Premises and equipment	3 883 599	-	107 433	3 991 032
Other non-financial assets	241 574	2 929	186 450	430 953
Total assets	173 214 171	8 044 936	10 700 052	191 959 159
Financial liabilities				
Due to other banks	13 961 717	11 488 347	446 122	25 896 186
Customer accounts	92 554 123	5 760 822	5 114 532	103 429 477
Debt securities in issue	11 791 993	90 955	149 127	12 032 075
Other borrowed funds	-	21 494 428	619 848	22 114 276
Other financial liabilities	627 262	7 818	14 436	649 516
Subordinated debt	4 181 535	-	-	4 181 535
Total financial liabilities	123 116 630	38 842 370	6 344 065	168 303 065
Non-financial liabilities				
Current tax liability	4 969	-	10 727	15 696
Deferred income tax liability	86 684	-	-	86 684
Other non-financial liabilities	436 670	3 966	51 589	492 225
Total liabilities	123 644 953	38 846 336	6 406 381	168 897 670
Net balance sheet position	49 569 218	(30 801 400)	4 293 671	23 061 489
Credit related commitments (Note 30)	5 044 111	448 126	1 578 295	7 070 532

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. The column "OECD" in the table above includes mainly balances with counterparties from the USA, Germany and Great Britain. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

29 Financial Risk Management (Continued)

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

<i>In thousands of Russian Roubles</i>	Russia	OECD	Other	Total
Financial assets				
Cash and cash equivalents	20 276 208	6 292 643	573 723	27 142 574
Mandatory cash balances with central banks	2 342 572	-	122 996	2 465 568
Trading securities	14 086 742	589 478	-	14 676 220
Due from other banks	1 030 940	-	246 359	1 277 299
Loans and advances to customers	131 404 348	839	4 490 523	135 895 710
Investment securities available for sale	1 646 527	4 608	129 692	1 780 827
Repurchase receivable	2 062 174	-	-	2 062 174
Other financial assets	346 384	201 256	49 873	597 513
Total financial assets	173 195 895	7 088 824	5 613 166	185 897 885
Non-financial assets				
Prepaid income tax	237 235	-	12 145	249 380
Deferred income tax asset	-	-	6 538	6 538
Premises and equipment	2 744 909	-	106 304	2 851 213
Other non-financial assets	658 327	2 601	79 877	740 805
Total assets	176 836 366	7 091 425	5 818 030	189 745 821
Financial liabilities				
Due to other banks	7 233 961	8 463 860	267 611	15 965 432
Customer accounts	96 502 681	6 356 761	10 500 323	113 359 765
Debt securities in issue	15 908 771	-	-	15 908 771
Other borrowed funds	710 190	18 166 404	1 023 895	19 900 489
Other financial liabilities	1 147 164	33 366	37 656	1 218 186
Subordinated debt	3 745 136	-	-	3 745 136
Total financial liabilities	125 247 903	33 020 391	11 829 485	170 097 779
Non-financial liabilities				
Current tax liability	72 960	-	7 790	80 750
Deferred income tax liability	129 814	-	-	129 814
Other non-financial liabilities	441 863	4 876	20 641	467 380
Total liabilities	125 892 540	33 025 267	11 857 916	170 775 723
Net balance sheet position	50 943 826	(25 933 842)	(6 039 886)	18 970 098
Credit related commitments (Note 30)	6 353 755	522 472	1 793 496	8 669 723

29 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the Group's income or financial instruments portfolio may change due to exchange rate fluctuations.

The Financial and Economic Committee manages the volume of currency risk by setting a limit on the level of open currency positions. The Department for Financial Market Operations manages the level of open currency positions within the set limits. The Treasury transfers open currency position to the Department for Financial Market Operations through concluding intra-group transactions. The Risk Control Department monitors the aggregate currency risk level.

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

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other	Total
Financial assets					
Cash and cash equivalents	18 494 753	22 841 973	7 773 259	925 216	50 035 201
Mandatory cash balances with central banks	219 916	56 702	25 935	71 797	374 350
Trading securities	2 603 503	-	-	-	2 603 503
Due from other banks	50 025	1 222 799	-	388 066	1 660 890
Loans and advances to customers	75 290 669	39 958 644	6 204 161	1 716 998	123 170 472
Investment securities available for sale	3 633 108	739 829	2 271	211 405	4 586 613
Repurchase receivable	3 148 713	-	-	-	3 148 713
Other financial assets	1 136 085	26 294	11 020	2 843	1 176 242
Total financial assets	104 576 772	64 846 241	14 016 646	3 316 325	186 755 984
Non-financial assets					
Prepaid income tax	671 159	-	-	814	671 973
Deferred income tax asset	80 978	-	-	28 239	109 217
Premises and equipment	3 883 599	-	-	107 433	3 991 032
Other non-financial assets	229 028	4 425	1 338	196 162	430 953
Total assets	109 441 536	64 850 666	14 017 984	3 648 973	191 959 159
Financial liabilities					
Due to other banks	13 694 447	7 418 449	4 390 759	392 531	25 896 186
Customer accounts	61 954 871	30 257 926	9 612 956	1 603 724	103 429 477
Debt securities in issue	11 642 621	386 316	3 138	-	12 032 075
Other borrowed funds	-	22 114 276	-	-	22 114 276
Other financial liabilities	609 855	20 946	4 627	14 088	649 516
Subordinated debt	-	4 181 535	-	-	4 181 535
Total financial liabilities	87 901 794	64 379 448	14 011 480	2 010 343	168 303 065
Non-financial liabilities					
Current tax liability	4 969	-	-	10 727	15 696
Deferred income tax liability	86 684	-	-	-	86 684
Other non-financial liabilities	435 028	4 642	4 698	47 857	492 225
Total liabilities	88 428 475	64 384 090	14 016 178	2 068 927	168 897 670
Net balance sheet position	21 013 061	466 576	1 806	1 580 046	23 061 489
Derivatives on financial instruments (Note 31)	726 921	(763 951)	-	58 819	21 789

29 Financial Risk Management (Continued)

At 31 December 2007, the Group had the following positions in currencies:

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other	Total
Financial assets					
Cash and cash equivalents	19 329 124	6 153 291	1 219 502	440 657	27 142 574
Mandatory cash balances with central banks	2 342 572	42 297	13 048	67 651	2 465 568
Trading securities	14 011 378	664 842	-	-	14 676 220
Due from other banks	-	1 096 797	-	180 502	1 277 299
Loans and advances to customers	94 133 694	35 708 758	4 088 745	1 964 513	135 895 710
Investment securities available for sale	984 838	661 689	4 608	129 692	1 780 827
Repurchase receivable	2 062 174	-	-	-	2 062 174
Other financial assets	439 556	79 767	56 831	21 359	597 513
Total financial assets	133 303 336	44 407 441	5 382 734	2 804 374	185 897 885
Non-financial assets					
Prepaid income tax	237 235	-	-	12 145	249 380
Deferred income tax asset	-	-	-	6 538	6 538
Premises and equipment	2 744 909	-	-	106 304	2 851 213
Other non-financial assets	663 749	10 091	2 897	64 068	740 805
Total assets	136 949 229	44 417 532	5 385 631	2 993 429	189 745 821
Financial liabilities					
Due to other banks	7 132 008	6 237 912	2 315 645	279 867	15 965 432
Customer accounts	96 078 142	11 787 340	3 537 150	1 957 133	113 359 765
Debt securities in issue	15 864 379	43 853	539	-	15 908 771
Other borrowed funds	-	19 900 489	-	-	19 900 489
Other financial liabilities	1 114 381	65 758	4 863	33 184	1 218 186
Subordinated debt	-	3 745 136	-	-	3 745 136
Total financial liabilities	120 188 910	41 780 488	5 858 197	2 270 184	170 097 779
Non-financial liabilities					
Current tax liability	72 960	-	-	7 790	80 750
Deferred income tax liability	129 814	-	-	-	129 814
Other non-financial liabilities	441 984	14 530	2 962	7 904	467 380
Total liabilities	120 833 668	41 795 018	5 861 159	2 285 878	170 775 723
Net balance sheet position	16 115 561	2 622 514	(475 528)	707 551	18 970 098
Derivatives on financial instruments (Note 31)	3 253 623	(3 292 122)	9 810	24 506	(4 183)

Movements in foreign exchange rates may affect the borrowers' repayment ability and incurrence of loan losses. At the same time, the Group seeks to provide to corporate clients loans in the currency which meets the requirements of the borrower's business structure in order to minimise the incurrence of loan losses due to realisation of potential currency risk for the borrower.

29 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk of difficulties arising with repayment of the Group's financial liabilities. Liquidity risk arises when the maturity of assets and liabilities does not match. Given the diversity of the Group's transactions and associated uncertainty, the full matching of maturities of assets and liabilities is not a standard practice for financial institutions, which enables them to increase profitability of operations, but, at the same time, increases the risk of losses or the risk that the Group will be unable to meet its obligations.

The objective of liquidity management is to establish and maintain such condition of the Group's asset and liability structure by type and basic maturity that would enable the Group to timely fulfil its obligations to creditors, to satisfy the demand of Group's clients for cash borrowings and to maintain the Group's reputation as a reliable financial institution that is paying special attention to liquidity risk regulation.

The Group seeks to maintain a diversified and stable structure of sources of financing consisting of issued debt securities, long-term and short-term deposits of banks, deposits of major corporate and retail clients as well as a diversified portfolio of highly liquid assets so that the Group could be able to promptly react to unforeseen liquidity requirements.

In view of the growing economic crisis the Group's liquidity management is conducted with due consideration of increased risk of overdue amounts and early repayment of individual's deposits. The Group established an additional liquidity provision intended for early repayment of earlier issued debt instruments. Additional procedures for expert valuation of credit portfolio maturity and risk management were introduced that will subsequently be used for review of forecasted liquidity.

The Financial and Economic Committee is responsible for liquidity management organisation (during the crisis its functions were transferred to the Committee for Management of Liquidity and Finance). In order to streamline the liquidity management procedures the Group separately conducts short-term liquidity management, day-to-day management of which is performed by the Treasury and structured liquidity management, where decisions are taken by the Financial and Economic Committee and information is prepared by the Risk Control Department.

Liquidity risk management is centralised in the Treasury by entering into transfer deals for all term transactions among the Treasury and business units. The deals are concluded for the period corresponding to the period of transactions at transfer rates.

In the second half of 2008 the cooperation processes between subsidiaries located in Russian Federation were specified. These subsidiaries were transferred to the system of matched funding. Simultaneously limits for operations on financial markets were significantly reduced for subsidiaries. The Group's liquidity management policy comprises:

- daily projecting of cash flows by major currencies and calculation of the required level of current liquidity which complies these cash flows;
- maintaining current liquidity in the amount sufficient for full coverage of the liabilities with maturity within 30 days;
- maintaining diversified structure of the sources and structure of financing;
- management of the concentration and structure of borrowed funds;
- development and implementation of debt financing plans;
- development of backup plans for liquidity and specified financing level maintenance;
- control over the compliance of the Group's balance sheet liquidity ratios with statutory ratios;
- establishing of limits and rates for attraction/placement of funds by instruments and of transfer rates.

The Treasury receives information on planned transactions from the business units. If the dates for notification about the planned transactions are not observed and also if the transaction exceeds the established limits on amount the Treasury has the right to ban this transaction of the business unit.

Monitoring of current and projected current liquidity position is done daily on the basis of preparation of payment schedule and forecast of short-term resources requirements. Monitoring of structural liquidity position is done by means of regular preparation of current and projected reports on assets and liabilities gaps (GAP-report).

29 Financial Risk Management (Continued)

The Bank Petrocommerce and its Russian subsidiaries calculate liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios include:

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

At 31 December 2008 and at 31 December 2007, the Bank's liquidity ratios complied with the statutory limits.

Subsidiary banks in Ukraine and Moldova calculate liquidity ratios in accordance with the requirements of national banks of these countries accordingly.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, including prices specified in deliverable forward agreements to purchase financial assets for cash. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are restated applying the official exchange rate of CBRF at the reporting date.

The undiscounted maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Total
Liabilities						
Due to other banks	8 923 546	12 192 792	1 934 796	3 271 729	592 647	26 915 510
Customer accounts	54 189 935	18 909 906	25 410 989	8 500 879	19 748	107 031 457
Debt securities in issue	1 087 011	2 823 268	4 760 712	4 320 520	454 390	13 445 901
Other borrowed funds	-	10 795 451	12 446 706	397 746	-	23 639 903
Other financial liabilities	26 135	557 461	65 837	83	-	649 516
Subordinated debt	-	58 404	181 119	897 722	5 151 974	6 289 219
Derivative financial instruments						
- Additions	-	(486 200)	-	-	-	(486 200)
- Disposals	-	664 770	-	-	-	664 770
Total	64 226 627	45 515 852	44 800 159	17 388 679	6 218 759	178 150 076
Other credit related commitments (Note 30)	2 237 632	2 915 719	1 149 171	768 010	-	7 070 532

29 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Total
Liabilities						
Due to other banks	7 593 095	2 870 031	4 233 273	1 692 670	74 084	16 463 153
Customer accounts	56 157 498	31 556 403	25 806 521	2 810 431	16 976	116 347 829
Debt securities in issue	1 168 149	2 034 302	8 622 706	4 881 233	440 871	17 147 261
Other borrowed funds	-	4 202 391	796 038	17 505 762	-	22 504 191
Other financial liabilities	70 421	1 136 806	839	10 120	-	1 218 186
Subordinated debt	85 665	79 910	241 486	1 285 583	4 921 850	6 614 494
Derivative financial instruments						
- Additions	(10 776 304)	(2 592 869)	(24 507)	-	-	(13 393 680)
- Disposals	10 802 100	2 617 165	24 792	-	-	13 444 057
Total	65 100 624	41 904 139	39 701 148	28 185 799	5 453 781	180 345 491
Other credit related commitments (Note 30)	1 052 086	4 577 475	1 045 089	1 995 073	-	8 669 723

The tables below shows assets and liabilities by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The entire portfolio of trading securities and repurchase receivable are classified within demand and less than one month as these portfolios are of trading nature and management believes this is a fairer portrayal of its liquidity position.

29 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2008 is set out below:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	No stated maturity	Total
Financial assets							
Cash and cash equivalents	50 035 201	-	-	-	-	-	50 035 201
Mandatory cash balances with central banks	374 350	-	-	-	-	-	374 350
Trading securities	2 603 503	-	-	-	-	-	2 603 503
Due from other banks	296 037	92 063	82 146	1 190 644	-	-	1 660 890
Loans and advances to customers	9 862 851	46 801 245	22 058 238	39 589 664	4 858 474	-	123 170 472
Investment securities available for sale	151 651	160 923	238 308	2 786 697	629 643	619 391	4 586 613
Repurchase receivable	3 148 713	-	-	-	-	-	3 148 713
Other financial assets	173 476	847 968	154 717	81	-	-	1 176 242
Total financial assets	66 645 782	47 902 199	22 533 409	43 567 086	5 488 117	619 391	186 755 984
Non-financial assets							
Prepaid income tax	129 854	542 119	-	-	-	-	671 973
Deferred income tax asset	53 963	-	55 254	-	-	-	109 217
Premises and equipment	-	-	-	-	-	3 991 032	3 991 032
Other non-financial assets	185 304	118 261	9 694	115 832	-	1 862	430 953
Total assets	67 014 903	48 562 579	22 598 357	43 682 918	5 488 117	4 612 285	191 959 159
Financial liabilities							
Due to other banks	8 668 559	11 784 338	1 789 585	3 084 439	569 265	-	25 896 186
Customer accounts	54 070 072	17 941 880	23 798 196	7 605 927	13 402	-	103 429 477
Debt securities in issue	937 197	2 629 173	4 369 830	3 641 485	454 390	-	12 032 075
Other borrowed funds	-	9 869 280	11 880 910	364 086	-	-	22 114 276
Other financial liabilities	26 135	557 461	65 837	83	-	-	649 516
Subordinated debt	-	-	-	-	4 181 535	-	4 181 535
Total financial liabilities	63 701 963	42 782 132	41 904 358	14 696 020	5 218 592	-	168 303 065
Non-financial liabilities							
Current tax liabilities	15 696	-	-	-	-	-	15 696
Deferred income tax liability	25 666	-	61 018	-	-	-	86 684
Other non-financial liabilities	457 714	27 909	4 292	2 310	-	-	492 225
Total liabilities	64 201 039	42 810 041	41 969 668	14 698 330	5 218 592	-	168 897 670
Net liquidity gap	2 813 864	5 752 538	(19 371 311)	28 984 588	269 525	4 612 285	23 061 489
Cumulative liquidity gap	2 813 864	8 566 402	(10 804 909)	18 179 679	18 449 204	23 061 489	-

29 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	No stated maturity	Total
Financial assets							
Cash and cash equivalents	27 142 574	-	-	-	-	-	27 142 574
Mandatory cash balances with central banks	2 465 568	-	-	-	-	-	2 465 568
Trading securities	14 676 220	-	-	-	-	-	14 676 220
Due from other banks	229 219	26	-	1 048 054	-	-	1 277 299
Loans and advances to customers	23 211 282	42 811 450	25 450 346	41 939 675	2 482 957	-	135 895 710
Investment securities available for sale	67 096	306 814	100 542	588 870	18 875	698 630	1 780 827
Repurchase receivable	2 062 174	-	-	-	-	-	2 062 174
Other financial assets	164 931	363 847	68 735	-	-	-	597 513
Total financial assets	70 019 064	43 482 137	25 619 623	43 576 599	2 501 832	698 630	185 897 885
Non-financial assets							
Prepaid income tax	125 427	123 953	-	-	-	-	249 380
Deferred income tax asset	-	-	6 538	-	-	-	6 538
Premises and equipment	-	-	-	-	-	2 851 213	2 851 213
Other non-financial assets	619 154	53 847	10 129	57 675	-	-	740 805
Total assets	70 763 645	43 659 937	25 636 290	43 634 274	2 501 832	3 549 843	189 745 821
Financial liabilities							
Due to other banks	7 468 656	2 806 492	4 026 200	1 590 084	74 000	-	15 965 432
Customer accounts	55 833 426	30 945 275	23 960 901	2 611 020	9 143	-	113 359 765
Debt securities in issue	1 165 098	1 817 674	8 008 340	4 476 788	440 871	-	15 908 771
Other borrowed funds	-	3 418 921	110 029	16 371 539	-	-	19 900 489
Other financial liabilities	70 421	1 136 806	839	10 120	-	-	1 218 186
Subordinated debt	-	-	-	-	3 745 136	-	3 745 136
Total financial liabilities	64 537 601	40 125 168	36 106 309	25 059 551	4 269 150	-	170 097 779
Non-financial liabilities							
Current tax liabilities	80 750	-	-	-	-	-	80 750
Deferred income tax liability	15 562	-	114 252	-	-	-	129 814
Other non-financial liabilities	347 663	117 648	622	1 447	-	-	467 380
Total liabilities	64 981 576	40 242 816	36 221 183	25 060 998	4 269 150	-	170 775 723
Net liquidity gap	5 782 069	3 417 121	(10 584 893)	18 573 276	(1 767 318)	3 549 843	18 970 098
Cumulative liquidity gap	5 782 069	9 199 190	(1 385 703)	17 187 573	15 420 255	18 970 098	-

29 Financial Risk Management (Continued)

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

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Apart from the above stated, the Group also monitors the level of mismatch in maturity of assets and liabilities within the major time intervals.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Management of capital. The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of the Russian Federation, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Refer to Note 30.

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets and monitors compliance with regulatory capital ratios on the part of the Group's Russian banks and the Group in general. National banks of the Ukraine and Moldova Republic set and monitor compliance with regulatory capital ratios mandatory for ZAO Petrocommerce-Ukraine Bank and CB Unibank respectively.

The Group manages capital adequacy using capital ratio projections based on the Basel Agreement and the CBRF requirements with a quarter to year horizon. Growth rates for asset-side transactions in the medium- and long term are planned with consideration of capital requirements. The Group develops and implements capital growth measures when appropriate.

To ensure compliance with the capital adequacy ratio in the short run (up to one month), the Group uses a system of limits on the use of capital. Limits on the use of capital are revised on a monthly basis and are generally set for business units with consideration of loan portfolio growth planning for the nearest month, projected expenses and possible losses resulting from crystallisation of credit and/or market risks in the short run. The collegial body in charge of approval of capital management procedures and setting limits on the use of capital is the Financial and Economic Committee (currently the Committee for Management of Liquidity and Finance). The body in charge of development of capital management procedures and compliance with the set limits on the use of capital is the Risk Control Department. Business units should comply with set limits on the use of capital. Compliance with limits is monitored on a daily basis.

Currently, under requirements of the Central Bank of the Russian Federation, the Bank and the Group have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the prescribed minimal level. As at 31 December 2008, the minimal level was set at 10% p.a. (2007: 10%).

At 31 December 2008 and at 31 December 2007, the Bank's and the Group's capital adequacy ratio complied with the statutory level. Apart from this, the Group and the Bank should comply with the minimum capital level stipulated by the terms of the Bank's and the Group's obligations, including requirements to the capital adequacy level calculated on the basis of the Basel Agreement (generally known as Basel I). Refer to Note 30.

29 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may also increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks at 31 December 2008. The table also presents the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Non- interest bearing	Total
Financial assets							
Cash and cash equivalents	50 035 201	-	-	-	-	-	50 035 201
Mandatory cash balances with central banks	374 350	-	-	-	-	-	374 350
Trading securities	262 307	809 741	183 024	1 018 526	17 875	312 030	2 603 503
Due from other banks	296 037	92 063	82 146	1 190 644	-	-	1 660 890
Loans and advances to customers	9 878 399	46 858 706	22 058 237	39 516 657	4 858 473	-	123 170 472
Investment securities available for sale	153 504	262 256	628 540	2 645 965	276 956	619 392	4 586 613
Repurchase receivable	-	901 633	269 811	1 568 087	409 182	-	3 148 713
Other financial assets	-	-	-	-	-	1 176 242	1 176 242
Total financial assets	60 999 798	48 924 399	23 221 758	45 939 879	5 562 486	2 107 664	186 755 984
Non-financial assets							
Prepaid income tax	-	-	-	-	-	671 973	671 973
Deferred income tax asset	-	-	-	-	-	109 217	109 217
Premises and equipment	-	-	-	-	-	3 991 032	3 991 032
Other non-financial assets	-	-	-	-	-	430 953	430 953
Total assets	60 999 798	48 924 399	23 221 758	45 939 879	5 562 486	7 310 839	191 959 159
Financial liabilities							
Due to other banks	8 517 675	15 121 081	1 997 430	260 000	-	-	25 896 186
Customer accounts	54 103 704	18 277 741	23 798 196	7 236 434	13 402	-	103 429 477
Debt securities in issue	937 197	2 629 173	4 369 830	3 641 485	454 390	-	12 032 075
Other borrowed funds	-	10 359 865	11 754 411	-	-	-	22 114 276
Other financial liabilities	-	-	-	-	-	649 516	649 516
Subordinated debt	4 181 535	-	-	-	-	-	4 181 535
Total financial liabilities	67 740 111	46 387 860	41 919 867	11 137 919	467 792	649 516	168 303 065
Non-financial liabilities							
Current tax liabilities	-	-	-	-	-	15 696	15 696
Deferred income tax liability	-	-	-	-	-	86 684	86 684
Other non-financial liabilities	-	-	-	-	-	492 225	492 225
Total liabilities	67 740 111	46 387 860	41 919 867	11 137 919	467 792	1 244 121	168 897 670
Net sensitivity gap	(6 740 313)	2 536 539	(18 698 109)	34 801 960	5 094 694	6 066 718	23 061 489

29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2007.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents	27 142 574	-	-	-	-	-	27 142 574
Mandatory cash balances with central banks	2 465 568	-	-	-	-	-	2 465 568
Trading securities	-	602 403	847 128	10 920 842	1 099 243	1 206 604	14 676 220
Due from other banks	229 219	26	-	1 048 054	-	-	1 277 299
Loans and advances to customers	23 224 753	43 115 631	25 352 162	41 720 207	2 482 957	-	135 895 710
Investment securities available for sale	67 096	425 476	231 683	355 178	18 875	682 519	1 780 827
Repurchase receivable	-	395 623	308 162	1 226 234	132 155	-	2 062 174
Other financial assets	-	-	-	-	-	597 513	597 513
Total financial assets	53 129 210	44 539 159	26 739 135	55 270 515	3 733 230	2 486 636	185 897 885
Non-financial assets							
Prepaid income tax	-	-	-	-	-	249 380	249 380
Deferred income tax asset	-	-	-	-	-	6 538	6 538
Premises and equipment	-	-	-	-	-	2 851 213	2 851 213
Other non-financial assets	-	-	-	-	-	740 805	740 805
Total assets	53 129 210	44 539 159	26 739 135	55 270 515	3 733 230	6 334 572	189 745 821
Financial liabilities							
Due to other banks	7 679 923	4 411 192	3 874 317	-	-	-	15 965 432
Customer accounts	68 745 926	27 804 021	14 508 381	2 292 294	9 143	-	113 359 765
Debt securities in issue	1 165 098	1 817 674	8 008 340	4 476 788	440 871	-	15 908 771
Other borrowed funds	-	4 036 084	-	15 864 405	-	-	19 900 489
Other financial liabilities	-	-	-	-	-	1 218 186	1 218 186
Subordinated debt	3 745 136	-	-	-	-	-	3 745 136
Total financial liabilities	81 336 083	38 068 971	26 391 038	22 633 487	450 014	1 218 186	170 097 779
Non-financial liabilities							
Current tax liabilities	-	-	-	-	-	80 750	80 750
Deferred income tax liability	-	-	-	-	-	129 814	129 814
Other non-financial liabilities	-	-	-	-	-	467 380	467 380
Total liabilities	81 336 083	38 068 971	26 391 038	22 633 487	450 014	1 896 130	170 775 723
Net sensitivity gap	(28 206 873)	6 470 188	348 097	32 637 028	3 283 216	4 438 442	18 970 098

29 Financial Risk Management (Continued)

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. This information is presented in the above table by group of instruments that mature or are repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors the level of mismatch of interest rate repricing terms and dates and manages interest rate risk by regulating the level of the mismatch. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions in respect of dates and repricing terms.

The table below summarises the interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on period-end effective rates.

<i>In % p.a.</i>	2008				2007			
	RR	USD	Euro	Other	RR	USD	Euro	Other
Assets								
Correspondent accounts and overnight placements with other banks	7.0	0.0	0.1	0.4	3.0	1.5	0.5	0.2
Placements with other banks with original maturities of less than three months	13.2	17.0	2.0	-	4.4	4.5	4.0	-
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	-	-	7.1	-	-	-
Debt trading securities	45.3	-	-	-	7.8	3.9	-	-
Due from other banks	18.0	17.3	-	21.8	-	11.6	-	2.6
Loans and advances to customers	14.7	14.5	12.8	18.6	10.7	12.7	10.7	15.7
Debt investment securities available for sale	15.1	13.0	-	15.9	9.0	6.7	-	13.3
Repurchase receivable	14.0	-	-	-	6.2	-	-	-
Liabilities								
Due to other banks	10.9	4.9	6.3	6.5	5.4	6.3	5.5	3.3
Customer accounts								
- current and settlement accounts	0.1	0.2	0.1	0.8	0.3	0.1	0.1	1.6
- term deposits	9.5	6.3	7.0	15.7	7.4	7.4	5.3	14.0
Debt securities in issue	9.4	12.8	0.0	-	8.5	6.5	0.0	-
Other borrowed funds	-	9.2	-	-	-	8.8	-	-
Subordinated debt	-	6.4	-	-	-	9.1	-	-

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

Interest risk management by means of monitoring of the mismatching of the maturities of interest bearing assets and liabilities is supplemented by the procedure of monitoring of the Group's net interest income sensitivity to various standard and non-standard interest rate change scenario. Also, for the purpose of balance sheet interest rate risk management the Group regulates conditions of early repayment of assets and liabilities. In order to limit mismatch in the conditions of early repayment of the Group's assets and liabilities, certain clauses are introduced into standard forms of contracts on term transactions that protect from the risk of early repayment and from failure to meet deadlines for fulfilment of commitments.

The analysis of the sensitivity of net interest income on the Group's non-trading book for one year based on the increase or decrease in market interest rates, prepared on the basis of the following simplified scenario:

29 Financial Risk Management (Continued)

- parallel decrease or increase of yield curves by 200 basis points in different hard currency (USD, Euro and etc);
- parallel decrease or increase of yield curves by 500 basis points in different soft currency (RR, Hryvnia and etc);
- in case of completion of deals during the following year the prolongation of the deal will take place on the same period and rate will be increased on 200 or 500 basis points depending on currency.

Parameters of scenario take into the account different capacity of interest rate changes of hard and soft currencies and financial crisis.

The analysis of the sensitivity of net interest income on the Group's non-trading book based on the above described scenario is set out below:

<i>In thousands of Russian Roubles</i>	2008	2007
Parallel increase by 200 and 500 basis points (depending on currency)	(222 936)	(514 793)
Parallel increase by 200 and 500 basis points (depending on currency)	222 936	514 793

Other price risk. The Group is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to early repay the loans. The Group's current year profit (loss) and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2007: no material impact).

30 Contingencies and Commitments

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

Tax legislation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The 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.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities. As a result, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

30 Contingencies and Commitments (Continued)

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

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

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

In addition to the above transfer pricing matters management estimates that the Group has other possible obligations from exposure to other than remote tax risks in the amount of RR 15 503 thousand (2007: from zero to RR 186 099 thousand).

Capital expenditure commitments. At 31 December 2008 the Group did not have any contractual capital expenditure commitments in respect of premises and equipment (2007: RR 539 249 thousand).

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

<i>In thousands of Russian Roubles</i>	2008	2007
Not later than 1 year	563 332	290 584
Later than 1 year and not later than 5 years	574 876	765 042
Later than 5 years	182 055	808 372
Total operating lease commitments	1 320 263	1 863 998

Compliance with covenants. The Group is subject to certain covenants related primarily to other borrowings. Non-compliance with such covenants may result in claims from creditors for early repayment of debt by the Group.

One of these covenants is fulfilment by the Group of minimum capital adequacy requirements calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Group's capital calculated in accordance with Basel Accord at 31 December 2008 and at 31 December 2007 is as follows:

30 Contingencies and Commitments (Continued)

<i>In thousands of Russian Roubles</i>	2008	2007
Tier 1 capital	23 643 434	18 993 351
Tier 2 capital	3 919 660	3 734 672
Total equity	27 563 094	22 728 023
Total risk weighted assets	149 298 638	165 936 990
Total capital-to-risk-weighted-assets ratio (%) (total capital adequacy ratio)	18.5%	13.7%
Total Tier 1 capital-to-risk-weighted-assets ratio (%) (Tier 1 capital adequacy ratio)	15.8%	11.4%

Also the Group's objective of capital management is to comply with the capital requirements set by the Central Bank of the Russian Federation. Refer to Note 29.

The Group has complied with all externally imposed capital requirements as at 31 December 2008 and as at 31 December 2007.

Share-based payments to key management. During the first six months of 2007 IFD Kapital Group sold 4.130% shares of the Bank to a company acting in the benefit of the President of the Bank, at nominal value. Also this company purchased 0.128% shares of the Bank from minorities. As a result, the share capital of the Bank owned by this company increased up to 7.271% as at 31 December 2007. For the purpose of IFRS financial statements prepared in accordance with IFRS 2 "Share-based Payment" requirements, and the substance over form argument management believes the transaction took place during the first half of 2007. This share based compensation was fully vested at the date of transaction.

As a result of this transaction made at nominal value, acquisition share based compensation, in accordance with IFRS 2 "Share-based Payment", in the amount of RR 418 064 thousand was recorded in the consolidated income statement and consolidated statement of changes in equity of the Group for 2007.

During 2008, companies acting in the benefit of the President of the Bank acquired more shares from other minorities and also participated in the Bank's additional share issue. As a result, the share capital of the Bank owned by these companies increased up to 7.420% as at 31 December 2008. This increase is not a share based payment, as such transactions are out of the scope of IFRS 2 "Share-based Payment".

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

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. The outstanding credit related commitments of the Group are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Guarantees issued	4 894 612	6 831 804
Export letters of credit	1 524 989	1 299 015
Import letters of credit	450 288	360 893
Letters of credit for payments in the Russian Federation	200 643	178 011
Total credit related commitments	7 070 532	8 669 723

30 Contingencies and Commitments (Continued)

Deposits of RR 4 239 965 thousand (2007: RR 3 466 626 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit with settlement in the Russian Federation are recorded in customer accounts (Refer to Note 16). These letters of credit are not included in the table above.

As at 31 December 2008, the Group had commitments in relation to unused credit lines totalling RR 14 484 556 thousand (2007: RR 16 881 003 thousand).

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

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Russian Roubles	2 270 638	5 198 158
USD	3 663 625	2 803 765
Euro	1 064 280	577 195
Other	71 989	90 605
Total credit related commitments	7 070 532	8 669 723

Trust activities. The Group provides asset management services to its customers in its own name but on their account. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

<i>In thousands of Russian Roubles</i>	2008	2007
Cash funds	469 707	160 359
Corporate shares	260 264	4 306 616
Corporate bonds	131 780	1 788 694
Other	224 842	498 288
Total assets in trust management	1 086 593	6 753 957

Fiduciary assets. These assets are not included in the consolidated balance sheet as they are not assets of the Group. Investment units are recorded at their estimated fair value. Other securities are disclosed at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	2008	2007
Corporate bonds	8 096 415	17 928
Corporate Eurobonds	1 913 311	208 643
Corporate shares	1 725 397	1 458 764
Federal loan bonds (OFZ bonds)	55 277	-
Promissory notes	10 796	13 507
Other	-	170

30 Contingencies and Commitments (Continued)

Assets pledged and restricted. At 31 December 2008, the Group has the following assets pledged as collateral:

<i>In thousands of Russian Roubles</i>	Note	2008		2007	
		Asset pledged	Related liability	Asset pledged	Related liability
Trading securities pledged for the credit limit of the CBRF	8	-	-	2 573 796	-
Restricted trading securities	8	209 908	-	-	-
Investment securities available for sale pledged for the credit limit of the CBRF	11	2 540 525	404 643	-	-
Trading securities pledged under sale and repurchase agreements	12, 15, 16	495 936	461 598	2 062 174	2 001 938
Investment securities available for sale pledged under sale and repurchase agreements	12, 15	2 423 639	2 386 236	-	-
Loans pledged under sale and repurchase agreements	12, 15	229 138	167 466	-	-
Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements	15, 16	1 546 823	1 000 000	1 956 899	1 880 132
Term deposits of other banks	9, 15	295 418	293 318	246 087	228 975

In addition the Group pledged for credit limit of CB RF bonds of OAO Bank Petrocommerce denominated in Russian Roubles with fair value of RR 60 571 thousand.

31 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 on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative financial instruments held are set out in the following table. 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.

<i>In thousands of Russian Roubles</i>	2008			2007		
	Principal or agreed amount	Positive fair value	Negative fair value	Principal or agreed amount	Positive fair value	Negative fair value
Forwards						
Foreign currency						
- purchase of USD for RR	102 000	9 935	-	9 068 337	2 089	(37 841)
- purchase of EUR for RR	-	-	-	9 810	-	(15)
- purchase of RR for USD	486 200	-	(178 570)	14 061 957	32 269	(11 968)
- other	60 765	270	-	24 506	-	(286)
Securities						
- sale of securities	794 755	190 154	-	985 862	11 836	(267)
Futures						
Foreign currency						
- purchase of USD	1 525 000	-	-	3 557 321	-	-
- sale of USD	1 677 568	-	-	1 815 557	-	-
Total derivative financial instruments		200 359	(178 570)		46 194	(50 377)

32 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, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities available for sale, derivative financial instruments and repurchase receivable are carried on the consolidated balance sheet at their fair value.

The best evidence of fair value is price quotations in an active market. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative can result in a different profit, income, total assets or total liabilities.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. Due from other bank and other financial activities are carried at amortised costs which approximate their current fair values. The fair value of loans and receivables to customers were estimated as follows:

- non risk rate has been determined;
- this non risk rate depending on the degree of impairment of the loan has been increased on estimated fair cost for the risk performed by the Group;
- future cash flows of the loan have been discounted using the calculated above non risk rate.

These rates are analysed below:

<i>In % p.a.</i>	2008		2007	
	from	to	from	to
ASSETS				
Due from other banks				
Term placements with other banks with original maturities of more than three months	2.0	30.0	1.5	12.0
Loans and advances to customers				
<i>Corporate entities</i>				
Commercial loans	2.5	36.0	6.6	30.0
Factoring	14.2	25.6	7.6	18.6
Reverse sale and repurchase agreements	14.2	14.2	5.2	7.6
<i>Individuals</i>				
Loans to individuals	6.4	40.0	6.6	48.4
Reverse sale and repurchase agreements	14.2	14.2	7.6	7.6
Other financial assets	0.0	0.0	0.0	0.0

32 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of bonds and Eurobonds in issue 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. Due to other banks and other financial liabilities are carried at amortised cost which approximate their current fair values. The fair value of term deposits were estimated as follows:

- transfer rate which was determined in the Group in the moment of fair value calculation is defined based on maturity date and currency;
- future cash flows of term deposit are discounted using transfer rate, which matches with the maturity at the date of calculation and currency of the term deposit.

These rates are analysed below:

<i>In % p.a.</i>	2008		2007	
	From	to	from	to
LIABILITIES				
Due to other banks				
Correspondent accounts and overnight placements of other banks	0.0	0.6	0.0	2.1
Term deposits of other banks	2.3	18.0	2.0	8.0
Term deposits of the CBRF	8.7	13.8	-	-
Sale and repurchase agreements with other banks	14.0	14.0	3.7	6.5
Sale and repurchase agreements with the CBRF	9.9	10.0	-	-
Customer accounts	0.0	25.0	0.0	20.0
Other financial liabilities	0.0	0.0	0.0	0.0

32 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents				
Cash on hand	8 042 087	8 042 087	5 468 688	5 468 688
Cash balances with central banks (other than mandatory reserve deposits)	20 069 293	20 069 293	8 980 778	8 980 778
Correspondent accounts and overnight placements with other banks				
- Russian Federation	6 864 650	6 864 650	635 221	635 221
- other countries	3 782 361	3 782 361	1 383 265	1 383 265
Placements with other banks with original maturities of less than three months	9 306 281	9 306 281	5 122 201	5 122 201
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	4 726 381	4 726 381
Settlement accounts with trading systems	1 970 529	1 970 529	826 040	826 040
Mandatory cash balances with central banks				
	374 350	374 350	2 465 568	2 465 568
Due from other banks				
Term placements with other banks with original maturities of more than three months	1 660 890	1 660 890	1 277 299	1 277 299
Loans and advances to customers				
<i>Corporate entities</i>				
Commercial loans	97 763 278	95 011 710	96 843 967	100 923 807
Factoring	8 316 602	8 184 997	10 157 646	10 156 152
Reverse sale and repurchase agreements	1 547 740	1 543 452	18 482 159	18 546 174
Corporate bonds	327 860	268 243	-	-
<i>Individuals</i>				
Loans to individuals	14 519 882	13 977 913	10 260 809	11 143 132
Reverse sale and repurchase agreements	695 110	693 970	151 129	151 737
Repurchase receivable				
	229 138	206 419	-	-
Other financial assets				
Receivables on commissions	158 890	158 890	283 049	283 049
Settlements on plastic cards operations	131 732	131 732	159 645	159 645
Dividends receivable	48 753	48 753	-	-
Cash transfers	6 114	6 114	12 224	12 224
Conversion deals settlements and deferred deals	613 311	613 311	5 048	5 048
Term deals settlements deposits	5 049	5 049	57 806	57 806
Other financial assets	12 034	12 034	33 547	33 547

32 Fair Value of Financial Instruments (Continued)

<i>(Continued)</i> <i>In thousands of Russian Roubles</i>	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at fair value				
Trading securities	2 603 503	2 603 503	14 676 220	14 676 220
Investment securities available for sale	4 586 613	4 586 613	1 780 827	1 780 827
Repurchase receivable	2 919 575	2 919 575	2 062 174	2 062 174
Derivative financial instruments	200 359	200 359	46 194	46 194
Total financial assets	186 755 984	183 243 078	185 897 885	190 923 177
Financial liabilities carried at amortised cost				
Due to other banks				
Correspondent accounts and overnight placements of other banks	436 872	436 872	260 481	260 481
Term deposits of other banks	15 382 758	15 382 758	12 821 032	12 821 032
Term deposits of the CBRF	6 061 256	6 061 256	-	-
Sale and repurchase agreements with the CBRF	3 015 300	3 015 300	-	-
Sale and repurchase agreements with other banks	1 000 000	1 000 000	2 883 919	2 883 919
Customer accounts				
<i>State and public organisations</i>				
- Current/settlement accounts	17 460	17 460	6 473 168	6 473 168
- Term deposits	3 889	3 889	3 172 381	3 165 641
<i>Corporate entities</i>				
- Current/settlement accounts	21 219 120	21 219 120	18 917 127	18 917 128
- Term deposits	36 243 462	35 862 814	40 030 023	38 616 104
- Sale and repurchase agreements	-	-	998 151	998 151
<i>Individuals</i>				
- Current/demand accounts	8 617 107	8 617 107	9 593 023	9 593 023
- Term deposits	37 328 439	36 475 339	34 175 892	33 950 994
Debt securities in issue				
Bonds	5 973 318	5 453 976	2 950 285	2 935 543
Promissory notes	5 308 108	5 733 485	10 952 984	11 386 166
Deposit and saving certificates	750 649	750 649	2 005 502	2 005 502
Other borrowed funds				
Term borrowings	18 418 544	18 824 483	15 864 405	15 946 574
Syndicated loans	3 695 732	3 893 026	4 036 084	4 077 691
Other financial liabilities				
Settlements on factoring operations	225 788	225 788	917 334	917 334
Settlements on plastic card operations	144 576	144 576	186 712	186 712
Accrued financial liabilities	75 847	75 847	46 096	46 096
Cash transfers	2 193	2 193	11 189	11 189
Other financial liabilities	22 542	22 542	6 478	6 478
Subordinated debt	4 181 535	4 181 535	3 745 136	3 745 136
Financial liabilities carried at fair value				
Derivatives	178 570	178 570	50 377	50 377
Total financial liabilities	168 303 065	167 578 585	170 097 779	168 994 439

33 Presentation of Financial Instruments by Measurement Category

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

<i>In thousands of Russian Roubles</i>	Loans and receivables	Available for sale assets	Trading assets	Total
Assets				
Cash and cash equivalents	50 035 201	-	-	50 035 201
Mandatory cash balances with central banks	374 350	-	-	374 350
Trading securities	-	-	2 603 503	2 603 503
Due from other banks	1 660 890	-	-	1 660 890
Loans and advances to customers	123 170 472	-	-	123 170 472
Investment securities available for sale	-	4 586 613	-	4 586 613
Repurchase receivable	229 138	-	2 919 575	3 148 713
Other financial assets	975 883	-	200 359	1 176 242
Total financial assets	176 445 934	4 586 613	5 723 437	186 755 984
Non-financial assets	-	-	-	5 203 175
Total assets	176 445 934	4 586 613	5 723 437	191 959 159

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

<i>In thousands of Russian Roubles</i>	Loans and receivables	Available for sale assets	Trading assets	Total
Assets				
Cash and cash equivalents	27 142 574	-	-	27 142 574
Mandatory cash balances with central banks	2 465 568	-	-	2 465 568
Trading securities	-	-	14 676 220	14 676 220
Due from other banks	1 277 299	-	-	1 277 299
Loans and advances to customers	135 895 710	-	-	135 895 710
Investment securities available for sale	-	1 780 827	-	1 780 827
Repurchase receivable	-	-	2 062 174	2 062 174
Other financial assets	551 319	-	46 194	597 513
Total financial assets	167 332 470	1 780 827	16 784 588	185 897 885
Non-financial assets	-	-	-	3 847 936
Total assets	167 332 470	1 780 827	16 784 588	189 745 821

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

34 Related Party Transactions

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.

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. A majority stake in IFD Kapital Group is beneficially owned by Mr. Alekperov and Mr. Fedun (the “ultimate beneficiaries”) and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with the Bank’s significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced at market rates.

At 31 December 2008 and 31 December 2007 the outstanding balances with related parties were as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Shareholders	Other	Shareholders	Other
Correspondent accounts and overnight placements with other banks (contractual interest rate: 2008: 0.0%; 2007: 0.0%)	-	16 008	-	1 582
Trading securities	-	58 829	-	377 092
Loans and advances to customers				
Loans and advances (contractual interest rate: 2008: 11.5%- 20.0%; 2007: 10.0%-20.0%)	60 400	1 237 690	61 277	287 687
Provision for loan impairment	(629)	(3 463)	(1 667)	(4 669)
Debt investment securities available for sale (contractual interest rate: 2008: 11.8%—13.0%)	-	249 660	-	-
Equity investment securities available for sale	-	3 110	-	26 609
Due to other banks				
Correspondent accounts and overnight placements of other banks (contractual interest rate: 2008: 0%; 2007: 0.1%)	-	737	-	11 972
Customer accounts				
Current/settlement accounts (contractual interest rate: 2008: 0.0%-4.75%; 2007: 0.0%-0.5%)	354 825	4 478 280	57 027	4 027 713
Term deposits (contractual interest rate: 2008: 0.5%-18.5%; 2007: 0.5%-15.5%)	6 372 501	21 795 514	5 817 716	27 193 833
Debt securities in issue (contractual interest rate: 2008: 0.0%-12.0%; 2007: 0.0%-9.0%)	-	570 989	-	2 819 798
Subordinated debt (contractual interest rate: 2008: 6.4%; 2007: 9.1%)	-	4 181 535	-	3 745 136
Guarantees issued by the Group	-	1 844 433	-	1 909 328
Guarantees received by the Group	-	556 682	-	189 198
Import letters of credit	-	84 037	-	44 697
Letters of credit for payments in the Russian Federation	-	200 643	-	158 401
Assets in trust management	554 097	252 929	1 674 514	141 842

34 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2008 and 2007 were as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Shareholders	Other	Shareholders	Other
Interest income:				
- Debt securities	-	14 653	-	-
- Loans to customers	11 424	92 498	4 505	7 427
- Debt investment securities available for sale	-	16 458	-	2 081
- Reverse sale and repurchase agreements	-	582	-	11 892
Interest expense:				
- Due to other banks	-	(9)	-	(60)
- Customer accounts	(584 876)	(1 357 353)	(286 131)	(496 310)
- Debt securities issued	-	(157 070)	(8)	(25 354)
- Subordinated debt	-	(71 579)	-	(338 520)
Losses less gains from trading securities	-	(68 230)	-	(37 321)
Gains less losses from disposal of investment securities available for sale	-	199 257	-	-
Gains less losses/(losses net of gains) from trading in foreign currencies	43 985	(308 022)	2 552	138 713
Fee and commission income	353	386 034	111	324 612
Fee and commission expense	-	(448)	-	(77)
Share based compensation	-	-	(418 064)	-

Aggregate amounts lent to and repaid by related parties during 2008 and 2007 were:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Shareholders	Other	Shareholders	Other
Amounts lent to related parties during the period	8 808	4 627 059	298 953	3 440 295
Amounts repaid by related parties during the year	11 257	3 962 400	2 597 039	4 138 584

The "Shareholders" column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The "Other" column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

As at 31 December 2008, included in customer accounts are amounts of RR 1 859 308 thousand (2007: RR 1 656 325 thousand) belonging to ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts for the reporting period comprised RR 140 532 thousand (2007: RR 91 224 thousand).

In 2008, the remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 125 293 thousand (2007: RR 364 617 thousand), excluding share based compensation.

35 Principal Subsidiaries

Name	Nature of business	Percentage of the Bank's direct ownership	Percentage of Group's control	Country of registration
Komi Regional Bank "UKHTABANK"	Banking	100.00	100.00	Russia
Petrocommerce-Ukraine Bank	Banking	90.06	98.24	Ukraine
Stavropolpromstroybank	Banking	77.27	91.50	Russia
UNIBANK	Banking	-	100.00	Moldova
Petrocommerce Invest S.A.	Financial activity	100.00	100.00	Luxembourg

The Group does not have direct ownership in Unibank, but exercises control as the Supervisory Council consists of Vice-presidents of the Bank. In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities on the Russian market.

In July 2008, the Group's interest in the share capital of ZAO Petrocommerce-Ukraine Bank increased up to 98.24% due to acquisition of 68 175 000 ordinary registered shares of the additional issue.

In August 2008 due to the repurchase of 364 199 shares (113 199 ordinary shares and 251 000 preference shares) from minority shareholders the Group increased its interest in the share capital of OAO Komi Regional Bank Ukhtabank up to 100%. The repurchase was made after the Bank (as owner of more than 95% of the total preference and ordinary shares of OAO Komi Regional Bank Ukhtabank) sent a requirement on repurchase of securities in compliance with the legislation of the Russian Federation.

In September 2008, the Group increased its share in Stavropolpromstroybank up to 91.5% due to acquisition of 5 520 011 ordinary shares.

36 Events After the Balance Sheet Date

In March 2009, the Group repaid on time its obligations with regard to Euro Medium Term Notes issued in March 2006 with a nominal value of USD 225 000 thousand, a fixed interest rate of 8.0% p.a., and the effective interest rate of 8.7% p.a.

In April 2009, the Group early repaid the syndicated loan of USD 106 000 thousand obtained in October 2008 from a consortium of foreign banks.

In February 2009, the CBRF registered the branch of the Bank Petrocommerce in Ufa, which started its operations in April 2009.

In March – April 2009 four additional offices of the Bank Petrocommerce were opened in Novocherkassk, Astrakhan, Kirov and Murmansk. Branches of the Bank in these locations were closed.

On 23 April 2009, the CBRF registered fifth tranche of the Bank's debentures with nominal value of RR 5 000 000 thousand and maturity of 5 years and also the sixth and seventh tranches of the Bank's debentures with nominal value of RR 3 000 000 thousand and maturity of 3 years.