SMALL BUSINESS CREDIT BANK
(CLOSED JOINT-STOCK COMPANY)

Consolidated Financial Statements
Together with Independent Auditors' Report

Year ended 31 December 2008

Contents

Ernst & Young

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)

We have audited the accompanying consolidated financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its subsidiary ZAO KMB-Leasing (the "Bank"), which comprise the consolidated balance sheet as at 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

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 the 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

16 March 2009

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)
Consolidated Balance Sheet
As of 31 December 2008

In thousands of Russian Roubles	Note	2008	2007
Assets			
Cash and cash equivalents	6	2 211 254	1 040 873
Mandatory cash balances with the Central Bank of the Russian Federation		33 500	251 449
Trading securities	7	985 059	2 817 354
Due from other banks	8	4 247 111	1 707 952
Loans and advances to customers	9	53 755 258	31 501 292
Finance lease receivable	10	2 971 490	1 724 085
Available for sale securities	11	2 577 619	4 410
Premises and equipment	12	609 647	370 024
Intangible assets	13	785 305	485 769
Current income tax assets		217 577	190 132
Deferred tax asset	14	8 608	86 641
Tax assets other than income tax		318 229	95 875
Other assets	15	1 973 039	426 080
Total assets		**70 693 696**	**40 701 936**
Liabilities			
Due to banks	16	39 122 053	7 154 892
Due to customers	17	4 828 337	4 743 144
Debt securities issued	18	23 131	3 442 266
Other borrowed funds	19	18 537 132	19 805 481
Current income tax liabilities		-	48 386
Deferred tax liability	14	10 001	1 055
Tax liabilities other than income tax		192 422	57 919
Subordinated debt	20	653 616	549 499
Other liabilities		112 981	435 931
Total liabilities		**63 479 673**	**36 238 573**
Shareholders' equity			
Share capital	21	6 789 066	4 289 080
Share premium	22	84 182	84 182
Available for sale securities revaluation reserve		(31 193)	-
Retained earnings/ (accumulated losses)	23	371 968	90 101
Total shareholders' equity		**7 214 023**	**4 463 363**
Total liabilities and shareholders' equity		**70 693 696**	**40 701 936**

Approved for issue by the Board of Directors and signed on its behalf on 16 March 2009

Reiner Mueller-Hanke
Chief Executive Officer

КМБ БАНК (ЗАО)

Darya Tyurina
Head of Financial Planning and Control Division

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)
Consolidated Income Statement
For the year ended 31 December 2008

In thousands of Russian Roubles	Note	2008	2007
Interest income	24	8 219 960	4 907 447
Interest expense	24	(3 230 669)	(1 562 500)
Net interest income		**4 989 291**	**3 344 947**
Provision for loan and finance lease impairment	9, 10	(982 280)	(526 602)
Net interest income after provision for loan and finance lease impairment		**4 007 011**	**2 818 345**
Net losses from trading securities:		(244 456)	(32 419)
- trading gains/losses		(231 676)	(33 674)
- revaluation gains/losses		(12 780)	1 255
Net gains/(losses) from trading in foreign currencies		975 179	(303 791)
Net foreign exchange translation (losses)/gains		(1 057 335)	387 333
Fee and commission income	25	327 718	257 402
Fee and commission expense	25	(57 811)	(45 953)
Net other operating (expense) / income		(32 048)	18 929
Operating income		**3 918 258**	**3 099 846**
Operating expenses	26	(3 430 426)	(2 311 349)
Other impairment and provisions	7, 12	(59 667)	-
Profit before tax		**428 165**	**788 497**
Income tax expense	14	(146 297)	(239 488)
Net profit		**281 868**	**549 009**

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)
Consolidated Statement of Changes in Equity
For the year ended 31 December 2008

In thousands of Russian Roubles	**Note**	**Share capital**	**Share premium**	**Available-for-sale securities revaluation reserve**	**Retained earnings/ Accumulated losses**	**Total shareholders' equity**
Balance as at 1 January 2007		**2 989 082**	**84 182**	**-**	**(458 908)**	**2 614 356**
Net profit		-	-	-	549 009	549 009
Share issue				-		
- Nominal value	21	1 299 998	-	-	-	1 299 998
Balance as at 31 December 2007		**4 289 080**	**84 182**	**-**	**90 101**	**4 463 363**
Net profit		-	-	-	281 867	281 867
Share issue		-	-	-	-	-
- Nominal value	21	2 499 986	-	-	-	2 499 986
Net unrealized gains/(losses) on available-for-sale securities		-	-	(31 193)	-	(31 193)
Balance as at 31 December 2008		**6 789 066**	**84 182**	**(31 193)**	**371 968**	**7 214 023**

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY)
Consolidated Statement of Cash Flows
For the year ended 31 December 2008

In thousands of Russian Roubles	Note	2 008	2007
Cash flows from operating activities			
Interest received		8 135 335	5 453 397
Interest paid		(2 863 374)	(1 591 345)
Income received/ (expense paid) from trading in foreign currencies		821 476	(138 820)
Income received from trading in trading securities		(12 600)	(30 975)
Dividends received		666	-
Fees and commissions received		329 525	368 637
Fees and commissions paid		(57 811)	(45 953)
Other operating (expense paid)/income received		(34 877)	35 999
Operating expenses paid		(3 262 888)	(2 171 479)
Income tax paid		(112 007)	(301 904)
Cash flows from operating activities before changes in operating assets and liabilities		**2 943 445**	**1 577 557**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		217 949	(7 338)
Trading securities		(962 020)	(1 307 429)
Due from other banks		(2 181 051)	(878 770)
Loans and advances to customers		(21 585 132)	(13 142 289)
Finance lease receivable		(1 309 349)	(1 374 207)
Other assets		(1 825 896)	(636 416)
Net increase /(decrease) in operating liabilities			
Due to banks		28 447 358	1 501 747
Due to customer		266 929	(493 767)
Other liabilities		17 665	63 531
Net cash from/(used in) operating activities		**4 029 898**	**(14 697 381)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(784 370)	(290 438)
Proceeds from disposal of premises and equipment		1 293	1 808
Net cash used in investing activities		**(783 077)**	**(288 630)**
Cash flows from financing activities			
Proceeds from other borrowed funds		720 000	14 002 265
Repayment of other borrowed funds		(2 036 355)	(128 381)
Proceeds from subordinated debts		1 119 851	-
Repayment of subordinated debts		(1 009 353)	-
Repayment of debt securities issued		(3 409 840)	(24 053)
Issue of ordinary shares		2 499 986	1 299 998
Net cash from financing activities		**(2 115 711)**	**15 149 829**
Effect of exchange rate changes on cash and cash equivalents		**39 271**	**(11 151)**
Net increase in cash and cash equivalents		**1 170 381**	**152 667**
Cash and cash equivalents as at the beginning of the year		1 040 873	888 206
Cash and cash equivalents as at the end of the year	6	**2 211 254**	**1 040 873**

In thousands of Russian Roubles

1 Principal Activities

SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) (the "Bank") is a commercial bank organized in the form of a closed joint-stock company and owned by shareholders whose liability is limited. The shareholders of the Bank as at 31 December 2008 and 31 December 2007 are:

Shareholder	Ownership of the Bank, % 2008	2007
Intesa Holding International SA (Luxembourg)	74.9996	74.9996
European Bank for Reconstruction and Development (the "EBRD") (United Kingdom)	25.0004	25.0004

In April 2005, the Bank's former shareholders signed a share purchase agreement with Intesa Holding International SA, Luxembourg (a subsidiary of the ultimate parent entity, Intesa Sanpaolo SpA, Italy) for the acquisition by Banca Intesa of a 75% stake minus one share in the Bank. The transaction was finalized in September 2005, following the approval of relevant regulatory authorities. The EBRD kept a 25% stake plus one share in the Bank and agreed to a put-call option with Banca Intesa exercisable beginning from 2010.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 31 December 1992.

The Bank's principal business activity is lending to micro, small and medium sized businesses, as well as individual proprietors within the Russian Federation. The Bank is engaged in a program of the EBRD to support the businesses of small to medium sized companies by providing them with lending facilities.

In 2004, the Bank entered into the consumer lending business and was also admitted as a participant in the deposit insurance program of the Russian Federation.

The Bank has a wholly owned and controlled subsidiary, ZAO "KMB-Leasing". It is primarily engaged in the provision of leasing services to the Bank's clients and other companies. The financial results of the subsidiary are included in these consolidated financial statements of the Bank.

The Bank's head office is located in Moscow and it has 7 branches within the Russian Federation in the cities of Saint Petersburg, Nizhniy Novgorod, Ekaterinburg, Omsk, Novosibirsk, Vladivostok and Rostov-on-Don (2007: 8 branches). As at 31 December 2008 the Bank has 89 offices selling banking products in different cities within the Russian Federation (2007: 58 offices). During 2008 the Bank opened a branch in Vladivostok and 31 other offices in the cities of Moscow, Nizhniy Novgorod, Ekaterinburg, Vladivostok, Rostov-on-Don, Novosibirsk, Omsk, Saint Petersburg; and closed two branches in Samara and Barnaul.

The Bank's registered office is located at the following address: 31 Shabolovka St., bldg. B, Moscow, 115162, Russia.

As at 31 December 2008, the Bank employed 2 161 employees (2007: 1 673).

2 Operating Environment of the Bank

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Also, the borrowers of the Bank may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Bank. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

2 Operating Environment of the Bank (Continued)

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

3 Basis of Preparation

General

These consolidated financial statements comprise the financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its subsidiary, ZAO KMB Leasing, (together referred to as the "Bank").

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements include the financial statements of SMALL BUSINESS CREDIT BANK (CLOSED JOINT-STOCK COMPANY) and its wholly owned and controlled subsidiary, ZAO "KMB-Leasing", collectively referred to as the "Bank".

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Roubles ("RUR") unless otherwise indicated.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Bank's operations are highly integrated and primarily constitute a single industry segment, retail banking. Accordingly, for the purposes of IAS 14 "Segment Reporting" the Bank is treated as one business segment.

Reclassifications

The following reclassifications to the consolidated balance sheet as of December 31, 2007 and the consolidated income statement for the year ended December 31, 2007 have been made to conform to the 2008 presentation:

Amount	**Previously reported**	**As reclassified**	**Comment**
4,410	Other assets	Available-for-sale securities	Reclassification for better presentation of balances according to their nature.
393,743	Other assets	Intangible assets	Reclassification for better presentation of balances according to their nature.
95,875	Tax assets	Tax assets other than income tax	Reclassification to reflect income tax asset in accordance with IAS 12.
190,132	Tax assets	Current income tax assets	Reclassification to reflect income tax liability in accordance with IAS 12.
57,919	Tax liabilities	Tax liabilities other than income tax	Reclassification to reflect income tax liability in accordance with IAS 12.
48,386	Tax liabilities	Current income tax liabilities	Reclassification to reflect income tax liability in accordance with IAS 12.
74,390	Other assets	Premises and equipment	Reclassification for better presentation of balances according to their nature.
126,647	Premises and equipment	Other assets	Reclassification for better presentation of balances according to their nature.
18,075	Net other operating income / expense	Operating expenses (Depreciation and amortisation)	Reclassification for better presentation of income statement lines according to their nature.

In thousands of Russian Roubles

3 Basis of Preparation (Continued)

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS and new IFRIC Interpretations. The principal effects of these changes are as follows:

Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available-for-sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Bank reclassified the list of non-derivative financial assets out of the held for trading category to the available-for-sale category. The disclosures about reclassifications from the held for trading category to the available-for-sale category made are presented in Notes 7 and 11. The Bank did not reclassify any financial assets from the available-for-sale category to loans and receivables category.

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Bank.

IFRIC 12 "Service Concession Arrangements"

IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member entity of the Bank is an operator and hence this Interpretation has no impact on the Bank.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Bank as no such schemes currently exist.

Subsidiary

The consolidated financial statements include the following subsidiary as of 31 December 2008 and 2007:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership, %	Country of registration
ZAO "KMB-Leasing"	Leasing	100	100	Russian Federation

4 Significant Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms 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 Bank 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.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

Amortised cost is the amount at which a 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, are not presented separately and are included in the carrying values of the 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 and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

4 Significant Accounting Policies (Continued)

Financial assets

Initial recognition of financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

A gain or loss on initial recognition is only recorded if there is a difference between the 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 regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repaymentsplus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process. The Bank currently has no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans originated by the Bank by providing money directly to the borrower at drawdown, other than those that are originated with the intent of being sold immediately or in the short-term, are categorised as loans.

Loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at the origination date.

The Bank does not enter into purchases of loans from third, or related parties, other than as described in Note 30.

4 Significant Accounting Policies (Continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of 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.

Determination of fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.

Disclosures of fair value are not required for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably.

The Bank's investments in immaterial unquoted equity instruments, for which the Bank did not estimate fair value, are recorded in the consolidated balance sheet at cost. The fair value information has not been disclosed for these shares because their fair value cannot be measured reliably. The shares are not traded and there are no similar quoted instruments on the market. The carrying amount of these shares is RUR 8 582 thousand (2007: RUR 4 410 thousand). The purpose of the investment is gaining access to the information on borrowers for credit risk assessment (RUR 4 410 thousand) and taking place in the settlement system (RUR 4 172 thousand). The Bank has no intention to dispose of these shares.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category to available-for-sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including forward foreign exchange contracts. Such financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are estimated from

quoted market prices, or using the spot rate at the year end considering the initial difference between the foreign exchange forward deal rate and spot rate at the deal date as the basis, as appropriate. All derivative instruments are carried as part of other assets when fair value is positive and as part of other liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in net gains/(losses) from trading in foreign currencies.

The Bank does not apply hedge accounting.

4 Significant Accounting Policies (Continued)

Derivative financial instruments (continued)

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement. Currently there are no embedded derivatives recognised in the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding obligatory reserves, and items which can be converted into cash within one day and are free from contractual encumbrances. All short term interbank placements, beyond overnight placements, are included in due from other banks.

Mandatory cash balances with the CBRF

Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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 Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. less than 1 month.

Trading securities are classified as "financial assets at fair value through profit and loss" and carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of income as interest income. 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.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Due from other banks

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method.

Those that do not have fixed maturities are carried at cost. Amounts due from other banks are carried net of any provision for impairment, where required. Provisions for impairment establishment, calculation and recognition are the same as defined in originated loans and advances and provision for loan impairment.

Provisions for impairment of financial assets

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

Assets carried at amortised cost

A credit risk provision for loan and finance lease impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to the original contractual terms. Objective evidence includes actual breach of contract (for example, missed payment), financial difficulties of the borrower, probability of bankruptcy or other financial reorganisation of the borrower, adverse changes in the payment status of the borrower or deterioration in economic conditions which the borrower operates. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

4 Significant Accounting Policies (Continued)

Provisions for impairment of financial assets (continued)

The provision for loan and finance lease impairment also covers losses where there is objective evidence that probable losses are present in components of the loan and finance lease portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflection of the current economic environment in which the borrowers operate.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

When a loan or finance lease receivable is uncollectible, it is written off against the related provision for loan and finance lease impairment. Loans and finance lease receivables are written off on an individual basis at the decision of the Asset Quality Session and ultimately the Board of Directors of the Bank.

If the amount of the provision for loan and finance lease impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan and finance lease impairment in the consolidated statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

4 Significant Accounting Policies (Continued)

Provisions

Provisions are recognised when the Bank 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.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including letters of credit, guarantees and other commitments (refer to Note 28). Specific provisions are recorded against other credit related commitments when losses are considered probable.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Leases

Operating - Bank as lessee

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

Finance - Bank as lessor

Upon commencement of a finance lease, the Bank records the net investment in lease, which consists of the sum of the minimum lease term payments and unguaranteed residual value (together gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income is recognised based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

Current lease payments due at the balance sheet date are classified as lease payments receivable in the accompanying consolidated balance sheet.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- a lease is classified as a finance lease; and
- the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Equipment purchased for leasing purposes

The Bank records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and being transferred to the lessee.

4 Significant Accounting Policies (Continued)

Equipment purchased for leasing purposes (continued)

Settlements on equipment purchased for leasing purposes are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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.

Finance income from leases is recorded within interest income in the consolidated statement of income.

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Premises and equipment are not depreciated until they are available for use.

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

The assets' residual values, useful lives and depreciation methods are reviewed at each financial year-end.

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

4 Significant Accounting Policies (Continued)

Depreciation

Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

	per annum, %
Premises	3
Office and computer equipment	20
Intangible assets	20-33

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives, not exceeding a period of 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Borrowings

Borrowings, including due to banks, due to customers, other borrowed funds and subordinated debts are recorded initially at cost, being the proceeds upon issue (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Debt securities issued

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

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issuance of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Share premium

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

Accrued interest income and accrued interest expense

Accrued interest income and accrued interest expense, including amortised discount, are included in the carrying values of related balance sheet items.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method.

4 Significant Accounting Policies (Continued)

Income and expense recognition (continued)

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issue and points paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issue. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs, as mentioned above) and recorded as an adjustment to the effective interest on loans.

Service fees are recorded based on the applicable service contracts.

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as net foreign exchange translation gains/(losses).

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBRF exchange rates at 31 December 2008 and 2007, were 29.3804 Roubles and 24.5462 Roubles to 1 USD, respectively. Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Russian legislation currently in force. The income tax charge in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

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

Staff costs and related contributions

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. The Bank's contributions to the Russian Federation State pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs. The Bank has no post-retirement benefits or other significant compensation benefits requiring accrual.

4 Significant Accounting Policies (Continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The Bank is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

IAS 23 "Borrowing Costs"(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank.

Amendment to IAS 39 "Financial Instruments: recognition and measurement " - Eligible Hedged Items.

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

4 Significant Accounting Policies (Continued)

Future changes in accounting policies (continued)

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Bank.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008).

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 8 "Operating Segments"

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard will not have any impact on the financial position or performance of the Bank .

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

In thousands of Russian Roubles

4 Significant Accounting Policies (Continued)

Future changes in accounting policies (continued)

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

5 Significant Accounting Judgments and Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances to customers

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulty and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. 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.

Commencing from mid-2008 the Bank has calculated a loan loss allowance based on historical loan loss data, resulting in a total loan loss allowance of RUR 1 990 269 thousands as at 31 December 2008 and total finance lease receivables loss allowance of RUR 184 396 thousands as at 31 December 2008. In prior years, the loan loss allowance was based on provision rates reflecting management estimates. The change in accounting estimate arising from the change in calculation method for the loan loss allowance in 2008 has resulted in a loan loss allowance at 31 December 2008 that is RUR 52 712 thousands lower than the method used in the prior year and for finance lease receivables, a loss allowance at 31 December 2008 that is RUR 149 115 thousands higher than the method used in the prior year. The effect of the change in estimate on future periods was not calculated as estimating it is considered impracticable.

In case of economic factors affecting a group of loans, such as country and industry factors, the Bank revaluates loan' impairment even if there is no objective evidence of impairment of an individual loan.

6 Cash and Cash Equivalents

	2008	2007
Cash on hand	982 340	235 548
Current accounts with the CBRF	987 051	725 517
Current accounts with other credit institutions		
- Russian Federation	33 032	6 660
- Other countries	208 831	73 148
Total cash and cash equivalents	**2 211 254**	**1 040 873**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

In thousands of Russian Roubles

7 Trading Securities

	2008	2007
Central Bank of Russian Federation bonds	-	498 560
Corporate bonds	934 007	1 323 229
Municipal bonds	51 052	724 792
Russian State bonds (OFZ)	-	270 773
Total trading securities	**985 059**	**2 817 354**

Amount of corporate bonds is shown net of provision for impairment. Total amount of provision is RUR 1 903 thousands. Provision charge for corporate bonds is included in the line Other impairment and provisions of the Consolidated Income Statement.

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Bank reclassified certain financial assets out of held for trading category as they were no longer held for the purpose of selling or repurchasing in the near term. The reclassification was made with effect from the 1st of December, 2008, at fair value at that date. The impact of reclassification is as follows:

Held for trading financial assets were reclassified to available-for-sale financial assets	
Amount reclassified, at fair value at the date of reclassification	2 542 261
Carrying amount as at 31 December 2008	2 506 896
Fair value as at 31 December 2008	2 506 896
Fair value gain/(loss) recognized on the reclassified assets before reclassification for the year ended 31 December 2008	(145 812)
Fair value gain/(loss) recognized on the reclassified assets for the year ended 31 December 2007	(8 043)
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year ended 31 December 2008 if the reclassification had not been made	(181 169)
Interest income recognized after reclassification in profit or loss for the year ended 31 December 2008	20 607
Effective interest rate at the reclassification date	13,3%
Estimated cash flows expected to be recovered at the reclassification date	3 841 346

Financial assets were reclassified from financial assets held for trading to available-for-sale financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008.

Corporate bonds are Russian Rouble denominated securities issued by major Russian banks and companies. Corporate bonds have maturity dates from 2 July 2009 to 14 June 2014, coupon rates from 7.7% to 12.5% per annum and a yield to maturity from 9.5% to 27.9% per annum, depending on the bond issue.

Municipal bonds are Russian Rouble denominated securities issued by Regional Governments of Russian Federation. Municipal bonds have maturity dates from 20 May 2010 to 15 July 2010, coupon rates from 7.1% to 9.0% per annum and a yield to maturity from 7.1% to 29.3% per annum.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 27.

8 Due from other Banks

Amounts due from other banks represent short-term interbank placements with foreign banks. As at 31 December 2008 the Bank had five placements in total.

As at 31 December 2008 the estimated fair value of due from other banks was RUR 4 247 111 thousand (2007: RUR 1 707 952 thousand).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 27. The information on related party transactions is disclosed in Note 30.

In thousands of Russian Roubles

9 Loans and Advances to Customers

	2008	2007
Express loans	7 375 018	7 386 990
Small loans	8 263 771	6 054 619
Medium loans	32 103 038	17 443 645
Large loans	3 937 504	138 685
Consumer loans	2 056 712	775 930
Mortgage	876 532	30 524
Loans to employees	326 296	210 348
Term loans	**54 938 871**	**32 040 741**
Overdrafts	806 656	658 940
Total loans and advances to customers before impairment	55 745 527	32 699 681
Less: Provision for loan impairment	(1 990 269)	(1 198 389)
Total loans and advances to customers	**53 755 258**	**31 501 292**

Movements in the provision for loan impairment are as follows:

	2008	2007
Provision for loan impairment as at 1 January	**1 198 389**	**678 650**
Provision for loan impairment during the year	817 376	511 650
Loans and advances to customers written off during the year as uncollectible	(25 496)	–
Recovery of loans and advances to customers previously written off as uncollectible	–	8 089
Provision for loan impairment as at 31 December	**1 990 269**	**1 198 389**

As at 31 December 2008 the total amount of overdue outstanding payments on loans was RUR 780 181 thousand (2007: RUR 358 246 thousand).

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2008, comprised RUR 143 710 thousand (2007: RUR 19 697 thousand).

As at 31 December 2008, the customer loan portfolio is segregated into five groups of loans by loan product with similar risk characteristics:

	2008		2007	
	Number of loans	**Outstanding balances**	**Number of loans**	**Outstanding balances**
Linked to value loan products (Value, USD equivalent)				
0 – 20 000	39 591	7 375 018	40 068	7 386 990
20 001 – 50 000	14 315	8 263 771	9 878	6 054 619
50 001 – 150 000	6 810	11 497 050	4 221	7 082 247
150 001 – 500 000	2 702	13 238 475	1 583	7 442 341
more than 500 001	638	11 305 017	266	3 057 738
Total		**51 679 331**		**31 023 935**
Other loans and advances		4 066 196		1 675 746
Total loans and advances to customers (aggregate amount)		**55 745 527**		**32 699 681**

In thousands of Russian Roubles

9 Loans and Advances to Customer (Continued)

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

	2008		2007	
	Amount	**%**	**Amount**	**%**
Trade	36 730 136	66	19 066 514	58
Services	10 170 798	18	8 176 826	25
Manufacturing	4 778 397	9	3 281 614	10
Personal loans	3 259 540	6	1 016 805	3
Other	806 656	1	1 157 922	4
Total loans and advances to customers (aggregate amount)	**55 745 527**	**100**	**32 699 681**	**100**

The majority of loans to customers have monthly principal and interest repayments. The majority of loans and advances to customers are granted either to individual entrepreneurs or to small businesses owned by them. Funds for these loans are partially provided by the EBRD under the program to support small businesses in Russia (refer to Note 16). The Bank bears credit risk on these loans.

As at 31 December 2008, the 20 largest borrowers of the Bank each had an aggregate loan amount above RUR 53 575 thousand. The total aggregate amount of these loans was RUR 2 683 202 thousand or 4,8 % of the gross loan portfolio (2007: the 20 largest borrowers each had an aggregate loan amount above RUR 30 394 thousand and total aggregate amount of RUR 809 290 thousand or 2.5% of the gross loan portfolio).

Included in other loans and advances to individuals are consumer loans amounting to RUR 2 056 712 thousand (2007: RUR 775 930 thousand).

The Bank accepts listed and unlisted securities and other property as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default.

As at 31 December 2008, the estimated fair value of loans and advances to customers was RUR 53 755 258 thousand (2007: RUR 31 501 292 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

10 Finance Lease Receivables

	Due in 1 year	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
Finance lease payments receivable at 31 December 2008	**1 734 973**	**2 649 045**	**-**	**4 384 018**
Unearned finance income	(612 534)	(615 598)	-	(1 228 132)
Impairment loss provision	(65 452)	(118 944)	-	(184 396)
Present value of lease payments receivable at 31 December 2008	**1 056 987**	**1 914 503**	**-**	**2 971 490**
Finance lease payments receivable at 31 December 2007	**998 311**	**1 399 516**	**17 283**	**2 415 110**
Unearned finance income	(330 516)	(338 823)	(2 194)	(671 533)
Impairment loss provision	(19 492)	-	-	(19 492)
Present value of lease payments receivable at 31 December 2007	**648 303**	**1 060 693**	**15 089**	**1 724 085**

In thousands of Russian Roubles

10 Finance Lease Receivables (Continued)

Movements in the impairment loss provision are as follows:

	2008	2007
Impairment loss provision as at 1 January	19 492	4 540
Provision for loss impairment during the year	164 904	14 952
Impairment loss provision as at 31 December	**184 396**	**19 492**

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default.

As at 31 December 2008, there are 2 184 (2007: 1 623) finance lease contracts expiring over the next five years. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term.

Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2008, the 20 largest lessees of the Bank each had a finance lease receivable greater than RUR 12 099 thousand. The total aggregate amount of finance lease receivable related to these lease agreements was RUR 476 466 thousand or 15.1 % of the total finance lease receivable amount (2007: the 20 largest lessees each had a finance lease receivable greater than RUR 6 593 thousand and total aggregate amount of RUR 222 626 thousand or 12.8% of the total finance lease receivable amount).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2008 (2007: nil).

As at 31 December 2008, the estimated fair value of finance lease receivable was RUR 2 971 490 thousand (2007: RUR 1 724 085 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of finance lease receivable are disclosed in Note 27.

11 Available-for-sale securities

Available-for-sale securities comprise

	2008	2007
Corporate bonds	1 647 107	-
Municipal bonds	921 930	-
Corporate shares	8 582	4 410
Total available-for-sale securities	**2 577 619**	**4 410**

Corporate bonds are Russian Rouble denominated securities issued by major Russian banks and companies. Corporate bonds have maturity dates from 19 March 2009 to 15 June 2018, coupon rates from 7.4% to 13.8% per annum and a yield to maturity from 7.7% to 22.1% per annum, depending on the bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the Moscow city and Regional Governments of Russian Federation. Municipal bonds have maturity dates from 25 July 2009 to 19 December 2013, coupon rates from 7.3% to 9.3% per annum and a yield to maturity from 8.3% to 23.2% per annum.

Geographical, currency, maturity and interest rate analyses of available-for-sale securities are disclosed in Note 27.

In thousands of Russian Roubles

12 Premises and Equipment

	Note	Premises	Office and computer equipment	Total
Cost at 1 January 2007		35 100	295 909	331 009
Accumulated depreciation		(1 462)	(135 230)	(136 692)
Carrying amount at 1 January 2007		**33 638**	**160 679**	**194 317**
Additions		–	259 871	259 871
Disposals (net of accumulated depreciation)		–	(6 272)	(6 272)
Depreciation charge	26	(1 170)	(76 722)	(77 892)
Cost at 31 December 2007		35 100	549 508	584 608
Accumulated depreciation at 31 December 2007		(2 632)	(211 952)	(214 584)
Carrying amount at 31 December 2007		**32 468**	**337 556**	**370 024**
Additions		–	445 502	445 502
Disposals (net of accumulated depreciation)		–	(20 977)	(20 977)
Depreciation charge	26	(1 170)	(125 968)	(127 138)
Impairment		-	(57 764)	(57 764)
Cost at 31 December 2008		35 100	916 269	951 369
Accumulated depreciation at 31 December 2008		(3 802)	(337 920)	(341 722)
Carrying amount at 31 December 2008		**31 298**	**578 349**	**609 647**

As of December 31, 2008 and 2007 included in premises and equipment there was certain hardware with carrying amount of RUR 74 390 thousand (purchased for new comprehensive IT software "T 24"). As of December 31, 2008 the Bank created impairment reserve of RUR 57 764 thousand against this hardware (December 31, 2007: nil), as the Bank has no longer plans to use it with new software.

As at 31 December 2008 and 31 December 2007, premises are represented by a building in Nizhny Novgorod, acquired at the end of 2004, which was put into use in October 2005. For capital expenditure commitments related to the acquisition of premises and equipment refer to Note 28.

13 Intangible Assets

	Note	Software and licenses
Cost at 1 January 2007		107 221
Accumulated depreciation		(40 667)
Carrying amount at 1 January 2007		**66 554**
Additions		440 437
Disposals		–
Depreciation charge	26	(21 222)
Cost at 31 December 2007		547 658
Accumulated depreciation at 31 December 2007		(61 889)
Carrying amount at 31 December 2007		**485 769**
Additions		330 250
Disposals		–
Depreciation charge	26	(30 714)
Cost at 31 December 2008		877 908
Accumulated depreciation at 31 December 2008		(92 603)
Carrying amount at 31 December 2008		**785 305**

In thousands of Russian Roubles

13 Intangible Assets (Continued)

As of December 31, 2008 included in intangible assets there were capital expenditures in purchase and customization of new comprehensive IT software "T 24" amounting to RUR 587,861 thousand (December 31, 2007: RUR 393 743 thousands. The amortization of those intangible assets will start in 2009 as soon as they are put into use.

For capital expenditure commitments related to software licenses refer to Note 28.

14 Income Taxes

Income tax expense comprises the following:

	2008	2007
Current tax charge	59 318	207 662
Deferred taxation movement due to origination and reversal of temporary differences	86 979	31 826
Income tax expense for the year	**146 297**	**239 488**

During 2008, the income tax rate applicable to the majority of the Bank's income is 24% (2007: 24%). A reconciliation between the expected and the actual taxation charge is provided below:

	2008	2007
IFRS profit before tax	**428 164**	**788 497**
Theoretical tax charge at the applicable statutory rate of 24%	102 759	189 239
Tax effect of items which are not deductible and not taxable:		
- Income on government securities taxed at different rates	(7 766)	(3 717)
- Non-deductible release of provisions/ (provisions) for impairment	133	115
- Non deductible expenses	17 770	53 851
Effect of changes in tax rate	278	-
Change in unrecognized deferred tax asset	33 123	-
Income tax expense for the year	**146 297**	**239 488**
Effective tax rate	**34.16%**	**30.40%**

In thousands of Russian Roubles

14 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2007: 24%). From 1 January 2009, the statutory income tax rate in Russia was reduced to 20% and this is considered as the tax rate applicable for the future period in which temporary differences comprising the year-end deferred tax asset and liability are expected to be settled.

	31 December 2007	Movement	31 December 2008
Tax effect of deductible temporary differences			
Provisions for loan and finance lease receivable impairment	98 479	(39 280)	59 199
Loans and advances to customers	162 122	(40 124)	121 998
Fair valuation of trading securities	-	22 279	22 279
Fair valuation of available-for-sale securities	-	22 261	22 261
Tax losses carried forward	-	33 123	33 123
Fair valuation of forward foreign exchange contracts	-	4 090	4 090
Other assets	-	16 619	16 619
Gross deferred tax assets	**260 601**	**18 968**	**279 569**
Unrecognized deferred tax assets	-	(33 123)	(33 123)
Deferred tax assets	**260 601**	**(14 155)**	**246 446**
Tax effect of taxable temporary differences			
Premises and equipment	(127 912)	103 622	(24 290)
Finance lease receivable	(36 435)	(187 114)	(223 549)
Fair valuation of forward foreign exchange contracts	(10 668)	10 668	-
Other liabilities	-	-	-
Gross deferred tax liabilities	**(175 015)**	**(72 824)**	**(247 839)**
Net deferred tax liabilities (assets) which cannot be offset against deferred tax assets (liabilities)	**86 641**	**(96 642)**	**(10 001)**
Net deferred tax assets (liabilities)	**(1 055)**	**9 663**	**8 608**

	31 December 2006	Movement	31 December 2007
Tax effect of deductible temporary differences			
Provisions for loan and finance lease receivable impairment	80 224	18 255	98 479
Loans and advances to customers	122 445	39 677	162 122
Gross deferred tax assets	**202 669**	**57 932**	**260 601**
Tax effect of taxable temporary differences			
Premises and equipment	(60 759)	(67 153)	(127 912)
Finance lease receivable	(24 498)	(11 937)	(36 435)
Fair valuation of forward foreign exchange contracts	-	(10 668)	(10 668)
Other liabilities	-	-	-
Gross deferred tax liabilities	**(85 257)**	**(89 758)**	**(175 015)**
Net deferred tax assets which cannot be offset against tax liabilities	**118 109**	**(31 468)**	**86 641**
Net deferred tax liabilities	**(697)**	**(358)**	**(1 055)**

In thousands of Russian Roubles

14 Income Taxes (Continued)

The Bank's subsidiary has available RUR 165,617 of tax losses carried forwards which begin to expire in 2018, if not utilised.

According to amendments to IAS 39 and IFRS 7 issued on 13 October 2008 the Bank performed reclassification of non-derivative financial assets out of the held for trading category into available-for-sale category in December 2008. Because the most part of the net unrealized losses on those reclassified financial assets was charged to the consolidated income statement for 2008 the related deferred tax effect is also recognized in the consolidated income statement.

The net deferred tax assets represent income taxes recoverable through future revenues and are recorded on the consolidated balance sheet.

15 Other Assets

	2008	2007
Prepayments	148 830	245 901
Settlements on currency conversion operations	1 206 653	640
Leasehold improvements	426 810	126 647
Other	190 746	52 892
Total other assets	**1 973 039**	**426 080**

Included in other assets above is an amount of RUR 426 810 thousand (2007: RUR 126 647 thousand) which relates to leasehold improvements net of accumulated depreciation. Reclassification was made due to internal Group policy. Accumulated depreciation included is RUR 63 026 thousand (2007: RUR 25 404 thousand).

16 Due to Banks

	2008	2007
Term placements of banks	32 206 058	7 076 032
Loans received from CBRF	6 909 979	-
Correspondent accounts of banks	6 016	78 860
Total due to banks	**39 122 053**	**7 154 892**

The term placements of banks as at 31 December 2008 are represented by twenty five short-term placements of Russian banks and seven long-term placements of international banks.

Loans received from CBRF were received mostly during auction process to banks with an approved rating. Total amount of RUR 6 909 979 thousand comprises several loans denominated in Russian Roubles, with interest rates ranging from 10.25% to 12.65% and maturity in January 2009.

As at 31 December 2008, the estimated fair value of due to banks was RUR 39 122 053 thousand (2007: RUR 7 154 892 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due to banks are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

In thousands of Russian Roubles

17 Due to Customers

	2008	2007
State and public organizations		
- Current/settlement accounts	31 181	42 854
- Term deposits	10 500	99 483
Other legal entities		
- Current/settlement accounts	2 616 568	2 741 447
- Term deposits	778 256	682 431
Individuals		
- Current/demand accounts	340 376	255 118
- Term deposits	1 051 456	921 811
Total due to customers	**4 828 337**	**4 743 144**

State and public organisations exclude government-owned profit oriented businesses.

As at 31 December 2008, the 29 largest customers of the Bank each had a balance greater than RUR 10 000 thousand. The aggregate balance of these customers was RUR 820 500 thousand or 17.0 % of total customer accounts (2007: the 16 largest customers each had a balance greater than RUR 10 000 thousand and aggregate balance of RUR 546 356 thousand or 12.0% of total customer accounts).

As at 31 December 2008, the estimated fair value of customer accounts was RUR 4 828 337 thousand (2007 RUR 4 743 144 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27.

18 Debt Securities Issued

	2008	2007
Bonds	2 271	3 407 517
Promissory notes	20 860	34 749
Total debt securities issued	**23 131**	**3 442 266**

KMB-Bank bonds are RUR denominated securities with a maturity date of 30 November 2011. KMB-Bank bonds have coupon rate of 15% per annum as at 31 December 2008, and a yield to maturity of 22% per annum as at 31 December 2008. The Bank's bonds issue terms provided an irrevocable offer for early redemption on the 2nd and 3rd of October and on the 8th of December 2008. As of these dates bonds with total carrying amount of RUR 3 397 886 thousands were redeemed for RUR 3 371 449 thousands.

Promissory notes have maturities from one month to four years and have a yield to maturity of 2% - 11% per annum, depending on the currency and maturity.

As at 31 December 2008, the estimated fair value of debt securities issued was RUR 22 858 thousand (2007: RUR 3 416 733 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 27.

In thousands of Russian Roubles

19 Other Borrowed Funds

Other borrowed fubds represent long-term loans from non-resident companies, credit institutions and funds with the aim to finance the lending operations of the Bank.

These long-term loans mature in 2009 – 2012, some loans have fixed annual interest rates varying from 6.97% to 7.72% per annum, and others have floating annual interest rates varying from 6-month LIBOR+0.335% to 6-month LIBOR+4.0% (interest on these loans is paid semi-annually) or 3m Mosprime+0.66% to 3m Mosprime+1.05%.

As at 31 December 2008, the estimated fair value of other borrowed funds was RUR 18 537 132 thousand (2007: RUR 19 805 481 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

20 Subordinated Debts

As at 31 December 2008, subordinated debts consist of a loan from an international bank and four loans from non-resident companies, one of which is shareholders of the Bank. These subordinated loans are denominated in US dollars and Euros and mature between May 2009 and December 2015. The interest rates for these subordinated loans vary from LIBOR+3.5% to LIBOR+6.5%.

The claims of the Bank's creditor on subordinated debts shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

As at 31 December 2008, the estimated fair value of subordinated debts was RUR 653 616 thousand (2007: RUR 549 499 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of subordinated debts are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

21 Share Capital

As at 31 December 2008 and as at 31 December 2007, authorised, issued and fully paid-up share capital of the Bank is equal and comprises:

	2008		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	464 548	5 737 168	6 789 066
Total share capital	**464 548**	**5 737 168**	**6 789 066**

	2007		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	262 120	3 237 182	4 289 080
Total share capital	**262 120**	**3 237 182**	**4 289 080**

All ordinary shares have a nominal value of RUR 12 350 per share, rank equally and carry one vote.

In July 2008, the Bank issued 202 428 ordinary shares for a total amount of RUR 2 499 986 thousand. All new ordinary shares were distributed between the existing shareholders of the Bank in accordance with the ownership percentages detailed in Note 1. This share issue was fully paid and registered by the CBRF in August 2008.

In July 2007, the Bank issued 105 263 ordinary shares for a total amount of RUR 1 299 998 thousand. All new ordinary shares were distributed between the existing shareholders of the Bank in accordance with the ownership percentages detailed in Note 1. This share issue was fully paid and registered by the CBRF in August 2007.

In thousands of Russian Roubles

22 Share Premium

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

23 Retained Earnings/(Accumulated Losses)

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of accounting reports prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2008 were RUR 1 194 585 thousand (non-inflated) (2007: RUR 956 239 thousand (non-inflated)).

24 Interest Income and Expense

	2008	2007
Interest income		
Loans and advances to customers	7 249 529	4 407 725
Finance lease receivables	526 198	301 661
Due from other banks	99 713	58 951
Trading securities	344 520	139 110
Total interest income	**8 219 960**	**4 907 447**
Interest expense		
Due to banks	1 538 342	379 182
Other borrowed funds	1 298 950	655 755
Due to customers	96 313	197 474
Subordinated debts	53 110	53 205
Debt securities issued	243 954	276 884
Total interest expense	**3 230 669**	**1 562 500**
Net interest income	**4 989 291**	**3 344 947**

25 Fee and Commission Income and Expense

	2008	2007
Fee and commission income		
Commission on cash transactions	119 188	83 591
Commission on settlement transactions	103 527	76 883
Commission on lending transactions not part of effective interest rate	61 024	63 079
Guarantees issued	8 144	10 597
Other	35 835	23 252
Total fee and commission income	**327 718**	**257 402**
Fee and commission expense		
Commission on settlement transactions	28 010	17 294
Participation in deposit insurance program charge	6 518	9 151
Commission on cash collections	6 310	3 469
Commission on other borrowed funds	12 576	12 112
Other	4 397	3 927
Total fee and commission expense	**57 811**	**45 953**
Net fee and commission income	**269 907**	**211 449**

In thousands of Russian Roubles

25 Fee and Commission Income and Expense (Continued)

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement; commission for loan repayment prior to maturity and commission for information letters to the borrower.

26 Operating Expenses

	Note	2008	2007
Staff costs		1 401 491	1 114 631
Occupancy and rent		587 285	293 154
Legal and other professional services		321 303	220 747
Advertising and business development expenses		322 318	181 089
Depreciation and amortisation	12,13	157 852	99 114
Office supplies		99 279	71 323
Business travel		116 665	57 695
Communications		85 907	42 156
Operating taxes		60 906	38 635
Insurance		45 760	37 109
Personnel training		67 900	35 112
Security		28 053	17 671
Data processing		41 238	18 676
Repair and maintenance of premises and equipment		5 668	7 143
Other		88 801	77 094
Total operating expenses		**3 430 426**	**2 311 349**

Included in staff costs are statutory social security and pension contributions of RUR 195 427 thousand (2007: RUR 144 928 thousand). The information on related party transactions is disclosed in Note 30.

27 Risk Management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management is the identification, measurement and monitoring process of risk, conducted in accordance with particular organizational and functional structure of the Bank and established for the correct management of the risk appetite expressed by the shareholders.

The Bank has the risk management function to preserve and enhance value for shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas. A certain increase of risk personnel was made during 2008 due to the growing areas of responsibilities to efficiently identify, evaluate and monitor key financial risks and enables a deeper alignment of strategic business decisions and the risk control function to ensure that the risks taken are within prudent boundaries, and prices charged for products and services reflect these risks.

The definition of the risk governance system is based on the following general principles:

- **Independence** of Market Risk Management function from the Business Lines;
- **Enterprise wide approach** in tools, locations and market risk;
- **Coherence** at all aggregation levels through the use of consistent measuring models;
- **Timing** in the production of data to support the decision-making and control process;
- **Transparency** in assessment methodologies and criteria used for a better understanding of applied risk measures;
- **Empowerment** in the power definitions delegated and the consequent limit structure among Board of Directors, CEO, Departments and Divisions.

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control system.

27 Risk Management (Continued)

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles, including setting a framework for limit structure of the Bank.

Management board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk management

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Asset and Liabilities Committee

The Asset and Liabilities Committee has the responsibility to protect the Bank's equity and its allocation, to harmonize assets and liabilities of the Bank taking into consideration pricing structure and maturity profile, in compliance with the legislation or relevant internal regulations as well as Intesa Sanpaolo Group guidelines. The Asset and Liabilities Committee performs regular monitoring and evaluation of the balance sheet structure, yield expectations versus actual business, evaluation of the general market conditions; assessment of the Bank versus its competitors, approval of the terms and conditions of new financial products, or amendment of the terms and conditions of existing products, definition of the interest rate, liquidity, currency and operational risk management policies and limits, coherently with

Intesa Sanpaolo Group regulations, monitors limits' compliance (internal and external requirements).

Bank treasury

The Bank's Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit Department, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also analyses potential change in the market value of financial instruments due to changes in risk factors.

Monitoring and controlling of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

27 Risk Management (Continued)

Risk management structure (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, sensitivity analysis, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit Risk is the risk of loss due to counterparties in lending activity, clearing houses and stock exchanges failing to fulfill their contractual obligations and arrangements; risk of loss arising from failure of counterparties to settle the positive revaluation of derivative contracts and repurchase agreements or repossession of collateral.

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and geographical sector are established and regularly reviewed by the Management Board, when limits on borrower, aggregate large exposures and industry sector are approved regularly by the Board of Directors.

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits. Actual exposures against limits are monitored daily.

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

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet as disclosed below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

In thousands of Russian Roubles

27 Risk Management (Continued)

Credit risk (continued)

Financial assets and liabilities by category of financial instrument of the Bank are as follow:

	At 31 December 2008					
	Held-for-trading	**Available-for-sale**	**Loans to legal entities/ individual entrepreneurs**	**Loans to individuals**	**Financial assets and liabilities at amortized cost**	**Total**
Assets						
Cash and cash equivalents	–	–	–	–	2 211 254	**2 211 254**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	33 500	**33 500**
Trading securities	985 059	–	–	–	–	**985 059**
Due from other banks	–	–	–	–	4 247 111	**4 247 111**
Loans and advances to customers	–	–	40 706 072	13 049 186	–	**53 755 258**
Finance lease receivables	–	–	2 971 490	–	–	**2 971 490**
Available-for-sale securities	–	2 577 619	–	–	–	**2 577 619**
Other assets:						
Trade debtors and prepayments	–	–	–	–	148 930	**148 930**
Derivative financial assets	90	–	–	–	–	**90**
Total financial assets	985 149	2 577 619	43 677 562	13 049 186	6 640 795	**66 930 311**
Total non-financial assets	–	–	–	–	3 763 385	**3 763 385**
Total assets as at 31 December 2008	**985 149**	**2 577 619**	**43 677 562**	**13 049 186**	**10 404 180**	**70 693 696**
Total assets as at 31 December 2007	**2 820 213**	**4 410**	**23 086 391**	**10 138 986**	**4 651 936**	**40 701 936**
Liabilities						
Due to banks	–	–	–	–	39 122 053	**39 122 053**
Due to customers	–	–	–	–	4 828 337	**4 828 337**
Debt securities issued	–	–	–	–	23 131	**23 131**
Other borrowed funds	–	–	–	–	18 537 132	**18 537 132**
Subordinated debts	–	–	–	–	653 616	**653 616**
Other liabilities:						
Trade creditors	–	–	–	–	78 617	**78 617**
Derivative financial liabilities	11 358	–	–	–	–	**11 358**
Total financial liabilities	11 358	–	–	–	63 242 886	**63 254 244**
Total non-financial liabilities	–	–	–	–	225 429	**225 429**
Total liabilities as at 31 December 2008	**11 358**	**–**	**–**	**–**	**63 468 315**	**63 479 673**
Total liabilities as at 31 December 2007	**167 830**	**–**	**–**	**–**	**36 070 743**	**36 238 573**

The table below shows the reconciliation of provision movements for loans to customers, by class.

	Loans to legal entities/ individual entrepreneurs	**Loans to individuals**	**Total**
Balance at 1 January 2007	**343 350**	**335 300**	**678 650**
Provision for loan impairment during the year	263 910	247 740	**511 650**
Recovery of loans and advances to customers previously written off as uncollectible	4 127	3 962	**8 089**
Balance at 1 January 2008	**611 387**	**587 002**	**1 198 389**
Provision for loan impairment during the year	200 450	616 926	**817 376**
Loans and advances to customers written off during the year as uncollectible		(25 496)	**(25 496)**
At 31 December 2008	**811 837**	**1 178 432**	**1 990 269**

In thousands of Russian Roubles

27 Risk Management (Continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet and off balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Maximum exposure to credit risk of the Bank is as follows:

	Gross maximum exposures 2008	Gross maximum exposures 2007
Cash and cash equivalents	1 228 914	805 325
Due from other banks	4 247 111	1 707 952
Loans and advances to customers	55 745 527	32 699 680
Finance lease receivable	3 155 886	1 743 577
Trading securities	985 059	2 817 354
Available-for-sale securities	2 577 619	4 410
Guarantees issued	566 830	465 888
Commitments and other credit related commitments	714 231	702 127
Other assets	6 214	7 269
Total credit risk exposure	**69 227 391**	**40 953 583**

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

	At 31 December 2008			At 31 December 2007		
	Loans and receivables to legal entities/ individual entrepreneurs	**Loans and receivables to individuals**	**Total**	**Loans and receivables to legal entities/ individual entrepreneurs**	**Loans and receivables to individuals**	**Total**
Loans and advances:						
1. Neither past due nor impaired:						
1.1. Standard	28 794 321	229 910	**29 024 231**	19 572 849	10 172 962	**29 745 811**
1.2. Non-standard Group 1	10 234 165	12 550 243	**22 784 408**	992 405	7 326	**999 731**
1.3. Non-standard Group 2	541 941	12 038	**553 979**	1 042 904	31 195	**1 074 099**
1.4. Non-standard Group 3	363 008	10 459	**373 467**	7 009	95	**7 104**
1.5. Non-standard Group 4	79 761	1 455	**81 216**	23 832	423	**24 255**
2. Past due but not impaired	706 627	669 514	**1 376 141**	46 148	145 841	**191 989**
3. Impaired	798 086	753 999	**1 552 085**	288 546	368 146	**656 692**
Gross	**41 517 909**	**14 227 618**	**55 745 527**	**21 973 693**	**10 725 988**	**32 699 681**
Less: allowance for impairment	(811 837)	(1 178 432)	**(1 990 269)**	(611 387)	(587 002)	**(1 198 389)**
Net	**40 706 072**	**13 049 186**	**53 755 258**	**21 362 306**	**10 138 986**	**31 501 292**

Category 3, impaired loans, is comprised of loans which are both considered impaired and individually assessed for impairment.

Categories 1 and 2 are not considered individually impaired and are collectively assessed for impairment.

In thousands of Russian Roubles

27 Risk Management (Continued)

Credit risk (continued)

An analysis of past due but not individually impaired loans, by age, is provided below.

	At 31 December 2008			At 31 December 2007		
	Past due but not individually impaired loans to customers			Past due but not individually impaired loans to customers		
	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total	Loans and receivables to legal entities/ individual entrepreneurs	Loans and receivables to individuals	Total
Past due up to 30 days	571 951	435 069	**1 007 020**	44 577	93 112	**137 689**
Past due 30-60 days	95 876	162 442	**258 318**	246	8 787	**9 033**
Past due 60-90 days	38 800	72 003	**110 803**	–	3 695	**3 695**
Past due 90-180 days	–	–	–	–	12 404	**12 404**
Past due over 180 days but less than 1 year	–	–	–	–	25 767	**25 767**
Past due over 1 year	–	–	–	1 325	2 076	**3 401**
Total	**706 627**	**669 514**	**1 376 141**	**46 148**	**145 841**	**191 989**
Fair value of collateral	452 100	255	**452 355**	1 416	4 909	**6 325**

The table below shows the carrying amount for renegotiated loans to customers, by class.

	2008	2007
Loans and receivables to legal entities/ individual entrepreneurs	238 051	70 499
Loans and receivables to individuals	12 139	4 059
Total	**250 190**	**74 558**
Provision	(8 854)	(2 336)
Net renegotiated loans to customers	**241 336**	**72 222**

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

The table below represents the breakdown of loans and advances by the type of collateral.

	At 31 December 2008			At 31 December 2007		
	Loans to legal entities/ individual entrepreneurs	Loans to individuals	Total	Loans to legal entities/ individual entrepreneurs	Loans to individuals	Total
Guarantee	34 372 803	8 102 077	**42 474 880**	19 267 069	7 308 576	**26 575 645**
Inventory	531 875	2 215	**534 090**	283 062	411	**283 473**
Equipment	244 707	4 327	**249 034**	54 284	1 489	**55 773**
Realty	3 586 929	1 207 229	**4 794 158**	1 193 438	232 904	**1 426 342**
Motor transport	286 101	53 810	**339 911**	162 157	52 585	**214 742**
Other	4 216	7 831	**12 047**	27 422	4 977	**32 399**
Without collateral	2 491 278	4 850 129	**7 341 407**	986 261	3 125 046	**4 111 307**
Total	**41 517 909**	**14 227 618**	**55 745 527**	**21 973 693**	**10 725 988**	**32 699 681**

In thousands of Russian Roubles

27 Risk Management (Continued)

Credit risk (continued)

The fair value of collateral for individually impaired loans is presented in the table below:

	At 31 December 2008			At 31 December 2007		
	Loans to legal entities/ individual entrepreneurs	Loans to individuals	Total	Loans to legal entities/ individual entrepreneurs	Loans to individuals	Total
Individually impaired loans	798 086	753 999	**1 552 085**	288 546	368 146	**656 692**
Fair value of collateral	555 106	365	**555 471**	166 036	2 741	**168 777**

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Bank took possession of collateral on loans and advances to customers during the year. The table below shows the carrying amount of collateral repossessed by the Bank during the year and collateral held on the balance sheet as of 31 December.

	2008	2007
Collateral on loans held as of year end	1 906	1 245
Collateral on loans possessed during the year	2 781	561

The collateral possessed as of 31 December 2008 represents machinery, equipment, motor vehicles and other property which the Bank intends to sell. The Bank considers that all collateral is readily convertible to cash.

Further information on concentration of credit risk of loans by industry sector is included in Note 9

In thousands of Russian Roubles

27 Risk Management (Continued)

Geographical risk

The geographical concentration of the Bank's assets and liabilities as at 31 December 2008 is set out below:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	2 002 422	208 832	-	2 211 254
Mandatory cash balances with the CBRF	33 500	-	-	33 500
Trading securities	985 059	-	-	985 059
Due from other banks	-	4 247 111	-	4 247 111
Loans and advances to customers	53 737 174	18 084	-	53 755 258
Finance lease receivable	2 971 490	-	-	2 971 490
Available-for-sale securities	2 577 619	-	-	2 577 619
Premises and equipment	609 647	-	-	609 647
Intangible assets	785 305	-	-	785 305
Current income tax assets	217 577	-	-	217 577
Deferred tax asset	8 608	-	-	8 608
Tax assets other than income tax	318 229	-	-	318 229
Other assets	1 961 826	11 213	-	1 973 039
Total assets	**66 208 456**	**4 485 240**	**-**	**70 693 696**
Liabilities				
Due to banks	12 152 726	26 968 844	483	39 122 053
Due to customers	4 823 067	5 171	99	4 828 337
Debt securities issued	23 131	-	-	23 131
Other borrowed funds	-	18 537 132	-	18 537 132
Deferred tax liability	10 001	-	-	10 001
Tax liabilities other than income tax	192 422	-	-	192 422
Subordinated debts	-	653 616	-	653 616
Other liabilities	100 572	12 409	-	112 981
Total liabilities	**17 301 919**	**46 177 172**	**582**	**63 479 673**
Net balance sheet position	**48 906 537**	**(41 691 932)**	**(582)**	**7 214 023**
Credit related commitments	**1 281 061**			**1 281 061**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held. OECD countries include primarily Germany, United States, United Kingdom and the Netherlands.

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

	Russia	OECD	Non OECD	Total
Net balance sheet position	**27 394 053**	**(22 926 322)**	**(4 368)**	**4 463 363**
Credit related commitments	**1 168 015**	**-**	**-**	**1 168 015**

In thousands of Russian Roubles

27 Risk Management (Continued)

Liquidity risk

Liquidity Risk relates to the ability of the Bank to repay short-term borrowings with new borrowings or assets that can be converted into cash in a timely manner at a reasonable price while meeting its obligations and continuing to operate as a going concern. The Bank's Liquidity Risk can be decomposed in two parts:

- **Cash-Flow Risk** - the risk of financial loss or loss of the Bank's financial stability due to deficiency of cash or its equivalents to cover demand for asset funding and settlement of liabilities as well as due to the necessity to raise funds at high interest rates;
- **Market Liquidity Risk** - the risk of financial loss entailing disposition of assets at less than fair value because of lack of volume.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Thus the Bank's liquidity management framework is intended to maximize liquidity access and preserve stable, reliable and cost-effective sources of funding with the desired maturity profile and interest rate characteristics. Liquidity is managed by the Treasury Department under supervision of the Assets and Liabilities Management Committee within the limits established by the Board of Directors of the Bank. Management of operational liquidity involves a day-to-day monitoring of the Bank's current payment position and the analysis of short-term net funding requirements (forecasting future cash flows based on assumptions of the future behavior of assets, liabilities and off-balance-sheet items, cash flows in derivatives, etc). Management of strategic liquidity represents procedures with the object of securing a sufficient level of the Bank's financial soundness and meeting its obligations when they come due, depending on future market conditions and business trends. It involves construction of a maturity ladder to reveal potential asset-liability mismatches over a series of specified time periods.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBRF. As at 31 December, these ratios were as follows:

	CBRF required ratio value	2008 %	2007 %
N2 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	Min. 15%	194,98	56,3
N3 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	Min. 50%	66,20	72,3
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	Max. 120%	71,08	70,2

The table below shows assets and liabilities as at 31 December 2008 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.

In thousands of Russian Roubles

27 Risk Management (Continued)

Liquidity risk (continued)

The liquidity position of the Bank as at 31 December 2008 is set out below.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	2 211 254	-	-	-	-	-	-	2 211 254
Mandatory cash balances with the CBRF	20 732	4 477	3 208	3 932	1 151	-	-	33 500
Trading securities	-	-	-	101 441	805 820	77 798	-	985 059
Due from other banks	-	4 247 111	-	-	-	-	-	4 247 111
Loans and advances to customers	-	1 481 441	3 858 402	15 483 356	24 139 865	8 770 600	21 594	53 755 258
Finance lease receivable	-	107 116	173 741	776 130	1 914 503	-	-	2 971 490
Available-for-sale securities	-	-	97 245	557 950	1 272 612	641 230	8 582	2 577 619
Premises and equipment	-	-	-	-	-	-	609 647	609 647
Intangible assets	-	-	-	-	-	-	785 305	785 305
Current income tax assets	-	-	78 512	139 065	-	-	-	217 577
Deferred tax asset	-	-	-	-	-	-	8 608	8 608
Tax assets other than income tax	-	1	182 681	119 261	-	-	16 286	318 229
Other assets	2 076	1 274 492	295 780	399 270	7	-	1 414	1 973 039
Total assets	**2 234 062**	**7 114 638**	**4 689 569**	**17 580 405**	**28 133 958**	**9 489 628**	**1 451 436**	**70 693 696**
Liabilities								
Due to banks	6 016	12 152 726	2 471 021	73 764	24 418 526	-	-	39 122 053
Due to customers	2 988 139	645 296	462 293	566 721	165 888	-	-	4 828 337
Debt securities issued	5 303	1 402	4 869	10 727	418	412	-	23 131
Other borrowed funds	-	-	8 570	2 966 129	15 562 433	-	-	18 537 132
Deferred tax liability	-	-	10 001	-	-	-	-	10 001
Tax liabilities other than income tax	-	169 181	23 241	-	-	-	-	192 422
Subordinated debts	-	-	-	92 216	194 145	367 255	-	653 616
Other liabilities	929	1 366	97 212	13 474	-	-	-	112 981
Total liabilities	**3 000 387**	**12 969 971**	**3 077 207**	**3 723 031**	**40 341 410**	**367 667**	**-**	**63 479 673**
Net liquidity gap	**(766 325)**	**(5 855 333)**	**1 612 362**	**13 857 374**	**(12 207 452)**	**9 121 961**	**1 451 436**	**7 214 023**
Cumulative liquidity gap as at 31 December 2008	**(766 325)**	**(6 621 658)**	**(5 009 296)**	**8 848 078**	**(3 359 374)**	**5 762 587**	**7 214 023**	
Cumulative liquidity gap as at 31 December 2007	**(1 961 666)**	**(3 955 437)**	**(3 065 772)**	**7 033 668**	**4 996 680**	**3 758 988**	**4 463 363**	**–**

In thousands of Russian Roubles

27 Risk Management (Continued)

Liquidity risk (continued)

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "on demand and less than one month" column. Overdue assets are classified within the "no stated maturity" column. The mandatory cash balances with the CBRF are allocated between the different maturity categories in accordance with the maturities of the liabilities to which these balances relate.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Liabilities								
Due to banks	6 016	12 217 829	2 512 682	76 776	33 900 670	-	-	48 713 973
Due to customers	3 004 172	647 986	467 616	594 966	180 039	-	-	4 894 779
Debt securities issued	5 303	1 404	4 928	11 573	508	712	-	24 428
Other borrowed funds	-	-	8 691	3 000 028	18 121 686	-	-	21 130 405
Subordinated debts	-	-	-	94 361	232 188	494 784	-	821 333
Total liabilities as at 31 December 2008	**3 015 491**	**12 867 219**	**2 993 917**	**3 777 704**	**52 435 091**	**495 496**	**-**	**75 584 918**
Credit related commitments as at 31 December 2008	**6 183**	**33 534**	**258 708**	**829 137**	**116 479**	**-**	**37 020**	**1 281 061**

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Liabilities								
Due to banks	78 860	4 284 663	2 258 867	451 069	142 330	-	-	7 215 789
Due to customers	3 039 712	388 916	492 107	723 472	151 093	-	-	4 795 300
Debt securities issued	270 459	196	3 554	279 423	4 197 636	-	-	4 751 268
Other borrowed funds	-	-	7 347	838 432	19 123 128	3 081 666	-	23 050 573
Subordinated debts	-	-	-	-	307 176	510 879	-	818 055
Total liabilities as at 31 December 2007	**3 389 031**	**4 673 775**	**2 761 875**	**2 292 396**	**23 921 363**	**3 592 545**	**-**	**40 630 985**
Credit related commitments at 31 December 2007	**-**	**59 026**	**298 002**	**660 046**	**86 611**	**-**	**64 330**	**1 168 015**

27 Risk Management (Continued)

Liquidity risk (continued)

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

Management believes that despite a substantial portion of due to customers accounts being on demand, the diversification of these deposits through the number and type of depositors, and the past experience of the Bank, would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

Due to customer accounts are classified in the above analysis based on the 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.

The liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total unused limits on overdraft loans do not necessarily represent future cash requirements since some of these commitments will expire or terminate without being funded in full.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

For the presentation of market risks, IFRS 7 requires sensitivity analysis that shows the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders equity. Simple sensitivity analysis is presented for currency risk and interest rate risk. The periodic effects are determined by relating the hypothetical changes in risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole and other variables remain unchanged. The changes in the risk variables represent management's best estimate of a reasonable, possible change as used in the Bank's budget assumptions.

The Bank is exposed to market risks. Market risks arise from open positions in interest rate, currency and fixed income financial instruments, all of which are exposed to general and specific market movements.

Objectives to pursue by applying a market risk process are:

- To preserve the corporate economic capital and maximizing the economic value for the shareholders, avoiding inappropriate risk exposures;
- To optimize the capital allocation process;
- To verify that the risk measurement models are coherent with the effective income result pursued by Risk Owners;
- To ensure that all taken and potential risks in all operational areas are correctly identified, measured, controlled and managed following the shared and formalized methodologies and procedures;
- To keep systems quality and management processes aligned to the best market practice standards;
- To ensure production of detailed and timely informative reports for Departments responsible for management and control activities;
- To ensure the observance of organizational rules regarding national and international Regulatory controls.

27 Risk Management (Continued)

Market risk (continued)

Tools In order to apply reported principles and to reach the objectives Risk Management department has the following tools:

- A database that can provide Risk Management with the following information:
  - Daily market data;
  - Information on securities;
  - Information on issuers and counterparties;
  - Information on Bank deals.
  - Kondor + (for the total trading portfolio)
- System using the above-mentioned database for computation and capable of performing the following basic requirements:
  - To measure mark-to-market of single position and portfolio value;
  - To deal with the current limits system;
  - To calculate risk indicators;
- Effective communication process;
- System of behavioral (procedural) rules.
- Software Kondor+ (for the total trading portfolio)

Risk indicators are calculated by using Access databases within Excel templates. The risk parameters are measured by using this software, and limits grids will be controlled within Kondor +.

The limits monitoring process involves the daily measurement and control of the exposures of trading portfolios and the weekly measurement and control of the exposures in the banking book by market risk management.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Trading

The Management Board has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full non-linear VaR model for interest rate, and FX risk. These calculations are based on Parametric approach.

The confidence level is assumed to be 99% for VaR calculation. The VaR is calculated for 1 day time horizon.

For the securities trading portfolio Interest Rate VaR is calculated. For the purposes of interest rate VaR calculation present values related to 1D to 30Y term interest rates are taken as risk factors and assumed to be normally distributed. The information on interest rate volatilities and correlations based on global activity of the Intesa Sanpaolo Group is received from Intesa Sanpaolo on a daily basis automatically. The expected cash flows from the securities portfolio (without any possible event of defaults assumptions) are mapped to corresponding time buckets.

For the purposes of FX VaR for trading portfolio calculation covariance matrix is calculated from the corresponding time series. Positions on FX instruments are mapped to corresponding risk factors.

27 Risk Management (Continued)

Market risk (continued)

Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR assumptions in 2008

The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for the securities portfolios and exposures are reviewed daily against the limits by management.

Indicators for market risk exposure (VaR) for the total trading portfolio are calculated by using software Kondor+ . At 31 December 2008 VaR for the trading securities portfolio was RUR 15 721 thousands and VaR for the derivative instruments was RUR 4 417 thousands.

Estimates of market risk – trading as of 31 December 2007

The Bank implemented Kondor+ software only in 2008 and therefore as of 31 December 2007 the Bank used estimates of market risk for trading portfolio other than VaR.

Interest risk

As of 31 December 2007 the interest rate risk for trading securities was estimated using sensitivity analysis as follows. The increase in interest rate of trading securities on 13 base points will result in fair value decreasing by 83 554 thousand RUR. The parallel shift in market interest rates on 100 base points followed by the corresponding increase/decrease in securities market quotations will result in fair value of trading securities decrease/increase by RUR 64 272 thousand.

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

Currency risk

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading off-balance sheet monetary assets and liabilities (deliverable forward and spot foreign exchange contracts) and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Rouble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement (as the Bank does not apply hedge accounting). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	2007	
Currency	**Changes in exchange rate, %**	**Influence on the profit before taxation, RUR`000**
Off-balance sheet position		
USD	4%	203 120
EUR	(4%)	(1 562)
Total		**201 558**

Market risk – Non-Trading

Interest rate risk

Interest rate risk is a risk of a decline in earnings due to the movements of interest rates. Interest Rate Risk includes the following:

- **Directional Risk** - the risk of loss due to parallel shifts of the yield curve;
- **Yield Curve Risk** - the risk of loss due to a change in the general shape of term structure of interest rates (pivoting, steepening and flattening of the yield curve);
- **Basis Risk** - the risk of loss due to a mismatch between an interest rate sensitive instrument and the cash or derivative instrument used to hedge value changes caused by movements in interest rates, and the risk of loss due to changes in a price or rate differential between two assets or the same asset at different time or locations (especially relevant in futures transactions);
- **Spread Risk** - the risk of loss in value of interest rate sensitive securities due to changes in the credit spread between two yield curves.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings secured at floating interest rates. In practice, interest rates are generally fixed on a short-term basis. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the lending rate in the event of a significant change in the international interest rates. Additionally, interest rates for long term loans in foreign currencies (20 to 120 months) are linked to LIBOR and EURIBOR.

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change.

The Board of Directors sets limits on the potential loss from a mismatch of interest rate reprising that may be undertaken. These limits are monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008. The table below represents Management's expectations in relation to base point movements.

	2008		2007	
Currency	**Increase/decrease in base points**	**Sensitivity of net interest income, RUR `000**	**Increase/decrease in base points**	**Sensitivity of net interest income, RUR `000**
USD	112	(35 859)	112	141 801
EUR	58	(6 249)	25	896
Total		**(42 108)**		**142 697**

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

The parallel shift in market interest rates on 100 base points followed by the corresponding increase/decrease in securities market quotations will result in fair value of available-for-sale securities decrease/increase by RUR 36 095 thousands.

The decrease in interest rate of available-for-sale securities on 685 base points, which is reasonable for Russian market, will result in fair value increasing by RUR 247 253 thousands.

The Board of Directors sets limits on the potential loss from a mismatch of interest rate reprising that may be undertaken. These limits are monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

The table below summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates:

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	2 211 254	-	-	-	-	-	-	2 211 254
Mandatory cash balances with the CBRF	20 733	4 477	3 207	3 932	1 151	-	-	33 500
Trading securities	985 059	-	-	-	-	-	-	985 059
Due from other banks	-	4 247 111	-	-	-	-	-	4 247 111
Loans and advances to customers	-	1 481 441	3 858 402	15 483 356	24 139 864	8 770 600	21 595	53 755 258
Finance lease receivable	-	107 116	173 741	776 130	1 914 503	-	-	2 971 490
Available-for-sale securities	-	-	97 246	557 950	1 272 612	641 229	8 582	2 577 619
Premises and equipment	-	-	-	-	-	-	609 647	609 647
Intangible assets	-	-	-	-	-	-	785 305	785 305
Current income tax assets	-	-	-	-	-	-	217 577	217 577
Deferred tax asset	-	-	-	-	-	-	8 608	8 608
Tax assets other than income tax	-	-	-	-	-	-	318 229	318 229
Other assets	-	-	-	-	-	-	1 973 039	1 973 039
Total assets	**3 217 046**	**5 840 145**	**4 132 596**	**16 821 368**	**27 328 130**	**9 411 829**	**3 942 582**	**70 693 696**
Liabilities								
Due to banks	6 016	16 705 895	16 291 785	73 765	6 044 592	-	-	39 122 053
Due to customers	2 988 139	645 296	462 293	566 721	165 888	-	-	4 828 337
Debt securities issued	5 303	1 402	4 869	10 727	418	412	-	23 131
Other borrowed funds	-	2 046 760	4 002 727	7 373 188	5 114 457	0	-	18 537 132
Current income tax liability	-	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	10 001	10 001
Tax liabilities other than income tax	-	-	-	-	-	-	192 422	192 422
Subordinated debts	-	-	518 082	135 534	-	-	-	653 616
Other liabilities	-	-	-	-	-	-	112 981	112 981
Total liabilities	**2 999 458**	**19 399 353**	**21 279 756**	**8 159 935**	**11 325 355**	**412**	**315 404**	**63 479 673**
Net liquidity gap	**217 588**	**(13 559 208)**	**(17 147 160)**	**8 661 433**	**16 002 775**	**9 411 417**	**3 627 178**	**7 214 023**
Cumulative sensitivity gap as at 31 December 2008	**217 588**	**(13 341 620)**	**(30 488 780)**	**(21 827 347)**	**(5 824 572)**	**3 586 845**	**7 214 023**	
Cumulative sensitivity gap as at 31 December 2007	**893 093**	**(3 150 443)**	**(6 222 497)**	**(10 822 595)**	**2 404 255**	**3 297 839**	**4 463 363**	

Assets and liabilities are primarily presented in the table above as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the table above as being 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.

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on the period-end effective rates used for amortization of the respective assets/liabilities:

	2008			2007		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Assets						
Cash and cash equivalents	-	1.0	-	-	1.0	-
Trading securities	9.7	-	-	6.7	-	-
Due from other banks	38.8	0.0	2.2	5.9	5.2	-
Loans and advances to customers	16.7	10.1	9.9	16.7	10.7	10.3
Finance lease receivable	24.7	19.5	16.9	25.9	19.5	17.9
Liabilities						
Due to banks	15.5	3.3	6.8	5.5	6.0	4.3
Due to customers						
- current and settlement accounts	1.6	0.1	0.2	0.8	0.3	0.3
- term deposits	10.2	5.1	4.9	8.1	5.0	3.9
Debt securities issued	7.1	5.7	5.1	7.9	5.6	5.7
Other borrowed funds	12.4	2.3	-	7.7	5.3	-
Subordinated debts	-	5.8	11.8	-	8.7	11.1

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

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

Currency risks

Currency risk is the risk of incurring losses due to changes in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk as at 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency. As at 31 December 2008, the Bank had the following positions in currencies:

	RUR	USD	Euro	Total
Assets				
Cash and cash equivalents	1 837 908	132 250	241 096	2 211 254
Mandatory cash balances with the CBRF	33 500	-	-	33 500
Trading securities	985 059	-	-	985 059
Due from other banks	132 287	3 907 593	207 231	4 247 111
Loans and advances to customers	43 371 561	9 678 635	705 062	53 755 258
Finance lease receivable	2 372 155	197 558	401 777	2 971 490
Available-for-sale securities	2 577 619	-	-	2 577 619
Premises and equipment	609 647	-	-	609 647
Intangible assets	785 305	-	-	785 305
Current income tax assets	217 577	-	-	217 577
Deferred tax asset	8 608	-	-	8 608
Tax assets other than income tax	318 229	-	-	318 229
Other assets	1 965 529	1 265	6 245	1 973 039
Total assets	**55 214 984**	**13 917 301**	**1 561 411**	**70 693 696**
Liabilities				
Due to banks	31 445 523	6 917 762	758 768	39 122 053
Due to customers	3 485 944	636 550	705 843	4 828 337
Debt securities issued	17 889	3 850	1 392	23 131
Other borrowed funds	11 155 373	7 381 759	-	18 537 132
Current income tax liability	-	-	-	-
Deferred tax liability	10 001	-	-	10 001
Tax liabilities other than income tax	192 422	-	-	192 422
Subordinated debts	-	610 299	43 317	653 616
Other liabilities	101 108	162	11 711	112 981
Total liabilities	**46 408 260**	**15 550 382**	**1 521 031**	**63 479 673**
Net balance sheet position	**8 806 724**	**(1 633 081)**	**40 380**	**7 214 023**
Credit related commitments	**1 092 774**	**82 165**	**106 122**	**1 281 061**
Off-balance sheet net notional position	**(303 251)**	**212 048**	**91 203**	**-**

In thousands of Russian Roubles

27 Risk Management (Continued)

Market risk (continued)

At 31 December 2007, the Bank had the following positions in currency:

	RUR	USD	Euro	Total
Net balance sheet position	**9 941 364**	**(5 779 997)**	**301 996**	**4 463 363**
Credit related commitments	**1 014 568**	**35 961**	**117 486**	**1 168 015**
Off-balance sheet net notional position	**(5 492 042)**	**5 456 146**	**35 896**	**-**

The off-balance sheet net notional position represents the notional currency position on deliverable forward and spot foreign exchange contracts entered into during 2008 and 2007. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its open currency position.

In 2008 the Bank's share of loans and advances denominated in foreign currencies remained at the same level as in 2007. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2008 and 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Rouble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement (as the Bank does not apply hedge accounting). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	2008		**2007**	
Currency	**Changes in exchange rate, %**	**Influence on the profit before taxation, RUR `000**	**Changes in exchange rate, %**	**Influence on the profit before taxation, RUR `000**
Net balance				
USD	19%	(317 918)	4%	(215 176)
EUR	16%	6 391	(4%)	(13 138)
Total		**(311 527)**		**(228 314)**

Prepayment risks

The Bank's exposure to prepayment risks is considered by the management as not significant. The majority of the borrowers repay the loans not earlier than contractual schedules.

Operational risks

For managing operational risks KMB-Bank follows the Intesa Sanpaolo Group's operational risk guidelines and methodology in compliance with Basel II recommendations as well as locally-developed tools.

Under internal regulations operational risk is defined as the risk of losses resulting from unsuitability or failure of procedures, human resources and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk. The legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

27 Risk Management (Continued)

Operational risks (continued)

The Bank, in accordance with the Intesa Sanpaolo Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy and other internal regulations in order to perform an effective Operational Risk Management and support to the Bank's business.

Among operational risk management tools the following activities are performed:
- self risk assessment (held on annual basis),
- loss data collection,
- scenario analysis,
- key risk indicators,
- regulatory capital calculation (the Basic Indicator Approach).

The operational risk management activity within the Bank is aimed at prevention, monitoring and mitigation of operational risks as well as at minimization (where possible) of frequency and/or severity of operational risk events in case of realization.

The created system of operational risk management anticipates that the management of operational risks should be performed on two levels:
1) through heads of organizational and business units who are responsible for management of operational risks within the areas of their responsibility – decentralized operational risk management function.
2) though the operational risk unit which is responsible for elaboration of methodological support, detection/analysis/monitoring of operational risks, verification of business processes/procedures and generation of optional solutions for business owners in order to prevent/mitigate operational risks in the areas of their responsibility – centralized operational risk management function.

As a prudent market agent, the Bank recognizes the importance of mitigation actions in order to guarantee to its clients a reliable service and efficiency. For that reason the Bank gives much attention to insurance of liability and assets and ensuring of business continuity of the Bank with the tools such as:
- Banker's Blanket Bond,
- Business Continuity Plan.

28 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and both internal and external 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. As at 31 December 2008, there were no material claims pending against the Bank.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

In thousands of Russian Roubles

28 Contingencies, Commitments and Derivative Financial Instruments (continued)

Capital expenditure commitments

As at 31 December 2008, the Bank has capital commitments in respect of software licenses and future maintenance fees related to a new centralized operational banking system totaling RUR 37 130 thousand (2007: RUR 31 021 thousand). Besides, the Bank has capital commitments relating to the acquisition of other fixed and intangible assets amounting to RUR 59 170 thousand (2007: RUR 44 917 thousand). The Bank's management has already allocated the necessary resources in respect of these commitments. The Bank's management believes that future net revenues and funding will be sufficient to cover these commitments.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non cancelable premises operating leases are, as follows:

	2008	2007
Not longer than 1 year	660 846	358 777
Longer than 1 year and not longer than 5 years	2 065 570	530 006
Total operating lease commitments	**2 726 416**	**888 783**

Within total operating lease commitments, RUR 144 785 thousand (2007: RUR 131 455 thousand) relates to an operating lease of the Bank's head office premises at 31 Shabolovka St., bldg B, Moscow, at 1A Semenovskaya sq., Moscow, and an additional office in Moscow at Prospect Mira, 3-1.

As at 31 December 2008, the Bank had 116 lease agreements (2007: 80). Operating lease commitments under extended agreements are accounted for in the table above. The extension of the remaining short-term agreements is currently being negotiated.

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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Outstanding credit related commitments are as follows:

	2008	2007
Unused limits on overdraft loans	679 811	642 371
Commitments to extend credit	34 420	59 756
Letters of credit and guarantees issued	566 830	465 888
Total credit related commitments	**1 281 061**	**1 168 015**

Commitments to extend credit and unused limits on overdraft loans represent unused irrevocable portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit and unused limits on overdraft loans, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely loss is less than the total unused commitments since most unused limits on overdraft loans are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. As at 31 December 2008 and 31 December 2007, management assesses the probability of losses arising in connection with these credit related commitments as remote and accordingly no provision has been established.

In thousands of Russian Roubles

28 Contingencies, Commitments and Derivative Financial Instruments (continued)

Credit related commitments (continued)

Included in guarantees issued is the amount of RUR 359 743 thousand counter-guaranteed by an Intesa Sanpaolo Group company.

The total outstanding contractual amount of unused limits on overdraft loans, import letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivative financial instruments

Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivatives have potentially favorable (assets) or unfavorable (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 amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favorable or unfavorable conditions and, thus 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 instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2008. These contracts were entered into between September and December 2008 and are short term in nature.

	2008			**2007**		
	Domestic counterparties			**Domestic counterparties**		
	Principal or agreed amount	**Positive fair value**	**Negative fair value**	**Principal or agreed amount**	**Positive fair value**	**Negative fair value**
Forward contracts						
Foreign currency						
- purchase of foreign currency	-	-	-	1 620 049	2 539	(52 870)
Spot deals						
Foreign currency						
- purchase of foreign currency	182 399	90	-	232 303	30	(62)
Total	**182 399**	**90**		**1 852 352**	**2 569**	**(52 932)**

	2008			**2007**		
	Foreign counterparties			**Foreign counterparties**		
	Principal or agreed amount	**Positive fair value**	**Negative fair value**	**Principal or agreed amount**	**Positive fair value**	**Negative fair value**
Forward contracts						
Foreign currency						
- purchase of foreign currency	132 119		(11 358)	3 804 661	290	(114 897)
Total	**132 119**		**(11 358)**	**3 804 661**	**290**	**(114 897)**

28 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Derivative financial instruments (continued)

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date.

	2008		2007	
In thousands of Russian Roubles	**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Foreign exchange forwards: fair values, at the balance sheet date:				
- USD receivable on settlement (+)	130 216	-	5 492 042	-
- RUR payable on settlement (-)	-	(141 484)	-	(5 657 013)
Net fair value of foreign exchange forwards	**(11 268)**		**(164 971)**	

The Bank expects to settle these forward and spot contracts net in cash and therefore recognized them in the balance sheet as an asset at net fair value of RUR 90 thousand (2007: RUR 2 859 thousand) and a liability at net fair value of RUR 11 358 thousand (2007: RUR 167 829 thousand).

In respect of derivatives, the Bank has recorded a net loss of RUR 168 367 thousand (2007: net loss of RUR 341 760 thousand) within gains less losses arising from trading in foreign currencies.

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets are represented by the following:

	2008 Nominal value	2007 Nominal value
Promissory notes held in the Bank's custody	6 866	5 188

Insurance

The Bank's premises and other property are insured for the total amount of RUR 5 652 229 thousand as at 31 December 2008 (2007: RUR 2 158 457 thousand).

Assets pledged and restricted

As at 31 December 2008, the amount of 908 971 RUR is pledged as collateral. Mandatory cash balances with the Central Bank of the Russian Federation (CBRF) in the amount of RUR 33 500 thousand (2007: RUR 251 449 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operation.

Loan portfolio assigned from the EBRD

On 25 November 1998, the Bank signed a General Agreement on Assignment (the "Assignment Agreement") with the EBRD. Under the Assignment Agreement the Bank has been assigned several loan portfolios from a number of Russian banks involved in projects sponsored by the Russia Small Business Fund of the EBRD, but which experienced financial difficulties after the August 1998 crisis. In accordance with the Assignment Agreement, the Bank performs collection, monitoring and enforcement functions with respect to assigned loans and collateral. The Bank also transfers collected principal and interest payments, net of the commission for the portfolio management and certain other expenses incurred in connection with this activity, to the EBRD.

In thousands of Russian Roubles

28 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Loan portfolio assigned from the EBRD (continued)

Under the Assignment Agreement, the Bank bears no credit risk in case of borrower's default on the loan, as the Bank operates solely as a loan servicing agent for the EBRD. As the Bank does not receive the benefits and does not bear the risks of these loans, the Bank does not include the assigned loan portfolio in its assets. The Bank has a right to reassign the loan portfolio back to the EBRD. The maximum amount of the assignment portfolios cannot exceed USD 30 million. In 2002, the Bank signed an additional General Agreement on Assignment with the EBRD.

The information in relation to the loan portfolio, assigned from other banks, is set out below.

	2008	2007
Loans assigned from the EBRD as at 1 January	**19 020**	**20 378**
Loans collected (and funds remitted) by the Bank during the year	(22 268)	(2)
Translation difference	3 669	(1 355)
Total loans assigned from the EBRD as at 31 December	**421**	**19 021**

According to the Assignment Agreement, the Bank receives, as a servicing fee, approximately 2% of the total receipts on assigned loans, and an agreed additional amount to cover expenses incurred in connection with servicing of the assigned loans.

29 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 definition **Fair Value** is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as **quoted** in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The prices in the more advantageous markets are adjusted to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued.

In case an instrument is quoted in active market the appropriate price for determining the fair value is:

- **Last bid price** for an asset held or liability to be issued;
- **Last offer price** for an asset to be acquired or liability held.

If the market for a financial instrument is not active, market pricing information is not available SMALL BUSINESS CREDIT BANK determines the Fair Value by using a valuation technique by reference to market conditions that existed at its acquisition or origination date and current market conditions.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices and those involving valuation techniques where all the model inputs are observable in the market.

	Quoted market prices 2008	Valuation techniques – market observable inputs	Total 2008
Financial assets			
Trading securities	297 971	687 088	**985 059**
Available-for-sale securities	1 122 450	1 455 169	**2 577 619**
Derivative financial instruments	-	90	**90**
Financial liabilities			
Derivatives	-	11 358	**11 358**

In thousands of Russian Roubles

29 Fair Value of Financial Instruments (continued)

	Quoted market prices 2007	Valuation techniques – market observable inputs	Total 2007
Financial assets			
Trading securities	2 817 354	-	**2 817 354**
Derivative financial instruments	-	2 859	**2 859**
Financial liabilities			
Derivatives	-	167 830	**167 830**

If the financial instrument is a debt instrument (such as bond), cash-flow discounting is used in the following way:

Financial instruments carried at fair value

Trading securities and available-for-sales securities are carried on the consolidated balance sheet at their fair value. Fair values were determined based on quoted market prices.

Cash and cash equivalents

Cash and cash equivalents are carried at amortized cost which approximates current fair value. The fair value of these assets was determined by management on the basis of results of recent overnight placements made between unrelated third parties.

Loans carried at amortized cost less provision for impairment

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on the estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity terms. Refer to Notes 8 and 9 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Finance leases receivables

Finance lease receivables are stated net of provisions for finance lease impairment. The estimated fair value of finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. The expected cash flows are discounted at current market rates to determine the fair value. Refer to Note 10 for the estimated fair value of finance lease receivables as at 31 December 2008.

Liabilities carried at amortized cost

The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 16, 17, 18 and 19 for the estimated fair values of due to banks, due to customers, debt securities issued, other borrowed funds and subordinated debts, respectively.

Derivative financial instruments

All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 28.

In thousands of Russian Roubles

30 Related Party Disclosures

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

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key Management. These transactions include loans, deposit and loan taking and other transactions. These transactions are priced at market rates.

The outstanding balances at the year end and income and expense items for the year with related parties are, as follows:

		2008			
	Note	**Parent company**	**Banca Intesa Sanpaolo Group companies**	**Significant shareholders**	**Management**
Cash and cash equivalents					
Nostro accounts		-	138 487	-	-
Interest income for the year		-	394	-	-
Due from other banks					
Short term placements in other banks as at the year end		-	3 070 327	-	-
Interest income for the year		-	11 347	-	-
Loans and advances to customers					
Term loans		-	-	-	4 657
Interest income for the year		-	-	-	267
Due to banks					
Term placements from other banks as at the year end (contractual interest rate: 2008: 2.7-24.3% per annum)		-	26 950 789	-	-
Interest expense for the year		-	1 154 593	13 355	-
Other borrowed funds					
Term deposits outstanding as at the year end (contractual interest rate: 2008: 2.2 - 23.6% per annum)		18 500 473	-	-	-
Interest expense for the year		1 249 684	-	-	-
Subordinated debts					
Loans outstanding as at the year end (contractual interest rate: 2008: 5-7% per annum;		367 255	-	92 217	-
Interest expense for the year		33 603	-	5 911	-
Deliverable forwards					
Purchase of foreign currency		-	132 119	-	-
Positive fair value		-	-	-	-
Negative fair value		-	(11 358)	-	-
Net gains from trading in foreign currencies		-	**(501 955)**	-	-
Fee and commission expense for the year		-	**628**	-	-
Operating expense for the year		-	**4 182**	-	-

In thousands of Russian Roubles

30 Related Party Disclosures (Continued)

		2007			
	Note	**Parent company**	**Banca Intesa Sanpaolo Group companies**	**Significant shareholders**	**Management**
Cash and cash equivalents					
Nostro accounts		-	2 277	-	-
Interest income for the year		-	284	-	-
Due from other banks					
Short term placements in other banks as at the year end (contractual interest rate: 2007: 4.6% per annum)		-	122 777	-	-
Interest income for the year		-	6 936	-	-
Loans and advances to customers					
Term loans		-	-	-	5 415
Interest income for the year		-	-	-	358
Due to banks					
Term placements from other banks as at the year end (contractual interest rate: 2007: 4.2-7.3% per annum)		-	2 062 184	372 231	-
Interest expense for the year		-	178 361	30 669	-
Other borrowed funds					
Term deposits outstanding as at the year end (contractual interest rate: 2007: 5.1 – 8.3% per annum)		18 974 958	-	-	-
Interest expense for the year		576 397	-	-	-
Subordinated debts					
Loans outstanding as at the year end (contractual interest rate: 2007: 8.3-9.3% per annum;		306 828	-	78 142	-
Interest expense for the year		28 364	-	6 973	-
Deliverable forwards					
Purchase of foreign currency		-	3 927 392	-	-
Positive fair value		-	290	-	-
Negative fair value		-	(114 923)	-	-
Net loss from trading in foreign currencies		-	**(210 633)**	-	-
Fee and commission expense for the year		-	**446**	-	-
Operating expense for the year		-	**3 312**	-	-

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

	2008	**2007**
	Intesa Sanpaolo Group companies	**Intesa Sanpaolo Group companies**
Amounts lent to related parties during the year	307 635 586	33 531 179
Amounts repaid by related parties during the year	304 360 340	33 408 448

In 2008, the total remuneration of the Management Board members was RUR 42 147 thousand, including social contributions of RUR 1 503 thousand (2007 RUR 58 170 thousand, including social contributions of RUR 1 915 thousand).

In thousands of Russian Roubles

31 Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBRF in supervising the Bank.

During 2008, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBRF capital adequacy ratio

The CBRF requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2008 and 2007, the Bank's capital adequacy ratio on this basis was as follows:

	2008	**2007**
Main capital	6 902 278	4 215 384
Additional capital	712 107	612 887
Less: deductions from capital	-	(15)
Total regulatory capital	**7 614 385**	**4 828 256**
Risk weighted assets (including banking risks)	**63 398 837**	**37 544 689**
Capital adequacy ratio	12.0%	12.8%

Regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital is comprised of share capital, share premium and retained earnings. Certain adjustments are made to RAL-based results and reserves, as prescribed by the Central Bank. Tier 2 capital is comprised of subordinated long-term debts and revaluation reserves.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments, as of 31 December 2008 and 2007, comprised:

	2008	**2007**
Tier 1 capital	7 239 654	3 914 355
Tier 2 capital	464 886	984 261
Total capital	7 704 540	4 898 616
Risk weighted assets	66 041 023	36 922 484
Tier 1 capital ratio	11,7%	10.6%
Total capital ratio	11,0%	13.3%

32 Subsequent events

Loans received from CBRF totaling RUR 6 909 979 thousand as at 31 December 2008 were fully repaid by the Bank in January 2009.

Subsequently in February-March 2009 the Bank received new loans from CBR during auction process to banks with an approved rating. As of March 16, 2009 total amount of RUR 7 141 807 thousand comprises of five loans denominated in Russian Roubles, with interest rates ranging from 13.25% to 17.50% and maturity in April, July, and August 2009.