

**Centr-Invest Bank Group
Consolidated Financial Statements
and Independent Auditor's Report**

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Centr-invest Bank:

- 1 We have audited the accompanying consolidated financial statements of Centr-invest Bank and its subsidiary (the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

ZAO "PricewaterhouseCoopers Audit"

Moscow, Russian Federation
7 April 2009

Centr-Invest Bank Group
Consolidated Balance Sheet

<i>In thousands of Russian Roubles</i>	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	14 278 215	3 974 009
Mandatory cash balances with the Central Bank of the Russian Federation		55 994	422 059
Trading securities	8	919 753	963 633
Other securities at fair value through profit or loss	9	6 009	26 976
Due from other banks	10	50 437	1 417 650
Loans and advances to customers	11	29 132 715	27 436 108
Finance lease receivables	12	1 577 972	1 287 223
Investment in associate	13	307 507	300 386
Intangible assets	14	301 729	209 439
Premises and equipment	15	2 773 671	2 413 656
Other financial assets	16	852 098	798 856
Other assets	17	397 272	211 066
TOTAL ASSETS		50 653 372	39 461 061
LIABILITIES			
Due to other banks	18	13 023 412	4 535 891
Customer accounts	19	21 251 723	19 245 060
Debt securities in issue	20	216 241	1 523 329
Other borrowed funds	21	4 183 316	4 358 692
Borrowings from international financial institutions	22	3 789 659	3 538 762
Subordinated debt	23	1 933 030	373 198
Other financial liabilities	24	489 307	365 079
Deferred tax liability	30	244 831	260 999
Other liabilities	25	42 746	33 331
TOTAL LIABILITIES		45 174 265	34 234 341
EQUITY			
Share capital	26	1 258 709	1 258 709
Share premium	26	1 646 428	1 646 428
Revaluation reserve for premises and equipment		1 279 919	1 203 871
Retained earnings		1 294 051	1 117 712
TOTAL EQUITY		5 479 107	5 226 720
TOTAL LIABILITIES AND EQUITY		50 653 372	39 461 061

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


A.A. Shtabnova
Chairman of the Management Board




E.A. Koujeleva
Chief Accountant

Centr-Invest Bank Group
Consolidated Income Statement

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Interest income	27	5 429 575	3 676 333
Finance income arising from leasing	27	365 307	240 594
Interest expense	27	(2 574 817)	(1 854 936)
Net interest income		3 220 065	2 061 991
Provision for loan portfolio impairment and impairment of finance lease receivables	11, 12	(999 777)	(268 872)
Net interest income after impairment provisions		2 220 288	1 793 119
Losses less gains from trading securities		(211 788)	(13 691)
Gains less losses from other securities at fair value through profit or loss		596	104
Gains less losses from trading in foreign currencies		137 438	27 680
Foreign exchange translation gains less losses		(1 649 818)	215 591
Gains less losses from conversion operations on the interbank market		1 153 067	(215 596)
Fee and commission income	28	726 530	548 004
Fee and commission expense	28	(145 031)	(96 936)
Gain on disposal of property		-	29 299
Share of profit of associate	13	7 121	-
Other operating income		117 070	94 449
Operating income		2 355 473	2 382 023
Administrative and other operating expenses	29	(1 909 837)	(1 430 569)
Profit before tax		445 636	951 454
Income tax expense	30	(138 131)	(244 892)
Profit for the period from continuing operations		307 505	706 562
Discontinued operations			
Net result of disposed subsidiary (after tax)	13	-	17 108
Result from disposal of subsidiary	13	-	(16 439)
Result from discontinued operations		-	669
Profit for the reporting period		307 505	707 231
Profit is attributable to:			
Equity holders of the Group		307 505	700 916
Minority interest	13	-	6 315
Profit for the year		307 505	707 231

Centr-Invest Bank Group
Consolidated Statement of Cash Flows

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Cash flows from operating activities			
Interest received		5 451 295	3 733 600
Interest paid		(2 360 051)	(1 709 165)
Expense incurred from trading securities		(15 948)	(9 915)
Income received from other securities at fair value through profit or loss		-	311
Income received from trading in foreign currencies		137 438	27 680
Gains less losses from conversion operations on the interbank market		1 151 136	(176 581)
Fees and commissions received		725 230	552 177
Fees and commissions paid		(142 659)	(96 936)
Gain on disposal of properties		-	29 299
Other operating income received		117 092	97 477
Staff costs		(943 402)	(732 360)
Operating expenses paid		(796 924)	(550 724)
Finance income arising from leasing		365 307	219 690
Income tax paid		(289 705)	(220 747)
Cash flows from operating activities before changes in operating assets and liabilities		3 398 809	1 163 806
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with CBRF		366 065	(168 474)
Net increase in trading securities		(146 241)	(256 148)
Net decrease in securities at fair value through profit or loss		21 447	22 082
Net decrease in due from other banks		1 393 576	376 310
Net increase in loans and advances to customers		(2 476 093)	(12 647 008)
Net increase in finance lease receivables		(243 410)	(614 289)
Net increase in other assets		(10 696)	(275 941)
Net increase in due to other banks		7 643 102	2 087 189
Net increase in customer accounts		1 680 240	6 838 381
Net decrease in promissory notes issued		(3 432)	(90 608)
Net increase in other liabilities		130 375	168 021
Net increase in cash from operating activities of the disposed subsidiary	13	-	30 873
Net cash from/(used in) operating activities		11 753 742	(3 365 806)

Centr-Invest Bank Group
Consolidated Statement of Cash Flows (Continued)

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Cash flows from investing activities			
Acquisition of premises and equipment	15	(467 318)	(433 658)
Acquisition of intangible assets	14	(114 718)	(96 435)
Net cash used in the investing activities of the disposed subsidiary	13	-	(33 786)
Net cash used in investing activities		(582 036)	(563 879)
Cash flows from financing activities			
Redemption of bonds issued	20	(1 306 080)	-
Proceeds from other borrowed funds	21	-	4 454 058
Repayment of other borrowed funds		(755 206)	-
Proceeds from borrowings from international financial institutions	22	1 147 629	1 576 596
Repayment of borrowings from international financial institutions	22	(1 147 475)	(119 827)
Proceeds from subordinated debt		1 186 362	-
Sale of own shares	26	-	1 564
Dividends paid	31	(157 690)	(157 618)
Net increase in cash from financing activities of the disposed subsidiary	13	-	104 435
Net cash used in/(from) financing activities		(1 032 460)	5 859 208
Effect of exchange rate changes on cash and cash equivalents		164 960	(110 455)
Outflow of cash of subsidiary		-	(103 160)
Net increase in cash and cash equivalents		10 304 206	1 715 908
Cash and cash equivalents at the beginning of the year		3 974 009	2 258 101
Cash and cash equivalents at the end of the year	7	14 278 215	3 974 009

Investment and financial transactions that did not require the use of cash and cash equivalents were excluded from the consolidated statement of cash flows.

Centr-Invest Bank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to the equity holders of the Bank				Total	Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises and equipment	Retained earnings			
Balance at 1 January 2007		1 257 145	1 646 428	777 005	507 271	4 187 849	46 141	4 233 990
<i>Premises and equipment:</i>								
- Revaluation	15	-	-	650 012	-	650 012	174 626	824 638
- Deferred tax	30	-	-	(156 003)	-	(156 003)	(41 910)	(197 913)
- Realised revaluation reserve		-	-	(10 403)	10 403	-	-	-
Net income recognised directly in equity		-	-	483 606	10 403	494 009	132 716	626 725
Profit for the year		-	-	-	700 916	700 916	6 315	707 231
Total recognised income for 2007		-	-	483 606	711 319	1 194 925	139 031	1 333 956
Share issue		-	-	-	-	-	-	-
Treasury shares:								
- Acquisitions		-	-	-	-	-	-	-
- Disposals		1 564	-	-	-	1 564	-	1 564
Dividends declared and paid:								
- ordinary shares	26	-	-	-	(139 591)	(139 591)	-	(139 591)
- preference shares	26	-	-	-	(18 027)	(18 027)	-	(18 027)
Total movement of capital for 2007		1 564	-	-	(157 618)	(156 054)	-	(156 054)
Disposal of subsidiary		-	-	(56 740)	56 740	-	(185 172)	(185 172)
Balance at 31 December 2007		1 258 709	1 646 428	1 203 871	1 117 712	5 226 720	-	5 226 720

Centr-Invest Bank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to the equity holders of the Bank			Total equity	
		Share capital	Share premium	Revaluation reserve for premises and equipment		
Balance at 1 January 2008		1 258 709	1 646 428	1 203 871	1 117 712	5 226 720
<i>Premises and equipment:</i>						
- Revaluation	15	-	-	59 797	-	59 797
- Deferred tax	30	-	-	42 775	-	42 775
- Realised revaluation reserve		-	-	(26 524)	26 524	0
Net income recognised directly in equity		-	-	76 048	26 524	102 572
Profit for the year		-	-	-	307 505	307 505
Total recognised income for 2008		-	-	76 048	334 029	410 077
<i>Dividends declared and paid:</i>						
- ordinary shares	26	-	-	-	(139 591)	(139 591)
- preference shares	26	-	-	-	(18 099)	(18 099)
Total movement of capital for 2008		-	-	-	(157 690)	(157 690)
Balance at 31 December 2008		1 258 709	1 646 428	1 279 919	1 294 051	5 479 107

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Centr-Invest Bank (the “Bank”) and its subsidiary and associated company (together referred to as the “Group” or “Centr-Invest Bank Group”). Information on the consolidated subsidiary is disclosed in Note 40. For details on the associated company refer to Note 13.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

Principal activity. The Group’s principal business activity is commercial and retail banking and leasing operations within the Russian Federation. The Bank has operated under a banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to a limit of RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

At 31 December 2008 the Bank has 9 (31 December 2007: 9) branches within the Russian Federation. Additionally, the Bank has representative offices in Moscow, London and 94 (31 December 2007: 58) sub – branches in the Rostov, Volgograd, Stavropol and Krasnodar regions.

Registered address and place of business. The Bank’s registered address is: Sokolova street 62, Rostov-on-the Don, Russian Federation, 344000.

The average number of the Group’s employees during 2008 was 1 976 (2007: 1 620).

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33,4 at date of issuance of the accounts.

Due to increased market volatility, one-day MosPrime rate fluctuated between 6.74% p.a. and 12.17% p.a. during the year.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 438 200 000 thousand at 26 December 2008 to USD 376 100 000 thousand at 13 March 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 111.19 at 29 September 2008 to USD 41.83 at 31 December 2008 and USD 47.04 at 20 March 2009.

2 Operating Environment of the Group (Continued)

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

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

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

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and their increased volatility.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and equipment, financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; 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.

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

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. 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.

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

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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases 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; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within six months. Trading securities are not reclassified out of this category even when the Group’s intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group’s right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Executive Board.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

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

- any instalment is overdue by more than 30 days and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Costs of minor repairs and maintenance are expensed when incurred.

3 Summary of Significant Accounting Policies (Continued)

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

Premises	2% - 2.5%
Other	20%

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term 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.

Inception of the lease. The inception of the lease is considered to be the date of the lease contract, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a financial lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3 Summary of Significant Accounting Policies (Continued)

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is initially recorded at its fair value and thereafter is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

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

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

Loans from international financial institutions. Borrowings (including subordinated loans) are initially recorded at fair value less transaction costs. Subsequently, borrowings are stated at amortised cost and any difference between the amount at initial recognition and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective interest method.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement of income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Income tax expense is recognised in these consolidated financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

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

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

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

Preference shares. Preference shares that are not redeemable and with discretionary dividends, are classified as equity.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

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

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.4146 and EURO 1 = RR 41.4411 (31 December 2007: USD 1 = RR 24.5462, EURO 1 = RR 35.9332).

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in the financial statements of prior periods. During 2007 the Group did not change the classification of its financial assets that were recorded at amortised cost and not at fair value.

Changes in presentation of prior period financial statements. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current period consolidated accounts. From 1 January 2008 the Group started classifying its loans to legal entities into two groups - loans to small and medium size enterprises (SME loans) and corporate loans. Loans classified as loans to individual entrepreneurs in prior years and part of corporate loans were reclassified to loans to small and medium size enterprises (Note 11). Presented below is a summary of the effect of these reclassifications:

<i>In thousands of Russian Roubles</i>	2007	Changes	2007 after changes
Loans and advances to customers (before impairment provision)			
Loans to small and medium enterprises	-	11 364 066	11 364 066
Corporate loans	15 595 476	(8 242 667)	7 352 809
Loans to individuals - entrepreneurs	3 121 399	(3 121 399)	-
Loan impairment provision			
At 1 January 2007:			
Loans to small and medium enterprises	-	158 736	158 736
Corporate loans	268 478	(108 718)	159 760
Loans to individuals - entrepreneurs	50 018	(50 018)	-
At 31 December 2007:			
Loans to small and medium enterprises	-	168 360	168 360
Corporate loans	269 939	(109 002)	160 937
Loans to individuals - entrepreneurs	59 358	(59 358)	-

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. Provision for loan impairment consists of (i) incurred losses when the loan has missed 4 monthly instalments and then the Group assumes no recovery, except for auto loans, and (ii) losses when the loan has signs of impairment (missed at least one monthly instalment) as at the reporting date; such losses are calculated based on the historical statistical data considering the performance of other loans with the similar characteristics. In general, loans where there are no breaches in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly instalment is minimal. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience. To the extent that future cash flows change as at 31 December 2008 for one month (earlier or later) on 5% of largest loans the provision would be approximately RR 1 870 thousand higher or RR 1 328 thousand lower (31 December 2007: RR 1,465 thousand higher or RR 1,458 thousand lower).

Management considered the impact of economic conditions in the Russian Federation (Note 2) on assessment of impairment losses on loans and advances. In estimating the recoverability of loans management concluded that existing level of provisioning is sufficient considering current level of recoverability of retail loans.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, only observable data is applied in models, however some areas such as credit risk (both own and of the counterparty), volatilities require management estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Revaluation of premises and equipment. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Bank and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties. If the price per square meter of land had increased by 10%, the total cost of land recognised in the consolidated balance sheet would have increased by RR 48 957 thousand. If the price per square meter of building had increased by 10%, the total cost of buildings recognised in the consolidated balance sheet would have increased by RR 177 636 thousand.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35 "Contingencies and Commitments".

Period measurement. Income tax expense is recognised in this consolidated financial information based on management's best estimates of the effective annual income tax rate expected for the full financial year. Costs that occur unevenly during the financial year are anticipated or deferred in the financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

5 Adoption of New or Revised Standards and Interpretations

- Certain new interpretations became effective for the Group from 1 January 2008:
- **IFRIC 11, IFRS 2—Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008); and
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

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

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).

The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009).

The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. **The Group does not expect the amended standard to have a material effect on its consolidated financial statements.**

6 New Accounting Pronouncements (Continued)

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

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

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group does not operate any loyalty programmes.

6 New Accounting Pronouncements (Continued)

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Cash on hand	2 008 963	1 488 219
Cash balances with the CBRF (other than mandatory reserve deposits)	10 128 149	1 181 192
Correspondent accounts and overnight placements with other banks		
- Russian Federation	325 025	112 142
- Other countries	288 769	1 099 400
- Settlement accounts with trading systems	1 527 309	93 056
Total cash and cash equivalents	14 278 215	3 974 009

Interest rate analysis of cash and cash equivalents is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

8 Trading Securities

Trading securities of the Group recorded in the consolidated balance sheet as at 31 December 2008 and 31 December 2007 do not include any unquoted trading securities:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Corporate bonds	854 713	846 828
Municipal bonds	32 644	36 007
Russian government bonds	-	9 989
Total debt securities	887 357	892 824
Shares of closed mutual funds	30 170	70 128
Corporate shares	2 226	681
Total equity securities	32 396	70 809
Total trading securities	919 753	963 633

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Analysis by credit quality of debt trading securities is as follows at 31 December 2008:

<i>In thousands of Russian Roubles</i>	Municipal bonds	Corporate bonds	Total
Standard & Poor's B		50 578	50 578
Standard & Poor's BB	30 373	58 221	88 594
Standard & Poor's BBB	-	26 921	26 921
Fitch B	-	361 640	361 640
Fitch BB	-	25 132	25 132
Fitch BBB	-	49 087	49 087
Moody's B2	-	49 168	49 168
Standard & Poor's ru BB	-	2 664	2 664
Moody's Interfax Rating Agency AAA.ru	-	17 012	17 012
Russian agency Expert B	-	8 863	8 863
Russian rating agency National Rating Agency A	-	44 679	44 679
Russian rating agency National Rating Agency BB	-	461	461
Russian rating agency National Rating Agency BBB	-	19 630	19 630
Issuers without rating	2 271	140 657	142 928
Total current amounts	32 644	854 713	887 357
Total past due amounts	-	-	-
Total debt trading securities	32 644	854 713	887 357

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities is as follows at 31 December 2007:

<i>In thousands of Russian Roubles</i>	Russian government bonds	Municipal bonds	Corporate bonds	Total
Moody's BA	-	-	145 356	145 356
Standard & Poor's ru AAA	9 989	-	-	9 989
Standard & Poor's ru AA	-	36 007	5 037	41 044
Moody's Interfax Rating Agency AAA.ru	-	-	30 159	30 159
Moody's Interfax Rating Agency A.ru	-	-	20 059	20 059
Fitch BBB+(rus)	-	-	202 866	202 866
Russian agency Expert A	-	-	12 205	12 205
Russian rating agency Expert B	-	-	20 263	20 263
Issuers without rating	-	-	410 883	410 883
Total current amounts	9 989	36 007	846 828	892 824
Total past due amounts	-	-	-	-
Total debt trading securities	9 989	36 007	846 828	892 824

The total trading securities portfolio is not overdue and not impaired. The debt securities are not collateralised.

At 31 December 2008 and 31 December 2007 the Group does not have any securities pledged under sale and repurchase agreements with respect to term placements of other banks and other borrowed funds.

Interest rate analysis of trading securities is disclosed in Note 33. Information on trading securities issued by related parties is disclosed in Note 39.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

The Group's maximum exposure to credit risk in respect of trading securities is generally reflected in their carrying value.

9 Other Securities at Fair Value through Profit or Loss

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Corporate bonds	-	20 078
Total debt securities	-	20 078
Corporate shares – quoted	-	890
Corporate shares -unquoted	8	8
Other	6 001	6 000
Total other securities at fair value through profit or loss	6 009	26 976

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because the Assets and Liabilities Committee assesses performance of the investments based on their fair values in accordance with the business plan.

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

At 31 December 2008 no securities are pledged under sale and repurchase agreements in respect to term placements of other banks and other borrowed funds (2007: nil).

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of corporate bonds at fair value through profit or loss is as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Current (at fair value)		
- Large Russian corporations	-	20 078
Total corporate bonds at fair value through profit or loss	-	20 078

All other securities at fair value through profit or loss are neither overdue, nor impaired.

The debt securities are not collateralised.

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 33. Information on corporate bonds at fair value through profit or loss issued by related parties is disclosed in Note 39.

The Group's maximum exposure to credit risk in relation to corporate bonds at fair value through profit or loss is primarily reflected in the carrying amounts of corporate bonds at fair value through profit or loss.

10 Due from Other Banks

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Short-term placements with other banks with original maturities of less than three months	-	639 366
Short-term placements with other banks with original maturities of more than three months	50 437	778 284
Total due from other banks	50 437	1 417 650

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Short-term placements with other banks with original maturities of more than three months	Total
Fitch B-(rus)	29 557	29 557
Unrated banks	20 880	20 880
Total due from other banks	50 437	50 437

10 Due from Other Banks (Continued)

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

	Short-term placements with other banks with original maturities of less than three months	Short-term placements with other banks with original maturities of more than three months	Total
<i>In thousands of Russian Roubles</i>			
Standard & Poor's B- equivalent	70 036	-	70 036
Standard & Poor's ruBBB/B- equivalent	100 041	-	100 041
Moody's Interfax Rating Agency AA.ru	100 033	86 100	186 133
Moody's Interfax Rating Agency A.ru	-	251 059	251 059
Moody's Interfax Rating Agency Baa.ru	249 203	194 996	444 199
Fitch B-(rus)	-	175 867	175 867
Russian rating agency AK&M B+	-	70 262	70 262
Unrated banks	120 053	-	120 053
Total due from other banks	639 366	778 284	1 417 650

All amounts due from other banks as at 31 December 2008 and 31 December 2007 are neither overdue, nor impaired.

The primary factor that the Group considers in determining whether funds due from other banks are impaired is their overdue status.

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2008 and 31 December 2007.

Interest rate analysis of due from other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

11 Loans and Advances to Customers

	31 December 2008	31 December 2007
<i>In thousands of Russian Roubles</i>		
Loans to small and medium size enterprises (SME loans)	12 707 470	11 364 066
Corporate loans	7 582 629	7 352 809
Loans to individuals - consumer loans and car loans	7 083 890	6 941 446
Mortgage loans	3 009 708	2 378 720
Factoring	42 135	41 561
Total loans and advances to customers (before impairment)	30 425 832	28 078 602
Less: Provision for loan impairment	(1 293 117)	(642 494)
Total loans and advances to customers	29 132 715	27 436 108

11 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 are as follows:

<i>In thousands of Russian Roubles</i>	Loans to small and medium enterprises (SME)	Corporate loans	Consumer and car loans	Mortgage loans	Factoring	Total
Provision for loan impairment at 1 January 2008	168 360	160 937	286 253	25 697	1 247	642 494
Charge for loan impairment provision during the year	218 414	332 131	371 969	62 871	(723)	984 662
Amounts written off during the year as uncollectible	(73 934)	(88 816)	(167 967)	(2 798)	(524)	(334 039)
Provision for loan impairment at 31 December 2008	312 840	404 252	490 255	85 770	-	1 293 117

Movements in the provision for loan impairment during 2007 are as follows:

<i>In thousands of Russian Roubles</i>	Loans to small and medium enterprises (SME)	Corporate loans	Consumer and car loans	Mortgage loans	Factoring	Total
Provision for loan impairment at 1 January 2007	158 736	159 760	89 992	37	825	409 350
Charge for loan impairment provision during the year	24 256	1 869	212 422	25 660	422	264 629
Amounts written off during the year as uncollectible	(14 632)	(692)	(16 161)	-	-	(31 485)
Provision for loan impairment at 31 December 2007	168 360	160 937	286 253	25 697	1 247	642 494

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

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Individuals (total), incl.	10 093 598	33.2	9 320 166	33.2
- consumer loans	4 020 303	13.2	4 149 283	14.8
- car loans	3 063 587	10.1	2 792 163	9.9
- mortgage loans	3 009 708	9.9	2 378 720	8.5
Trade	7 534 124	24.8	7 652 896	27.3
Agriculture	4 298 923	14.1	3 453 293	12.3
Manufacturing	2 110 716	6.9	2 824 268	10.1
Construction	1 577 055	5.2	1 195 564	4.2
Transport	1 386 053	4.6	1 231 960	4.3
Energy	1 349 840	4.4	439 003	1.6
Real estate	344 953	1.1	379 923	1.4
Hotels	-	0.0	309 597	1.1
Other	1 730 570	5.7	1 271 932	4.5
Total loans and advances to customers (before impairment)	30 425 832	100.0	28 078 602	100

11 Loans and Advances to Customers (Continued)

As at 31 December 2008, the Group had 10 major borrowers with aggregate loan amounts (including finance lease investments) of RR 5,338,916 thousand, or 16.7% of the loan portfolio and finance lease receivables before impairment; the Group had 20 major borrowers with aggregate loan amounts (including finance lease receivables) of RR 7,188,452 thousand, or 22.4% of the loan portfolio and finance lease receivables before impairment (31 December 2007: the Group had 10 and 20 large borrowers with aggregate loan amounts of RR 4,056,435 thousand and RR 6,096,437 thousand correspondingly, or 13.7% and 20.5% of the loan portfolio and finance lease receivables before impairment).

As at 31 December 2008, the aggregate credit risk related to borrowers with total loan amounts in excess of 10% of the Group's capital calculated in accordance with Basel Accord amounted to RR 1,956,645 thousand, or 26.9% of capital – 2 borrowers; (31 December 2007: RR 1,501,353 thousand, or 28.7% of capital – 2 borrowers).

Information about collateral at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Factoring	Total
Loans collateralised by:	12 686 088	6 292 278	6 816 196	2 997 436	42 135	28 834 133
- real estate items	6 060 239	4 305 702	632 386	2 649 872	-	13 648 199
- tradeable securities	386	47 012	10 134	-	-	57 532
- motor transport	2 913 552	531 013	4 049 410	12 937	-	7 506 912
- agricultural equipment	820 875	121 908	14 689	0	-	957 472
- property	1 225 623	566 130	279 925	268 410	-	2 340 088
- pledge of rights	29 771	0	0	64 526	-	94 297
- pledge goods in turnover	1 060 498	501 784	193	-	-	1 562 475
- guarantees of third parties	575 144	218 729	1 829 459	1 691	42 135	2 667 158
Unsecured loans	21 382	1 290 351	267 694	12 272	-	1 591 699
Total loans and advances to customers	12 707 470	7 582 629	7 083 890	3 009 708	42 135	30 425 832

Information about collateral at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Factoring	Total
Loans collateralised by:	11 330 280	6 859 545	6 531 251	2 378 720	40 856	27 140 652
- real estate items	4 446 004	3 383 906	357 257	1 733 481	-	9 920 648
- tradeable securities	79 700	-	14 440	-	-	94 140
- motor transport	2 780 187	672 240	3 556 497	8 918	-	7 017 842
- agricultural equipment	522 256	343 169	7 753	-	-	873 178
- property	1 320 355	648 546	366 299	262 132	-	2 597 332
- pledged by harvest	62 398	142 396	-	-	-	204 794
- pledge of rights	132 445	-	2 703	118 819	-	253 967
- pledge goods in turnover	1 158 269	1 138 405	142	-	-	2 296 816
- guarantees of third parties	828 666	530 883	2 226 160	255 370	40 856	3 881 935
Unsecured loans	33 786	493 264	410 195	-	705	937 950
Total loans and advances to customers	11 364 066	7 352 809	6 941 446	2 378 720	41 561	28 078 602

11 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2008 is as follows:

	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Factoring	Total
<i>In thousands of Russian Roubles</i>						
<i>Current and not impaired</i>						
- Large borrowers with credit history over two years	-	5 359 808	-	-	42 135	5 401 943
- Large new borrowers	-	2 017 117	-	-	-	2 017 117
- Loans to medium size entities	2 653 896	-	-	-	-	2 653 896
- Loans to small entities	9 137 532	-	-	-	-	9 137 532
- Loans to the general public	-	-	6 217 373	2 758 272	-	8 975 645
Total current and not impaired	11 791 428	7 376 925	6 217 373	2 758 272	42 135	28 186 133
<i>Past due but not impaired</i>						
- less than 30 days overdue	397 045	24 128	338 337	135 083	-	894 593
Total past due but not impaired	397 045	24 128	338 337	135 083	-	894 593
<i>Loans determined to be impaired (gross)</i>						
- less than 180 days overdue	427 189	8 381	278 388	71 648	-	785 606
- 181 to 360 days overdue	74 034	-	100 018	29 600	-	203 652
- over 360 days overdue	17 774	173 195	149 774	15 105	-	355 848
Total impaired loans and advances to customers (aggregate)	518 997	181 576	528 180	116 353	-	1 345 106
Gross carrying value of loans and advances to customers	12 707 470	7 582 629	7 083 890	3 009 708	42 135	30 425 832
Less: Provision for impairment	(312 840)	(404 252)	(490 255)	(85 770)	-	(1 293 117)
Total loans and advances to customers	12 394 630	7 178 377	6 593 635	2 923 938	42 135	29 132 715

11 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2007 is as follows:

	Loans to small and medium enterprises (SME)	Corporate loans	Consumer and car loans	Mortgage loans	Factoring	Total
<i>In thousands of Russian Roubles</i>						
<i>Current and not impaired</i>						
- Large borrowers with credit history over two years	-	3 587 443	-	-	38 523	3 625 966
- Large new borrowers	-	3 540 619	-	-	-	3 540 619
- Loans to medium size entities	1 062 433	-	-	-	-	1 062 433
- Loans to small entities	10 167 322	-	-	-	2 480	10 169 802
- Loans to the general public	-	-	6 419 273	2 265 555	-	8 684 828
Total current and not impaired	11 229 755	7 128 062	6 419 273	2 265 555	41 003	27 083 648
<i>Past due but not impaired</i>						
- less than 30 days overdue	10 645	11 389	196 348	49 547	-	267 929
Total past due but not impaired	10 645	11 389	196 348	49 547	-	267 929
<i>Loans determined to be impaired (gross)</i>						
- less than 180 days overdue	83 040	116 496	130 276	24 401	-	354 213
- 180 to 360 days overdue	14 467	78 422	113 775	38 543	558	245 765
- over 360 days overdue	26 159	18 440	81 774	674	-	127 047
Total impaired loans and advances to customers (gross)	123 666	213 358	325 825	63 618	558	727 025
Gross carrying value of loans and advances to customers	11 364 066	7 352 809	6 941 446	2 378 720	41 561	28 078 602
Less: Provision for impairment	(168 360)	(160 937)	(286 253)	(25 697)	(1 247)	(642 494)
Total loans and advances to customers	11 195 706	7 191 872	6 655 192	2 353 023	40 314	27 436 108

The primary factors that the Group considers relating to a loan impairment, is principle or interest overdue by more than 30 days and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

11 Loans and Advances to Customers (Continued)

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

	Loans to small and medium enterprises (SME)	Corporate loans	Consumer and car loans	Mortgage loans	Total
<i>In thousands of Russian Roubles</i>					
<i>Fair value of collateral - loans past due but not impaired</i>					
Real estate	309 760	16 000	26 461	207 149	559 370
Pledge of rights	-	-	-	4 411	4 411
Autotransport	98 944	-	505 248	-	604 192
Agricultural equipment	85 150	-	214	-	85 364
Property	96 048	22 857	25 362	17 521	161 788
Goods in turnover	56 273	-	-	-	56 273
Third parties' guarantees	1 651 398	100 000	443 321	171 553	2 366 272
<i>Fair value of collateral - loans past due and impaired</i>					
Real estate	258 030	139 334	93 558	139 828	630 750
Pledge of rights	12 317	-	-	-	12 317
Autotransport	217 296	1 057	496 042	-	714 395
Agricultural equipment	57 610	-	2 014	-	59 624
Property	169 988	40 929	83 831	32 517	327 265
Goods in turnover	155 685	73 996	150	-	229 831
Third parties' guarantees	1 985 109	572 000	673 657	131 044	3 361 810
Total	5 153 608	966 173	2 349 858	704 023	9 173 662

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

	Loans to small and medium enterprises (SME)	Corporate loans	Consumer and car loans	Mortgage loans	Total
<i>In thousands of Russian Roubles</i>					
<i>Fair value of collateral - loans past due but not impaired</i>					
Real estate	4 570	17 440	-	4 405	26 415
Autotransport	1 429	28 761	8 145	-	38 335
Agricultural equipment	3 329	-	43 620	-	46 949
Property	6 657	9 811	-	-	16 468
Goods in turnover	2 857	-	-	-	2 857
Third parties' guarantees	20 190	148 500	16 413	300	185 403
<i>Fair value of collateral - loans past due and impaired</i>					
Real estate	58 607	235 184	7 832	18 513	320 136
Property	62 292	86 760	156 320	4 551	309 923
Autotransport	51 250	3 943	223 083	-	278 276
Goods in turnover	23 259	100 277	-	-	123 536
Agricultural equipment	17 023	5 950	-	-	22 973
Pledged by harvest	12 271	8 643	-	-	20 914
Third parties' guarantees	335 262	924 810	111 348	13 662	1 385 082
Total	598 996	1 570 079	566 761	41 431	2 777 267

11 Loans and Advances to Customers (Continued)

Fair value of residential real estate at the balance sheet date was estimated using reports on the property's estimated value, prepared by accredited valuers approved by the Bank's departments based on a comparative assessment approach, which reflects the property value in relation to equivalent objects, with available market value taking into account adjustments, and information on the average increase in residential real estate prices.

Carrying value of each class of loans and advances to customers approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of loans and advances to customers was RR 27,368,077 thousand (2007: RR 27,519,683 thousand). Refer to Note 37.

Interest rate analysis of loans and advances to customers is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

12 Finance Lease Receivables

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Total investments in financial lease	1 953 193	1 600 978
Less: Unearned future finance income on finance lease receivables	(348 899)	(302 548)
Less: Provision for uncollectible finance lease receivables	(26 322)	(11 207)
Total finance lease receivables	1 577 972	1 287 223

The primary factors that the Group considers whether finance lease receivables are impaired are their overdue status and realisability of related collateral, if any. The rights to the leased assets revert to the Group in the event of default by the lessee.

Analysis by credit quality of finance lease receivables at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Corporate business	SME	Total
Current and not impaired	514 467	1 056 853	1 571 320
Total current and not impaired	514 467	1 056 853	1 571 320
<i>Past due but not impaired</i> - less than 30 days overdue	1 034	12 019	13 053
Total past due but not impaired	1 034	12 019	13 053
<i>Loans determined to be impaired (gross)</i> - 30 to 180 days overdue	4 579	11 396	15 975
- over 360 days overdue	2 075	1 871	3 946
Total impaired loans and advances (gross)	6 654	13 267	19 921
Gross carrying value of finance lease receivables	522 155	1 082 139	1 604 294
Less: Provision for impairment	(9 089)	(17 233)	(26 322)
Total finance lease receivables	513 066	1 064 906	1 577 972

12 Finance Lease Receivables (Continued)

Analysis by credit quality of finance lease receivables at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Corporate business	SME	Total
Current and not impaired	451 706	841 594	1 293 300
Total current and not impaired	451 706	841 594	1 293 300
<i>Past due but not impaired</i>			
- less than 30 days overdue	2 707	-	2 707
Total past due but not impaired	2 707	-	2 707
<i>Loans determined to be impaired (gross)</i>			
- 30 to 180 days overdue	1 691	596	2 287
- 180 to 360 days overdue	-	136	136
Total impaired loans and advances (gross)	1 691	732	2 423
Gross carrying value of finance lease receivables	456 104	842 326	1 298 430
Less: Provision for impairment	(3 937)	(7 270)	(11 207)
Total finance lease receivables	452 167	835 056	1 287 223

Movements in the provision for uncollectible finance lease receivables during 2008 and 2007 are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Provision for uncollectible finance lease receivables at 1 January	11 207	6 964
Charge for provision for uncollectible finance lease receivables during the period	15 115	4 243
Provision for uncollectible finance lease receivables at 31 December	26 322	11 207

Fair value of collateral for finance lease receivables as at 31 December 2008 and 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
- agricultural equipment	1 258 125	998 292
- motor vehicles	797 227	663 288
- construction equipment	533 009	434 787
- industrial equipment	486 546	474 270
- real estate items	34 932	52 884
- office equipment	12 655	38 738
- trading equipment	47 861	26 531
Fair value of collateral in respect of finance lease receivables	3 170 355	2 688 790

12 Finance Lease Receivables (Continued)

The collateral for finance lease receivables is also the subject of lease.

The structure of finance lease receivables by leased assets is as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Amount	%	Amount	%
- agricultural equipment	596 381	37.2	426 205	32.9
- motor vehicles	407 057	25.4	331 352	25.5
- industrial equipment	291 372	18.2	258 048	19.9
- construction equipment	268 512	16.7	226 370	17.4
- office equipment	23 297	1.4	22 541	1.7
- real estate items	9 284	0.6	22 431	1.7
- trading equipment	8 391	0.5	11 483	0.9
Total finance lease receivables (before impairment)	1 604 294	100	1 298 430	100

The structure of finance lease receivables by economic sector is as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Agriculture	569 836	35.5	434 252	33.4
Construction	321 999	20.1	263 029	20.3
Trade	208 677	13.0	151 500	11.7
Manufacturing	181 350	11.3	183 212	14.1
Transport	115 546	7.2	115 769	8.9
Energy	11 602	0.7	10 133	0.8
Other	195 284	12.2	140 535	10.8
Total finance lease receivables (before impairment)	1 604 294	100	1 298 430	100

The analysis of gross investment in finance lease receivables and the net investment in finance lease receivables by maturity is disclosed below:

<i>In thousands of Russian Roubles</i>	Not later than 1 year	From 1 to 5 years	Total
Total investments in finance lease at 31 December 2008	1 128 564	824 629	1 953 193
Unearned finance income	(231 218)	(117 681)	(348 899)
Less: Provision for impairment	(19 253)	(7 069)	(26 322)
Finance lease receivables as at 31 December 2008	878 093	699 879	1 577 972
Total investments in financial lease at 31 December 2007	821 491	779 487	1 600 978
Unearned finance income	(190 593)	(111 955)	(302 548)
Less: Provision for impairment	(5 751)	(5 456)	(11 207)
Finance lease receivables as at 31 December 2007	625 147	662 076	1 287 223

Carrying value of finance lease receivables approximates its fair value at 31 December 2008 and 31 December 2007. As at 31 December 2008, the estimated fair value of finance lease receivables amounted RR 1,508,745 thousand (2007: RR 1,290,991 thousand). Refer to Note 37.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in Note 33.

13 Investment in Associate

In December 2007 OAO TPTS Teploenergo, which was part of the Centr-Invest Bank Group, and the European Bank for Reconstruction and Development (EBRD, London) signed an agreement on participation of EBRD in the equity of OAO TPTS Teploenergo. Following the additional share issue by OAO TPTS “Teploenergo”, held in December 2007, EBRD holds 25% of the share capital of OAO TPTS “Teploenergo”, and the share of Centr-invest Bank Group decreased to 47.31%.

The Group lost its control over the company at 31 December 2007. The Group’s investments in OAO TPTS “Teploenergo” are recorded in the consolidated financial statements as at 31 December 2007 as investment in associate.

The table below summarises the movements in the carrying amount of the Group’s investment in associate.

<i>In thousands of Russian Roubles</i>	Year ended 31 December 2008	Year ended 31 December 2007
Carrying amount at the beginning of the period	300 386	-
The Group’s share in the fair value of net assets of subsidiary before losing its control	-	316 825
Loss from disposal of subsidiary	-	(16 439)
Share of profit of associate	7 121	-
Carrying amount at the end of the period	307 507	300 386

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Total assets	1 020 530	788 902
Total liabilities	(370 547)	(153 971)
% interest held	47.31%	47.31%

<i>In thousands of Russian Roubles</i>	2008
Revenue	336 479
Profit	15 052

13 Investment in Associates (Continued)

Information about the net assets of OAO TPTS “Teploenergo” at 28 December 2007 (date of disposal) and 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	28 December 2007	31 December 2007
Cash and cash equivalents	4 222	4 222
Due from other banks	98 938	98 938
Trade receivables	82 456	82 456
Other assets	9 560	9 560
Premises and equipment	593 726	593 726
Payables on core activities	(14 453)	(14 453)
Other payables	(148 715)	(15 964)
Deferred tax liability	(123 554)	(123 554)
Net assets	502 180	634 931
Group’s share in net assets of associate	316 825	300 386

Cash received from EBRD during the additional share issue process were recognised as other payables upon their receipt. Subsequently, upon registration of issuance of new shares, these funds were recognised as additional share capital of OAO TPTS Teploenergo at 31 December 2007.

The information on the results of operation of the subsidiary during 2007 up to the moment of reclassification into an associate and during 2008:

<i>In thousands of Russian Roubles</i>	From 1 January 2007 to 28 December 2007
Heat energy revenue	271 807
Heat energy direct costs excluding administrative and other operating expenses	(132 819)
Other income / (expenses)	6 585
Staff costs	(68 007)
Amortisation	(12 394)
Other costs of premises and equipment	(27 641)
Taxes other than on income	(6 114)
Other	(10 207)
Profit for the period	21 210
Income tax expense	(4 102)
Net profit for the period	17 108
Net profit attributable to:	
Equity holders of the Group	10 793
Minority interest	6 315

13 Investment in Associates (Continued)

Information on cash flow of disposed subsidiary is as follows:

<i>In thousands of Russian Roubles</i>	From 1 January 2007 to 28 December 2007
Net cash from/(used in) operating activities	30 873
Net cash used in investing activities	(33 786)
Net cash from financing activities	104 435
Net increase in cash and cash equivalents	101 522

14 Intangible Assets

<i>In thousands of Russian Roubles</i>	2008	2007
Carrying value		
Balance at 1 January	239 951	147 395
Additions	114 718	96 435
Disposals	(1 119)	(3 879)
Balance at 31 December	353 550	239 951
Accumulated depreciation		
Balance at 1 January	30 512	28 478
Depreciation and amortisation	29 22 428	5 913
Disposals	(1 119)	(3 879)
Balance at 31 December	51 821	30 512
Net carrying amount at 31 December	301 729	209 439

The major part of investments in intangible assets represents investments into a new integrated computerised banking system - SAP for Banking and front-office operating systems of RR 207,161 thousand (31 December 2007: RR 134, 673 thousand). The Group selected the computerised banking system SAP for Banking in an international tender during which it reviewed more than 50 criteria for each of the 11 systems from the vendor list. Currently, the SAP for Banking and operating systems modules are being customised. The systems were not yet put into operation, and accordingly amortisation is not being recognised.

Centr-Invest Bank Group
Notes to the Consolidated Financial Statements – 31 December 2008

15 Premises and Equipment

	Note	Land	Premises	Heat power production equipment	Heat power transmis- sion equipment	Other	Total
<i>In thousands of Russian Roubles</i>							
Residual value at 31 December 2006		360 678	1 164 001	32 780	26 706	282 939	1 867 104
Carrying value							
Opening balance		360 678	1 177 435	56 668	58 103	466 815	2 119 699
Additions		2 734	218 446	13 953	10 924	222 266	468 323
Disposals		-	(1 972)	(982)	-	(25 971)	(28 925)
Revaluation		354 560	441 049	-	-	-	795 609
Disposal of subsidiary		(249 654)	(271 689)	(69 639)	(69 027)	(25 293)	(685 302)
Closing balance		468 318	1 563 269	-	-	637 817	2 669 404
Accumulated depreciation							
Opening balance		-	13 434	23 888	31 397	183 876	252 595
Depreciation and amortisation	29	-	30 146	3 880	3 178	101 273	138 477
Disposals		-	(200)	(982)	-	(13 537)	(14 719)
Revaluation		-	(29 029)	-	-	-	(29 029)
Disposal of subsidiary		-	(14 351)	(26 786)	(34 575)	(15 864)	(91 576)
Closing balance		-	-	-	-	255 748	255 748
Residual value at 31 December 2007		468 318	1 563 269	-	-	382 069	2 413 656
Carrying value							
Opening balance		468 318	1 563 269	-	-	637 817	2 669 404
Additions		4 917	206 800	-	-	255 601	467 318
Disposals		-	-	-	-	(5 859)	(5 859)
Revaluation		16 333	6 629	-	-	-	22 962
Closing balance		489 568	1 776 698	-	-	887 559	3 153 825
Accumulated depreciation							
Opening balance		-	-	-	-	255 748	255 748
Depreciation and amortisation	29	-	37 169	-	-	129 931	167 100
Disposals		-	-	-	-	(5 859)	(5 859)
Revaluation		-	(36 835)	-	-	-	(36 835)
Closing balance		-	334	-	-	379 820	380 154
Residual value at 31 December 2008		489 568	1 776 364	-	-	507 739	2 773 671

15 Premises and Equipment (Continued)

Premises and land were independently valued at 31 December 2008 by an independent firm of valuers, OOO BDO Unikon Rostov-on-Don, who hold a recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

The carrying amount at 31 December 2008 includes RR 1,428,136 thousand (31 December 2007: RR 1,368,339 thousand) of revaluation surplus relating to premises and land of the Group. At 31 December 2008, the carrying amount of premises and land would have been RR 837,796 thousand (31 December 2007: RR 663,249 thousand), had the assets been carried at cost less depreciation.

16 Other Financial Assets

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Equipment purchased for finance leasing purposes	511 590	404 833
Prepayments to suppliers of equipment for finance leasing purposes	131 786	145 390
Plastic cards receivables	80 990	99 671
Trade receivables and prepayments	74 855	84 519
Target capital fund	30 000	30 000
Foreign exchange forward contracts	1 931	
Settlements on brokerage operations	673	19 636
Settlements on conversion operations	-	12 455
Settlements on other operations	20 273	2 352
Total other financial assets	852 098	798 856

Other financial assets are neither overdue, nor impaired.

The Education and Science YUFO special capital fund commenced its work in May 2007, and the Centr-invest Bank was one of its initiators and founders. The Bank made its first contribution to the Fund in the amount of RR 30,000 thousand in June 2007 on a repayable basis, for a term of 10 years.

Carrying value of each class of other financial assets approximates the fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of other financial assets was RR 852,098 thousand (31 December 2007: RR 798,856 thousand).

17 Other Assets

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Prepaid taxes and recoverable taxes (other than income tax)	134 136	112 630
Prepaid income tax	180 011	1 869
Repossessed collateral	61 834	81 280
Other	21 291	15 287
Total other assets	397 272	211 066

Tax prepayment at 31 December 2008 includes recoverable VAT in the amount of RR 106,982 thousand (31 December 2007: RR 102,951 thousand).

Repossessed collateral represents assets obtained by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets are not classified as held for sale under IFRS 5, because the Group has not yet started to actively market them for sale. The assets were initially recognised at fair value when acquired.

Information on related party balances is disclosed in Note 39.

18 Due to Other Banks

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Current term placements of other banks	8 501 775	4 535 737
Loans from the CBRF	4 519 287	-
Correspondent accounts and overnight placements of other banks	2 350	154
Total due to other banks	13 023 412	4 535 891

From fourth quarter of 2008 Bank started participating in auctions held by the Central Bank of Russian Federation where Bank can borrow uncollateralised loans from the Central Bank of Russian Federation. The Bank borrowed from the Central Bank of Russian Federation loans with fixed term of five weeks and three months and as at 31 December 2008 principal amount of these loans amounted to 4,500,000 thousands of Russian Roubles.

The structure of current term deposits of other banks as at 31 December 2008 and 31 December 2007:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Syndicated loan from Commerzbank	4 266 778	1 915 922
Syndicated loan from Erste-bank	1 729 106	-
Loan from Standard Bank	601 066	-
Loan from Erste Bank	448 802	-
Syndicated loan from Raiffeisenbank	-	1 008 437
Credit line from National Citi-Bank	420 152	400 274
Loans from Russian Development Bank for small business financing	322 464	167 790
Loan from MDM Bank	271 897	-
Syndicated loan from UniCredit Bank (formerly International Moscow Bank)	-	298 697
Loan from ICICI Bank Eurasia	146 929	122 731
Loans from Commerzbank for trade financing	101 043	78 965
Loans from Wachovia Bank for trade financing	28 515	-
Loans from Raiffesenbank for trade financing	18 778	21 606
Current term placements of other banks	146 245	521 315
Total current term deposits	8 501 775	4 535 737

The carrying value of each class of due to other banks approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of due to other banks was RR 13,023,412 thousand (31 December 2007: RR 4,535,891 thousand). Refer to Note 37.

Interest rate analysis of due to other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

19 Customer Accounts

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
<i>State and public organisations</i>		
- Current/settlement accounts	98 524	482 612
- Term deposits	227 078	37 568
<i>Other legal entities</i>		
- Current/settlement accounts	5 588 125	5 267 982
- Term deposits	1 662 884	1 430 172
<i>Individuals</i>		
- Current/demand accounts	1 444 921	1 509 665
- Term deposits	12 230 191	10 517 061
Total customer accounts	21 251 723	19 245 060

State and public organisations exclude government owned profit orientated companies.

Economic sector concentrations within customer accounts are as follows:

	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Individuals	13 675 112	64.3	12 026 726	62.5
Trade	2 498 707	11.8	2 208 169	11.5
Construction	846 327	4.0	925 076	4.8
Manufacturing	485 187	2.3	522 539	2.7
Energy	426 262	2.0	314 751	1.6
Telecommunication	374 668	1.8	320 543	1.7
Municipal organisations	360 396	1.7	266 884	1.4
Agriculture	296 223	1.4	608 532	3.2
Transport	140 369	0.7	150 593	0.8
Education	48 645	0.2	44 723	0.2
Insurance fees	40 525	0.2	191 739	1.0
Other	2 059 302	9.6	1 664 785	8.6
Total customer accounts	21 251 723	100	19 245 060	100

At 31 December 2008 the total aggregate balance of 10 largest clients of the Group was RR 3,135,712 thousand or 14.8% of customer accounts; the total aggregate balance of 20 largest clients was RR 3,811,159 thousand or 17.9% of customer accounts (31 December 2007: the total aggregate balance of 10 and 20 largest customers amounted to RR 1 470 124 thousand and RR 1 966 924 thousand correspondingly, or 7.6% and 10.2% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of customer accounts was RR 21,251,723 thousand (31 December 2007: RR 19,245,060 thousand). Refer to Note 37.

Interest rate analysis of customer accounts is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

20 Debt Securities in Issue

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Debentures	194 792	1 499 341
Promissory notes	21 449	23 988
Total debt securities in issue	216 241	1 523 329

In November 2006 the Bank placed at par RR 1 500 000 thousand Rouble denominated bond issue on MICEX. These bonds have maturity in November 2009. Each bond has an embedded put option with maturity in November 2008 and exercisable at par.

In November 2008, the Bank fully met claims of bond holders who exercised their put options of RR 1,442,928 thousand at par. Coupon income is payable in coupon periods 5 and 6 at a rate of 16% p.a.

Fair value of issued bonds at 31 December 2008 and 31 December 2007 was as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Fair value	Carrying value	Fair value	Carrying value
Bonds issued on domestic market	169 083	194 792	1 505 055	1 499 341
Total bonds issued	169 083	194 792	1 505 055	1 499 341

Carrying value of issued promissory notes approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of customer accounts was RR 21,449 thousand (31 December 2007: RR 23,988 thousand). Refer to Note 37. Interest rate analysis of debt securities in issue is disclosed in Note 33.

21 Other Borrowed Funds

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Term borrowings	4 183 316	4 358 692
Total other borrowed funds	4 183 316	4 358 692

In April 2007, the Group raised USD 175 000 thousand through placing two-year CLN in international markets. The issuer of CLN was CRR. B.V., a Dutch Company. The organiser of the issue was IB Trust, the co-organiser – Commerzbank AG. The CLN were placed through open subscription via trade organisers.

Due to the fact that this loan should be repaid in April 2009, the Group started to repurchase these CLN in advance from August 2008. This transaction from the one hand, reduces the load on the Group's liquidity, and on the other hand allows to reduce interest expense and receive profit from purchase of these securities with a certain discount conditioned by a fall in security prices during the liquidity crisis in international financial markets. From August 2008 to the end of 2008, the Group acquired 355 CLN with a par value of USD 35.5 million at 67% to 99.9% of the par value.

20 Other Borrowed Funds (Continued)

Fair value of other borrowed funds at 31 December 2008 and 31 December 2007 was as follows (also refer to Note 37):

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Fair value	Carrying value	Fair value	Carrying value
Term borrowings	4 189 198	4 183 316	4 327 344	4 358 692
Total other borrowed funds	4 189 198	4 183 316	4 327 344	4 358 692

Interest rate analysis of other borrowed funds is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

22 Borrowings from International Financial Institutions

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Term borrowings from EBRD	2 732 438	2 853 078
Term borrowings from KfW-Bank	730 838	214 506
Term borrowings from IFC	138 667	210 394
Term borrowings from Landesbank Berlin	120 819	161 834
Term borrowings from DEG	66 897	97 551
Term borrowings from Public Bank of Vicenza	-	1 399
Total borrowings from international financial institutions	3 789 659	3 538 762

In 2002-2008, the Group opened several credit lines with International Finance Corporation (“IFC”), Landesbank Berlin (formerly Gesellschaft Berlin Bank), European Bank for Reconstruction and Development (“EBRD”), German governmental finance and consulting company DEG, KfW Bank and Public Bank of Vicenza.

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of borrowings from international financial institutions was RR 3,789,659 thousand (31 December 2007: RR 3,538,762 thousand). Refer to Note 37.

Geographical, currency, maturity and interest rate analyses of borrowings from international financial institutions are disclosed in Note 33. Information on related party balances is disclosed in Note 39.

23 Subordinated Debt

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Subordinated loan from DEG	891 679	-
Subordinated loan from EBRD	594 537	-
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	296 494	247 394
Subordinated loan from IFC	150 320	125 804
Total subordinated debt	1 933 030	373 198

At the end of 2004, the Group received a subordinated loan of USD 5 000 thousand from the IFC payable by January 2011. In April 2007, the Group received a subordinated loan of USD 10 000 thousand from the Black Sea Bank for Reconstruction and Development (Greece) payable by April 2014. In April 2008, the Group received a subordinated loan of USD 20 000 thousand from the EBRD payable by October 2018. In June 2008, the Group received a subordinated loan of USD 30 000 thousand from the DEG payable by October 2018.

The carrying value of the subordinated debt approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of subordinated loans was RR 1,933,030 thousand (31 December 2007: RR 373,198 thousand).

The claims of the above lenders against the Group in respect of principal and interest due to them will be subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

Geographical, currency, maturity and interest rate analyses of subordinated debt is disclosed in Note 33.

24 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Prepayment under lease contracts	348 214	208 907
Payables on plastic card operations	80 486	97 189
Trade payables	42 437	511
Credit related commitments (Note 35)	10 024	3 214
Foreign exchange forward contracts (Note 36)	-	39 015
Settlements on conversion operations	-	12 273
Other accrued liabilities	8 146	3 970
Total other financial liabilities	489 307	365 079

Foreign exchange forward contracts and contingent credit related commitments are shown in the consolidated balance sheet at fair value.

The carrying amount of each class of other financial liabilities approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of other financial liabilities was RR 489,297 thousand (31 December 2007: RR 365,079 thousand). Refer to Note 37.

25 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Deposits insurance agency	13 499	-
Taxes payable other than on income	11 903	8 153
Accrued employee benefit costs	188	7 203
Other	17 156	17 975
Total other liabilities	42 746	33 331

26 Share Capital

<i>In thousands of Russian Roubles except for number of shares</i>	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Treasury shares	Total
At 1 January 2007	77 665 449	1 162 786	1 646 428	95 923	(1 564)	2 903 573
At 31 December 2007	77 763 875	1 162 786	1 646 428	95 923	-	2 905 137
At 31 December 2008	77 763 875	1 162 786	1 646 428	95 923	-	2 905 137

The nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2006 to the purchasing power of the Russian Rouble at 31 December 2008 is RR 866 000 thousand (31 December 2007: RR 866 000 thousand). At 31 December 2008, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (31 December 2007: RR 10 per share) and carry one vote.

The preference shares have a nominal value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2007: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by the shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time as the dividends are paid.

During the second half of 2007, the Bank sold all 98 426 treasury shares (preference shares).

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

27 Interest Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Interest income		
Loans and advances to legal entities	2 292 892	1 772 821
Loans and advances to individuals	1 385 595	1 034 355
Loans and advances to SME	1 173 640	325 655
Mortgage loans	394 305	203 428
Debt trading securities	101 538	68 059
Due from other banks	61 205	226 327
Overnight placements with other banks	13 068	43 618
Correspondent accounts with other banks	7 332	554
Other debt securities at fair value through profit or loss	-	1 516
Total interest income on loans and advances to customers	5 429 575	3 676 333
Finance income arising from leasing	365 307	240 594
Total interest income	5 794 882	3 916 927
Interest expense		
Term deposits of individuals	1 038 658	726 632
Term placements of other banks	547 545	411 422
Borrowings from international financial institutions and subordinated loan	383 064	205 023
Other borrowed funds	311 235	310 982
Bonds issued	157 430	149 107
Term deposits of legal entities	72 112	46 516
Term placements of the Bank of Russia	52 864	-
Current accounts of legal entities	10 052	-
Promissory notes issued	1 857	5 254
Total interest expense	2 574 817	1 854 936
Net interest income	3 220 065	2 061 991

28 Fee and Commission Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Fee and commission income		
- Commission on settlement transactions	282 330	156 937
- Commission on cash transactions	224 003	199 717
- Commission on operations with plastic cards	103 885	75 150
- Commission on currency transactions	37 433	20 814
- Commission on issued guarantees	28 150	7 957
- Commission on factoring operations	8 041	8 523
- Commission on cash collection	5 736	3 277
- Commission on fiduciary operations	3 403	4 549
- Other	33 549	71 080
Total fee and commission income	726 530	548 004
Fee and commission expense		
- Commission on cash collection	43 647	22 078
- Commission on operations with plastic cards	32 938	41 713
- Settlement transactions	31 685	12 023
- Agent commission on interbank transactions	24 423	13 652
- Commission on currency transactions	7 288	2 767
- Commission on received guarantees	282	81
- Other	4 768	4 622
Total fee and commission expense	145 031	96 936
Net fee and commission income	581 499	451 068

29 Administrative and Other Operating Expenses

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Staff costs		943 402	713 382
Administrative expenses		303 417	158 130
Depreciation of premises and equipment	15	167 100	126 083
Other costs of premises and equipment		97 822	88 420
Taxes other than on income		94 941	61 525
Rent		79 549	35 160
Insurance of individual deposits		77 770	50 158
Advertising and marketing services		38 238	52 219
Professional services		31 449	10 462
Payments to the Board of Directors		26 135	18 912
Amortisation of intangible assets	14	22 428	5 913
Losses on disposal of premises and equipment		12 538	12 364
Other		15 048	97 841
Total administrative and other operating expenses		1 909 837	1 430 569

Included in staff costs are statutory social security and pension contributions (Unified social tax) of RR 143 038 thousand (2007: RR 109 267 thousand).

30 Income Taxes

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	2008	2007
Current tax	111 524	221 844
Deferred tax	26 607	23 048
Income tax expense for the year	138 131	244 892

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

<i>In thousands of Russian Roubles</i>	2008	2007
Profit before tax	445 636	951 454
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	106 953	228 349
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	31 882	17 293
- Income on securities taxed at different rates	(286)	(750)
Changes in the income tax rate (2009: 20 %)	(418)	-
Income tax expense for the year	138 131	244 892

30 Income Taxes (Continued)

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

<i>In thousands of Russian Roubles</i>	1 January 2008	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2008
<i>Tax effect of deductible temporary differences</i>				
Loans and advances to customers	18 943	19 845	-	38 788
Other	13 637	3 594	-	17 231
Gross deferred tax asset	32 580	23 439	-	56 019
<i>Tax effect of taxable temporary differences</i>				
Premises and equipment	(290 715)	1 019	42 775	(246 921)
Finance lease receivables	14 617	(26 799)	-	(12 182)
Other	(17 481)	(24 266)	-	(41 747)
Gross deferred tax liability	(293 579)	(50 046)	42 775	(300 850)
Less offsetting with deferred tax assets	32 580	23 439	-	56 019
Recognised deferred tax liability	(260 999)	(26 607)	42 775	(244 831)

Deferred tax liability on premises and equipment charged directly to equity has decreased due to decrease of statutory income tax rate from 24% to 20% from 1 January 2009.

30 Income Taxes (Continued)

<i>In thousands of Russian Roubles</i>	1 January 2007	Credited/ (charged) to profit or loss	Charged directly to equity	Disposal of subsidiary (Note 13)	31 December 2007
<i>Tax effect of deductible temporary differences</i>					
Loans and advances to customers	41 515	(22 572)	-	-	18 943
Finance lease receivables	20 639	(6 022)	-	-	14 617
Other	2 523	11 114	-	-	13 637
Gross deferred tax asset	64 677	(17 480)	-	-	47 197
<i>Tax effect of taxable temporary differences</i>					
Premises and equipment	(220 925)	4 569	(197 913)	123 554	(290 715)
Other	(7 344)	(10 137)	-	-	(17 481)
Gross deferred tax liability	(228 269)	(5 568)	(197 913)	123 554	(308 196)
Less offsetting with deferred tax assets	64 677	(17 480)	-	-	47 197
Recognised deferred tax liability	(163 592)	(23 048)	(197 913)	123 554	(260 999)

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

31 Dividends

<i>In thousands of Russian Roubles</i>	2008		2007	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the period	139 591	18 099	139 591	18 027
Dividends paid during the period	(139 591)	(18 099)	(139 591)	(18 027)
Dividends payable at 31 December	-	-	-	-

All dividends are declared and paid in Russian Roubles.

During 2008 the Bank declared and paid the following dividends: on ordinary shares – RR 1.8 per share (2007: RR 1.8 per share); on preference shares with nominal value of RR 1,000 – RR 200 per share (2007: RR 200 per share) and on preference shares with nominal value of RR 4 – RR 0.8 per share (2007: RR 0.8 per share).

At 31 December 2008 ordinary shares comprise of 77,550,750 shares (31 December 2007: 77,550,750 shares). Total preference shares with nominal value of RR 1,000 and RR 4 per share comprise 90,000 shares (31 December 2007: 90,000 shares) and 123,125 (31 December 2007: 123,125 shares) respectively.

32 Segment Analysis

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Finance leasing
- Heat energy production

The Group does not apply transfer pricing for distribution of assets and capital between the segments and, consequently, there are no significant income and expense items between the segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

32 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Finance leasing	Elimina- tions	Total
<i>2008</i>					
External revenues	2 013 423	4 396 006	374 208	-	6 783 637
Revenues from other segments	-	43 536	-	(43 536)	-
Total revenues	2 013 423	4 439 542	374 208	(43 536)	6 783 637
Total revenues comprise:					
- Interest income	1 779 900	3 689 894	1 562	(41 781)	5 429 575
- Finance income arising from leasing	-	-	365 307	-	365 307
- Fee and commission income	121 832	604 232	2 221	(1 755)	726 530
- Share in profit of associate	-	7 121	-	-	7 121
- Other operating income	111 691	138 295	5 118	-	255 104
Total revenues	2 013 423	4 439 542	374 208	(43 536)	6 783 637
Segment result	462 155	1 529 135	279 791	-	2 271 081
Unallocated costs					(1 825 445)
Profit before tax					445 636
Income taxes					(138 131)
Profit for the year					307 505

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32 Segment Analysis (Continued)

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Finance leasing	Elimina- tions	Total
<i>31 December 2008</i>					
Mandatory cash balances with CBRF	36 031	19 963	-	-	55 994
Trading securities	-	919 753	-	-	919 753
Other securities at fair value through profit or loss	-	6 009	-	-	6 009
Due from other banks	-	50 437	-	-	50 437
Loans and advances to customers	9 517 573	19 615 142	-	-	29 132 715
Finance lease receivables	-	-	1 577 972	-	1 577 972
Other financial assets	-	208 722	643 376	-	852 098
	-	-	-	-	-
Total segment assets	9 553 604	20 820 026	2 221 348	-	32 594 978
Unallocated assets					18 058 394
Total assets					50 653 372
Due to other banks	-	13 023 412	-	-	13 023 412
Customer accounts	13 675 112	7 576 611	-	-	21 251 723
Debt securities in issue	-	216 241	-	-	216 241
Other borrowed funds	-	4 183 316	-	-	4 183 316
Loans from international financial institutions	-	3 789 659	-	-	3 789 659
Subordinated debt	-	1 933 030	-	-	1 933 030
Other financial liabilities	-	141 093	348 214	-	489 307
Total segment liabilities	13 675 112	30 863 362	348 214	-	44 886 688
Deferred tax liabilities					244 831
Other unallocated liabilities					42 746
Total liabilities					45 174 265
Other segment items					
Impairment provision charged to profit or loss	(434 840)	(549 822)	(15 115)	-	(999 777)

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32 Segment Analysis (Continued)

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Finance leasing	Heat energy production	Elimina- tions	Total
<i>2007</i>						
External revenues	1 356 332	2 993 637	254 339	12 155	-	4 616 463
Revenues from other segments	-	64 165	766	-	(64 931)	-
Total revenues	1 356 332	3 057 802	255 105	12 155	(64 931)	4 616 463
Total revenues comprise:						
- Interest income	1 237 783	2 495 226	1 035	138	(57 849)	3 676 333
- Finance income arising from leasing	-	-	241 360	-	(766)	240 594
- Fee and commission income	88 209	466 111	-	-	(6 316)	548 004
- Other operating income	30 340	96 465	12 710	12 017	-	151 532
Total revenues	1 356 332	3 057 802	255 105	12 155	(64 931)	4 616 463
Segment result	341 460	1 772 865	218 798	5 226	-	2 338 349
Unallocated costs						(1 386 895)
Profit before tax						951 454
Income taxes.						(244 892)
Profit from continuing operations						706 562
Result from discontinued operations						
Heat energy revenue	-	-	-	271 807	-	271 807
Heat energy direct costs excluding administrative and other operating expenses	-	-	-	(132 819)	-	(132 819)
Other income	-	-	-	(117 778)	-	(117 778)
Other expenses	-	-	-	(4 102)	-	(4 102)
Income tax expense	-	-	-	(16 439)	-	(16 439)
Profit from discontinued operations	-	-	-	669	-	669
Profit for the year						707 231

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32 Segment Analysis (Continued)

<i>In thousands of Russian Roubles</i>	Retail banking	Corporate banking	Finance leasing	Heat energy production	Elimina- tions	Total
<i>31 December 2007</i>						
Mandatory cash balances with CBRF	263 755	158 304	-	-	-	422 059
Trading securities	-	963 633	-	-	-	963 633
Other securities at fair value through profit or loss	-	26 976	-	-	-	26 976
Due from other banks	-	1 417 650	-	-	-	1 417 650
Loans and advances to customers	9 008 216	18 427 892	-	-	-	27 436 108
Finance lease receivables	-	-	1 287 223	-	-	1 287 223
Other financial assets	-	248 633	550 223	-	-	798 856
Total segment assets	9 271 971	21 243 088	1 837 446	-	-	32 352 505
Unallocated assets						7 108 556
Total assets						39 461 061
Due to other banks	-	4 535 891	-	-	-	4 535 891
Customer accounts	12 026 726	7 218 334	-	-	-	19 245 060
Debt securities in issue	-	1 523 329	-	-	-	1 523 329
Other borrowed funds	-	4 358 692	-	-	-	4 358 692
Loans from international financial institutions	-	3 538 762	-	-	-	3 538 762
Subordinated debt	-	373 198	-	-	-	373 198
Other financial liabilities	-	155 661	209 418	-	-	365 079
Total segment liabilities	12 026 726	21 703 867	209 418	-	-	33 940 011
Deferred tax liabilities						260 999
Other unallocated liabilities						33 331
Total liabilities						34 234 341
Other segment items Impairment provision charged to profit or loss	(238 082)	(26 547)	(4 243)	-	-	(268 872)

32 Segment Analysis (Continued)

Geographical segments. The Group operates only in the Southern Federal District of the Russian Federation. Refer to Note 33 for analysis of assets and liabilities of the Russian operations outstanding with foreign counterparts.

	Rostov region	Krasnodar Krai	Volgograd region and Stavropol region	General banking	Total
<i>In thousands of Russian Roubles</i>					
2008					
Segment assets	38 987 244	5 005 506	2 402 945	4 257 677	50 653 372
External revenues	5 344 216	867 398	381 163	190 860	6 783 637
Capital expenditure	35 658	77 159	98 900	114 718	326 435
2007					
Segment assets	28 081 546	4 790 363	1 991 290	4 597 862	39 461 061
External revenues	3 603 900	442 911	200 175	369 477	4 616 463
Capital expenditure	75 356	98 163	41 986	96 435	311 940

External revenues and assets have generally been allocated based on domicile of the branches. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

33 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The Bank's risk management function is viewed as a full set of activities aimed to protect its assets. One of the tools of the financial risk management function is to establish risk limits and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Bank manages risks on the basis of the document "Risk Management Policy of OAO CB Centr-Invest" approved by the Bank's Board of Directors. The policy regulates the Bank's risk management strategy and strategy implementation procedures; mandatory business lines and types of risks for monitoring; interaction in the process of managing OAO CB Centr-Invest's risks.

The risk management strategy described in this document includes:

- Accepting risks on the basis of the level of profitability and risks associated with business lines;
- Priority of developing lending operations;
- Regulatory revaluation of market risks associated with assets;
- Consideration of the level of risk in evaluating business lines' efficiency;
- Efficient capital and reserves management.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving methods of reviewing borrowers' financial and business activity enabling to adequately evaluate the level of risk associated with loans and other credit instruments;
- Regular monitoring of borrowers' financial position, state of collateral and debt servicing;
- Use of same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level.

33 Financial Risk Management (Continued)

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

Such risks are monitored on a regular basis.

The Group established a number of credit committees which are responsible for approving lending transactions with individual borrowers:

The Main Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million to 25% of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Head Bank approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million. At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Small Credit Committees of the Bank's territorial structural units approve credit applications or deals for units' customers twice a week. Decision-making limits are individual for each unit and approved by the Bank's Executive Board.

Loan applications originated by the relevant client relationship managers are considered on the basis of standardised procedures and passed on to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by, Credit Committees, the Risk Committee and the Committee for Problem Loans. The Group uses formalised internal credit ratings in compliance with regulations of the Central Bank of the Russian Federation. The Bank's management monitors and follows up past due balances.

The Group's credit departments review ageing analysis of outstanding loans and follows up past due balances. The ageing and other information about credit risk is disclosed in Note 11.

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements.

33 Financial Risk Management (Continued)

The Bank manages market risks and monitors corresponding limits on a daily basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading operations;
- Setting limits on financial investments;
- Setting limits on homogenous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

The management sets limits in respect of the accepted risk level (VaR). Limits are monitored on a daily basis.

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The Group also monitors financial result from currency transactions from the beginning of the year. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby, decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps in the interbank market. The Group is not exposed to risks associated with changes in precious metals' prices due to the absence of such transactions.

The management sets limits in respect of the accepted risk level (VaR). Limits are monitored on a daily basis. Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on simple sensitivity, calculated based on open currency position of the Group at the reporting date.

33 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008				At 31 December 2007			
	Monetary financial assets	Monetary financial liabilities excluding derivatives	Derivative financial instruments	Net balance sheet position	Monetary financial assets	Monetary financial liabilities excluding derivatives	Derivative financial instruments	Net balance sheet position
<i>In thousands of Russian Roubles</i>								
Russian Roubles	34 617 422	(26 879 308)	(5 797 148)	1 940 966	33 348 827	(23 292 152)	(7 322 942)	2 733 733
US Dollars	9 948 981	(14 923 047)	5 049 529	75 463	2 440 789	(9 685 042)	7 193 938	(50 315)
Euro	2 297 519	(3 078 664)	749 550	(31 595)	531 197	(923 798)	89 989	(302 612)
Pound Sterling	7 340	(5 669)	-	1 671	5 701	(4)	-	5 697
Total	46 871 262	(44 886 688)	1 931	1 986 505	36 326 514	(33 900 996)	(39 015)	2 386 503

Amounts disclosed in respect of derivatives represent the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 36. The net total represents the fair value of the currency derivatives.

33 Financial Risk Management (Continued)

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

<i>In thousands of Russian Roubles</i>	At 31 December 2008		At 31 December 2007	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 33% (2007: 5%)	24 903	24 903	(2 516)	(2 516)
US Dollar weakening by 33% (2007: 5%)	(24 903)	(24 903)	2 516	2 516
Euro strengthening by 27% (2007: 5%)	(8 531)	(8 531)	(15 131)	(15 131)
Euro weakening by 27% (2007: 5%)	8 531	8 531	15 131	15 131
Pound Sterling strengthening by 20% (2007: 5%)	334	334	285	285
Pound Sterling weakening by 20% (2007: 5%)	(334)	(334)	(285)	(285)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

This type of risk is managed through setting limits on maximum changes in projected interest income. These values are determined on the basis of interest gap analysis.

The management monitors on a regular basis and sets limits on the level of interest rate risk that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

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33 Financial Risk Management (Continued)

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Non interest bearing assets	Total
31 December 2008								
Total financial assets	17 137 140	6 571 224	4 054 292	7 332 455	9 617 370	2 122 307	38 405	46 873 193
Total financial liabilities	(11 873 147)	(8 246 623)	(6 123 345)	(6 169 649)	(12 473 924)	-	-	(44 886 688)
Net interest sensitivity gap at 31 December 2008	5 263 993	(1 675 399)	(2 069 053)	1 162 806	(2 856 554)	2 122 307	38 405	1 986 505
31 December 2007								
Total financial assets	7 306 209	3 365 340	5 075 532	8 135 233	10 682 320	1 684 173	77 707	36 326 514
Total financial liabilities	(8 827 769)	(6 514 742)	(4 602 886)	(6 756 623)	(7 237 942)	(49)	-	(33 940 011)
Net interest sensitivity gap at 31 December 2007	(1 521 560)	(3 149 402)	472 646	1 378 610	3 444 378	1 684 124	77 707	2 386 503

33 Financial Risk Management (Continued)

All of the Group's debt instruments reprice within 5 years (2007: all reprice within 5 years).

At 31 December 2008, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 197 754 thousand (at 31 December 2007: if interest rates had been 50 basis points lower/higher, profit would have been RR 41 443 thousand) lower/higher, mainly due to structure and repricing timing of attracted and invested funds.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	31 December 2008				31 December 2007			
	RR	USD	Euro	Other	RR	USD	Euro	Other
Assets								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements with other banks	0.0	0.1	0.0	0.0	-	3.8	-	4.3
Debt trading securities	37.1	-	-	-	11.1	-	-	-
Other debt securities at fair value through profit or loss	-	-	-	-	13.3	-	-	-
Due from other banks	10.3	6.0	-	-	7.5	7.3	4.8	-
Loans and advances to customers:								
- Corporate loans	15.9	12.4	-	-	15.1	11.9	10.0	-
- Loans to SME	18.6	12.5	15.3	-	15.0	11.6	11.8	-
- Loans to individuals - consumer loans	20.8	12.8	13.3	-	19.7	13.3	-	-
- Loans to individuals – car loans	15.8	13.0	11.9	-	15.2	12.8	12.0	-
- Mortgage loans	14.0	13.3	13.2	-	13.8	12.2	13.2	-
Finance lease receivables	23.2	15.5	19.3	-	20.0	15.1	14.1	-
Liabilities								
Due to other banks	13.8	4.5	6.4	-	10.8	8.0	7.7	-
Due to the Bank of Russia	12.7	-	-	-	-	-	-	-
Customer accounts								
- Current/settlement accounts of legal entities	-	-	-	-	-	-	-	-
- Current accounts of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	-
- Term deposits of legal entities	11.6	7.4	7.1	-	6.8	-	6.5	-
- Term deposits of individuals	11.1	7.7	6.0	3.0	8.9	7.3	5.1	-
Other borrowed funds	-	9.5	-	-	-	9.5	-	-
Promissory notes issued	8.1	-	-	-	5.5	-	-	-
Bonds issued	18.3	-	-	-	11.3	-	-	-
Loans from international financial institutions	22.7	5.4	7.5	-	9.8	7.7	7.0	-
Subordinated debt	-	8.9	-	-	-	9.4	-	-

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

Other price risk. The Group is exposed to limited risk as a result of fluctuation of equity securities' prices. Transactions with equity instruments are monitored and authorised by the Group's Treasury. If at 31 December 2008 equity prices had been 12% lower, with all other variables held constant, profit for the year would have been RR 3 895 thousand lower, mainly as a result of revaluation of equity securities at fair value through profit or loss.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

33 Financial Risk Management (Continued)

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

<i>In thousands of Russian Roubles</i>	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	13 989 446	116 376	172 393	-	14 278 215
Mandatory cash balances with the CBRF	55 994	-	-	-	55 994
Trading securities	919 753	-	-	-	919 753
Other securities at fair value through profit or loss	6 009	-	-	-	6 009
Due from other banks	50 437	-	-	-	50 437
Loans and advances to customers	29 132 715	-	-	-	29 132 715
Finance lease receivables	1 577 972	-	-	-	1 577 972
Other financial assets	850 623	-	-	1 475	852 098
Total financial assets	46 582 949	116 376	172 393	1 475	46 873 193
Other assets	3 780 179	-	-	-	3 780 179
Total assets	50 363 128	116 376	172 393	1 475	50 653 372
Liabilities					
Due to other banks	6 542 843	1 047 859	5 431 351	1 359	13 023 412
Customer accounts	21 057 809	115	174 350	19 449	21 251 723
Other borrowed funds	-	-	4 183 316	-	4 183 316
Debt securities in issue	216 241	-	-	-	216 241
Borrowings from international financial institutions	-	138 667	3 650 992	-	3 789 659
Subordinated debt	-	150 320	1 782 710	-	1 933 030
Other financial liabilities	488 795	-	512	-	489 307
Total financial liabilities	28 305 688	1 336 961	15 223 231	20 808	44 886 688
Other liabilities	287 577	-	-	-	287 577
Total liabilities	28 593 265	1 336 961	15 223 231	20 808	45 174 265
Net gap	21 769 863	(1 220 585)	(15 050 838)	(19 333)	5 479 107
Credit related commitments (Note 35)	1 875 126	248 339	76 172	636	2 200 273

33 Financial Risk Management (Continued)

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.

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

	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	2 874 609	984 436	114 964	-	3 974 009
Mandatory cash balances with the CBRF	422 059	-	-	-	422 059
Trading securities	963 633	-	-	-	963 633
Other securities at fair value through profit or loss	26 976	-	-	-	26 976
Due from other banks	1 392 965	-	24 685	-	1 417 650
Loans and advances to customers	27 436 108	-	-	-	27 436 108
Finance lease receivables	1 287 223	-	-	-	1 287 223
Other financial assets	770 021	-	28 835	-	798 856
Total financial assets	35 173 594	984 436	168 484	-	36 326 514
Other assets	3 134 547	-	-	-	3 134 547
Total assets	38 308 141	984 436	168 484	-	39 461 061
Liabilities					
Due to other banks	2 093 207	49 225	2 393 347	112	4 535 891
Customer accounts	19 225 323	-	9 751	9 986	19 245 060
Other borrowed funds	-	-	4 358 692	-	4 358 692
Debt securities in issue	1 523 329	-	-	-	1 523 329
Borrowings from international financial institutions	-	210 394	3 328 368	-	3 538 762
Subordinated debt	-	125 804	247 394	-	373 198
Other financial liabilities	365 079	-	-	-	365 079
Total financial liabilities	23 206 938	385 423	10 337 552	10 098	33 940 011
Other liabilities	294 330	-	-	-	294 330
Total liabilities	23 501 268	385 423	10 337 552	10 098	34 234 341
Net gap	14 806 873	599 013	(10 169 068)	(10 098)	5 226 720
Credit related commitments (Note 35)	311 024	-	12 843	-	323 867

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 11.

33 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Asset and Liability Committee and are used in the current operations of the Bank.

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

Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand (prescribed minimum level by the Central Bank of the Russian Federation – 15%). As at 31 December 2008 instant liquidity ratio (N2) is 237.6% (31 December 2007 – 50.5%).

Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days (prescribed minimum level by the Central Bank of the Russian Federation – 50%). As at 31 December 2008 current liquidity ratio (N2) is 181.6% (31 December 2007 – 71.9%).

Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year (prescribed maximum level by the Central Bank of the Russian Federation – 120%). As at 31 December 2008 long-term liquidity ratio (N2) is 55.6% (31 December 2007 – 84.0%).

The table below shows assets and liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in currency forward agreements to purchase financial assets for cash. Such undiscounted cash flows differ from the amounts included in the consolidated balance sheet because the balance sheet amounts are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

33 Financial Risk Management (Continued)

The maturity analysis of financial assets and liabilities at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	14 278 215	-	-	-	-	-	14 278 215
Mandatory cash balances with the CBRF	18 549	4 528	2 594	7 939	22 384	-	55 994
Trading securities	1 375 297	-	-	-	-	-	1 375 297
Other securities at fair value through profit or loss	-	-	-	-	-	6 009	6 009
Due from other banks	4 348	9 019	8 443	30 466	-	-	52 276
Loans and advances to customers	2 560 515	6 470 478	4 144 013	8 045 264	11 496 193	3 458 210	36 174 673
Finance lease receivables	104 431	206 550	277 138	530 061	835 013	-	1 953 193
Gross settled forwards	5 799 079	-	-	-	-	-	5 799 079
Other financial assets	190 543	570 451	9 243	12 718	39 143	30 000	852 098
Total financial assets	24 330 977	7 261 026	4 441 431	8 626 448	12 392 733	3 494 219	60 546 834
Liabilities							
Due to other banks	355 625	4 612 166	684 144	2 538 745	619 368	-	8 810 048
Due to the Bank of Russia	3 461 317	1 115 036	-	-	-	-	4 576 353
Customer accounts	7 903 433	1 929 517	1 105 332	3 382 543	9 537 292	-	23 858 117
Other borrowed funds	-	-	4 282 200	-	-	-	4 282 200
Debt securities in issue	5 105	-	32 286	206 012	-	-	243 403
Borrowings from international financial institutions	8 995	605 868	367 249	872 427	3 037 737	252 757	5 145 033
Subordinated debt	-	-	85 327	85 236	922 914	1 361 979	2 455 456
Gross settled forwards	5 797 148	-	-	-	-	-	5 797 148
Other financial liabilities	210 718	265 057	3 823	6 144	3 565	-	489 307
Total financial liabilities	17 742 341	8 527 644	6 560 361	7 091 107	14 120 876	1 614 736	55 657 065
Net liquidity gap at 31 December 2008	6 588 636	(1 266 618)	(2 118 930)	1 535 341	(1 728 143)	1 879 483	4 889 779
Cumulative liquidity gap at 31 December 2008	6 588 636	5 322 018	3 203 088	4 738 429	3 010 286	4 889 779	

33 Financial Risk Management (Continued)

The maturity analysis of financial assets and liabilities at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	3 974 009	-	-	-	-	-	3 974 009
Mandatory cash balances with the CBRF	180 529	45 524	55 613	83 887	56 505	1	422 059
Trading securities	1 016 242	-	-	-	-	-	1 016 242
Other securities at fair value through profit or loss	20 078	-	-	-	-	6 898	26 976
Due from other banks	694 439	213 235	360 224	136 527	60 180	-	1 464 605
Loans and advances to customers	1 384 819	3 629 743	5 058 884	8 615 377	12 423 547	2 777 954	33 890 324
Finance lease receivables	76 283	141 421	201 868	401 614	779 792	-	1 600 978
Gross settled forwards	2 520 366	5 085 483	-	-	-	-	7 605 849
Other financial assets	433 601	216 405	26 372	69 507	22 971	30 000	798 856
Total financial assets	10 300 366	9 331 811	5 702 961	9 306 912	13 342 995	2 814 853	50 799 898
Liabilities							
Due to other banks	276 529	1 981 990	590 707	1 529 816	421 477	-	4 800 519
Customer accounts	8 296 449	2 117 881	2 615 274	3 983 104	3 078 326	57	20 091 091
Other borrowed funds	-	-	193 831	193 831	4 488 357	-	4 876 019
Debt securities in issue	9 336	9 138	80 509	1 575 616	150 000	-	1 824 599
Borrowings from international financial institutions	8 021	840 790	308 847	715 667	1 682 784	273 543	3 829 652
Subordinated debt	-	-	17 123	17 177	229 295	267 837	531 432
Gross settled forwards	2 553 657	5 091 207	-	-	-	-	7 644 864
Other financial liabilities	260 254	39 427	8 051	4 932	13 400	-	326 064
Total financial liabilities	11 404 246	10 080 433	3 814 342	8 020 143	10 063 639	541 437	43 924 240
Net liquidity gap at 31 December 2007	(1 103 880)	(748 622)	1 888 619	1 286 769	3 279 356	2 273 416	6 875 658
Cumulative liquidity gap at 31 December 2007	(1 103 880)	(1 852 502)	36 117	1 322 886	4 602 242	6 875 658	

33 Financial Risk Management (Continued)

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2008:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	No defined maturity	Total
Assets								
Cash and cash equivalents	14 278 215	-	-	-	-	-	-	14 278 215
Mandatory cash balances with the CBRF	55 994	-	-	-	-	-	-	55 994
Trading securities	919 753	-	-	-	-	-	-	919 753
Other securities at fair value through profit or loss	-	-	-	-	-	-	6 009	6 009
Due from other banks	4 214	8 510	8 333	29 380	-	-	-	50 437
Loans and advances to customers	2 507 302	5 610 428	3 464 751	6 747 487	8 710 440	2 092 307	-	29 132 715
Finance lease receivables	89 344	155 767	208 313	424 671	699 877	-	-	1 577 972
Investment in associate	-	-	-	-	-	-	307 507	307 507
Intangible assets	-	-	-	-	-	-	301 729	301 729
Premises and equipment	-	-	-	-	-	-	2 773 671	2 773 671
Other financial assets	190 543	570 451	9 243	12 718	39 143	30 000	-	852 098
Other assets	65 708	50 319	8 368	147 084	125 793	-	-	397 272
Total assets	18 111 073	6 395 475	3 699 008	7 361 340	9 575 253	2 122 307	3 388 916	50 653 372
Liabilities								
Due to other banks	3 768 520	5 631 471	651 945	2 412 092	559 384	-	-	13 023 412
Customer accounts	7 879 892	1 819 410	962 733	3 104 080	7 485 608	-	-	21 251 723
Debt securities in issue	5 105	-	20 680	190 456	-	-	-	216 241
Other borrowed funds	-	-	4 183 316	-	-	-	-	4 183 316
Borrowings from international financial institutions	8 912	530 685	285 106	626 653	2 104 596	233 707	-	3 789 659
Subordinated debt	-	-	36 422	-	280 686	1 615 922	-	1 933 030
Other financial liabilities	210 718	265 057	3 823	6 144	3 565	-	-	489 307
Deferred tax liability	-	-	-	-	-	-	244 831	244 831
Other liabilities	24 560	1 359	15 155	1 672	-	-	-	42 746
Total liabilities	11 897 707	8 247 982	6 159 180	6 341 097	10 433 839	1 849 629	244 831	45 174 265
Net liquidity gap at 31 December 2008	6 213 366	(1 852 507)	(2 460 172)	1 020 243	(858 586)	272 678	3 144 085	5 479 107
Cumulative liquidity gap at 31 December 2008	6 213 366	4 360 859	1 900 687	2 920 930	2 062 344	2 335 022	5 479 107	

33 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The analysis by expected maturities may be summarised as follows at 31 December 2007:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Not defined maturity	Total
Assets								
Cash and cash equivalents	3 974 009	-	-	-	-	-	-	3 974 009
Mandatory cash balances with the CBRF	422 059	-	-	-	-	-	-	422 059
Trading securities	963 633	-	-	-	-	-	-	963 633
Other securities at fair value through profit or loss	20 078	-	-	-	-	-	6 898	26 976
Due from other banks	694 068	207 065	341 517	154 167	20 833	-	-	1 417 650
Loans and advances to customers	1 361 230	3 013 941	4 279 482	7 385 952	9 741 489	1 654 014	-	27 436 108
Finance lease receivables	55 987	102 160	149 122	318 186	661 768	-	-	1 287 223
Investment in associate	-	-	-	-	-	-	300 386	300 386
Intangible assets	-	-	-	-	-	-	209 439	209 439
Premises and equipment	-	-	-	-	-	-	2 413 656	2 413 656
Other financial assets	433 601	216 405	26 372	69 507	22 971	30 000	-	798 856
Other assets	-	30 728	46 963	9 663	123 712	-	-	211 066
Total assets	7 924 665	3 570 299	4 843 456	7 937 475	10 570 773	1 684 014	2 930 379	39 461 061
Liabilities								
Due to other banks	267 636	1 945 528	543 716	1 420 482	358 529	-	-	4 535 891
Customer accounts	8 231 739	2 075 826	2 535 847	3 825 087	2 576 527	34	-	19 245 060
Debt securities in issue	-	-	93 429	-	4 265 263	-	-	4 358 692
Other borrowed funds	9 336	9 048	26 559	1 478 386	-	-	-	1 523 329
Borrowings from international financial institutions	7 945	810 998	263 143	623 737	1 582 939	250 000	-	3 538 762
Subordinated debt	-	-	7 328	-	122 731	243 139	-	373 198
Other financial liabilities	267 306	78 442	999	4 932	13 400	-	-	365 079
Deferred tax liability	-	-	-	-	-	-	260 999	260 999
Other liabilities	151	26 128	7 052	-	-	-	-	33 331
Total liabilities	8 784 113	4 945 970	3 478 073	7 352 624	8 919 389	493 173	260 999	34 234 341
Net liquidity gap at 31 December 2007	(859 448)	(1 375 671)	1 365 383	584 851	1 651 384	1 190 841	2 669 380	5 226 720
Cumulative liquidity gap at 31 December 2007	(859 448)	(2 235 119)	(869 736)	(284 885)	1 366 499	2 557 340	5 226 720	

33 Financial Risk Management (Continued)

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank's Executive Board. This activity includes the following:

- Collecting information on operating losses;
- Identifying sources of operational risk in the credit institution's activity;
- Developing regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank's information security and continuity are ensured by the Bank's Information Security Policy developed on the basis of ISO 17799 and approved by the Board of Directors.

The Bank has a BBB policy that insures its property interests associated with ownership, use and disposal of the Bank's property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

The policy insures the following risks:

- Falsification (forgery) of documents;
- Transactions with falsified, lost or stolen securities;
- Transactions with false banknotes (coins);
- Disloyalty of employees;
- Loss or damage of valuable assets of the Bank during transportation;
- Loss or damage of financial documents during transportation by a courier (cash collection) company;
- Loss or damage of valuable assets belonging to the Bank and located in the Bank's specially equipped premises;
- Misappropriation by means of robbery, theft or abbrochment of valuable assets belonging to the Bank and located in the Bank's specially equipped premises;
- Misappropriation by means of robbery, theft or abbrochment of valuable assets belonging to the Bank's clients and located in the Bank's specially equipped premises.

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russian Federation, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level – 10%. As at 31 December 2008 statutory capital ratio is 13.4% (31 December 2007 – 11.9%);.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
<i>Tier 1 capital</i>		
Share capital	1 258 709	1 258 709
Share premium	1 646 428	1 646 428
Retained Earnings	1 294 051	1 117 712
Total tier 1 capital	4 199 188	4 022 849
<i>Tier 2 capital</i>		
Revaluation reserve for premises and equipment	1 279 919	1 203 871
Subordinated debt	1 801 753	310 919
Total tier 2 capital	3 081 672	1 514 790
Total capital	7 280 860	5 537 639

As at 31 December 2008 Bank's capital adequacy ratio, calculated in accordance with Basle Accord is 19.3% (31 December 2007 – 16.3%).

Management of the Bank believes that the Group and the Bank complied with all externally imposed capital requirements throughout 2008 and 2007. In accordance with the Bank's Risk Management Policy and Basel II requirements the Bank's capital is distributed to cover unexpected losses on credit, market and operational risks.

During the reporting year the Bank complied with capital distribution limits set by the Board of Directors.

35 Contingencies and Commitments

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

Tax legislation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

Capital expenditure commitments. At 31 December 2008 the Group has contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets totalling RR 116 577 thousand (31 December 2007: RR 155 911 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management of Bank believes that as at 31 December 2008 and 31 December 2007 the Group was in compliance with all covenants. The most significant and most important covenants are:

- to maintain a capital adequacy ratio as defined by the Basel Committee;
- to maintain liquidity ratios;
- to maintain the related party exposure ratio.

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

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Guarantees issued	1 944 851	311 024
Import documentary letters of credit	255 422	12 843
Total credit related commitments	2 200 273	323 867

35 Contingencies and Commitments (Continued)

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as this financial instrument may expire or terminate without being funded. Fair value of credit related commitments was RR 7,530 thousand at 31 December 2008 (31 December 2007: RR 3,214 thousand). Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
Russian Roubles	1 871 013	250 923
US Dollars	253 088	12 941
Euro	76 172	60 003
Total	2 200 273	323 867

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 55,994 thousand (31 December 2007: RR 422,059 thousand) represent mandatory reserve deposited with the CBRF, which are not available to finance the Bank's day to day operations.

36 Derivative Financial Instruments

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

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

	Note	31 December 2008		31 December 2007	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Russian Roubles</i>					
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		-	-	2 584 405	4 769 125
- USD payable on settlement (-)		-	-	(147 306)	-
- Euros receivable on settlement (+)		-	-	89 989	-
- Euros payable on settlement (-)		-	-	-	-
- RR receivable on settlement (+)		-	-	149 880	-
- RR payable on settlement (-)		-	-	(2 665 485)	(4 819 787)
Net fair value of foreign exchange forwards	24	-	-	11 483	(50 662)

The Group had outstanding obligations from unsettled spot transactions with foreign currencies. Net fair value of unsettled spot transactions as at 31 December 2008 is RR 1,931 thousand (31 December 2007: RR 164 thousand).

37 Fair Value of Financial Instruments

Fair value is the amount, at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss, and financial derivatives are carried on the consolidated balance sheet at their fair value. The fair values were determined based on quoted market prices.

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

Loans and receivables are carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008	31 December 2007
<i>Loans and advances to customers</i>		
Corporate loans and loans to SME	9.2 % - 62.2 %	9.0 % - 18.0 %
Loans to individuals - consumer loans	9.0 % - 54.8 %	13.0 % - 26.5 %
Loans to individuals – car loans	12.2% - 33.3 %	14.2% - 17.9 %
Mortgage loans	11.8% - 28.3 %	11.8% - 19.0 %
<i>Finance lease receivables</i>	16.0 % - 31.6 %	14.2 % - 22.7 %

Refer to Notes 11 and 12 for the estimated fair values of loans and advances to customers and finance lease receivables, respectively.

Liabilities carried at amortised cost. The fair value of bonds and other borrowed funds is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 18, 19, 20, 21, 22, 23 and 24 for the estimated fair values of due to other banks, customer accounts, debt securities in issue (promissory notes), other borrowed funds, borrowings from international financial institutions, subordinated debt and other financial obligations 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. Their fair values are based on observable market prices. Refer to Note 36.

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Notes to the Consolidated Financial Statements – 31 December 2008

37 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	14 278 215	14 278 215	3 974 009	3 974 009
- Cash on hand	2 008 963	2 008 963	1 488 219	1 488 219
- Cash balances with the CBRF (other than mandatory reserve deposits)	10 128 149	10 128 149	1 181 192	1 181 192
- Correspondent accounts with the banks of the Russian Federation	325 025	325 025	112 142	112 142
- Correspondent accounts and overnight placements with the banks of the other countries	288 769	288 769	1 099 400	1 099 400
- Settlement accounts with trading systems	1 527 309	1 527 309	93 056	93 056
Mandatory cash balances with the CBRF	55 994	55 994	422 059	422 059
Due from other banks	50 437	50 437	1 417 650	1 417 650
- Short-term placements with other banks with original maturities of less than three months	-	-	639 366	639 366
- Short-term placements with other banks with original maturities of more than three months	50 437	50 437	778 284	778 284
Loans and advances to customers	29 132 715	27 368 077	27 436 108	27 519 683
- Corporate loans and loans to SME	19 573 007	19 171 253	18 387 578	18 272 287
- Loans to individuals - consumer loans	6 593 635	5 813 838	6 655 193	6 693 331
- Mortgage loans	2 923 938	2 340 851	2 353 023	2 513 751
- Factoring	42 135	42 135	40 314	41 611
Finance lease receivables	1 577 972	1 508 745	1 287 223	1 290 991
Other financial assets	850 167	850 167	798 856	798 856
- Equipment purchased for leasing purposes	511 590	511 590	404 833	404 833
- Prepayments to suppliers of equipment for leasing purposes	131 786	131 786	145 390	145 390
- Receivables related to plastic card transactions	80 990	80 990	99 671	99 671
- Trade receivables and prepayments	74 855	74 855	84 519	84 519
- Target capital fund	30 000	30 000	30 000	30 000
- Settlements on brokerage operations	673	673	19 636	19 636
- Settlements on conversion operations	-	-	12 455	12 455
- Settlements on other operations	20 273	20 273	2 352	2 352
FINANCIAL ASSETS CARRIED AT FAIR VALUE	927 693	927 693	990 609	990 609
Total financial assets	46 873 193	45 039 328	36 326 514	36 413 857

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Notes to the Consolidated Financial Statements – 31 December 2008

37 Fair Value of Financial Instruments (Continued)

<i>In thousands of Russian Roubles</i>	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks	13 023 412	13 023 412	4 535 891	4 535 891
- <i>Current term placements of other banks</i>	8 501 775	8 501 775	4 535 737	4 535 737
- <i>Current term placements of the Bank of Russia</i>	4 519 28	4 519 287	-	-
- <i>Correspondent accounts of other banks</i>	2 350	2 350	154	154
Customer accounts	21 254 070	21 254 070	19 245 060	19 245 060
- <i>Current/settlement accounts of state and public organisations</i>	98 524	98 524	482 612	482 612
- <i>Term deposits of state and public organisations</i>	227 078	227 078	37 568	37 568
- <i>Current/settlement accounts of other legal entities</i>	5 588 125	5 588 125	5 267 982	5 267 982
- <i>Term deposits of other legal entities</i>	1 662 884	1 662 884	1 430 172	1 430 172
- <i>Current/demand accounts of individuals</i>	1 444 921	1 444 921	1 509 665	1 509 665
- <i>Term deposits of individuals</i>	12 232 538	12 232 538	10 517 061	10 517 061
Debt securities in issue	216 241	168 876	1 523 329	1 529 043
- <i>Promissory notes</i>	21 449	21 449	23 988	23 988
- <i>Bonds issued on domestic market</i>	194 792	169 083	1 499 341	1 505 055
Other borrowed funds	4 183 316	4 189 198	4 358 692	4 327 344
Borrowings from international financial institutions	3 789 659	3 789 659	3 538 762	3 538 762
Subordinated debt	1 933 030	1 933 030	373 198	373 198
Other financial liabilities	479 273	479 273	322 850	322 850
- <i>Prepayment under lease contracts</i>	348 214	348 214	208 907	208 907
- <i>Payables related to plastic card transactions</i>	80 486	80 486	97 189	97 189
- <i>Trade payables</i>	42 427	42 427	511	511
- <i>Settlements on conversion operations</i>	-	-	12 273	12 273
- <i>Other accrued liabilities</i>	8 146	8 146	3 970	3 970
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	10 024	10 024	42 229	42 229
Total financial liabilities	44 889 025	44 869 198	33 940 011	33 914 377

38 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

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

	Loans and receivables	Assets at fair value through profit or loss	Total
<i>In thousands of Russian Roubles</i>			
Assets			
Cash and cash equivalents	14 278 215	-	14 278 215
Mandatory cash balances with the CBRF	55 994	-	55 994
Trading securities	-	919 753	919 753
Other securities at fair value through profit or loss	-	6 009	6 009
Due from other banks	50 437	-	50 437
- <i>Short-term placements with other banks with original maturities of more than three months</i>	50 437	-	50 437
Loans and advances to customers	29 132 715	-	29 132 715
- <i>Loans to SME</i>	12 394 630	-	12 394 630
- <i>Corporate loans</i>	7 178 377	-	7 178 377
- <i>Loans to individuals – consumer and car loans</i>	6 593 635	-	6 593 635
- <i>Mortgage loans</i>	2 923 938	-	2 923 938
- <i>Factoring</i>	42 135	-	42 135
Finance lease receivables	1 577 972	-	1 577 972
Other financial assets:	850 167	1 931	852 098
- <i>Equipment purchased for leasing purposes</i>	511 590	-	511 590
- <i>Prepayments to suppliers of equipment for leasing purposes</i>	131 786	-	131 786
- <i>Receivables related to plastic card transactions</i>	80 990	-	80 990
- <i>Trade receivables and prepayments</i>	74 855	-	74 855
- <i>Target capital fund</i>	30 000	-	30 000
- <i>Foreign exchange forward contracts</i>	-	1 931	1 931
- <i>Settlements on brokerage operations</i>	673	-	673
- <i>Settlements on other operations</i>	20 273	-	20 273
Total financial assets	45 945 500	927 693	46 873 193
Non-financial assets			3 780 179
Total assets			50 653 372

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

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

<i>In thousands of Russian Roubles</i>	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Cash and cash equivalents	3 974 009	-	3 974 009
Mandatory cash balances with the CBRF	422 059	-	422 059
Trading securities	-	963 633	963 633
Other securities at fair value through profit or loss	-	26 976	26 976
Due from other banks	1 417 650	-	1 417 650
- <i>Short-term placements with other banks with original maturities of less than three months</i>	639 366	-	639 366
- <i>Short-term placements with other banks with original maturities of more than three months</i>	778 284	-	778 284
Loans and advances to customers	27 436 108	-	27 436 108
- <i>Loans to SME</i>	10 210 278	-	10 210 278
- <i>Corporate loans</i>	8 177 300	-	8 177 300
- <i>Loans to individuals – consumer and car loans</i>	6 655 193	-	6 655 193
- <i>Mortgage loans</i>	2 353 023	-	2 353 023
- <i>Factoring</i>	40 314	-	40 314
Finance lease receivables	1 287 223	-	1 287 223
Other financial assets:	798 856	-	798 856
- <i>Equipment purchased for leasing purposes</i>	404 833	-	404 833
- <i>Prepayments to suppliers of equipment for leasing purposes</i>	145 390	-	145 390
- <i>Receivables related to plastic card transactions</i>	99 671	-	99 671
- <i>Trade receivables and prepayments</i>	84 519	-	84 519
- <i>Target capital fund</i>	30 000	-	30 000
- <i>Settlements on brokerage operations</i>	19 636	-	19 636
- <i>Settlements on conversion operations</i>	12 455	-	12 455
- <i>Settlements on other operations</i>	2 352	-	2 352
Total financial assets	35 335 905	990 609	36 326 514
Non-financial assets			3 134 547
Total assets			39 461 061

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

39 Related Party Transactions

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

The Group's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

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

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

	31 December 2008			31 December 2007		
	Significant shareholders	Associate	Management and Board of Directors	Significant shareholders	Associate	Management and Board of Directors
Gross amount of loans and advances to customers (contractual interest rate: 2008: 10.5% - 18%; 2007: 10% - 14.00%)	-	-	14 950	-	-	19 967
Finance lease receivables	-	-	-	-	2 546	-
Customer accounts (contractual interest rate: 2008: 0% - 12%; 2007: 0% - 10.5%)	-	231 861	207 820	-	101 744	127 559
Due to banks (contractual interest rate: 2008: 4.0% - 6.3%; 2007: nil)	1 246 473	-	-	-	-	-
Borrowings from international financial institutions (contractual interest rate: 2008: 5.4% - 24.7%; 2007: 6.03% - 9.9%)	2 799 335	-	-	2 950 629	-	-
Subordinated loans (contractual interest rate: 2008: 9.0% 2007: nil)	1 486 215	-	-	-	-	-

39 Related Party Transactions (Continued)

	2008			2007		
	Significant shareholders	Associate	Management and Board of Directors	Significant shareholders	Associate	Management and Board of Directors
Interest income	-	-	1 501	-	-	1 554
Interest expense	(334 343)	(2 638)	(12 641)	(103 155)	-	(7 764)
Fee and commission income	-	1 215	-	-	-	26
Finance income arising from leasing operations	-	113	-	-	-	-

The issued and repaid loans to related parties were as follows:

	2008		2007	
	Significant shareholders	Management and Board of Directors	Significant shareholders	Management and Board of Directors
Loans issued to related parties during the year	-	18 238	-	32 847
Loans repaid by related parties during the year	-	24 756	-	20 271

39 Related Party Transactions (Continued)

The major shareholders of the Bank at 31 December 2008 and 31 December 2007 are as follows:

Shareholder	31 December 2008		31 December 2007	
	Equity share, %	Voting rights share, %	Equity share, %	Voting rights share, %
European Bank for Reconstruction and Development (EBRD)	24.58	27.45	24.58	27.45
German Investments and Development Company (DEG – Deutsche Investitions und Entwicklungsgesellschaft GmbH)	20.10	22.45	20.10	22.45
Erste Bank	9.80	9.80	-	-
Firebird funds	8.87	9.90	8.87	9.90
Vysokov Vasily Vasilievich	8.07	9.01	8.07	9.01
Vysokova Tatiana Nikolaevna	7.91	8.83	7.91	8.83
Rekha Holdings Limited	7.29	8.15	7.29	8.15

In 2008, the remuneration of members of the Board of Directors and members of the Management Board of the Group comprised salaries, discretionary bonuses and other short-term benefits totalling RR 140 360 thousand (2007: RR 106 910 thousand). In 2008, the Board of Directors consisted of 7 persons (2007: 7 persons) and the Management Board of the Group consisted of 7 persons (2007: 7 persons).

40 Subsidiary of the Bank

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of incorporation
OOO Centr-Leasing	Leasing	100%	100%	Russia

OOO Centr-Leasing is a leasing company established by the Bank.

41 Events After the Balance Sheet Date

In February 2009 the Bank repaid its syndicated loan from Commerzbank in the amount of USD 145 million.

New loan agreements. In March 2009 the Bank signed an agreement with the European Bank for Reconstruction and Development (EBRD) for USD 35 million for five years.