

**“National Factoring Company”
Banking Group
Consolidated Financial Statements**

Year ended 31 December 2008

Together with Independent Auditors’ Report

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Independent auditors' report

To the Shareholders and Board of Directors of Banking Group "National Factoring Company" -

We have audited the accompanying consolidated financial statements of Banking Group "National Factoring Company", which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility


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

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

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

Opinion

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



June 4, 2009

CONSOLIDATED BALANCE SHEET

As of 31 December 2008

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
Assets			
Cash and cash equivalents	5	1,792,532	2,160,255
Trading securities	6	156,405	20,638
Amounts due from credit institutions	7	525,974	886,031
Factoring advances and loans	8	6,307,462	7,051,356
Current income tax asset	9	21,598	-
Deferred income tax asset	9	21,155	994
Other assets	10	147,923	182,835
Total assets		8,973,049	10,302,109
Liabilities			
Amounts due to Central Bank	11	1,526,799	-
Amounts due to credit institutions	12	2,423,384	6,152,923
Debt securities issued	13	2,323,031	1,547,524
Settlements with clients on factoring		103,569	114,918
Current income tax liability		1,222	18,270
Other liabilities	10	95,999	41,265
Total liabilities		6,474,004	7,874,900
Equity			
Share capital	14	1,456,000	1,456,000
Retained earnings		1,043,045	971,209
Total equity		2,499,045	2,427,209
Total equity and liabilities		8,973,049	10,302,109

Signed and authorised for release on behalf of the Management Board of the Bank

Roman V. Ogonkov

Chairman of Management Board

Dmitry V. Baryshnikov

Chief Accountant



June 4, 2009

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
Interest income			
Factoring advances	16	1,612,310	1,356,345
Due from credit institutions		122,552	62,896
Loans		29,885	22,027
Trading securities		3,333	1,282
		1,768,080	1,442,550
Interest expense			
Amounts due to credit institutions		(432,438)	(381,272)
Debt securities issued		(271,902)	(93,663)
Deposits		(1,801)	(35)
Other		(14,877)	-
		(721,018)	(474,970)
Net interest income			
		1,047,062	967,580
Allowance for loan impairment	8	(302,939)	(74,801)
Net interest income after allowance for loan impairment			
		744,123	892,779
Non-interest income (expense)			
Net fee and commission expense	17	(13,716)	(3,641)
Net losses from trading securities		(17,697)	(76)
Net gains/(losses) from foreign currencies:			
- dealing		(22,184)	(32,104)
- translation differences		4,330	28,875
Other income	17	12,288	674
		(36,979)	(6,272)
Non-interest expense			
Personnel expenses	18	(373,622)	(286,454)
Administrative and operating expenses	18	(200,089)	(179,272)
Depreciation		(4,807)	(3,373)
		(578,518)	(469,099)
Profit before income tax expense			
		128,626	417,408
Income tax expense	9	(56,790)	(116,260)
Profit for the year			
		71,836	301,148

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
31 December 2006		1,456,000	670,061	2,126,061
Net income		-	301,148	301,148
31 December 2007		1,456,000	971,209	2,427,209
Net income		-	71,836	71,836
31 December 2008		1,456,000	1,043,045	2,499,045

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	Notes	2008	2007
Cash flows from operating activities			
Interest, fees and commissions received		1,745,941	1,422,146
Interest, fees and commissions paid		(702,059)	(464,186)
Realised losses less gain from dealing in foreign currencies		(20,454)	(57,010)
Gains less losses from trading securities		375	-
Other income received		12,288	674
Personnel expenses paid		(322,775)	(260,982)
Other operating expenses paid		(200,161)	(179,258)
Cash flows from operating activities before changes in operating assets and liabilities		513,155	461,384
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		558,262	(689,959)
Factoring advances and loans		476,374	(1,152,234)
Trading securities		(151,898)	-
Other assets		(8,629)	(131,588)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to Central Bank		1,520,000	-
Amounts due to credit institutions		(3,955,131)	2,574,817
Settlements with clients on factoring		(23,759)	6,934
Time deposits of clients		(500)	500
Other liabilities		38,627	11,529
Net cash flows (used in)/from operating activities before income tax		(1,033,499)	1,081,383
Income tax paid		(115,597)	(100,642)
Net cash (used in)/from operating activities		(1,149,096)	980,741
Cash flows from investing activities			
Purchase of property and equipment		(6,376)	(6,420)
Proceeds from sale of property and equipment		383	3,602
Net cash used in investing activities		(5,993)	(2,818)
Cash flows from financing activities			
Proceeds from bonds issued		2,311,000	-
Proceeds from credit linked notes issued		-	800,000
Redemption of bonds issued		(741,148)	(266,738)
Redemption of credit linked notes		(800,000)	-
Net cash from financing activities		769,852	533,262
Effect of exchange rates changes on cash and cash equivalents		17,514	(5,839)
Net increase/(decrease) in cash and cash equivalents		(367,723)	1,505,346
Cash and cash equivalents, beginning		2,160,255	654,909
Cash and cash equivalents, ending	5	1,792,532	2,160,255

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

1. Principal activities

Bank “National Factoring Company” (Closed Joint Stock Company) (the “Bank”) is the parent company in the Group. It was formed in 2003 as a limited liability company under the laws of the Russian Federation. The Bank operates under a banking license issued by the Central Bank of Russia (“CBR”) in December 2006. On December 21, 2006 the Bank registered with the CBR the change in its legal form from limited liability company to closed joint stock company (CJSC).

The Bank's core operations are factoring services, including financing transactions against cash cession and other transactions with trade receivables of business entities in the Russian Federation and abroad. The Bank acts as a factor for Russian and foreign legal entities and as an import factor for foreign factoring companies. The Bank is a member of Factors Chain International (FCI), International Factors Group (IFG) – special professional associations of the global factoring market, as well as EEFA (East European Factoring Association) and Association of Factoring Companies. The Bank is one of the leaders in the Russian factoring market.

As of December 31, 2008 the following shareholders owned the outstanding shares:

Shareholder	2008 %	2007 %
Salerna LLC	50	50
Centerryboproduct LLC	50	50
Total	100.0	100.0

The Group is ultimately controlled by Mr Nickolai Tsvetkov.

The Bank's main office is located in Moscow and it has 23 operating outlets in the Russian Federation. The Bank's registered legal address is 14 Kozhevniceskaya Street, Moscow, Russia, 115114. The Bank had an average of 388 employees during 2008 (2007 – 313) and 429 employees as of December 31, 2008 (2007 – 371).

100% owned by the Bank subsidiary company “NFC-Premium” was formed as a limited liability company under the laws of the Russian Federation on December 20, 2007. The company's principal activity is factoring. The company is a subsidiary of the Bank and was consolidated in these financial statements.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These consolidated financial statements are based on the Group's RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

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

These consolidated financial statements are presented in thousands of Russian Rubles (“RUB”) unless otherwise indicated.

(Thousands of Russian Rubles)

2. Basis of preparation (continued)

Reconciliation of RAL and IFRS equity and profit for the year

Equity and profit for the year are reconciled between RAL and IFRS as follows:

	2008		2007	
	Equity	Profit for the year	Equity	Profit for the year
Russian Accounting Legislation (combined)	2,342,936	180,926	2,162,011	272,174
Effect of consolidation of subsidiaries	1,022	1,022	-	-
Capitalisation of distribution from funds	152,700	-	152,700	-
Effect of accrued interest	(18,661)	(116,337)	97,674	5,979
Impairment of financial assets	89,232	38,518	50,713	29,108
Accrual of additional compensation benefit	(71,205)	(32,724)	(38,481)	(25,472)
Fair value re-measurement of securities	(18,072)	(18,072)	-	-
Fair value re-measurement of derivatives	-	-	1,730	24,906
Deferred tax	21,155	20,161	994	(5,665)
Other	(62)	(1,658)	(132)	118
International Financial Reporting Standards	2,499,045	71,836	2,427,209	301,148

3. Summary of accounting policies

Changes in accounting policies

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

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

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Group did not reclassify any financial assets from held for trading or available for sale categories and hence these amendments did not have any impact on the financial position or performance of the Group.

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Subsidiary (continued)

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Financial assets

Initial recognition

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

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Factoring advances, loans and receivables

Factoring advances, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Determination of fair value

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days and are free from contractual encumbrances.

Promissory notes

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

Operating - Group as lessee

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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, factoring advances and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, which are connected to factoring operations of the Group. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

*(Thousands of Russian Rubles)***3. Summary of accounting policies (continued)****Taxation**

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25-30
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles	4

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-retirement benefits.

The part of management stimulation program represents advances granted to top management. The transaction effectively represents long-term employee benefits with advance payments. The Group amortizes these advances under the straight-line method over the vesting period.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are proposed before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Dividend income

Dividends are recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2008 and 31 December 2007, were 29.3804 Rubles and 24.5462 Rubles to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Improvements to IFRS

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

IAS 1 Presentation of Financial Statements (Revised)

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

IAS 23 "Borrowing Costs" (Revised)

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

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

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

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

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

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

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 8 "Operating Segments"

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

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

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Allowance for loan impairment

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

(Thousands of Russian Rubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2008</u>	<u>2007</u>
Current accounts with the Central Bank	593,375	615,513
Current accounts with other credit institutions	299,184	181,672
Time deposits with credit institutions up to 90 days	899,973	1,363,070
Cash and cash equivalents	<u>1,792,532</u>	<u>2,160,255</u>

As of 31 December 2008, inter-bank time deposits with credit institutions up to 90 days are placed with seven Russian banks (31 December 2007: seven). The Group also has current accounts in about twenty major Russian banks.

6. Trading securities

Trading securities owned comprise:

	<u>2008</u>	<u>2007</u>
Russian State bonds (OFZ)	-	20,638
Corporate bonds	156,405	-
Trading securities	<u>156,405</u>	<u>20,638</u>

The corporate bonds are issued by a related party with maturity July 21, 2011 and interest rate 12.99%.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2008</u>	<u>2007</u>
Obligatory reserve with the Central Bank	39,469	336,966
Promissory notes	486,505	402,796
Time deposits for more than 90 days or overdue	-	146,269
Amounts due from credit institutions	<u>525,974</u>	<u>886,031</u>

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of 31 December 2008, the Group had unquoted promissory notes of a Russian bank, which is the subsidiary of a large CIS bank in total amount of 486,505 RUB (2007 - 402,796 RUB) and interest rate 11%.

8. Factoring advances and loans to customers

Factoring advances and loans comprise:

	<u>2008</u>	<u>2007</u>
Factoring advances with recourse	3,832,646	5,051,752
Factoring advances without recourse	2,133,155	2,306,380
Loans to customers	990,308	45,715
	<u>6,956,109</u>	<u>7,403,847</u>
Less – Clients counter-claims	(31,421)	(38,204)
	<u>6,924,688</u>	<u>7,365,643</u>
Less – Allowance for impairment	(617,226)	(314,287)
Factoring advances and loans to customers	<u>6,307,462</u>	<u>7,051,356</u>

(Thousands of Russian Rubles)

8. Factoring advances and loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Factoring advances with recourse</i>	<i>Factoring advances without recourse</i>	<i>Total</i>
At 1 January 2008	218,459	95,828	314,287
Charge for the year	169,662	133,277	302,939
At 31 December 2008	388,121	229,105	617,226
Individual impairment	371,744	223,437	595,181
Collective impairment	16,377	5,668	22,045
	388,121	229,105	617,226
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	910,570	242,097	1,152,667
	<i>Factoring advances with recourse</i>	<i>Factoring advances without recourse</i>	<i>Total</i>
At 1 January 2007	219,712	19,774	239,486
Charge for the year	(1,253)	76,054	74,801
At 31 December 2007	218,459	95,828	314,287
Individual impairment	194,710	88,578	283,288
Collective impairment	23,749	7,250	30,999
	218,459	95,828	314,287
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	210,975	92,034	303,009

(Thousands of Russian Rubles)

8. Factoring advances and loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2008 comprised RUB 30,632 (2007 – RUB 4,786).

In accordance with the CBR requirements, loans may only be written off with the approval of the Management Board of the Group and, in certain cases, with the respective decision of the Court. During the year ended 31 December 2008 no loans were written off.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Guarantee agreements,
- Accounts receivable.
- Debt securities issued by the Group.

Concentration of loans to customers and factoring advances

As of 31 December 2008, the Group had a concentration of loans and factoring advances represented by RUB 2,931,285 due from the ten largest third party entities (42% of gross loan portfolio) (2007 – RUB 2,119,617 or 29%). Clients of the Group consist of commercial enterprises and individuals only. An allowance of RUB 92,707 (2007 – RUB 8,501) was recognised against these loans and factoring advances.

Factoring advances and loans are made principally within Russia in the following industry sectors:

	<u>2008</u>	<u>2007</u>
Production and wholesale of food and beverages	1,808,999	1,982,427
Trading enterprises	1,793,573	1,766,292
Construction and finishing materials	1,048,347	910,951
Investment and finance	961,786	22,993
Production and wholesale of computers and consumer electronics	619,621	1,575,278
Metallurgy and manufacturing	256,374	271,535
Individuals	30,308	24,215
Chemistry and oil	13,840	13,792
Other	391,840	798,160
	<u><u>6,924,688</u></u>	<u><u>7,365,643</u></u>

9. Taxation

The corporate income tax expense comprises:

	<u>2008</u>	<u>2007</u>
Current tax charge	75,608	110,595
Prior period tax	1,343	-
Deferred tax charge/(credit) – origination and reversal of temporary differences	(20,161)	5,665
Income tax expense	<u><u>56,790</u></u>	<u><u>116,260</u></u>

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2008 and 2007. The tax rate for companies other than banks was also 24% for 2008 and 2007. The tax rate for interest income on state securities was 15% for Federal taxes.

Starting from January 1, 2009, profit tax rate in the Russian Federation is reduced to 20%. Therefore, as of December 31, 2008, the deferred income tax was calculated based on the newly applied tax rate.

(Thousands of Russian Rubles)

9. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2008</u>	<u>2007</u>
Profit before tax	128,626	417,408
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	30,870	100,178
Income on state securities taxed at different rates (15%)	(38)	(116)
Non-deductible expenditures	20,384	16,198
Effect of change in statutory tax rate	4,231	-
Prior period tax	1,343	-
Income tax expense	56,790	116,260

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	<u>2006</u>	<i>Origination and reversal of temporary differences In the income statement</i>	<u>2007</u>	<i>Origination and reversal of temporary differences In the income statement</i>	<u>2008</u>
Tax effect of deductible temporary differences:					
Trading securities	-	-	-	3,614	3,614
Factoring advances and loans	5,654	485	6,139	13,067	19,206
Derivatives	5,562	(5,562)	-	-	-
Other assets	-	-	-	657	657
Other liabilities	-	-	-	471	471
Deferred tax asset	11,216	(5,077)	6,139	17,809	23,948
Tax effect of taxable temporary differences:					
Derivatives	-	415	415	(415)	-
Amounts due to credit institutions	3,039	254	3,293	(3,120)	173
Debt securities issued	1,518	(81)	1,437	1,183	2,620
Deferred tax liability	4,557	588	5,145	(2,352)	2,793
Net deferred tax liability (asset)	(6,659)	5,665	(994)	(20,161)	(21,155)

10. Other assets and liabilities

Other assets comprise:

	<u>2008</u>	<u>2007</u>
Advances to employees	83,851	127,600
Prepayments	33,216	31,581
Prepaid operating taxes	16,747	9,574
Property and equipment, net	13,409	11,880
Intangible assets, net	700	407
Derivatives financial assets	-	1,730
Other	-	63
Other assets	147,923	182,835

Other liabilities comprise:

	<u>2008</u>	<u>2007</u>
Operating taxes payable	65,107	26,458
Accrued additional compensation and employee benefits	20,479	13,388
Accounts payable	9,524	-
Other	889	915
Time deposits of customers	-	504
Other liabilities	95,999	41,265

(Thousands of Russian Rubles)

11. Amounts due to Central Bank

Amounts due to Central Bank consist of short-term unsecured loans received from the CBR on total amount RUB 1,526,799 (2007 – RUB 0). The main purpose of these loans was encourage the liquidity position of the banking system in Russia.

12. Amounts due to credit institutions

Amounts due to credit institutions comprise time deposits and loans, maturing within the period from less than 1 month to 2 years and with interest rates in RUR 12.5% - 19%, in EUR 5.5%, in USD 2.9% - 3.4%.

13. Debt securities issued

Debt securities issued consisted of the following:

	<u>2008</u>	<u>2007</u>
Bonds	2,323,031	740,396
Credit linked notes	-	807,128
Debt securities issued	<u><u>2,323,031</u></u>	<u><u>1,547,524</u></u>

The Group issued bonds on 4 May 2006, with maturity of three years and coupon interest rate of 9,8%. Nominal value of bonds is RUB 1,000,000. As at 31 December 2008 year 422,259 bonds were bought back by the Group.

The Group issued bonds on 29 April 2008, with maturity of three years and coupon interest rate of 13%. Nominal value of bonds is RUB 2,000,000. Bonds with carrying value of RUR 6,801 were eliminated during consolidation.

14. Equity

Shares outstanding, issued and fully paid were presented by 1,456,000 ordinary shares as at 31 December 2008 and 2007.

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's financial statements prepared in accordance with RAL. The Group had approximately RUB 186,652 of undistributed and unreserved earnings as at 31 December 2008 (2007 – RUB 386,453). As of the date of issue of these financial statement the shareholders of the Group have not declared any dividend payments.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's charter, which provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in accordance with RAL.

(Thousands of Russian Rubles)

15. Commitments and contingencies

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

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

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

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December the Group's commitments and contingencies comprised the following:

	<u>2008</u>	<u>2007</u>
Credit related commitments		
Guarantees	487,529	436,072
	<u>487,529</u>	<u>436,072</u>
Operating lease commitments		
Not later than 1 year	84,143	59,563
Later than 1 year but not later than 5 years	138,455	28,643
	<u>222,598</u>	<u>88,206</u>
Financial commitments and contingencies	<u>710,127</u>	<u>524,278</u>

Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

(Thousands of Russian Rubles)

16. Interest income from factoring operations

Interest income from factoring operations comprise the following types:

	<u>2008</u>	<u>2007</u>
Financing income	1,051,401	882,308
Service premium	414,280	363,443
Risk premium	146,629	110,594
Interest income from factoring advances	<u>1,612,310</u>	<u>1,356,345</u>

17. Fee, commission and other income

Net commission expense comprises the following:

	<u>2008</u>	<u>2007</u>
Commission paid to CBR	(8,685)	(1,605)
Other	(5,031)	(2,036)
Total commission expense	<u>(13,716)</u>	<u>(3,641)</u>

Other income comprises the following:

	<u>2008</u>	<u>2007</u>
Gains from operations with bonds issued	10,759	-
Other	1,529	674
Total other income	<u>12,288</u>	<u>674</u>

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Salaries and bonuses		(288,098)	(230,312)
Social security costs		(41,775)	(31,042)
Deferred employee benefit expense	10	(43,749)	(25,100)
Personnel expenses		<u>(373,622)</u>	<u>(286,454)</u>
Occupancy and rent		(85,028)	(75,316)
Marketing and advertising		(29,432)	(12,454)
Business travel and related		(22,191)	(19,592)
Legal and consultancy		(18,639)	(28,264)
Communications		(13,539)	(10,598)
Repair and maintenance of property and equipment		(7,051)	(2,700)
Operating taxes		(5,066)	(4,136)
Office supplies		(3,544)	(1,493)
Information technology		(2,943)	(4,290)
Security		(2,059)	(1,821)
Personnel training		(1,042)	(2,274)
Other		(9,555)	(16,334)
Other operating expenses		<u>(200,089)</u>	<u>(179,272)</u>

19. Risk management

Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

(Thousands of Russian Rubles)

19. Risk management (continued)

Introduction (continued)

Goals and objectives of risk management system:

- Protection of shareholders' interests by securing proper level of the Group financial strength, by arranging monitoring system, which is in line with nature and size of the Group's operations as well as optimization of risks in all areas of activities.
- Determination of priorities in the Group's risk management. Defining maximum allowable risk values (risk appetite) adopted by the Group.
- Maintaining the Group's aggregate risk level within the limits of value of the risk appetite determined in the Risk Management Policy.
- Establishing efficient risk management in the Group, increasing the Group's investment attractiveness both for Russian and foreign investors.
- Securing uniform approaches to risk management within the entire Group.

Definition of key areas the risk management in the Group:

- Identification of the Group's risks.
- Determining risk management methods.
- Direct risk management by means of risk management divisions.
- Securing independence of risk management divisions from business divisions.
- Information support for all risk management divisions and the Group's Internal Audit department.

Main principles of establishing the risk management system

Changeover to an integrated uniform approach within the entire Group to establishing risk management procedure, first of all with regard to identifying all substantial risks, development of methods and procedures for their evaluation, monitoring and reduction (prevention) with the purpose of ensuring the required growth rate of the Group's business value.

Risk management provides for implementation of the uniform methods for evaluation of risks taken by the Group's business units.

Risk management system has been developed with due account for legislative acts and regulatory documents of the Central Bank of Russia, which are in force or under consideration. Approaches to risk control and risk management within the Group are based on recommendations and usage of the world best practices.

Day-to-day risk management in the Group is performed by the following divisions within the scope of their authorities:

- The Bank's divisions generating risks, including business units (Sales divisions, Client operations divisions), Treasury, Back office.
- Special-purpose risk management divisions, whose main tasks are risk management, including Department of Combined Underwriting, All-Corporate Risk Monitoring Department, Financial Risks Analysis Department.
- Other divisions of the Bank, whose activities may limit and/or eliminate risks taken by the Group, including Credit Control Department, Legal Department, Internal Audit etc.

Organization of Group's risk management system

Group's day-to-day risk management system is a centralized hierarchic management system, which provides for risk management with regard to separate types of risk irrespective of types of activities (performed by business units), which generate these risks, consisting of the following levels:

Risk management strategy is determined by the Board of directors by approving Risk management strategy (including determination of risk appetite), and the Chairman of the Management Board is responsible for implementation of the approved strategy.

(Thousands of Russian Rubles)

19. Risk management (continued)

Organization of Group's risk management system (continued)

Tactic risk management is performed by Bank's collegiate bodies within the scope of their authorities, including:

- Risk Management Committee – takes decisions on methodological issues of risk management as well as working conditions in specific industry sectors or decisions on non-typical conditions of factoring services rendered to Clients. Inter alia, Risk management committee is entitled to take decisions on issues being within the competence of Risk Monitoring Committee and Underwriting Committee, since Risk Management Committee is a collegiate body of a higher level than Risk Monitoring Committee and Underwriting Committee. Decisions taken by Risk Management Committee may not be cancelled/amended by Risk Monitoring Committee and Underwriting Committee.
- Risk Monitoring Committee takes decisions on selection of clients, conditions of their servicing as well as termination, renewal or continuation of their servicing on the former or amended terms based on the results of planned or unplanned monitoring.
- Underwriting Committee takes decisions on large amounts of limits set on Debtors.
- Credit Committee takes decisions on assuming and regulating credit risks, which are not related to factoring operations.

Day-to-day risk management is performed (within the scope of authorities) by Risk management divisions and other divisions of the Group under their competence.

Risk management procedure:

- Identification — detection of risks;
- Assessment — evaluation of risk in accordance with the methods accepted by the Group. Assessment is performed by the Bank's relevant collegiate bodies, business units, risk management divisions and other divisions of the Group within the scope of their competence;
- Restriction/management — is performed in accordance with the methods accepted by the Group. Risk restriction/management is performed by the Bank's relevant collegiate bodies, business units, risk management divisions and other divisions of the Group within the scope of their competence;
- Monitoring — control of the current risk level is performed by risk management divisions, internal audit, collegiate bodies and business units within the scope of their competence.

Methods applied in risk management:

- Regulation of operations – development of procedures;
- Setting-up limits on operations, counterparties, issuers, losses etc.;
- Diversification of operations;
- Estimation of adequate loan loss allowance;
- Control of established procedures and restrictions;
- Development of scenarios regarding the Group's risk management in emergency situations.

Specific methods for management of every single type of risk, which is crucial to the Group, are determined in methods, principles and normative acts regulating the relevant risk management.

Credit risk

Credit risk is a risk of incurring losses by the Group resulted from non-fulfillment by Group's clients and counterparties of their contractual obligations. The Group manages credit risk by setting maximum level of risk, which the Group is willing to accept with regard to certain counterparties, concentration of risk by regions or industry sectors as well as by means of monitoring observation of the risk limits set and collateral quality.

The Group developed a procedure for monitoring of credit quality to ensure early detection of possible changes in counterparties' credit standing and value of collateral. Limits on counterparties are determined based on credit risk rating system, which assigns a credit rating to each counterparty. Ratings are revised on a regular basis. The amount of collateral is estimated on a continuing basis within the framework of special developed procedures (verification, collation and administration of the assigned collateral) taking into account specific character of factoring operations and established international factoring practices. Procedure of credit quality monitoring allows the Group to estimate the amount of potential losses pertaining to risks, which it may suffer, and take the appropriate measures.

(Thousands of Russian Rubles)

19. Risk management (continued)

Credit risk (continued)

Specific features of credit risk management in factoring operations

In performing factoring operations the Group pays substantial attention not only to evaluation of credit risk on clients, but also performs certain procedures on evaluation of credit risk pertaining to each debtor submitted to factoring operations. The Group considers these procedures as an important source of additional security and protection of credit quality. Activities on evaluation and management of clients' and debtors' risks in the Group are strictly separated within certain divisions of risk management system.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

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

	<i>Notes</i>	<i>Maximum exposure 2008</i>	<i>Maximum exposure 2007</i>
Cash and cash equivalents	5	1,792,532	2,160,255
Trading securities	6	156,405	20,638
Amounts due from credit institutions	7	525,974	886,031
Derivative financial assets		-	1,730
Factoring advances and loans	8	6,307,462	7,051,356
Prepayments	10	33,216	31,581
		<u>8,815,589</u>	<u>10,151,591</u>
Financial commitments and contingencies	15	487,529	436,072
Total credit risk exposure		<u>9,303,118</u>	<u>10,587,663</u>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

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

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired 2008</i>	<i>Total 2008</i>
		<i>High grade 2008</i>	<i>Standard grade 2008</i>	<i>Sub-standard grade 2008</i>		
Amounts due from credit institutions	7	525,974	-	-	-	525,974
Factoring advances and loans	8					
Factoring advances with recourse		1,072,038	1,687,091	119,110	954,407	3,832,646
Factoring advances without recourse		402,940	1,429,210	20,495	249,089	2,101,734
Loans to customers		21,653	568,655	400,000	-	990,308
		<u>1,496,631</u>	<u>3,684,956</u>	<u>539,605</u>	<u>1,203,496</u>	<u>6,924,688</u>
Total		<u>2,022,605</u>	<u>3,684,956</u>	<u>539,605</u>	<u>1,203,496</u>	<u>7,450,662</u>

(Thousands of Russian Rubles)

19. Risk management (continued)

Credit risk (continued)

	Notes	Neither past due nor impaired			Past due or individually impaired 2007	Total 2007
		High grade 2007	Standard grade 2007	Sub-standard grade 2007		
Amounts due from credit institutions	7	886,031	-	-	-	886,031
Factoring advances and loans	8					
Factoring advances with recourse		2,240,424	2,492,021	93,069	226,238	5,051,752
Factoring advances without recourse		124,869	2,043,355	456	99,496	2,268,176
Loans to customers		24,215	21,500	-	-	45,715
		<u>2,389,508</u>	<u>4,556,876</u>	<u>93,525</u>	<u>325,734</u>	<u>7,365,643</u>
Total		<u>3,275,539</u>	<u>4,556,876</u>	<u>93,525</u>	<u>325,734</u>	<u>8,251,674</u>

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Group’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group’s rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2008	31 to 90 days 2008	More than 90 days 2008	Total 2008
Factoring advances and loans				
Factoring advances with recourse	42,373	47	1,417	43,837
Factoring advances without recourse	6,055	341	596	6,992
Total	<u>48,428</u>	<u>388</u>	<u>2,013</u>	<u>50,829</u>
	Less than 30 days 2007	31 to 90 days 2007	More than 90 days 2007	Total 2007
Factoring advances and loans				
Factoring advances with recourse	6,796	7,840	4,493	19,129
Factoring advances without recourse	3,303	-	293	3,596
Total	<u>10,099</u>	<u>7,840</u>	<u>4,786</u>	<u>22,725</u>

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

The Group usually doesn’t change conditions of the contract with clients and doesn’t conclude agreements on change of term of recourse. Factoring activity does not provide such conditions.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(Thousands of Russian Rubles)

19. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on factoring advances and loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group’s overall policy.

The geographical concentration of Group’s assets and liabilities is set out below:

	2008				2007			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	1,792,532	-	-	1,792,532	2,160,255	-	-	2,160,255
Trading securities	156,405	-	-	156,405	20,638	-	-	20,638
Amounts due from credit institutions	525,974	-	-	525,974	886,031	-	-	886,031
Factoring advances and loans	6,269,342	-	38,120	6,307,462	7,017,738	-	33,618	7,051,356
Other assets	190,676	-	-	190,676	183,829	-	-	183,829
	8,934,929		38,120	8,973,049	10,268,491	-	33,618	10,302,109
Liabilities:								
Amounts due to Central Bank	1,526,799	-	-	1,526,799	-	-	-	-
Amounts due to credit institutions	2,225,931	197,453	-	2,423,384	5,166,924	985,999	-	6,152,923
Debt securities issued	2,323,031	-	-	2,323,031	740,395	807,129	-	1,547,524
Settlements with clients on factoring	103,569	-	-	103,569	114,918	-	-	114,918
Other liabilities	97,221	-	-	97,221	59,535	-	-	59,535
	6,276,551	197,453	-	6,474,004	6,081,772	1,793,128	-	7,874,900
Net balance sheet position	2,658,378	(197,453)	38,120	2,499,045	4,186,719	(1,793,128)	33,618	2,427,209
Net off-balance sheet position	710,127	-	-	710,127	524,278	-	-	524,278

(Thousands of Russian Rubles)

19. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core funding base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group manages and controls liquidity risk by the following measures:

- Analysis of assets and liabilities by maturity;
- Control over the compliance with CBR obligatory ratios requirements on a daily basis;
- Performance of interbank transactions for the purpose of reducing the liquidity position or investment of available liquid resources.

The general purposes of the long term liquidity policy are the expansion of duration and reduction of cost of funds attracted.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. Factoring advances have average term of return near 50 days, it provides a sufficient reserves of liquidity.

The table below summarizes the contractual maturity of assets and liabilities:

	2008								Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Overdue	No defined maturity	
Assets:									
Cash and cash equivalents	892,559	618,155	281,818	-	-	-	-	-	1,792,532
Trading securities	-	156,405	-	-	-	-	-	-	156,405
Amounts due from credit institutions	-	2,208	6,960	516,036	-	-	770	-	525,974
Factoring advances and loans	-	1,106,398	1,084,367	3,970,261	17,342	7,516	121,578	-	6,307,462
Current tax assets	-	-	21,598	-	-	-	-	-	21,598
Deffered tax assets	-	-	-	-	21,155	-	-	-	21,155
Other assets	-	8,206	41,751	6	83,851	-	-	14,109	147,923
	<u>892,559</u>	<u>1,891,372</u>	<u>1,436,494</u>	<u>4,486,303</u>	<u>122,348</u>	<u>7,516</u>	<u>122,348</u>	<u>14,109</u>	<u>8,973,049</u>
Due to Central Bank	-	1,256,076	270,723	-	-	-	-	-	1,526,799
Due to credit institutions	-	1,345,018	985,082	93,284	-	-	-	-	2,423,384
Debt securities issued	-	-	442	2,322,589	-	-	-	-	2,323,031
Settlements with clients on factoring	-	103,569	-	-	-	-	-	-	103,569
Current tax liability	-	-	1,222	-	-	-	-	-	1,222
Other liabilities	-	52,472	43,527	-	-	-	-	-	95,999
	<u>-</u>	<u>2,757,135</u>	<u>1,300,996</u>	<u>2,415,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,474,004</u>
Net balance sheet position	<u>892,559</u>	<u>(865,763)</u>	<u>135,498</u>	<u>2,070,430</u>	<u>122,348</u>	<u>7,516</u>	<u>122,348</u>	<u>14,109</u>	<u>2,499,045</u>
Accumulated gap	<u>892,559</u>	<u>26,796</u>	<u>162,294</u>	<u>2,232,724</u>	<u>2,355,072</u>	<u>2,362,588</u>	<u>2,484,936</u>	<u>2,499,045</u>	

(Thousands of Russian Rubles)

19. Risk management (continued)

Liquidity risk (continued)

	2007							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Overdue	No defined maturity	
Assets:								
Cash and cash equivalents	797,185	867,072	495,998	-	-	-	-	2,160,255
Trading securities	20,638	-	-	-	-	-	-	20,638
Amounts due from credit institutions	-	8,443	71,578	806,010	-	-	-	886,031
Factoring advances and loans	-	175,107	1,484,500	5,328,947	20,772	42,030	-	7,051,356
Tax assets	-	-	-	-	994	-	-	994
Other assets	-	12,302	16,944	-	141,302	-	12,287	182,835
	817,823	1,062,924	2,069,020	6,134,957	163,068	42,030	12,287	10,302,109
Liabilities:								
Due to credit institutions	-	3,004,443	1,535,258	1,394,352	218,870	-	-	6,152,923
Debt securities issued	-	-	-	1,547,524	-	-	-	1,547,524
Settlements with clients on factoring	-	114,918	-	-	-	-	-	114,918
Tax liabilities	-	-	18,270	-	-	-	-	18,270
Other liabilities	-	41,265	-	-	-	-	-	41,265
	-	3,160,626	1,553,528	2,941,876	218,870	-	-	7,874,900
Net balance sheet position	817,823	(2,097,702)	515,492	3,193,081	(55,802)	42,030	12,287	2,427,209
Accumulated gap	817,823	(1,279,879)	(764,387)	2,428,694	2,372,892	2,414,922	2,427,209	

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Financial liabilities As at 31 December 2008	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Total
Amounts due to Central Bank	1,264,667	279,424	-	-	1,544,091
Amounts due to credit institutions	1,351,961	1,003,255	94,819	-	2,450,035
Debt securities issued	-	7,682	2,445,663	-	2,453,345
Settlements with clients on factoring	103,569	-	-	-	103,569
Total undiscounted financial liabilities	2,720,197	1,290,361	2,540,482	-	6,551,040
Financial liabilities As at 31 December 2007	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Amounts due to credit institutions	3,018,972	1,601,646	1,471,359	220,147	6,312,124
Debt securities issued	-	37,773	1,590,054	-	1,627,827
Settlements with clients on factoring	114,918	-	-	-	114,918
Time deposits on clients	-	504	-	-	504
Total undiscounted financial liabilities	3,133,890	1,639,923	3,061,413	220,147	8,055,373

The table below shows the contractual expiry by maturity of the Group’s financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
2008	489,759	20,807	61,106	138,455	710,127
2007	437,340	15,130	43,165	28,643	524,278

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

(Thousands of Russian Rubles)

19. Risk management (continued)

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group’s income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in basis points 2008	Sensitivity of net interest income 2008
	RUR	+685
USD	+55	(2,766)
Currency	Decrease in basis points 2008	Sensitivity of net interest income 2008
	RUR	-685
USD	-55	2,766
Currency	Increase in basis points 2007	Sensitivity of net interest income 2007
	RUR	+100
USD	+75	(9,849)
Currency	Decrease in basis points 2007	Sensitivity of net interest income 2007
	RUR	-150
USD	-125	16,415

The Group has financial commitments with floating interest rate. These financial commitments are not hedged by appropriate assets, because the main part of the Group’s assets has short maturity period, so the Group has a possibility to proactively manage its interest rate risk. Factoring agreements concluded with clients contain a provision about unilateral interest rate changes by the Group.

The Group’s average effective interest rates for monetary financial instruments at December 31 follow.

	2008			2007		
	Rubles	USD	Other foreign currencies	Rubles	USD	Other foreign currencies
Cash and cash equivalents	14.6%	7.8%	8.0%	6.9%	6.4%	5.4%
Trading securities	41.0%	-	-	6.3%	-	-
Amounts due from credit institutions	11.3%	-	-	11.0%	7.1%	6.0%
Factoring advances	25.9%	21.9%	13.3%	21.4%	20.9%	16.5%
Loans to customers	13.6%	9.3%	-	-	9.3%	-
Amounts due to Central Bank	13.0%	-	-	-	-	-
Amounts due to credit institutions	17.9%	6.6%	5.5%	8.2%	8.2%	4.8%
Debt securities issued	13.3%	-	-	10.4%	-	-

(Thousands of Russian Rubles)

19. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

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

Currency	Change in	Effect on	Change in	Effect on
	currency rate	profit before	currency rate	profit before
	in %	tax	in %	tax
	2008	2008	2007	2007
USD	-13.8%	(24,140)	6.2%	(7,006)
USD	-31.8%	(55,628)	-4.0%	4,519
EUR	-1.1%	786	5.7%	413
EUR	-18.3%	13,081	-3.7%	(225)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

20. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
	2008	2008	2008	2007	2007	2007
Financial assets						
Cash and Cash equivalents	1,792,532	1,792,532	-	2,160,255	2,160,255	-
Trading securities	156,405	156,405	-	20,638	20,638	-
Amounts due from credit institutions	525,974	523,952	(2,022)	886,031	886,482	451
Factoring advances and loans	6,307,462	6,300,180	(7,282)	7,051,356	7,063,561	12,205
Current income tax assets	21,598	21,598	-	-	-	-
Deferred income tax assets	21,155	21,155	-	994	994	-
Other assets	147,923	128,973	(18,950)	182,835	154,295	(28,540)
	8,973,049	8,944,795	(28,254)	10,302,109	10,286,225	(15,884)
Financial liabilities						
Amounts due to Central Bank	1,526,799	1,527,655	(856)	-	-	-
Amounts due to credit institutions	2,423,384	2,423,384	-	6,152,923	6,156,102	(3,179)
Debt securities issued	2,323,031	2,338,921	(15,890)	1,547,524	1,550,899	(3,375)
Settlements with clients on factoring	103,569	103,569	-	114,918	114,918	-
Other Liabilities	97,221	97,221	-	59,535	59,535	-
	6,474,004	6,490,750	(16,746)	7,874,900	7,881,454	(6,554)
Total unrecognised charge in unrecognised gain value			(45,000)			(22,438)

(Thousands of Russian Rubles)

20. Fair values of financial instruments (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

Fair value of financial instruments recorded at fair value is based on quoted market prices.

21. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group enters into transactions with related parties under the following conditions: loans are granted on market conditions, the amounts due to related parties are attracted at market conditions, settlements occur in cash.

(Thousands of Russian Rubles)

21. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2008		2007	
	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>
Cash and cash equivalents	161,340	-	319,215	-
Trading securities	156,405	-	-	-
Amounts due from credit institutions at January 1	-	-	-	-
Amounts due from credit institutions issued during the year	1,194,043	-	603,501	-
Amounts due from credit institutions repaid during the year	1,194,043	-	603,501	-
Amounts due from credit institutions	-	-	-	-
Interest income on amounts due to credit institutions	12,213	-	2,553	-
Factoring advances and loans at 1 January	21,500	593	118,168	-
Loans issued during the year	2,742,200	2,844	2,470,500	712
Factoring advances and loans repaid during the year	1,803,700	1,652	2,567,168	119
Factoring advances and loans at 31 December, gross	960,000	1,785	21,500	593
Less: allowance for impairment at 31 December	-	-	-	-
Factoring advances and loans at 31 December, net	960,000	1,785	21,500	593
Interest income on factoring advances and loans	23,694	53	21,307	31
Impairment of interest earning assets	-	-	1,099	-
Other assets	-	83,851	-	127,599
Amounts due to credit institutions at January 1	2,822,072	-	1,220,994	-
Amounts due to credit institutions received during the year	28,081,999	-	28,748,724	-
Amounts due to credit institutions repaid during the year	29,142,848	-	27,147,646	-
Amounts due to credit institutions	1,761,223	-	2,822,072	-
Interest expense on amounts due to credit institutions	240,407	-	130,728	-
Time deposits at January 1	504	-	-	-
Time deposits received during the year	6	-	2,635	-
Time deposits repaid during the year	510	-	2,131	-
Time deposits	-	-	504	-
Interest expense on time deposits	10	-	35	-
Net gains/losses from foreign currencies dealing	(117)	-	-	-
Salaries and employment benefits	-	66,914	-	66,649
Administrative and operating expenses	14,188	-	9,929	-

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

2008

Subsidiary	<i>Ownership/Voting, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
“NFC-Premium”	100%	Russia	20 December 2007	Investment and finance	20 December 2007

(Thousands of Russian Rubles)

22. Capital adequacy

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

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

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

CBR capital adequacy ratio

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

	<u>2008</u>	<u>2007</u>
Main capital	2,231,242	1,890,173
Additional capital	72,821	269,719
Less: deductions from capital	1,200	907
Total capital	<u>2,302,863</u>	<u>2,158,985</u>
Risk weighted assets	<u>9,452,713</u>	<u>11,303,586</u>
Capital adequacy ratio	24.4%	19.1%

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2008 and 2007, comprised:

	<u>2008</u>	<u>2007</u>
Tier 1 capital	2,499,045	2,427,209
Tier 2 capital	-	-
Total capital	<u>2,499,045</u>	<u>2,427,209</u>
Risk weighted assets	<u>7,672,057</u>	<u>8,344,982</u>
Tier 1 capital ratio	32.6%	29.1%
Total capital ratio	32.6%	29.1%

23. Events after the balance sheet date

On May 6, 2009 the Group settled an investor put option relating to its series 03 bond issue. The Group bought back 1,960,250 bonds at par for the total amount of RUB 1,967,993 including accrued coupon interest.

On May 12, 2009 the Group repaid 02 series bonds at maturity. The Group repaid 311,003 bonds for the total amount of RUB 311,787, including accrued coupon interest.

In the beginning of 2009 the Russian Ruble was devalued to major currencies. At the date these consolidated financial statements have been authorized for issue, the official exchange rate of the Russian Ruble to US Dollar as set by the Central Bank of Russia comprised 30.5131 Rubles, which constitutes a 4% reduction in the value of the Russian Ruble to the US Dollar since 31 December 2008.