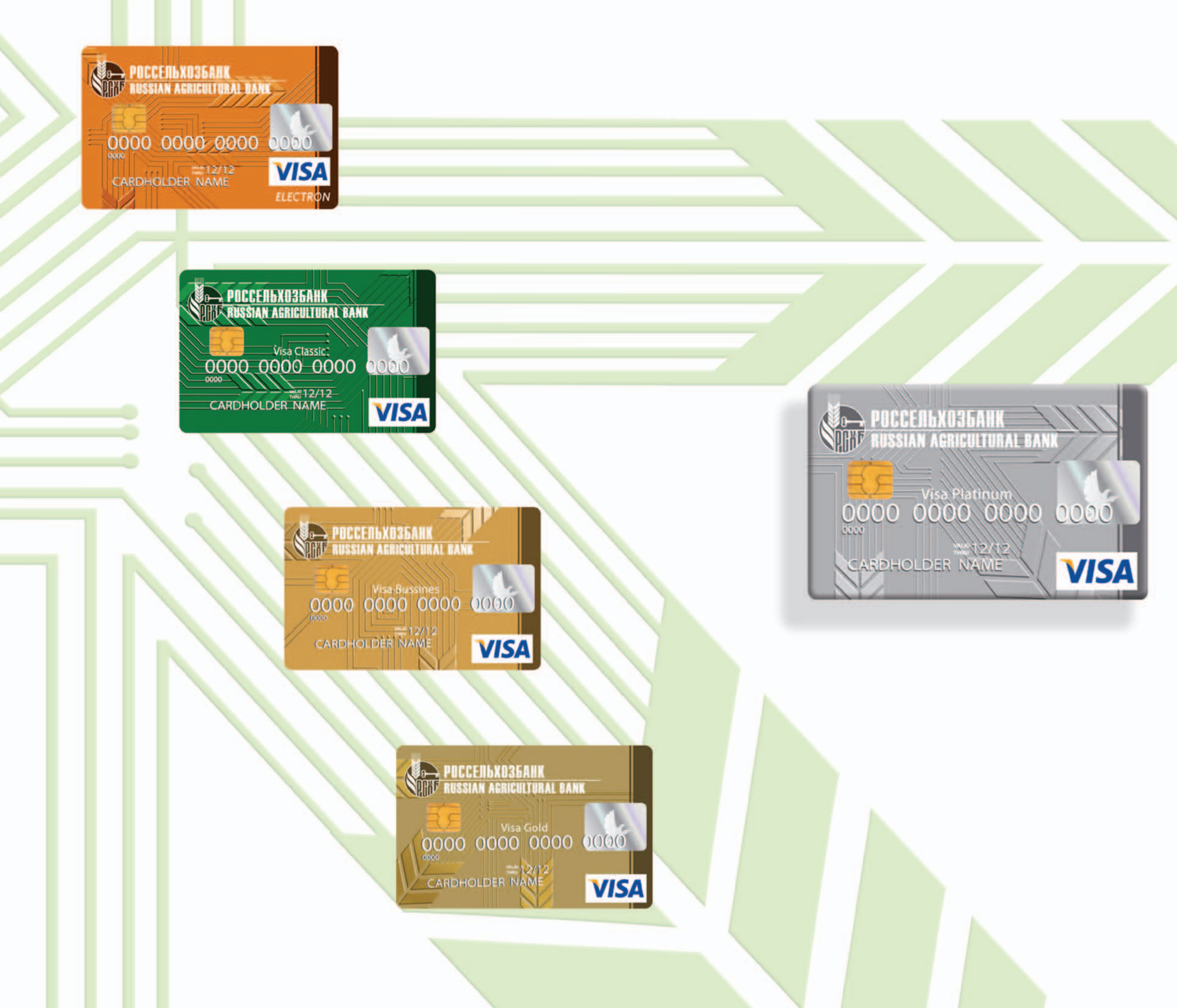
Russian Agricultural Bank

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

31 December 2008



RUSSIAN AGRICULTURAL BANK GROUP

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

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank:

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

Management's Responsibility for the 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
13 May 2009

Russian Agricultural Bank Group
Consolidated Balance Sheet

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	7	83 177 384	33 990 183
Mandatory cash balances with the Central Bank of the Russian Federation		962 895	2 441 967
Trading securities	8	17 667 682	12 056 055
Repurchase receivable	8	-	98 326
Other securities at fair value through profit or loss	9	4 438 652	-
Derivative financial instruments	32	30 777 358	276 806
Due from other banks	10	96 879 909	1 627 975
Loans and advances to customers	11	452 300 667	291 583 137
Investment securities available for sale	12	4 793 190	1 156 720
Investment securities held to maturity	13	10 206 528	5 495 475
Deferred income tax asset	27	14 412	5 815
Intangible assets	14	740 820	347 353
Premises and equipment	14	8 932 397	6 924 308
Current income tax prepayment		176 491	51 518
Other assets	15	2 045 459	404 563
Total assets		**713 113 844**	**356 460 201**
Liabilities			
Derivative financial instruments	32	4 252 538	3 559 959
Due to other banks	16	243 101 845	61 302 829
Customer accounts	17	154 495 007	95 957 714
Promissory notes issued	18	9 845 488	32 361 154
Other borrowed funds	19	175 914 283	95 288 645
Syndicated loans	20	10 531 712	15 572 209
Deferred income tax liability	27	569 135	692 694
Other liabilities	21	1 105 772	580 923
Subordinated debts	22	45 539 944	17 320 463
Total liabilities		**645 355 724**	**322 636 590**
Equity			
Share capital	23	61 972 833	28 477 833
Revaluation reserve for premises		952 179	911 151
Revaluation reserve for Investment securities available for sale		(1 504 419)	(1 658)
Retained earnings		6 337 188	4 435 587
Net assets attributable to the Bank's equity holders		**67 757 781**	**33 822 913**
Minority interest		**339**	**698**
Total equity		**67 758 120**	**33 823 611**
Total liabilites and equity		**713 113 844**	**356 460 201**

Approved for issue and signed on behalf of the Management Board on 13 May 2009.

Y.V. Trushin
Chairman of the Management Board

O.V.Nikonov
Chief Accountant

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

Russian Agricultural Bank Group
Consolidated Income Statement

In thousands of Russian Roubles	Note	2008	2007
Interest income	24	56 082 208	32 603 226
Interest expense	24	(29 519 563)	(15 573 943)
Net interest income		**26 562 645**	**17 029 283**
Provision for loan impairment	10,11	(9 495 348)	(3 112 996)
Net interest income after provision for loan impairment		**17 067 297**	**13 916 287**
Gains less losses/ (losses net of gains) from trading securities		173 785	(189 242)
Losses net of gains from other securities at fair value through profit or loss		(1 079 136)	-
Gains less losses from disposal of investment securities available for sale		4 265	-
(Losses net of gains)/ gains less losses from trading in foreign currencies		(1 175 364)	63 268
Foreign exchange translation (losses net of gains)/ gains less losses		(32 106 241)	5 660 275
Gains less losses/ (losses net of gains) from derivative financial instruments	32	33 500 103	(4 156 845)
Fee and commission income	25	2 233 652	1 136 187
Fee and commission expense	25	(213 287)	(102 003)
Provision for other assets	15	(36 140)	(7 981)
Gains from early redemption of other borrowed funds and buy-back of subordinated debts	19,22	1 122 128	-
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project		-	8 468
Other operating income		102 981	107 715
Administrative and other operating expenses	26	(16 258 790)	(10 593 349)
Profit before tax		**3 335 253**	**5 842 780**
Income tax expense	27	(1 281 907)	(1 488 953)
Profit for the year		**2 053 346**	**4 353 827**
Profit attributable to:			
Equity holders of the Bank		2 053 685	4 353 671
Minority interest		(339)	156
Profit for the year		**2 053 346**	**4 353 827**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted	**35**	**52**	**208**

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

Russian Agricultural Bank Group
Consolidated Statement of Changes in Equity

In thousands of Russian Roubles	*Note*	Attributable to equity holders of the Bank: Share capital	Revaluation reserve for premises	Revaluation reserve for available for sale securities	Retained earnings	Total	Minority interest	Total equity
Balance at 31 December 2006		**21 620 833**	**-**	**-**	**308 366**	**21 929 199**	**557**	**21 929 756**
Premises:								
-Revaluation		-	1 198 883	-	-	1 198 883	-	1 198 883
Securities available for sale:								
-Revaluation of securities	12	-	-	(2 182)	-	(2 182)	-	(2 182)
Income tax recognised in equity	27	-	(287 732)	524		(287 208)		(287 208)
Net income/ (loss) recognised directly in equity		-	911 151	(1 658)	-	909 493	-	909 493
Profit for the year		-	-	-	4 353 671	4 353 671	156	4 353 827
Total recognised income / (loss) for 2007		-	911 151	(1 658)	4 353 671	5 263 164	156	5 263 320
Share issue	23	6 857 000	-	-	-	6 857 000	-	6 857 000
Dividends declared	28	-	-	-	(226 450)	(226 450)	(15)	(226 465)
Balance at 31 December 2007		**28 477 833**	**911 151**	**(1 658)**	**4 435 587**	**33 822 913**	**698**	**33 823 611**
Premises:								
-Revaluation		-	24 195	-	-	24 195	-	24 195
-Realised revaluation reserve	14	-	(32 854)	-	32 854	-	-	-
Securities available for sale:								
-Revaluation of securities	12	-	-	(1 881 224)	-	(1 881 224)	-	(1 881 224)
-Disposals of securities	12	-	-	2 882	-	2 882	-	2 882
Income tax recognised in equity	27	-	49 687	375 581	(6 570)	418 698	-	418 698
Net income/ (loss) recognised directly in equity		-	41 028	(1 502 761)	26 284	(1 435 449)	-	(1 435 449)
Profit /(loss) for the year		-	-	-	2 053 685	2 053 685	(339)	2 053 346
Total recognised income / (loss) for 2008		-	41 028	(1 502 761)	2 079 969	618 236	(339)	617 897
Share issue	23	33 495 000	-	-	-	33 495 000	-	33 495 000
Dividends declared	28	-	-	-	(178 368)	(178 368)	(20)	(178 388)
Balance at 31 December 2008		**61 972 833**	**952 179**	**(1 504 419)**	**6 337 188**	**67 757 781**	**339**	**67 758 120**

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

Russian Agricultural Bank Group
Consolidated Statement of Cash Flows

In thousands of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
Interest received		55 216 614	32 341 424
Interest paid		(27 376 876)	(13 713 088)
Losses incurred from trading in securities		(186 232)	(51 779)
Gains from early redemption of other borrowed debts and buy-back of subordinated debts		1 122 128	-
(Losses incurred)/income received from trading in foreign currencies		(1 175 364)	63 271
Income received/(losses incurred) from derivative financial instruments		3 692 130	(1 344 542)
Fees and commissions received		2 451 375	1 132 712
Fees and commissions paid		(233 089)	(94 830)
Income received from the Ministry of Agriculture of the Russian Federation		-	8 468
Other operating income received		101 975	95 778
Staff costs paid		(10 090 104)	(6 669 645)
Administrative and other operating expenses paid		(4 690 648)	(3 327 393)
Income tax paid		(1 120 338)	(656 180)
Cash flows from operating activities before changes in operating assets and liabilities		**17 711 571**	**7 784 196**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		1 479 072	(724 544)
Net increase in trading securities		(16 881 906)	(5 454 581)
Net increase in other securities at fair value through profit or loss		(4 431 255)	-
Net (increase)/decrease in due from other banks		(89 642 711)	1 196 089
Net increase in loans and advances to customers		(167 705 502)	(138 835 282)
Net (increase)/decrease in other assets		(478 693)	8 787
Net increase in due to other banks		161 759 856	26 926 176
Net increase in customer accounts		55 535 245	61 301 304
Net decrease in promissory notes issued		(21 316 384)	(6 601 790)
Net decrease in other liabilities		(25 036)	(999)
Net cash used in operating activities		**(63 995 743)**	**(54 400 644)**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(3 064 462)	(3 585 545)
Proceeds from disposal of premises and equipment		10 930	3 961
Dividend income received		658	900
Acquisition of intangible assets	14	(513 541)	(238 992)
Acquisition of investment securities available for sale	12	(1 548 861)	(1 156 725)
Proceeds from disposal of investment securities available for sale	12	1 269 957	-
Acquisition of investment securities held to maturity		(12 778 212)	(5 477 725)
Proceeds from redemption of investment securities held to maturity		15 777 975	-
Net cash used in investing activities		**(845 556)**	**(10 454 126)**
Cash flows from financing activities			
Proceeds from other borrowed funds	19	66 949 928	60 371 412
Repayment of other borrowed funds	19	(11 847 921)	-
Proceeds from syndicated loans	20	-	13 430 872
Repayment of syndicated loans	20	(6 971 751)	-
Proceeds from subordinated debt	22	25 000 000	5 180 200
Buy-back of subordinated debt	22	(185 568)	-
Issue of ordinary shares	23	33 495 000	6 857 000
Dividends paid	28	(178 388)	(226 465)
Net cash from financing activities		**106 261 300**	**85 613 019**
Effect of exchange rate changes on cash and cash equivalents		7 767 200	(383 761)
Net increase in cash and cash equivalents		49 187 201	20 374 488
Cash and cash equivalents at the beginning of the year		33 990 183	13 615 695
Cash and cash equivalents at the end of the year	7	83 177 384	33 990 183

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2008 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group"). Refer to Note 37 for information about the subsidiaries.

Principal activity. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises.

The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. 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 RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2007: 76) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky lane 3.

The number of the Group's employees at 31 December 2008 was 24 511 (31 December 2007: 19 025).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

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 33.25 at 30 April 2009.

Due to increased market volatility, one-day MosPrime rate fluctuated between 3.38% p.a. and 22.67% p.a. during the period from 1 July 2008 till 31 December 2008.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 427 080 000 thousand at 31 December 2008 to USD 383 905 000 thousand at 30 April 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 111.41 at 27 August 2008 to USD 41.83 at 31 December 2008 and USD 48.57 at 30 April 2009.

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

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

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

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

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. In the fourth quarter 2008 several banks from Russian top-50 banks list were acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

Impact on borrowers: Borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for borrowers may also have an impact on management’s cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

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

Fair value of financial assets and liabilities: The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Valuation of property measured at fair value: The market in Russia for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 16 Property, Plant and Equipment has been updated to reflect market conditions at the reporting date.

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

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

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 initial recognition of financial instruments at fair value, the revaluation of premises, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivable and derivative financial instruments). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

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

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

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

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.

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

Financial instruments — key measurement terms. Depending on their classification financial instruments are carried at 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 financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

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

Initial recognition of financial instruments. Trading securities, investment securities available for sale, 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 are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in 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.

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

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

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets 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 performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. The Group may reclassify financial assets into this category from fair value through profit or loss or available for sale categories in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and 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 installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other non-financial and financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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.

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

Premises owned by the Group were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Revaluation recognized by method of proportion changes in cost and accumulated depreciation of revalued premises. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At each reporting date management assesses whether there is any indication of impairment of equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

	Useful lives in years
Premises	40
Equipment	5 – 20
Leasehold improvements	10

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

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

Acquired computer software licenses 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 the 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 5 years.

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

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

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

Promissory notes issued. Promissory notes issued by the Group include promissory notes denominated in Russian Roubles, US Dollars and Euro. They are carried at amortised cost. If the Group purchases its own promissory notes issued, 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.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Syndicated loans. Syndicated loans include the amounts attracted in US Dollars and Euro by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, an Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial 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 financial instruments are included in gains/losses from derivative financial instruments. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with 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.

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 and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any 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.

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.

Commission on agency services are recognised based on the applicable service contracts. Income received from the Ministry of Agriculture and expenses incurred related to the Bank's participation in the national project "Development of Agro-Industrial Sector" are recognised by reference to the stage of completion of the services.

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

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 (2007: USD 1 = RR 24.5462), EUR 1 = RR 41.4411 (2007: EUR 1 = RR 35.9332).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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.

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated income statements.

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 accounting policies. The accounting policies applied in the preparation of these consolidated financial statements are consistent with the accounting policies applied in the preparation of consolidated financial statements of the Group for the year ended 31 December 2007, except for the application of new standards, which became effective from 1 January 2008, described in Note 5.

Changes in accounting estimates. The Group changed its accounting estimates for useful life of one class of premises and equipment – "leasehold (premises) improvement", and starting from 1 January 2008, applies an annual depreciation rate of 10% (31 December 2007: 2.5%). In case of applying annual depreciation rate of 2.5%, the depreciation amount for 2008 would be less by RR 102 033 thousand.

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 247 331 thousand (31 December 2007: RR 156 739 thousand) higher or RR 266 891 thousand (31 December 2007: RR 151 320 thousand) lower.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 33.

Leasehold (premises) improvements' depreciation. The Group estimates the useful lives of leasehold (premises) equipment taking into consideration repeated extension of lease contracts, implementation of the policy of gradual purchase of the earlier leased buildings into the Group's ownership as well as "substance over form" principle.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Revaluation of premises. Premises of the Group are stated at revalued amounts. The fair value of premises was determined by an independent appraiser based mainly on the comparative sales method. There is a lack of observable data on this market and the appraiser used certain judgments for identification of comparative sales and adjustments to them. As a result of revaluation the value of premises in 2008 decreased by RR 454 641 thousand (2007: increased by RR 1 270 012 thousand). At 31 December 2008 the carrying amount of premises would have been RR 4 266 453 thousand (2007: RR 2 826 528 thousand) had the assets been carried at cost less depreciation.

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

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

Related party transactions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in identification of related parties to be disclosed in the consolidated financial statements. Refer to Note 36.

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 for 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. Refer to Notes 8 and 12 for the details of the reclassifications made.

6 New Accounting Pronouncements

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). 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 amendment to the standard to have a material effect on its consolidated financial statements.

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

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 consolidated 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 any 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. The Group does not expect the amendment to have any effect on its consolidated financial statements.

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

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

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

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). 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 any impact on the Group's 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 (issued in 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 any impact on the Group's consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, 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.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). 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.

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

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

Embedded Derivatives — Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group is currently assessing the impact of the amendment on its future consolidated financial statements.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2008	2007
Cash on hand	5 503 536	2 991 048
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- Russian Federation	5 404 246	8 008 658
- Other countries	41 172 594	2 279 030
Settlement accounts with MICEX, RTS and NCC	3 212 030	102 358
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	43 530	923 610
Total cash and cash equivalents	**83 177 384**	**33 990 183**

As at 31 December 2008 cash equivalents of RR 43 530 thousand (2007: RR 923 610 thousand) are effectively collateralized by securities purchased under reverse sale and repurchase agreements at a fair value of RR 58 635 thousand (2007: RR 1 029 897 thousand). The Group has a right to sell or repledge these securities.

As at 31 December 2008 correspondent accounts and deposits with other banks with maturities less than one month included the balance with one foreign bank with rating AA- (S&P) in the amount of RR 41 103 938 thousand or 49% of total cash and cash equivalents (31 December 2007: another foreign bank with rating AA- (S&P) in the amount of RR 2 210 020 thousand or 7% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In thousands of Russian Roubles	2008	2007
Current and not impaired		
Cash on hand	5 503 536	2 991 048
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Correspondent accounts and deposits with other banks with maturities less than one month:		
– OECD banks and their subsidiary banks	41 175 867	4 381 798
– top 30 Russian banks (by net assets) and their subsidiary banks	4 879 940	4 152 803
– other Russian banks	520 669	1 753 087
– other non-resident banks	364	-
Settlement accounts with MICEX, RTS and NCC	3 212 030	102 358
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month		
– top 30 Russian banks (by net assets) and their subsidiary banks	43 530	823 504
– other Russian banks	-	100 106
Total cash and cash equivalents	**83 177 384**	**33 990 183**

Geography analysis and interest rate analysis of cash and cash equivalents is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivable

In thousands of Russian Roubles	2008	2007
Trading securities		
Corporate bonds	17 312 961	3 525 374
Municipal bonds	354 721	1 007 708
Federal loan bonds (OFZ)	-	3 080 494
Corporate Eurobonds	-	2 875 834
Promissory notes	-	1 454 768
Corporate shares	-	111 877
Total trading securities	**17 667 682**	**12 056 055**
Repurchase receivable		
Municipal bonds	-	98 326

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, Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt securities outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	16 490 263	-	822 698	17 312 961
Municipal bonds	354 721	-	-	354 721
Total debt trading securities	**16 844 984**	-	**822 698**	**17 667 682**

** or ratings of other analogous rating agencies.*

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

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	2 272 711	-	1 252 663	3 525 374
Federal loan bonds (OFZ)	3 080 494	-	-	3 080 494
Corporate Eurobonds	1 533 652	1 342 182	-	2 875 834
Promissory notes	796 674	184 471	473 623	1 454 768
Municipal bonds	1 007 708	-	-	1 007 708
Total debt trading securities	8 691 239	1 526 653	1 726 286	11 944 178
Repurchase receivable				
Municipal bonds	98 326	-	-	98 326

** or ratings of other analogous rating agencies.*

If a security's rating is unavailable the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from June 2009 to December 2013 (2007: from April 2008 to March 2017), coupon rate from 9.8% to 13.5% p.a. (2007: from 6.7% to 13.5% p.a.) and yield to maturity or to next repricing date from 1.8% to 13.5% p.a. (2007: from 6.8% to 16% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from September 2010 to June 2017 (2007: from May 2008 to June 2015), coupon rate from 6.8% to 8.0% p.a. (2007: 6.8% to 10.0% p.a.) and yield to maturity from 2.0% to 7.3% p.a. (2007: from 6.0% to 7.8% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

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

Geographical and interest rate analyses of trading securities and repurchase receivable are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Note 36.

The Group reclassified the following financial assets from held for trading category during 2008 (Note 5):

In thousands of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 140 651	7 825 327	5.7 – 7.3
Municipal bonds	1 200 928	1 697 637	7.1 – 9.2
Corporate bonds	979 905	1 410 745	6.7 – 10.1
Corporate Eurobonds	792 917	1 299 959	7.0 – 8.8
Reclassified into available for sale			
Municipal bonds	53 506	56 372	7.0
Corporate bonds	2 792 246	3 867 730	7.3 – 15.4
Corporate Eurobonds	1 958 563	2 918 227	6.2 – 11.6
Corporate shares	12 210	12 210	-
Total	11 930 926	19 088 207	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

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

In thousands of Russian Roubles	Carrying value	Fair value
Reclassified into held to maturity		
Federal loan bonds (OFZ)	4 126 378	3 590 218
Municipal bonds	1 201 081	914 428
Corporate bonds	982 200	805 639
Corporate Eurobonds	994 846	688 143
Reclassified into available for sale		
Municipal bonds	51 024	51 024
Corporate bonds	2 180 572	2 180 572
Corporate Eurobonds	1 351 836	1 351 836
Corporate shares	5 025	5 025
Total	10 892 962	9 586 885

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

In thousands of Russian Roubles	The fair value gain/(loss) recognised up to the date of reclassification		Income recognised after reclassification		Losses that would have been recognised if the assets had not been reclassified
	2007	6 months 2008	Interest income	foreign exchange gains less losses	
Reclassified into held to maturity					
Federal loan bonds (OFZ)	158 394	(114 205)	150 117	-	(536 160)
Municipal bonds	36 546	(27 830)	50 829	-	(286 653)
Corporate bonds	47 090	(33 156)	38 411	-	(176 561)
Corporate Eurobonds	(18 343)	(23 444)	34 803	207 994	(306 703)
Reclassified into available for sale					
Municipal bonds	-	(889)	2 818	-	(2 515)
Corporate bonds	(8 987)	(9 343)	142 366	-	(483 727)
Corporate Eurobonds	(100 258)	12 729	92 028	505 926	(1 119 127)
Corporate shares	(1 812)	(6 447)	-	-	(7 185)
Total	112 630	(202 585)	511 372	713 920	(2 918 631)

9 Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	2008	2007
Other securities at fair value through profit or loss		
Credit Linked Notes	4 438 652	-
Total other securities at fair value through profit or loss	4 438 652	-

International credit rankings of issuers of the above notes were not less than BB- as at 31 December 2008.

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 key management personnel assess performance of the investments based on their fair values in accordance with a documented strategy.

In April 2008, the Group purchased a 3 times Leveraged Credit Linked Note (CLN) from one OECD bank in the nominal amount of USD 167 000 thousand with maturity on 3 April 2013 and semi-annual coupon at the rate of LIBOR + 6.4% p.a. The Note has two embedded derivatives – put/call option at 3 April 2011 and Credit Default Swap (CDS) linked to another Russian state-owned bank. At the same time the Bank obtained a loan from the issuer of this CLN in the total amount of USD 500 000 thousand. In accordance with the respective agreement, the Issuer has the option to accelerate the Note in full as the result of a trigger event occurring on or prior to the maturity date. The trigger event is described as an event when CDS spread on the above state-owned bank becomes greater than specified rates, and in such case the Group has an option to place a surety deposit with this OECD bank. To prevent the occurrence of early redemption of the Note, the Group placed deposits with an OECD bank in the total amount of USD 334 000 thousand in three tranches in September-October 2008; they mature in April 2011 and pay a daily coupon rate equal to the Overnight Deposit Rate published by Federal Reserve System. The Group will have an option to withdraw the deposit with accrued interest at the maturity date or at any date when the CDS spread on the reference state-owned bank is less than the specified rates. In February 2009 the counterparties unwound this instrument with no significant gain or loss.

In May 2008, the Group purchased a Credit Linked Note from another OECD bank in the nominal amount of RR 2 500 000 thousand at the net price of 19.5% of nominal amount with maturity on 30 May 2023 and zero coupon. The Note has an embedded CDS linked to the Bank.

Geography analysis and interest rate analysis of other securities at fair value through profit or loss is disclosed in Note 30.

10 Due from Other Banks

In thousands of Russian Roubles	2008	2007
Current term placements with other banks	96 879 909	1 627 975
Total due from other banks	**96 879 909**	**1 627 975**

In 2008 no provision for impairment of due from other banks was created (2007: nil).

Analysis by credit quality of amounts due from other banks is as follows:

In thousands of Russian Roubles	2008	2007
Current and not impaired		
OECD banks and their subsidiary banks	74 406 732	173 413
Top 30 Russian banks (by net assets) and their subsidiary banks	14 843 631	150 596
Other Russian banks	4 568 964	958 859
Other non-resident banks	3 060 582	345 107
Total current and not impaired	**96 879 909**	**1 627 975**

Analysis of amounts due from other banks by collateral is as follows:

In thousands of Russian Roubles	2008	2007
Unsecured interbank loans	71 274 943	1 151 398
Interbank loans collateralised by:		
- guarantee deposits	23 687 131	-
- other assets	1 917 835	303 164
- securities	-	173 413
Total due from other banks	**96 879 909**	**1 627 975**

As at 31 December 2008 the Group has placements with three foreign and one Russian banks with aggregated balances of RR 77 622 828 thousand, or 80% of total due from other banks (2007: three Russian banks with aggregated amount of RR 901 845 thousand, or 55% of total due from other banks).

For the estimated fair value of due from other banks refer to Note 33.

Geographical and interest rate analyses of due from other banks are disclosed in Note 30.The information on related party balances is disclosed in Note 36.

11 Loans and Advances to Customers

In thousands of Russian Roubles	2008	2007
Loans to legal entities		
- Loans to corporates	398 546 191	247 233 851
- Lending for food interventions	10 442 420	3 189 928
- Investments in agricultural cooperatives	702 110	663 912
- Deals with securities purchased under "reverse-repo agreements"	621 824	2 466 091
Loans to individuals	58 545 109	45 130 912
Total loans and advances to customers (before impairment)	468 857 654	298 684 694
Less: Provision for loan impairment	(16 556 987)	(7 101 557)
Total loans and advances to customers	452 300 667	291 583 137

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate from 1/2 to 2/3 of the rate of refinancing of the Bank of Russia of the contributions made. The Group's management has an intention to make cooperative member contributions for the period of 5 to 8 years and at the end to withdraw its contributions.

At 31 December 2008, loans and advances to customers of RR 621 824 thousand (2007: RR 2 466 091 thousand) are effectively collateralised by securities purchased under reverse repo agreements with a fair value of RR 815 787 thousand (2007: RR 2 832 727 thousand). The Group has the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

	2008				2007		
In thousands of Russian Roubles	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	Loans to corporates	Loans to individuals	Total
Provision for loan impairment at 1 January	6 525 072	-	576 485	7 101 557	3 861 793	195 723	4 057 516
Provision for loan impairment during the year	8 763 578	19 647	712 123	9 495 348	2 732 234	380 762	3 112 996
Loans and advances to customers written off during the year as uncollectible	(39 918)	-	-	(39 918)	(68 955)	-	(68 955)
Provision for loan impairment at 31 December	15 248 732	19 647	1 288 608	16 556 987	6 525 072	576 485	7 101 557

In 2008 no provision for "Lending for food interventions" and "Reverse repo agreements" was created (2007: nil).

The economic sector structure of the credit portfolio is as follows:

	2008		2007	
In thousands of Russian Roubles	Amount	%	Amount	%
Agriculture	281 419 132	60	178 741 880	60
Manufacturing	72 123 847	15	39 079 200	13
Individuals	58 545 109	13	45 130 912	15
Trading	32 158 604	7	20 449 398	7
Construction	14 819 092	3	6 177 875	2
Other	9 791 870	2	9 105 429	3
Total loans and advances to customers (before impairment)	**468 857 654**	**100**	**298 684 694**	**100**

As at 31 December 2008 included in gross amount of loans are loans in the amount of RR 292 910 376 thousand (2007: RR 193 523 446 thousand), where borrowers are eligible for interest subsidies from Federal and regional budgets. Subsidies are paid directly to the borrowers.

As at 31 December 2008, the aggregate amount of loans to individuals included loans in the amount of RR 43 811 536 thousand issued to individuals — sole farmers (2007: RR 35 300 549 thousand).

For the estimated fair value of loans and advances to customers refer to the Note 33.

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of the borrower's activities taking into account its financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the effective Methodology of financial assets impairment evaluation the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category ***"collectively assessed for impairment"***.

As a ***loss event*** the Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

for loans issued to legal entities (including individual entrepreneurs – sole farmers):

- significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the Methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
- violation of contract – principle or interest overdue by more than 5 days;

for loans issued to individuals:

- significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
- violation of contract – principle or interest overdue by more than 30 days.

As a ***default*** of a borrower/debtor the Group recognises objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

for legal entities (including individual entrepreneurs – sole farmers):

- the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
- the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
- the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
- the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
- the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
- loans overdue by over 365 days;

for individuals:

- death of the debtor in the absence of heirs and inheritance;
- the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
-good financial position	-	10 442 420	621 824	-	-	11 064 244
Total current and not impaired	-	10 442 420	621 824	-	-	11 064 244
2. Collectively assessed for impairment						
Current						
-good financial position	183 772 483	-	-	702 110	-	184 474 593
-average financial position	132 823 107	-	-	-	-	132 823 107
-included in portfolios of similar risk loans	40 558 851	-	-	-	56 667 454	97 226 305
-loans whose terms were renegotiated	5 519 688	-	-	-	737 625	6 257 313
Overdue						
-overdue by: less than 6 days for legal entities,less than 31 days for individuals	1 148 464	-	-	-	433 964	1 582 428
Total collectively assessed for impairment	363 822 593	-	-	702 110	57 839 043	422 363 746
3. Individually assessed for impairment						
-watch list	16 483 829	-	-	-	-	16 483 829
-poor financial position	1 960 528	-	-	-	-	1 960 528
-6 to 30 days overdue	1 412 671	-	-	-	-	1 412 671
-31 to 90 days overdue	4 543 246	-	-	-	194 242	4 737 488
-91 to 180 days overdue	3 639 426	-	-	-	159 337	3 798 763
-181 to 365 days overdue	3 799 608	-	-	-	240 780	4 040 388
-over 365 days overdue	2 884 290	-	-	-	111 707	2 995 997
Total individually assessed for impairment	34 723 598	-	-	-	706 066	35 429 664
Total loans and advances to customers (before impairment)	398 546 191	10 442 420	621 824	702 110	58 545 109	468 857 654
Provision for loan impairment	(15 248 732)	-	-	(19 647)	(1 288 608)	(16 556 987)
Total loans and advances to customers	383 297 459	10 442 420	621 824	682 463	57 256 501	452 300 667

Loans included in the watch list are in the process of restructuring and renegotiation.

Analysis of loans by credit quality at 31 December 2007 is as follows:

In thousands of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	3 189 928	2 466 091	663 912	-	6 319 931
Total current and not impaired	-	3 189 928	2 466 091	663 912	-	6 319 931
2. Collectively assessed for impairment						
Current						
- good financial position	132 538 538	-	-	-	-	132 538 538
- average financial position	81 562 811	-	-	-	-	81 562 811
- included in portfolios of similar risk loans	25 783 619	-	-	-	44 158 347	69 941 966
- loans whose terms were renegotiated	1 469 860	-	-	-	397 832	1 867 692
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	493 930	-	-	-	99 531	593 461
Total collectively assessed for impairment	241 848 758	-	-	-	44 655 710	286 504 468
3. Individually assessed for impairment						
- poor financial position	1 458 730	-	-	-	-	1 458 730
- 6 to 30 days overdue	176 845	-	-	-	-	176 845
- 31 to 90 days overdue	1 053 547	-	-	-	147 758	1 201 305
- 91 to 180 days overdue	1 135 315	-	-	-	164 710	1 300 025
- 181 to 365 days overdue	732 473	-	-	-	95 965	828 438
- over 365 days overdue	828 183	-	-	-	66 769	894 952
Total individually assessed for impairment	5 385 093	-	-	-	475 202	5 860 295
Total loans and advances to customers (before impairment)	247 233 851	3 189 928	2 466 091	663 912	45 130 912	298 684 694
Provision for loan impairment	(6 525 072)	-	-	-	(576 485)	(7 101 557)
Total loans and advances to customers	240 708 779	3 189 928	2 466 091	663 912	44 554 427	291 583 137

In thousands of Russian Roubles	2008	2007
Current loans	444 032 606	291 821 976
Loans whose terms were renegotiated	6 257 313	1 867 692
Overdue loans	18 567 735	4 995 026
Provision for loan impairment	(16 556 987)	(7 101 557)
Total	452 300 667	291 583 137

Overdue loans represent not only past due payments but also outstanding balance of such loans.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated.

Loans collateral

The Group uses various types of collateral, including mortgage, warranty, banking guarantee, government guarantees of a Russian Federation and municipal guarantees.

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights.

Banking guarantee, warranty and other means provided for by the contract or the law may be used as additional collateral.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights perfection by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management;
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) relates to the following types: real estate – 37% (2007: 32%), equipment — 21% (2007: 24%) and goods in turnover – 17% (2007: 17%).

According to the Group's internal policy documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts;
- for individuals – overdrafts and loans issued within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans"; "Loans to the sole farmers", "Reliable Customer".

The Group has developed internal methodology, on the basis of which fair value of collateral should be determined. The value of collateral presented below was calculated based on this methodology:

In thousands of Russian Roubles	2008	2007
Collateral in respect of loans to corporate customers individually assessed for impairment		
- real estate	16 955 737	2 102 964
- equipment	12 639 674	2 189 122
- goods in turnover	10 520 748	818 389
- motor vehicles	3 211 240	963 083
- farm animals, poultry	2 439 744	454 832
- future crop	1 958 164	233 272
- other assets	214 126	99 310
Total value of collateral in respect of loans to corporate customers individually assessed for impairment	**47 939 433**	**6 860 972**

Loans to individuals individually assessed for impairment are secured with various types of collateral with value determined based on the Group's internal methodology of RR 353 687 thousand (2007: RR 248 835 thousand) as well as by guarantees of third parties with nominal value of RR 2 400 348 thousand (2007: RR 667 353 thousand).

Actual realization cost of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed above.

Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

12 Investment Securities Available for Sale

In thousands of Russian Roubles	2008	2007
Corporate bonds	3 042 899	-
Corporate Eurobonds	1 547 690	155 220
Municipal bonds	146 134	-
State Eurobonds	51 442	-
Corporate shares	5 025	-
Municipal Eurobonds	-	1 001 500
Total investment securities available for sale	**4 793 190**	**1 156 720**

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	1 543 307	365 727	1 133 865	3 042 899
Corporate Eurobonds	1 172 929	374 761	-	1 547 690
Municipal bonds	95 110	51 024	-	146 134
State Eurobonds	51 442	-	-	51 442
Total debt investment securities available for sale	**2 862 788**	**791 512**	**1 133 865**	**4 788 165**

** or ratings of other analogous rating agencies.*

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2007 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Municipal Eurobonds	1 001 500	-	-	1 001 500
Corporate Eurobonds	155 220	-	-	155 220
Total debt investment securities available for sale	**1 156 720**	**-**	**-**	**1 156 720**

** or ratings of other analogous rating agencies.*

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from February 2009 to March 2017, annual coupon rate from 7.2% to 15% and yield to maturity from 7.6% to 32.9% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in USD, issued by major Russian companies. As at 31 December 2008 these bonds have maturity dates from August 2009 to February 2017 (2007: from April 2014 to August 2037), annual coupon rate from 7.5% to 10.9% (2007: from 7.3% to 9.3%), payable semi-annually, and yield to maturity from 15.0% to 39.4% p.a. (2007: from 7.3% to 8.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities through the vehicle companies. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from April

2009 to June 2012, annual coupon rate from 9.8% to 11% and yield to maturity from 8.8% to 17.9% p.a., depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian bonds denominated in USD. As at 31 December 2008 these bonds have maturity date in March 2010, annual coupon rate 7.5%, payable semi-annually, and yield to maturity 10.1% p.a.

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

In thousands of Russian Roubles	Note	2008	2007
Carrying amount at 1 January		1 156 720	-
Purchases		1 548 861	1 156 725
Additions as the result of reclassification		4 816 525	-
Disposal as the result of reclassification		(221 524)	-
Fair value gains less losses		(1 881 224)	(2 182)
Realised revaluation reserve		2 882	-
Interest income accrued	24	357 519	1 635
Interest income received		(280 673)	-
Proceeds from disposal		(1 269 957)	-
Exchange differences gains less losses relating to securities		564 061	542
Carrying amount at 31 December		4 793 190	1 156 720

Geographical and Interest rate analysis of investment securities available for sale is disclosed in Note 30. Information on related party debt investment securities available for sale is disclosed in Note 36.

The Group reclassified the following financial assets from the available-for-sale category during 2008 (Note 5):

In thousands of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Corporate Eurobonds	221 524	738 896	8.2
Total	221 524	738 896	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices, which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

At 31 December 2008, the carrying amounts and fair values of financial assets that have been reclassified to investment securities available for sale and which were not yet sold or otherwise derecognised, were as follows:

In thousands of Russian Roubles	Carrying value	Fair value
Reclassified into held to maturity		
Corporate Eurobonds	277 640	184 048
Total	277 640	184 048

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

In thousands of Russian Roubles	The fair value loss recognised up to the date of reclassification		Income recognised after reclassification		Losses that would have been recognised if the assets had not been reclassified
	2007	6 months 2008	Interest income	foreign exchange gains less losses	
Reclassified into held to maturity					
Corporate Eurobonds	-	(17 035)	10 429	59 053	(93 592)
Total	-	(17 035)	10 429	59 053	(93 592)

13 Investment Securities Held to Maturity

In thousands of Russian Roubles	2008	2007
Federal Loan bonds (OFZ)	4 126 378	-
Promissory notes	1 929 619	5 495 475
Corporate Eurobonds	1 537 973	-
Corporate bonds	1 350 847	-
Municipal bonds	1 261 711	-
Total investment securities held to maturity	10 206 528	5 495 475

Analysis by credit quality of investment securities held to maturity at 31 December 2008 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal Loan bonds (OFZ)	4 126 378	-	-	4 126 378
Promissory notes	124 831	1 763 651	41 137	1 929 619
Corporate Eurobonds	1 537 973	-	-	1 537 973
Corporate bonds	1 350 847	-	-	1 350 847
Municipal bonds	1 261 711	-	-	1 261 711
Total investment securities held to maturity	8 401 740	1 763 651	41 137	10 206 528

***** or ratings of other analogous rating agencies.***

Analysis by credit quality of investment securities held to maturity at 31 December 2007 is as follows:

In thousands of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Promissory notes	981 079	3 334 127	1 180 269	5 495 475

***** or ratings of other analogous rating agencies.***

If a security's rating is unavailable the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have impaired securities held to maturity, no provisions for impairment of these securities were established.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. These OFZ have maturity dates from May 2010 to February 2036, annual coupon rate from 5.8% to 10.0%, payable quarterly or semi-annually, and yield to maturity from 6.9% to 11.4% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to August 2009 (2007: from January to December 2008). As at 31 December 2008 yield to maturity ranges from 9.5% to 25.4% p.a. (2007: from 7.0% to 11.1% p.a.).

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2008 these bonds have maturity dates from May 2010 to August 2037, annual coupon rate 6.7% to 9.6%, payable semi-annually, and yield to maturity from 12.3% to 20.8% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from January 2009 to September 2020, annual coupon rate from 6.7% to 8.5% and yield to maturity from 5.8% to 20.8% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from December 2010 to December 2015, annual coupon rate from 7.0% to 9.0% and yield to maturity from 8.8% to 26.7% p.a., depending on the type of the bond issue, the issuer and the market conditions.

For the estimated fair value of securities held to maturity refer to Note 33.

Geographical and interest rate analyses of securities held to maturity are disclosed in Note 30.

14 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Premises	Leasehold (premises) improvements	Office and computer equipment	Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2007		1 049 910	572 513	1 068 849	701	2 691 973	287 177	2 979 150
Accumulated depreciation		(19 070)	(14 801)	(238 732)	-	(272 603)	(117 080)	(389 683)
Carrying amount at 1 January 2007		1 030 840	557 712	830 117	701	2 419 370	170 097	2 589 467
Additions		1 832 282	588 327	965 703	199 233	3 585 545	238 992	3 824 537
Disposals		-	(4 109)	(3 514)	-	(7 623)	-	(7 623)
Depreciation charge	26	(36 594)	(15 500)	(219 773)	-	(271 867)	(61 736)	(333 603)
Changes in value resulting from revaluation		1 270 012	-	-	-	1 270 012	-	1 270 012
Changes in depreciation resulting from revaluation		(71 129)	-	-	-	(71 129)	-	(71 129)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661
Cost at 31 December 2007		4 152 204	1 156 311	2 016 772	199 934	7 525 221	526 169	8 051 390
Accumulated depreciation		(126 793)	(29 881)	(444 239)	-	(600 913)	(178 816)	(779 729)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661
Additions		1 512 829	286 899	1 227 361	37 373	3 064 462	513 541	3 578 003
Disposals		-	(17 117)	(10 415)	-	(27 532)	-	(27 532)
Depreciation charge: before revaluation	26	(72 904)	(132 039)	(356 794)	-	(561 737)	(120 074)	(681 811)
Depreciation charge: realised revaluation reserve	26	(32 854)	-	-	-	(32 854)	-	(32 854)
Changes in value resulting from revaluation		(454 641)	-	-	-	(454 641)	-	(454 641)
Changes in depreciation resulting from revaluation		20 391	-	-	-	20 391	-	20 391
Carrying amount at 31 December 2008		4 998 232	1 264 173	2 432 685	237 307	8 932 397	740 820	9 673 217
Cost at 31 December 2008		5 210 392	1 423 259	3 212 573	237 307	10 083 531	1 039 710	11 123 241
Accumulated depreciation		(212 160)	(159 086)	(779 888)	-	(1 151 134)	(298 890)	(1 450 024)
Carrying amount at 31 December 2008		4 998 232	1 264 173	2 432 685	237 307	8 932 397	740 820	9 673 217

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of premises at 31 December 2008 was RR 676 080 thousand (2007: RR 350 386 thousand).

Carrying amount of premises without revaluation at 31 December 2008 is RR 4 266 453 thousand (2007: RR2 826 528 thousand), including cost in amount of RR 4 395 021 thousand (2007: RR 2 882 192 thousand) and accumulated depreciation of RR 128 568 thousand (2007: RR 55 664 thousand). Premises were independently valued as at 31 December 2008. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, who hold a relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Office and computer equipment include equipment under finance lease. Carrying amount of these equipment at 31 December 2008 is RR 5 572 thousand, including cost in the amount of RR 6 749 thousand and accumulated depreciation in the amount of RR 1 177 thousand (2007: nil).

15 Other Assets

In thousands of Russian Roubles	2008	2007
Non-financial assets		
Repossessed collateral	1 009 988	-
Prepayment for services	455 042	276 796
Inventory	347 832	-
Rent prepayment	54 127	42 707
Prepaid taxes	33 453	7 194
Financial assets		
Settlements on funds transfer operations	33 772	47 560
Other	161 949	46 400
Provision for impairment of other financial assets	(50 704)	(16 094)
Total other assets	**2 045 459**	**404 563**

Repossessed collateral consists mainly of the production premises and the land.

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

In thousands of Russian Roubles	2008	2007
Provision for impairment of other financial assets at 1 January	**16 094**	**8 113**
Provision for impairment of other financial assets during the year	36 140	7 981
Other financial assets written off during the year as uncollectible	(1 530)	-
Provision for impairment of other financial assets at 31 December	**50 704**	**16 094**

For the estimated fair value of other financial assets refer to the Note 33.

Geographical analysis of other assets is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

16 Due to Other Banks

In thousands of Russian Roubles	2008	2007
Term borrowings from other banks	137 256 028	61 150 114
Term borrowings from CBRF	105 827 199	-
Correspondent accounts and overnight placements of other banks	18 618	66 687
Sale and repurchase agreements	-	86 028
Total due to other banks	**243 101 845**	**61 302 829**

As at 31 December 2008 the Group had balances due to two foreign banks with aggregated amount of RR 48 877 102 thousand, or 20% of total due to other banks (2007: due to four foreign banks with aggregated amount of RR 42 381 414 thousand, or 69% of total due to other banks).

For the estimated fair value of due to other banks refer to the Note 33.Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

17 Customer Accounts

In thousands of Russian Roubles	2008	2007
State and public organisations		
- Current/settlement accounts	5 069 326	5 944 482
- Term deposits	29 876 987	612 574
Other legal entities		
- Current/settlement accounts	32 568 197	28 712 038
- Term deposits	36 561 987	34 339 386
- Sale and repurchase agreements with securities	23 317	-
Individuals		
- Current/demand accounts	7 360 635	4 101 043
- Term deposits	43 034 558	22 248 191
Total customer accounts	154 495 007	95 957 714

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

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	50 395 193	33	26 349 234	27
State and public organisations	34 946 313	23	6 557 056	7
Financial services and pension security	19 430 250	12	4 715 363	5
Construction	12 582 956	8	11 825 755	12
Insurance	12 132 537	8	9 180 334	10
Agriculture	11 291 366	7	8 327 735	9
Trading	5 625 194	4	4 303 028	5
Manufacturing	3 965 189	3	19 159 207	20
Leasing	741 981	-	3 295 912	3
Real estate	470 515	-	257 026	-
Other	2 913 513	2	1 987 064	2
Total customer accounts	154 495 007	100	95 957 714	100

As at 31 December 2008, the Group had two customers with balances above RR 6 800 000 thousand (2007: one customer with balances above RR 3 400 000 thousand). The aggregate balance of these customers was RR 36 094 883 thousand, or 23% of total customer accounts (2007: RR 13 552 721 thousand, or 14% of total customer accounts).

For the estimated fair value of customer accounts refer to Note 33.

Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

18 Promissory Notes Issued

In thousands of Russian Roubles	2008	2007
Promissory notes issued	9 845 488	32 361 154
Total promissory notes issued	9 845 488	32 361 154

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 12% p.a. and maturity dates from January 2009 to November 2018 (2007: promissory notes denominated Russian roubles, US Dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 10% p.a. and maturity dates from January 2008 to September 2014).

As at 31 December 2008, promissory notes issued, which were initially purchased by four counterparties, amounted RR 9 317 572 thousand or 95% of total promissory notes issued by the Group (2007: four counterparties initially purchased promissory notes of RR 30 938 318 thousand or 96% of total promissory notes issued by the Group).

For the estimated fair value of promissory notes issued refer to Note 33.

Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 30.

19 Other Borrowed Funds

In thousands of Russian Roubles	2008	2007
Eurobonds issued	132 239 264	64 994 398
Bonds issued on domestic market	43 675 019	30 294 247
Total other borrowed funds	**175 914 283**	**95 288 645**

As at 31 December 2008, the Group's other borrowed funds included Eurobonds denominated in US dollars and Swiss francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	349 500	29 November 2005	29 November 2010	-	6.875%	6 months	13.69%
US Dollars	694 500	16 May 2006	16 May 2013	-	7.175%	6 months	16.83%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	23.33%
US Dollars	1 225 000	14 May 2007	15 May 2017	-	6.299%	6 months	15.25%
Swiss Francs	150 000	30 April 2008	30 April 2012	-	6.263%	1 year	19.76%
US Dollars							
• tranche A	747 200	29 May 2008	14 January 2014	-	7.125%	6 months	18.11%
• tranche B	932 729	29 May 2008	29 May 2018	-	7.750%	6 months	15.72%
Bonds issued in domestic market							
Russian Roubles	7 000 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.39%
Russian Roubles	10 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	14.70%
Russian Roubles	6 201 117	10 October 2007	27 September 2017	9 October 2009	9.750%	6 months	7.78%
Russian Roubles	5 000 000	22 February 2008	9 February 2018	24 February 2009	8.750%	6 months	9.92%
Russian Roubles	5 000 000	17 June 2008	5 June 2018	18 June 2009	8.300%	6 months	12.07%
Russian Roubles	10 000 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%

In November — December 2008, the Group bought back from the market and redeemed before maturity date Eurobonds issued through its special purpose vehicle, RSHB Capital S.A., in the total amount of USD 101 071 thousand with maturity in 2010, 2013, 2014, 2017 and 2018. As a result the Group recognized a gain from early redemption of own bonds in the total amount of RR 1 047 140 thousand.

As at 31 December 2007 other borrowed funds comprise the following issues:

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	350 000	29 November 2005	29 November 2010	-	6.875%	6 months	6.2%
US Dollars	700 000	16 May 2006	16 May 2013	-	7.175%	6 months	6.6%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	4.1%
US Dollars	1 250 000	14 May 2007	15 May 2017	-	6.299%	6 months	7.0%
Bonds issued on domestic markets							
Russian Roubles	3 000 000	8 December 2004	4 June 2008	-	7.200%	3 months	8.1%
Russian Roubles	7 000 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.1%
Russian Roubles	10 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	8.0%
Russian Roubles	10 000 000	10 October 2007	27 September 2017	10 October 2008	8.200%	6 months	8.5%

For the estimated fair value of other borrowed funds refer to Note 33.

Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

20 Syndicated Loans

At 31 December 2008, syndicated loans attracted by the Group totalled RR 10 531 712 thousand (2007: RR 15 572 209 thousand).

In October 2006 the Group attracted a syndicated loan in Euro from ten OECD banks with the total amount of Euro 75 000 thousand with maturity in October 2009 and current effective interest rate 3MEURIBOR + 1.15% p.a.

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 000 thousand, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B). In October 2008 Group redeemed at a stated time the first tranche (tranche A) of syndicated loan in total amount of USD 270 000 thousand.

For the estimated fair value of syndicated loans refer to Note 33.

Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 30.

21 Other Liabilities

In thousands of Russian Roubles	2008	2007
Non-financial liabilities		
Accrued staff costs	571 672	409 708
Taxes payable other than on income	116 392	66 559
Other	196 674	104 656
Financial liabilities		
Fair value of sureties issued	219 521	-
Other	1 513	-
Total other liabilities	**1 105 772**	**580 923**

Geographical analysis of other liabilities is disclosed in Note 30.

22 Subordinated Debts

As at 31 December 2008, the Group's subordinated debts totalled RR 45 539 944 thousand (2007: RR 17 320 463 thousand).

In September 2006, the Group attracted a subordinated debt totalling USD 500 000 thousand in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2007: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 33.64% p.a. (2007: 7.4% p.a.). The Group has an option to terminate this subordinated debt in the last five years before its maturity date. In November 2008 the Bank buy-back from the market subordinated eurobonds issued by RSHB Capital S.A. in the total amount of RR 185 568 thousand. These subordinated eurobonds were netted in these consolidated financial statements.

In June 2007, the Group attracted a subordinated debt totalling USD 200 000 thousand maturing in June 2017. The Group has an option to terminate in advance subordinated debt in last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 000 thousand with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation".

For the estimated fair value of subordinated debts refer to Note 33.

Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

23 Share Capital

The Group's share capital issued and fully paid comprises:

In thousands of Russian Roubles except for number of shares	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2007	20 871	20 871 000	21 620 833
New ordinary shares issued	6 857	6 857 000	6 857 000
At 31 December 2007	27 728	27 728 000	28 477 833
New ordinary shares issued	33 495	33 495 000	33 495 000
At 31 December 2008	61 223	61 223 000	61 972 833

The Group's issued and fully paid authorised share capital comprises 61 223 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each share carries one vote.

In 2008, the Bank increased its share capital by issuing 33 495 ordinary shares with the total nominal amount of RR 33 495 000 thousand. All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

In thousands of Russian Roubles	2008	2007
Interest income		
Loans and advances to customers	51 674 429	31 143 506
Due from other banks	1 314 465	141 291
Trading securities	908 826	926 393
Cash equivalents	733 634	372 651
Securities held to maturity	715 614	17 750
Other securities at fair value through profit or loss	377 721	-
Securities available for sale	357 519	1 635
Total interest income	56 082 208	32 603 226
Interest expense		
Other borrowed funds	(9 320 435)	(4 980 493)
Term deposits of other banks	(8 311 585)	(3 193 049)
Term deposits of legal entities	(3 576 964)	(1 136 670)
Term deposits of individuals	(3 158 825)	(1 335 437)
Promissory notes issued	(1 737 854)	(3 122 920)
Subordinated debts	(1 543 866)	(1 089 398)
Term deposits of CB RF	(1 158 448)	-
Syndicated loans	(665 991)	(697 654)
Current/settlement accounts	(45 595)	(17 840)
Other	-	(482)
Total interest expense	(29 519 563)	(15 573 943)
Net interest income	26 562 645	17 029 283

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in the total amount of RR 3 093 155 thousand (2007: RR 565 857 thousand).

25 Fee and Commission Income and Expense

In thousands of Russian Roubles	2008	2007
Fee and commission income		
Commission on cash transactions	1 724 122	738 069
Commission on settlement transactions	278 402	289 529
Agency fees for debt collection and currency control	78 903	98 757
Other	152 225	9 832
Total fee and commission income	2 233 652	1 136 187
Fee and commission expense		
Commission on cash collection	(138 010)	(59 639)
Commission on settlement transactions	(36 178)	(39 389)
Commission on guarantees received	(11 514)	-
Other	(27 585)	(2 975)
Total fee and commission expense	(213 287)	(102 003)
Net fee and commission income	2 020 365	1 034 184

26 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2008	2007
Staff costs		10 382 222	6 961 850
Rental expenses		1 350 674	796 816
Other costs of premises and equipment		737 625	566 386
Taxes other than on income		620 212	388 532
Depreciation of premises and equipment	14	594 591	271 867
Security services		474 060	299 151
Loss on revaluation of fixed assets (premises)		458 446	-
Supplies and other materials		275 211	237 993
Communications		234 588	207 332
Advertising and marketing services		222 844	157 849
Amortization of intangible assets	14	120 074	61 736
Expenses relating to participation in the national project		-	7 301
Other		788 243	636 536
Total administrative and other operating expenses		**16 258 790**	**10 593 349**

Included in staff costs are statutory social security and pension contributions of RR 1 668 244 thousand (2007: RR 1 001 796 thousand), and also contributions to a non-state pension fund in the amount of RR 160 291 thousand (2007: RR 62 056 thousand).

27 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2008	2007
Current tax	995 365	904 524
Deferred tax	286 542	584 429
Income tax expense for the year	**1 281 907**	**1 488 953**

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

In thousands of Russian Roubles	2008	2007
IFRS profit before tax	**3 335 253**	**5 842 780**
Theoretical tax charge at statutory rate (2008:24%; 2007: 24%)	800 461	1 402 267
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible interest expenses	372 751	1 335
- Non deductible staff costs	114 640	28 448
- Non deductible charity costs	5 129	22 522
- Other non deductible expenses	163 098	53 430
- Other non-temporary differences	-	1 202
- Income on government securities taxed at different rates	(35 013)	(20 251)
Impact of change in tax rate to 20% effective from 1 January 2009	(139 159)	-
Income tax expense for the year	**1 281 907**	**1 488 953**

The Group has not recorded a deferred tax liability in respect of temporary differences of RR 4 591 thousand (2007: RR 20 379 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

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 for calculation of profit tax 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 government securities that is taxed at 15% (2007: 15%).

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 be accrued 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.

In thousands of Russian Roubles	31 December 2007	(Charged)/ credited to profit or loss	(Charged)/ credited directly to equity	31 December 2008
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(730 842)	(713 653)	-	(1 444 495)
Premises and equipment	(457 451)	(748)	43 117	(415 082)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(165 289)	(24 651)	-	(189 940)
Accruals on due to other banks	(30 326)	(27 354)	-	(57 680)
Intangible assets	(34 077)	(6 667)	-	(40 744)
Promissory notes issued	(5 167)	3 545	-	(1 622)
Accruals on loans	168 763	353 662	-	522 425
Provision for loan impairment	347 075	161 906	-	508 981
Fair valuation of securities	88 101	(200 091)	375 581	263 591
Accrued staff costs	93 969	24 042	-	118 011
Fair value of guaranties issued	-	43 904	-	43 904
Other	38 365	99 563	-	137 928
Net deferred income tax asset/(liability)	(686 879)	(286 542)	418 698	(554 723)
Recognised deferred income tax asset	5 815	8 597	-	14 412
Recognised deferred income tax liability	(692 694)	(295 139)	418 698	(569 135)
Net deferred income tax asset/(liability)	(686 879)	(286 542)	418 698	(554 723)

In thousands of Russian Roubles	31 December 2006	(Charged)/ credited to profit or loss	(Charged)/ credited directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(83 643)	(647 199)	-	(730 842)
Premises and equipment	(78 647)	(91 072)	(287 732)	(457 451)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(76 082)	(89 207)	-	(165 289)
Intangible assets	(8 961)	(25 116)	-	(34 077)
Accruals on due to other banks	(29 420)	(906)	-	(30 326)
Promissory notes issued	(9 470)	4 303	-	(5 167)
Provision for loan impairment	343 879	3 196	-	347 075
Accruals on loans	58 869	109 894	-	168 763
Accrued staff costs	48 543	45 426	-	93 969
Fair valuation of securities	5 855	81 722	524	88 101
Other	13 835	24 530	-	38 365
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)
Recognised deferred income tax asset	184 758	(178 943)	-	5 815
Recognised deferred income tax liability	-	(405 486)	(287 208)	(692 694)
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)

28 Dividends

In thousands of Russian Roubles	Note	2008 Ordinary shares	2007 Ordinary shares
Dividends payable at 1 January		-	-
Dividends declared during the year		178 368	226 450
Dividends paid during the year		(178 368)	(226 450)
Dividends payable at 31 December		-	-
Dividends per share declared during the year	23	6,0	10,8

29 Segment Analysis

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

Business Segments. The Group is organised on the basis of two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, operations on capital markets, foreign currency and derivative products, transactions with securities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

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

In thousands of Russian Roubles	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	51 421 043	8 119 926	-	59 540 969
Total revenues	**51 421 043**	**8 119 926**	**-**	**59 540 969**
Total revenues comprise:				
- Interest income	48 266 252	7 815 956	-	56 082 208
- Fee and commission income	1 930 524	303 128	-	2 233 652
- Gain from early redemption of other borrowed debts and buy-back of subordinated debts	1 122 128	-	-	1 122 128
- Other operating income	102 139	842	-	102 981
Total revenues	**51 421 043**	**8 119 926**	**-**	**59 540 969**
Total expenses comprise:				
- Interest expense	(26 351 978)	(3 167 585)	-	(29 519 563)
- Fee and commission expense	(213 287)	-	-	(213 287)
- Other administrative and operating expenses	(15 434 333)	(824 457)	-	(16 258 790)
- Provisions	(8 819 365)	(712 123)	-	(9 531 488)
Total expenses	**(50 818 963)**	**(4 704 165)**	**-**	**(55 523 128)**
Intra-segment results	591 540	(591 540)	-	-
Total expense	**(50 227 423)**	**(5 295 705)**	**-**	**(55 523 128)**
Segment result	**1 193 620**	**2 824 221**	**-**	**4 017 841**
Unallocated net losses				(682 588)
Income tax expense				(1 281 907)
Profit for the year			**-**	**2 053 346**
Segment assets	**655 541 009**	**57 348 479**	**-**	**712 889 488**
Current and deferred tax assets	-	-	224 356	224 356
Total assets	**655 541 009**	**57 348 479**	**224 356**	**713 113 844**
Segment liabilities	**594 275 004**	**50 395 193**	**-**	**644 670 197**
Current and deferred tax liabilities	-	-	685 527	685 527
Total liabilities	**594 275 004**	**50 395 193**	**685 527**	**645 355 724**
Other segment items				
Capital expenditure	(3 293 910)	(284 093)	-	(3 578 003)
Depreciation	(657 921)	(56 744)	-	(714 665)

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

In thousands of Russian Roubles	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	28 865 212	4 990 384	-	33 855 596
Total revenues	28 865 212	4 990 384	-	33 855 596
Total revenues comprise:				
- Interest income	27 760 364	4 842 862	-	32 603 226
- Fee and commission income	989 246	146 941	-	1 136 187
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	8 468	-	-	8 468
- Other operating income	107 134	581	-	107 715
Total revenues	28 865 212	4 990 384	-	33 855 596
Total expenses comprise:				
- Interest expense	(14 238 506)	(1 335 437)	-	(15 573 943)
- Fee and commission expense	(102 003)	-	-	(102 003)
- Other administrative and operating expenses	(9 860 266)	(733 083)	-	(10 593 349)
- Provisions	(2 740 215)	(380 762)	-	(3 120 977)
Total expenses	(26 940 990)	(2 449 282)	-	(29 390 272)
Intrasegment results	1 059 729	(1 059 729)	-	-
Total expense	(25 881 261)	(3 509 011)	-	(29 390 272)
Segment result	2 983 951	1 481 373	-	4 465 324
Unallocated net gains				1 377 456
Income tax expense				(1 488 953)
Profit for the year				4 353 827
Segment assets	311 342 054	45 053 620	-	356 395 674
Current and deferred tax assets	-	-	64 527	64 527
Total assets	311 342 054	45 053 620	64 527	356 460 201
Segment liabilities	295 528 103	26 349 234	-	321 877 337
Current and deferred tax liabilities	-	-	759 253	759 253
Total liabilities	295 528 103	26 349 234	759 253	322 636 590
Other segment items				
Capital expenditure	(3 421 813)	(402 724)	-	(3 824 537)
Depreciation	(298 475)	(35 128)	-	(333 603)

Geographical segments. The Group operates only in the Russian Federation. Substantially all revenues of the Group were received from contracting parties operating in the Russian Federation.

30 Financial Risk Management

The purpose of the Group risk management policy is maintaining of acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, also by separate structural divisions and executives on the basis of their competence.

The responsibility for risk monitoring and evaluation rests with the Department for Risks Evaluation and Monitoring (hereinafter, the DREM) which performs its functions independently from business units. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

In the environment of global economic downturn the Bank takes actions aimed at ensuring stable financial operations and meeting its objectives on provision of loans to agriculture producers and other enterprises and entities of the Agro-Industrial Sector.

In order to mitigate credit risk the Supervisory Board of the Bank restricted the authority of the Management Board in taking independent lending decisions or establishing individual credit risk limits per one borrower or a group of related borrowers and reduced the amount by half by setting it at RR 2 000 000 thousand. Accordingly, from 1 December 2008 the amount authorised by the Credit Committee of the Bank was reduced down to RR 500 000 thousand (inclusive).

The Bank's authorised bodies consider the Bank's performance, approve and adjust anti-crisis actions on regular basis.

The Bank established an Anti-Crisis Committee with the purpose to develop and monitor anti-crisis actions. List of actions aimed at ensuring the Bank's operations in the financial crisis environment was developed and approved of. This document provides for accomplishment of certain tasks in the following areas (and also sets the timeline for actions and determines the responsible persons): improvement of credit portfolio quality, organisation of work with regard to non-performing loans, management of financial result and ensuring availability of resources required for the Bank's operations.

In order to ensure stable operation of the Bank in the environment of developing recession in the finance market the Bank took the following priority steps.

For its lending activities the Bank developed "Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2009", a document which is an addition to the existing Credit Policy of the Bank for 2008-2012. The Bank's lending regulations were amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for Risk assessment and control in the Bank's regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans. In December 2008 the Bank established an Assets Management Department, whose principal objective is to ensure existence of efficient strategy of problem asset management and repayment of overdue loans. Certain steps are taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank implemented a set of anti-crisis actions to ensure liquidity that include establishing a liquidity provision and maintaining it at a level sufficient not only for current liabilities to the customers and partner banks but also for potential liabilities that might arise in the financially unstable environment. The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applies additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allow to timely identify imbalance between the volume of claims and liabilities of the Bank in different time intervals and to promptly notify about the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The requirements to the securities portfolio were tightened. In accordance with the resolution of the Anti-Crisis Committee the procedure of monthly stress-testing was established.

The Bank takes numerous actions aimed at increase and optimisation its resource base structure. In 2008 it was significantly diversified.

The actions enabled the Bank to ensure its financial stability in the financial crisis environment, to establish a strategic liquidity provision and to prevent termination of Government projects of Agro-Industrial Sector support.

The risks of ZAO Chelyabcomzembank, a subsidiary, are managed in a similar way.

Credit risk. The Group takes on exposure to credit risk, which is the risk that the Group incurs losses as a result of the default, overdue or partial default of the Group's borrowers. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet.

The Bank applies a centralised system for managing credit risk. The credit risk approval competencies in 2008 year are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 000 thousand till 1 December 2008, in excess of RR 2 000 000 thousand after 1 December 2008.
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 000 thousand inclusive till 1 December 2008 and up to RR 2 000 000 thousand inclusive after 1 December 2008.
- The Credit Committee makes credit authorization decisions within the limits provided by the Management Board, including

  - credit operations of up to RR 600 000 thousand inclusive till 22 September 2008 (limits on short-term and long-term (medium-term) loans are considered independently);
  - credit operations of up to RR 1 000 000 thousand inclusive till 1 December 2008 (limits on short-term and long-term (medium-term) loans are considered independently);
  - credit operations of up to the agregate limit of the credit risk in the amount of RR 500 000 thousand inclusive after 1 December 2008.

- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk eveluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review no less than once a year credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration in one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

When selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in highly effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

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

In evaluating the Group's market risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's market risk are carried out on the basis of regulatory documents applicable to the Group.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes), developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, assigning credit ratings by international rating agencies and regulators rests with the Department for Evaluation and Monitoring of Liquidity and Market Risks (hereinafter, "the DEMLMR"). The DEMLMR is a divison of DREM.

The DEMLMR's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operational Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DEMLMR, jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DEMLMR monitors limits and reports information on compliance with the set limits to the Bank's management. The DEMLMR also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DEMLMR reviews the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures);
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

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 or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of reprising (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the Russian Accounting Rules ("RAR") with the assumption of stability of the structure of the Bank's assets and liabilities.

In evaluating the Group's interest risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's interest risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarises the Group's exposure to interest rate risk at 31 December 2008 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	94 931 971	89 230 701	66 652 278	109 237 482	205 838 440	197 309 474	763 200 346
Total interest bearing financial liabilities*	17 581 807	143 343 046	109 939 594	98 773 551	140 555 852	181 943 595	692 137 445
Sensitivity gap on balance sheet items	77 350 164	(54 112 345)	(43 287 316)	10 463 931	65 282 588	15 365 879	71 062 901
Cummulative sensitivity gap on balance sheet items	77 350 164	23 237 819	(20 049 497)	(9 585 566)	55 697 022	71 062 901	

***** ***Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.***

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

As at 31 December 2008, if interest rates at that date had been 300 basis points lower/higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 15 410 thousand lower/higher.

As at 31 December 2007, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand higher/lower.

The table below summarises the Group's exposure to interest rate risk at 31 December 2007 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	37 494 369	36 076 191	46 830 534	65 403 808	148 634 377	115 892 893	450 332 172
Total interest bearing financial liabilities*	20 583 774	63 740 523	47 762 291	53 810 837	116 903 036	101 824 839	404 625 300
Sensitivity gap on balance sheet items	16 910 595	(27 664 332)	(931 757)	11 592 971	31 731 341	14 068 054	45 706 872
Cummulative sensitivity gap on balance sheet items	16 910 595	(10 753 737)	(11 685 494)	(92 523)	31 638 818	45 706 872	

***** ***Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.***

The Bank's Management Board monitors the level of interest rates on assets and liabilities.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

In % p.a.	2008				2007			
	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents								
- cash balances with the CBRF and settlement accounts with MICEX, RTS and NCC	0	0	-	-	0	-	-	-
- correspondent accounts and deposits with other banks with a maturity of less than one month	19	0	0	0	4	5	0	0
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Trading securities	12	-	-	-	8	8	-	-
Other securities at fair value through profit or loss	11	10	-	-	-	-	-	-
Due from other banks*	23	7	-	-	9	11	4	-
Loans and advances to customers	15	10	10	8	14	9	9	6
Investment securities available for sale	12	8	-	-	9	7	-	-
Investment securities held to maturity	8	7	-	-	9	-	-	-
Liabilities								
Due to other banks	12	8	5	5	8	7	5	-
Customer accounts*	11	6	7	-	9	6	6	-
Promissory notes issued	10	-	5	-	9	8	4	-
Other borrowed funds	10	7	-	5	8	7	-	4
Syndicated loans	-	5	6	-	-	6	6	-
Subordinated debts	8	6	-	-	-	7	-	-

** — disclosed rates on term deposits*

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

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DEMLMR to the Bank's management and heads of interested units in compliance with the acting internal regulatory documents.

The Bank calculates VAR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monitory value of expected losses in case of excess VAR.

VAR is calculated by two different parametric methods and one historical method and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis.

Although VAR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VAR;
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk. In September 2008 the Group approved the new currency risk assessment methodology that now includes volatility estimation by Generalized Autoregressive Conditional Heteroscedasticity (GARCH) method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall). The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VAR and Expected ShortFall methods.

In the table below VAR shows the absolute amount of losses:

In thousands of Russian Roubles		2008
At the end of the year	Long position	1 539 189
	VAR	11 810
	Expected Shortfall	17 152

A simple statistical method was used to calculate portfolio volatility in 2007, all historical observations had equal weight:

In thousands of Russian Roubles		2007
At the end of the year	Short position	(776 833)
	VAR	2 012

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

In September 2008 the Group approved the new equity risk assessment methodology that now includes volatility estimation by GARCH method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall). The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VAR and Expected ShortFall methods.

The table below shows absolute risk value, whereby positions, balanced by cross obligations (no such obligations as at 31 December 2008) are not taken for the calculation of market risk:

In thousands of Russian Roubles		2008
At the end of the year	Long position	5 010
	VAR	339
	Expected Shortfall	638

As at 31 December 2008 equity securities position is not hedged, however the Group's exposure to equity risk is immaterial due to insignificant volume.

A simple statistical method was used to calculate portfolio volatility in 2007, all historical observations had equal weight:

In thousands of Russian Roubles		2007
At the end of the year	Long position	111 877
	VAR	2 811

At 31 December 2007 the major part of the position is hedged by the derivative financial instrument on the underlying asset.

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

In thousands of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	42 004 790	41 172 229	365	83 177 384
Mandatory cash balances with the CBRF	962 895	-	-	962 895
Trading securities	17 667 682	-	-	17 667 682
Other securities with Fair value through profit or loss	-	4 438 652	-	4 438 652
Derivative financial instruments	-	30 777 358	-	30 777 358
Due from other banks	32 502 966	61 316 361	3 060 582	96 879 909
Loans and advances to customers	452 300 667	-	-	452 300 667
Investment securities available for sale	4 793 190	-	-	4 793 190
Investment securities held to maturity	10 206 528	-	-	10 206 528
Deferred income tax asset	14 412	-	-	14 412
Intangible assets	740 820	-	-	740 820
Premises and equipment	8 932 397	-	-	8 932 397
Current income tax prepayment	176 491	-	-	176 491
Other assets	2 045 011	348	100	2 045 459
Total assets	572 347 849	137 704 948	3 061 047	713 113 844
Liabilities				
Derivative financial instruments	241 107	4 011 431	-	4 252 538
Due to other banks	132 204 042	110 556 571	341 232	243 101 845
Customer accounts	152 614 959	1 880 048	-	154 495 007
Promissory notes issued	9 845 488	-	-	9 845 488
Other borrowed funds	43 675 019	132 239 264	-	175 914 283
Syndicated loans	-	10 531 712	-	10 531 712
Deferred income tax liability	569 135	-	-	569 135
Other liabilities	1 104 865	907	-	1 105 772
Subordinated debts	25 000 000	20 539 944	-	45 539 944
Total liabilities	365 254 615	279 759 877	341 232	645 355 724
Net balance sheet position	207 093 234	(142 054 929)	2 719 815	67 758 120
Credit related commitments	27 224 026	-	-	27 224 026

****OECD – Organisation for Economic Cooperation and Development.***

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located.Cash and premises and equipment have been classified according to the country in which they are physically held.

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

In thousands of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	31 711 153	2 279 030	-	33 990 183
Mandatory cash balances with the CBRF	2 441 967	-	-	2 441 967
Trading securities	12 056 055	-	-	12 056 055
Repurchase receivable	98 326	-	-	98 326
Derivative financial instruments	10	276 796	-	276 806
Due from other banks	1 282 868	-	345 107	1 627 975
Loans and advances to customers	291 583 137	-	-	291 583 137
Investment securities available for sale	1 156 720	-	-	1 156 720
Investment securities held to maturity	5 495 475	-	-	5 495 475
Deferred income tax asset	5 815	-	-	5 815
Intangible assets	347 353	-	-	347 353
Premises and equipment	6 924 308	-	-	6 924 308
Current income tax prepayment	51 518	-	-	51 518
Other assets	404 563	-	-	404 563
Total assets	**353 559 268**	**2 555 826**	**345 107**	**356 460 201**
Liabilities				
Derivative financial instruments	14 451	3 545 508	-	3 559 959
Due to other banks	7 330 943	53 897 119	74 767	61 302 829
Customer accounts	93 877 986	2 079 728	-	95 957 714
Promissory notes issued	32 361 154	-	-	32 361 154
Other borrowed funds	30 294 247	64 994 398	-	95 288 645
Syndicated loans	-	15 572 209	-	15 572 209
Deferred income tax liability	692 694	-	-	692 694
Other liabilities	580 172	751	-	580 923
Subordinated debts	-	17 320 463	-	17 320 463
Total liabilities	**165 151 647**	**157 410 176**	**74 767**	**322 636 590**
Net balance sheet position	**188 407 621**	**(154 854 350)**	**270 340**	**33 823 611**
Credit related commitments	**2 196 408**	**-**	**-**	**2 196 408**

OECD – Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Group's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system;
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury within their compenetce. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the monetary market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each reporting date.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position;
- reviewing the actual values and changes in mandatory liquidity ratios;
- forecasting the impact of transactions on mandatory liquidity ratios;
- setting limits on asset-side transactions by types of investments depending on the sources of funding;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in roubles and currencies, issuing promissory notes, increasing the volume of deposits (including interbank deposits) and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Bank's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's balance sheet financial liabilities and off-balance credit related committments. Such undiscounted cash flows differ from the amount included in the balance sheet, since the balance sheet amount is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

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.

Overdue liabilities, including term deposits undrawn by the Bank's customers are categorised as demand and less than 30 days. The date of maturity of certain assets, for which there is no contractual maturity date is the expected date of disposal.

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

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(4 192 833)	(14 542 847)	(5 895 728)	(122 293 542)	(113 551 056)	(260 476 006)
- outflow	3 467 700	14 784 493	6 173 154	135 591 831	140 873 274	300 890 452
Net settled derivative financial instruments (liabilities)	241 107	-	-	-	-	241 107
Due to other banks	3 823 089	147 217 947	16 041 367	22 456 473	86 628 830	276 167 706
Customer accounts	50 546 048	45 604 369	56 568 190	8 983 664	431 137	162 133 408
Promissory notes issued	3 200 008	1 450 500	5 488 653	14 200	57 569	10 210 930
Other borrowed funds	977 569	16 146 556	12 063 514	67 906 253	142 569 153	239 663 045
Syndicated loans	49 025	201 612	3 339 399	7 505 610	-	11 095 646
Subordinated debts	-	1 113 938	3 153 976	20 152 476	47 460 943	71 881 333
Other financial liabilities	1 513	-	-	-	-	1 513
Off-balance sheet financial liabilities						
Letters of credit	42 685	1 424 280	650 656	7 527	2 115	2 127 263
Other credit related commitments	19 812 493	-	-	-	-	19 812 493
Total potential future payments for financial obligations	**77 968 404**	**213 400 848**	**97 583 181**	**140 324 492**	**304 471 965**	**833 748 890**

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

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(265 422)	(20 982 075)	(16 431 222)	(66 087 099)	(34 381 160)	(138 146 978)
- outflow	355 034	22 754 967	17 274 870	72 023 912	37 828 144	150 236 927
Net settled derivative financial instruments (liabilities)	3 939	-	-	-	-	3 939
Due to other banks	4 876 422	3 798 535	3 209 941	37 816 895	23 632 124	73 333 917
Customer accounts	44 404 677	32 653 007	18 513 778	2 182 481	423 592	98 177 535
Promissory notes issued	6 131 952	15 545 407	11 749 626	50 663	55 048	33 532 696
Other borrowed funds	-	6 327 419	12 926 971	37 053 412	70 646 754	126 954 556
Syndicated loans	40 849	395 471	7 049 042	9 494 211	-	16 979 573
Subordinated debts	-	607 655	608 643	2 432 597	18 579 564	22 228 459
Off-balance sheet financial liabilities						
Letters of credit	128 112	680 437	494 451	672 522	83 828	2 059 350
Other credit related commitments	24 300 132	-	-	-	-	24 300 132
Total potential future payments for financial obligations	**79 975 695**	**61 780 823**	**55 396 100**	**95 639 594**	**116 867 894**	**409 660 106**

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 31.

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.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

In evaluating the Group's liquidity risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's liquidity risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarizes analysis of liquidity risk at 31 December 2008:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets *	132 474 234	81 144 182	67 309 843	109 718 876	205 842 925	207 995 158	8 626 272	813 111 490
Total financial liabilities *	59 987 766	107 651 784	100 919 743	88 202 939	154 597 949	233 138 504	-	744 498 685
Net liquidity gap	72 486 468	(26 507 602)	(33 609 900)	21 515 937	51 244 976	(25 143 346)	8 626 272	68 612 805
Cumulative liquidity gap	72 486 468	45 978 866	12 368 966	33 884 903	85 129 879	59 986 533	68 612 805	

** Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.*

The table below summarize analysis of liquidity risk at 31 December 2007:

In thousands of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	58 536 653	28 024 090	47 157 959	65 339 821	148 587 510	122 106 326	2 371 103	472 123 462
Total financial liabilities*	53 027 707	35 807 731	37 398 918	61 742 114	131 139 123	126 949 084	-	446 064 677
Net liquidity gap	5 508 946	(7 783 641)	9 759 041	3 597 707	17 448 387	(4 842 758)	2 371 103	26 058 785
Cumulative liquidity gap	5 508 946	(2 274 695)	7 484 346	11 082 053	28 530 440	23 687 682	26 058 785	

** Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.*

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

Management believes that in spite of a substantial portion of customers 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.

31 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. Based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is reliable and the Group's tax, currency and customs positions will be confirmed. Therefore, as at 31 December 2008 the Management has not created any provision for potential tax liabilities (2007: nil).

Capital expenditure commitments. At 31 December 2008, the Group had contractual capital expenditure commitments of RR 445 093 thousand (2007: RR 627 270 thousand).

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

In thousands of Russian Roubles	2008	2007
Not later than 1 year	1 220 409	770 439
Later than 1 year and not later than 5 years	2 963 021	1 803 476
Later than 5 years	2 419 990	1 436 458
Total operating lease commitments	6 603 420	4 010 373

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 an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

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

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

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	2008	2007
Sureties issued	21 042 467	-
Undrawn credit lines	4 000 742	30 000
Letters of credit	2 127 263	2 059 350
Guarantees issued	53 554	107 058
Total credit related commitments	27 224 026	2 196 408

Sureties issued represent sureties for loans from Central Bank of Russian Federation, received by two large Russian banks. The fair value of sureties issued was RR 219 521 thousand at 31 December 2008 (2007: nil).

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Undrawn credit lines shown in the table above do not include cancellable commitments of RR 15 811 751 thousand (2007: RR 24 270 132 thousand), which are dependent on borrowers' compliance with certain creditworthiness criteria.

In 2008 no provision for impairment of credit related commitments was created (2007: nil).

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	2008	2007
Russian Roubles	25 080 871	129 964
Euros	1 650 200	1 577 387
US Dollars	462 903	250 960
Other currencies	30 052	238 097
Total	27 224 026	2 196 408

Fiduciary assets. These assets are not included in the consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2008	2007
Promissory notes issued by the Bank	530 799	805 587
Promissory notes and securities of Russian companies held with the Bank	145 036	149 947
Municipal bonds held with the National Depository Centre	62 333	-
Corporate shares held with the National Depository Centre	551	550
Shares and bonds of companies held with other depositories	59	60
OVGVZ held with Vnesheconombank	-	39 274

Assets pledged and restricted. At 31 December 2008, the Group didn't have pledged under repo agreements (2007: municipal bonds pledged under repo agreements with fair value of RR 98 326 thousand). Refer to Note 8.

In addition, mandatory cash balances with the CBRF of RR 962 895 thousand (2007: RR 2 441 967 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

32 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. Derivative financial instruments 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. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros, Swiss Francs and Japanese yen to four OECD banks with maturities from January 2009 to May 2023 and deposits in Russian Roubles received from the same four banks with similar maturities ("back to back loans"). These transactions were aimed at hedging the currency exposure of the Group.

International credit rankings of these banks were not less than BB- as at 31 December 2008.

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2008 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	88 069 408	32 159 796	120 229 204
USD payable on settlement (-)	-	(43 695 903)	(43 695 903)
RR receivable on settlement (+)	-	30 405 515	30 405 515
RR payable on settlement (-)	(62 729 846)	(22 267 519)	(84 997 365)
Euros receivable on settlement (+)	3 193 522	-	3 193 522
RR payable on settlement (-)	(2 276 529)	-	(2 276 529)
CHF receivable on settlement (+)	12 689 062	-	12 689 062
RR payable on settlement (-)	(8 168 259)	-	(8 168 259)
JPY receivable on settlement (+)	-	1 201 216	1 201 216
RR payable on settlement (-)	-	(1 814 536)	(1 814 536)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
RR receivable on settlement (+)	-	19 316 970	19 316 970
USD payable on settlement (-)	-	(19 558 077)	(19 558 077)
Total net fair value	**30 777 358**	**(4 252 538)**	**26 524 820**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2007 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	15 600 874	99 763 440	115 364 314
RR payable on settlement (-)	(15 446 384)	(103 226 020)	(118 672 404)
Euros receivable on settlement (+)	2 731 247	-	2 731 247
RR payable on settlement (-)	(2 608 941)	-	(2 608 941)
CHF receivable on settlement (+)	-	8 516 779	8 516 779
RR payable on settlement (-)	-	(8 599 707)	(8 599 707)

Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	355 989	355 989
Euros payable on settlement (-)	-	(359 928)	(359 928)
Futures on share: fair value at the balance sheet date, of			
RR receivable on settlement (+)	3 480	79 708	83 188
Short position in shares (-)	(3 470)	(90 220)	(93 690)
Total net fair value	**276 806**	**(3 559 959)**	**(3 283 153)**

As at 31 December 2008 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 87 643 759 thousand and RR 73 945 096 thousand, respectively, or 52% of total receivables or payables on settlement of foreign exchange swaps (31 December 2007: RR 52 561 376 thousand and RR 54 304 243 thousand, or 42% of total receivables or payables on settlement on foreign exchange swaps).

The structure of gains less losses from derivative financial instruments is as follows:

In thousands of Russian Roubles	2008	2007
Foreign exchange swaps with settlement dates of more than 30 days	33 009 224	(4 076 023)
Options	1 104 710	-
Other financial derivative instruments	(613 831)	(80 822)
Total gain less losses from derivative financial instruments	**33 500 103**	**(4 156 845)**

33 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The 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 with Fair value through profit or loss, securities available for sale, securities categorised as “repurchase receivable”, and derivative financial instruments including embedded derivatives are carried on the consolidated balance sheet at their fair value based on quoted market prices.

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on 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 similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2008	2007
Due from other banks		
Short-term placements with other banks with original maturity more than one month	7% -42%	4% -12%
Loans and advances to customers		
Corporate loans	9%-20%	8%-17%
Loans to individuals	10%-24%	10%-19%
Securities held to maturity	6%-25%	7%-11%
Due to other banks	2% -24%	3% -9%
Customer accounts		
- Term deposits of legal entities	2%-13%	2%-8%
- Term deposits of individuals	3%-13%	3%-11%
Promissory notes issued	5%-12%	4%-10%
Syndicated loans	5%-6%	5%-6%
Subordinated debts	4%-8%	7%

Fair values of financial instruments are as follows:

In thousands of Russian Roubles	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents				
- cash on hand	5 503 536	5 503 536	2 991 048	2 991 048
- cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	27 841 448	19 685 479	19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	49 832 400	49 832 400	11 313 656	11 313 656
Due from other banks	96 879 909	96 879 909	1 627 975	1 627 975
Loans and advances to customers				
- Loans to corporates	383 297 459	375 944 133	240 708 779	240 644 789
- Lending for food interventions	10 442 420	10 442 420	3 189 928	3 189 928
- Reverse repo agreements	621 824	621 824	2 466 091	2 466 091
- Investments in agricultural cooperatives	682 463	682 463	663 912	663 912
- Loans to individuals	57 256 501	56 040 546	44 554 427	44 554 427
Investment securities held to maturity	10 206 528	8 643 719	5 495 475	5 495 475
Other financial assets carried at amortised cost	145 017	145 017	77 866	77 866
Total financial assets carried at amortised cost	642 709 505	632 577 415	332 774 636	332 710 646
Financial assets carried at fair value	57 676 882	57 676 882	13 587 907	13 587 907
Total financial assets	700 386 387	690 254 297	346 362 543	346 298 553
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	137 256 028	137 256 028	61 150 114	61 150 114
- Term borrowings from CB RF	105 827 199	105 827 199	-	-
- Correspondent accounts and overnight placements of other banks	18 618	18 618	66 687	66 687
- Sale and repurchase agreements	-	-	86 028	86 028
Customer accounts				
- State and public organisations	34 946 313	34 946 313	6 557 056	6 557 056
- Other legal entities	69 153 501	69 153 501	63 051 424	63 051 424
- Individuals	50 395 193	50 395 193	26 349 234	26 349 234
Promissory notes issued	9 845 488	9 845 488	32 361 154	32 361 154
Other borrowed funds				
- Issued Eurobonds	132 239 264	92 280 723	64 994 398	64 370 774
- Bonds issued on domestic market	43 675 019	43 141 007	30 294 247	30 487 190
Syndicated loans	10 531 712	10 531 712	15 572 209	15 572 209
Other financial liabilities	221 034	221 034	-	-
Subordinated debts	45 539 944	39 456 653	17 320 463	17 260 332
Total financial liabilities carried at amortised cost	639 649 313	593 073 469	317 803 014	317 312 202
Financial liabilities carried at fair value	4 252 538	4 252 538	3 559 959	3 559 959
Total financial liabilities	643 901 851	597 326 007	321 362 973	320 872 161

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 32.

34 Reconciliation of Classes of Financial Instruments with Measurement Categories

According to the IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies its 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 and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008.

In thousands of Russian Roubles	Loans and receivables	Available for sale assets	Held-to-maturity assets	Financial assets at fair value through profit and loss	Total
Financial assets					
Cash and cash equivalents					
- cash on hand	5 503 536	-	-	-	5 503 536
- cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	-	-	-	27 841 448
- correspondent accounts and placements with other banks with original maturities of less than one month	49 832 400	-	-	-	49 832 400
Trading securities					
- Debt securities				17 667 682	17 667 682
Other securities with fair value through profit or loss	-	-	-	4 438 652	4 438 652
Derivative financial instruments	-	-	-	30 777 358	30 777 358
Due from other banks	96 879 909	-	-	-	96 879 909
Loans and advances to customers					
- Loans to corporates	383 297 459	-	-	-	383 297 459
- Lending for food interventions	10 442 420	-	-	-	10 442 420
- Reverse repo agreements	621 824	-	-	-	621 824
- Investments in agricultural cooperatives	682 463	-	-	-	682 463
- Loans to individuals	57 256 501	-	-	-	57 256 501
Investment securities available for sale	-	4 793 190	-	-	4 793 190
Investment securities held to maturity	-	-	10 206 528	-	10 206 528
Other financial assets	145 017	-	-	-	145 017
Total financial assets	632 502 977	4 793 190	10 206 528	52 883 692	700 386 387
Non-financial assets					12 727 457
Total assets	632 502 977	4 793 190	10 206 528	52 883 692	713 113 844

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2007.

In thousands of Russian Roubles	Loans and receivables	Available for sale assets	Held-to-maturity assets	Financial assets at fair value through profit and loss	Total
Financial assets					
Cash and cash equivalents					
- cash on hand	2 991 048	-	-	-	2 991 048
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	-	-	-	19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656	-	-	-	11 313 656
Trading securities					
- Debt securities	-	-	-	11 944 178	11 944 178
- Shares	-	-	-	111 877	111 877
Repurchase receivable	-	-	-	98 326	98 326
Derivative financial instruments	-	-	-	276 806	276 806
Due from other banks	1 627 975	-	-	-	1 627 975
Loans and advances to customers					
- Loans to corporates	240 708 779	-	-	-	240 708 779
- Lending for food interventions	3 189 928	-	-	-	3 189 928
- Reverse repo agreements	2 466 091	-	-	-	2 466 091
- Investments in agricultural cooperatives	663 912	-	-	-	663 912
- Loans to individuals	44 554 427	-	-	-	44 554 427
Investment securities available for sale	-	1 156 720	-	-	1 156 720
Investment securities held to maturity	-	-	5 495 475	-	5 495 475
Other financial assets	77 866	-	-	-	77 866
Total financial assets	**327 279 161**	**1 156 720**	**5 495 475**	**12 431 187**	**346 362 543**
Non-financial assets					10 097 658
Total assets	**327 279 161**	**1 156 720**	**5 495 475**	**12 431 187**	**356 460 201**

35 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Russian Roubles	2008	2007
Profit attributable to ordinary shareholders	2 053 685	4 353 671
Profit for the year (all allocated to ordinary shareholders)	2 053 685	4 353 671
Weighted average number of ordinary shares in issue	39 872	20 946
Basic and diluted earnings per ordinary share	**52**	**208**

36 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. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note1).

The outstanding balances with related parties were as follows:

In thousands of Russian Roubles	2008	2007
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Mandatory cash balances with the Central Bank of the Russian Federation	962 895	2 441 967
Nostro accounts and placements with state-controlled banks with original maturities of less than one month (contractual interest rate: 2%-20% p.a. (2007: 2%-11% p.a.))	4 880 137	3 875 712
Trading securities and repurchase receivable (contractual interest rate: 7%-10% p.a. (2007: 6%-10% p.a.))		
Federal loan bonds (OFZ)	-	3 080 494
Municipal bonds	354 721	1 106 034
Corporate bonds and Eurobonds	6 307 357	2 981 346
Corporate shares	-	111 877
Investment securities available for sale (contractual interest rate: 7%-11% p.a. (2007: 7%-9% p.a.))		
State Eurobonds	51 442	-
Municipal bonds and Eurobonds	146 134	1 001 500
Corporate bonds and Eurobonds	1 167 767	102 115
Corporate shares	5 025	-
Investment securities held to maturity (contractual interest rate: 6%-10% p.a.)		
Federal loan bonds (OFZ)	4 126 378	-
Municipal bonds	1 261 711	-
Corporate bonds and Eurobonds	2 003 886	-
Promissory notes of the Banks, controlled by government	643	-
Due from other banks		
Current term placements in the Banks, controlled by government (contractual interest rate: 8% p.a.)	14 690 200	-
Loans and advances to customers		
State-controlled companies (contractual interest rate: 7%-21% p.a. (2007: 7%-18% p.a.))	30 146 301	9 507 102
Key management and their family members (contractual interest rate: 5%-8% p.a. (2007: 5% p.a.))	33 522	5 876
Provision for loan impairment at the year end		
State-controlled companies	(266 459)	(93 414)
Current income tax prepayment	**176 491**	**51 518**
Due to other banks		
Current term placement, attracted from CBRF (contractual interest rate: 6%-13% p.a.)	105 827 199	-
Current term placements, attracted from the Banks, controlled by government (contractual interest rate: 2%-12% p.a. (2007: 1%-9% p.a.)	23 932 133	3 009 247
Term deposits and current/settlement accounts		
State-controlled companies (contractual interest rate for term deposits 3% -13% p.a. (2007: 5%-9% p.a.)	51 122 840	11 235 285
Key management and their family members (contractual interest rate for term deposits: for term deposits 4%-13% p.a. (2007: 3%-11% p.a.)	312 224	184 299
Subordinated debts (contractual interest rate 8% p.a.)	**25 000 000**	**-**
Revaluation reserve for investment securities available for sale	**(284 274)**	**(1 275)**
Credit related commitments		
Undrawn credit lines (without commitments to extend credit, which are contingent upon customer's maintaining specific credit standards)	4 000 742	30 000
Letters of credit	50 384	-
Guarantees issued	20 463	37 096

The income and expense items with related parties were as follows:

In thousands of Russian Roubles	2008	2007
Interest income on cash and cash equivalents		
The Central Bank of the Russian Federation	81 478	49 877
Transactions with state-controlled banks, including placements with original maturities of less than one months	277 677	75 441
Interest income on trading securities		
Government securities	215 021	225 038
Securities of state-controlled companies	286 471	120 176
Results from operations with trading securities		
Government securities	(176 068)	(41 880)
Securities of state-controlled companies	375 542	(17 703)
Interest income on investment securities available for sale		
Government securities	46 926	1 000
Securities of state-controlled companies	62 244	407
Result from operations with investment securities available for sale		
Government securities	(20)	-
Securities of state-controlled companies	3 324	-
Interest income on investment securities held to maturity		
Government securities	183 460	-
Securities of state-controlled companies	55 596	-
Interest income on loans and advances to customers		
State-controlled companies	1 135 697	944 859
Key management and their family members	1 361	329
Provision for loan impairment on loans and advances to customers		
State-controlled companies	(173 045)	(851)
Interest income on due from other banks		
Transactions with state-controlled banks	153 431	-
Interest expense on due to other banks		
The Central Bank of the Russian Federation	(1 158 448)	-
Transactions with state-controlled banks	(903 467)	(65 479)
Interest expense on subordinated debts		
State-controlled companies	(377 049)	-
Interest expense on customer accounts		
State-controlled companies	(1 725 438)	(202 430)
Key management and their family members	(27 171)	(13 556)
Agency commission income from the Ministry of Finance of the Russian Federation for debt collection services	27 119	17 797
Fee received from CBRF	155	-
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project "Development of the Agro-Industrial Sector"	-	8 468
Expenses relating to participation in the project "Development of the Agro-Industrial Sector" net of taxes and staff costs	-	(7 301)
Other income (on guarantees and letters of credit issued)	119	1 538
Other income (dividends received from securities)	221	-
Current income tax expense	**(995 365)**	**(904 524)**

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

In thousands of Russian Roubles	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	2 935 256 773	2 927 100 804
Mandatory cash balances with the CBRF	2 930 141	4 409 213
Correspondent accounts and placements with state-controlled banks with original maturities less than one month	1 068 337 396	1 067 332 971
Trading securities and repurchase receivable		
Government securities	45 948 109	49 779 916
including reclassified	-	5 395 086
Securities of state-controlled companies	22 220 959	19 006 825
including reclassified	-	2 325 012
Investment securities available for sale		
Government securities	453 306	1 257 230
including reclassified	53 506	-
Securities of state-controlled companies	3 288 454	2 217 777
including reclassified	1 012 152	-
Investment securities held to maturity		
Government securities	50 637 066	45 248 977
including reclassified	5 341 580	-
Securities of state-controlled companies	10 040 477	8 035 948
including reclassified	1 312 860	
Loans and advances to customers		
State-controlled companies	29 170 289	8 531 090
Key management and their family members	31 284	3 638
Due from other banks		
Current term placements in state-controlled banks	15 384 400	694 200
Due to other banks		
Current term placements from state-controlled banks	94 810 295	73 887 409
Current placements from CBRF	167 204 661	61 377 462
Customer accounts		
State-controlled companies	194 040 761	154 153 206
Key management and their family members	807 365	679 440
Subordinated debts	**25 377 049**	**377 049**

In relation to securities, the amounts lent/repaid to related parties during the year include deals with securities purchased under “reverse-repo agreements”.

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

In thousands of Russian Roubles	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 826 662 019	1 818 639 944
Mandatory cash balances with the Central Bank of the Russian Federation	1 933 427	1 208 883
Nostro accounts and placements with state-controlled banks with original maturities less than one months	243 361 620	239 692 860
Trading securities and repurchase receivable		
Government securities	29 912 003	27 560 641
State-controlled companies	12 730 441	10 149 968
Securities available for sale		
Government securities	1 001 500	-
State-controlled companies	102 115	-

Loans and advances to customers		
State-controlled companies	7 099 927	6 294 521
Key management and their family members	3 868	3 985
Due to other banks		
Current term placements from state-controlled banks	64 260 934	61 965 881
Current placements from CBRF	36 112	36 112
Customer accounts		
State-controlled companies	108 854 662	102 144 882
Key management and their family members	367 028	288 902

In 2008, the total remuneration of the members of the Management Board was RR 196 329 thousand (2007: RR 168 715 thousand).

	2008		2007	
In thousands of Russian Roubles	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	174 458	13 733	152 629	9 218
Post-employment benefits:				
- Defined contribution retirement scheme	7 570	-	6 300	-
- State pension and social costs	568	-	568	-
Total	**182 596**	**13 733**	**159 497**	**9 218**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

37 Principal Consolidated Subsidiary and Special Purpose Entity

As at 31 December 2008, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership	Country of incorporation
Subsidiary				
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99,47%	99,47%	Russia
Limited Liability Company TD Agrotorg	Trading entity	-	99,00%	Russia
Special purpose entity				
RSHB Capital S.A.	Eurobond issue	-	-	Luxembourg

RSHB Capital S.A. was registered in Luxembourg in 2005. The Company is owned by the foundations established under the laws of the Netherlands and has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to the Note 19 and 22).

38 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 ensure the Group's ability to continue as a going concern and
(iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% 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.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Group's report prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	2008	2007
Net assets under Russian legislation	63 927 731	31 179 151
Revaluation reserve	1 841 400	2 009 546
Subordinated debts	45 566 280	17 182 340
Other	(223 500)	(181 843)
Total regulatory capital	111 111 911	50 189 194

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel I.

The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of Russian Roubles	2008	2007
Share capital	61 972 833	28 477 833
Retained earnings	6 337 188	4 435 587
Total tier 1 capital	68 310 021	32 913 420
Revaluation reserves	(552 240)	909 493
Subordinated debts	34 155 011	16 456 710
Total tier 2 capital	33 602 771	17 366 203
Total capital	101 912 792	50 279 623

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Bank of Russia and loan covenants.

39 Subsequent events

In February 2009 the Extraordinary General Shareholders' meeting approved an increase of Group's share capital in the amount of RR 45 000 000 thousand; the shares were fully paid up on 27 February 2009.

In February 2009, the Group bonds holders executed a put option in the amount of RR 4 732 348 thousand. All these bonds were placed again in February 2009. Refer to Note 19.

In February 2009 counterparties unwound 3 times Leveraged Credit Linked Note (CLN) from one of the OECD banks in the nominal amount of USD 167 000 thousand with no significant gain or loss.

In March 2009, Management approved the issue of two loans to the state-owned company in the total amount of USD 1 000 000 thousand. In April 2009, the Group issued first loan on USD 600 000 thousand with maturity on 15 April 2014.

Russian Agricultural Bank

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