LLC Rusfinance Bank
Financial Statements

Year ended 31 December 2008
Together with Independent Auditors' Report

Contents

Independent auditors' report

Notes to financial statements

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Independent auditors' report

To the Participant and Board of Directors of LLC Rusfinance Bank –

We have audited the accompanying financial statements of LLC Rusfinance Bank, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in net assets attributable to the participant and 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

Ernst & Young Vneshaudit

10 June 2009

20 успешных лет в России
В истории нашей компании 2009 год –
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Balance sheet

As of 31 December 2008

(Thousands of Russian Rubles)

	Notes	2008	2007
Assets			
Cash and cash equivalents	5	6,184,334	1,779,146
Amounts due from credit institutions	6	96,893	550,306
Loans to customers	8	79,001,880	44,742,662
Property and equipment	9	505,524	361,824
Intangible assets	10	230,726	213,006
Deferred income tax asset	11	75,342	124,750
Current income tax asset	11	26	519
Other assets	7, 12	445,197	132,784
Total assets		**86,539,922**	**47,904,997**
Liabilities			
Amounts due to credit institutions	13	55,404,995	20,529,160
Amounts due to customers	14	2,626,191	2,642,194
Other borrowings	15	5,710,589	6,459,813
Debt securities issued	16	8,141,486	11,174,667
Current income tax liability	11	23,159	77,506
Other liabilities	12	500,665	346,755
Liabilities excluding net assets attributable to the participant		**72,407,085**	**41,230,095**
Net assets attributable to the participant			
Participant's contributions	17	12,016,960	6,016,960
Revaluation reserve		56,341	50,071
Retained earnings		2,059,536	607,871
Total net assets attributable to the participant		**14,132,837**	**6,674,902**
Total liabilities including net assets attributable to the participant		**86,539,922**	**47,904,997**

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

D. N. Shadrin — Chairman of the Management Board

S. V. Buydinova — Chief Accountant

10 June 2009

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

Income statement

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	Notes	*2008*	*2007*
Interest income			
Loans to customers		12,622,335	7,079,248
Amounts due from credit institutions		84,628	48,597
		12,706,963	**7,127,845**
Interest expense			
Amounts due to customers		(107,746)	(118,078)
Amounts due to credit institutions, other borrowings		(3,294,550)	(1,101,802)
Debt securities issued		(875,570)	(738,345)
		(4,277,866)	**(1,958,225)**
Net interest income		**8,429,097**	**5,169,620**
Allowance for loan impairment	8	(2,811,546)	(1,417,351)
Net interest income after allowance for loan impairment		**5,617,551**	**3,752,269**
Fee and commission income		862,037	271,024
Fee and commission expense		(102,768)	(45,540)
Net fee and commission income	19	**759,269**	**225,484**
Net gains from available-for-sale securities		–	39
Net gains/(losses) from derivatives		88,860	(1,632)
Net gains/(losses) from foreign currencies:			
- dealing		38,581	3,408
- translation differences		18,721	(7,451)
(Provision) / reversal of provision for credit related commitments and other expenses		(344)	219
Other operating income	20	7,499	69,671
Other non interest income		**153,317**	**64,254**
Personnel expenses	21	(2,750,342)	(1,853,016)
Depreciation and amortisation	9,10	(185,330)	(142,643)
Other operating expenses	21	(1,646,440)	(959,400)
Other non interest expense		**(4,582,112)**	**(2,955,059)**
Profit before income tax		**1,948,025**	**1,086,948**
Income tax expense	11	(496,360)	(214,785)
Net profit for the year before transactions with participant		**1,451,665**	**872,163**

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

Statement of changes in net assets attributable to participant

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	Participant's contributions	*Revaluation reserve*	*Retained earnings/ (Accumulated deficit)*	*Total net assets attributable to the participant*
31 December 2006	**5,314,960**	**36,836**	**(264,292)**	**5,087,504**
Revaluation of property and equipment, net of tax	–	13,235	–	13,235
Total income and expense for the year recognized directly in net assets attributable to the participant	–	13,235	–	13,235
Contributions from participant (Note 17)	702,000	–	–	702,000
Net profit for the year before transactions with participant	–	–	872,163	872,163
31 December 2007	**6,016,960**	**50,071**	**607,871**	**6,674,902**
Revaluation of property and equipment, net of tax	–	3,635	–	3,635
Change of revaluation fund due to the change of income tax rate	–	2,635	–	2,635
Total income and expense for the year recognized directly in net assets attributable to the participant	–	6,270	–	6,270
Contributions from participant (Note 17)	6,000,000	–	–	6,000,000
Net profit for the year before transactions with participant	–	–	1,451,665	1,451,665
31 December 2008	**12,016,960**	**56,341**	**2,059,536**	**14,132,837**

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2008

(Thousands of Russian Rubles)

	2008	*2007*
Cash flows from operating activities		
Interest received	12,345,413	6,424,664
Interest paid	(3,274,182)	(1,660,055)
Net gains/(losses) from transaction with securities and derivatives	17,358	(8,417)
Net gains/(losses) from dealing in foreign currencies	38,581	(4,970)
Fees and commission received	797,440	270,452
Fees and commission paid	(102,768)	(45,540)
Other operating income	7,499	69,671
Operating expenses paid	(4,222,874)	(2,784,329)
Income tax paid	(498,658)	(225,456)
Cash flows from operating activities before changes in operating assets and liabilities	**5,107,809**	**2,036,020**
Net (increase)/decrease in operating assets		
Obligatory reserve with the CBR	453,413	(303,675)
Amounts due from credit institutions	–	50,257
Loans and receivables	(36,688,520)	(25,103,530)
Other assets	(224,997)	(54,444)
Net increase/(decrease) in operating liabilities		
Amounts due to credit institutions	34,017,507	15,980,139
Amounts due to customers	(38,271)	524,033
Other liabilities and provisions	(14,005)	276,998
Net cash from/(used in) operating activities	**2,612,936**	**(6,594,202)**
Cash flows from investing activities		
Purchase of property and equipment	(200,186)	(218,985)
Purchase of intangible assets	(146,975)	(320,261)
Net cash used in investing activities	**(347,161)**	**(539,246)**
Cash flows from financing activities		
Contributions from participants	6,000,000	702,000
Repayments of other borrowings	(840,000)	(705,673)
Promissory notes repaid	(60,135)	(102,085)
Bonds (repaid) / issued	(3,000,000)	8,000,000
Net cash from financing activities	**2,099,865**	**7,894,242**
Effect of exchange rates changes on cash and cash equivalents	**18,721**	**(7,451)**
Net change in cash and cash equivalents	**4,384,361**	**753,343**
Cash and cash equivalents, beginning (Note 5)	**1,778,897**	**1,025,554**
Cash and cash equivalents, ending (Note 5)	**6,163,258**	**1,778,897**

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

(Thousands of Russian Rubles)

1. Principal activities

Rusfinance Bank (Limited Liability Company) was established in May 1992 as a limited liability partnership under the name of Promek-Bank by Promek Group, a cabinet furniture producer. Initially, Promek-Bank provided settlement and lending services to corporate customers, in particular, to the companies related to Promek Group. In 2000, Promek-Bank was acquired by SOK Group, a car assembler and automobile components producer, which changed Promek-Bank's strategy from corporate banking to retail banking. Since its acquisition by SOK Group, Promek-Bank began offering consumer finance products and developing a regional network. For the purposes of extending consumer finance operations in Russia, in July 2005, Promek-Bank was acquired by Société Générale Group. Following the acquisition, Promek-Bank changed its name to Rusfinance Bank. By 1 October 2006, point-of-sale lending activities had been transferred from OOO Rusfinance to Rusfinance Bank. In February 2006, the Central Bank of Russia ("CBR") granted Rusfinance Bank banking licence No. 1792, which authorizes Rusfinance Bank to perform all types of banking operations, including retail operations.

The Bank offers consumer finance products and services such as car loans, point-of-sale loans, credit cards and loans to individuals through points of sale, business units and head office. The Bank's registered legal address is: ul. Chernorechenskaya, 42a, Samara, Samara Region, 443013, Russian Federation.

The Bank is a 100% subsidiary of Rusfinance SAS, a company established and existing under the laws of France. In turn, Rusfinance SAS is a wholly owned company of Société Générale Group.

Starting on 4 November 2004 the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers Bank's liabilities to individual depositors for the amount up to RUB 700 for each individual in case of business failure and revocation of the CBR banking licence.

Rusfinance Bank is rated by two international rating agencies Standard & Poor's and Moody's. The credit rating issued by Standard and Poor's is "BB+" with "Negative" Outlook. Russia National scale rating is "RuAA+".

Moody's has assigned Rusfinance Bank to "Baa3/P-3" Bank Deposits' rating with "Stable" Outlook and Aaa.ru National Scale Rating.

The Rusfinance Bank's credit ratings are one of the highest among the Russian Credit Institutions.

As of 31 December 2008, the Bank had 140 business units outside the Samara Region – lending and cash outlets, including 44 with pay desks (31 December 2007: 134 business units outside the Samara Region) in the Russian Federation.

For the year ended 31 December 2008 the Bank employed an average of 7,256 employees (31 December 2007 – 6,490 employees).

2. Basis of preparation

General

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

The Bank 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 financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These financial statements are presented in thousands of Russian Rubles ("RUB").

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

(Thousands of Russian Rubles)

2. Basis of preparation (continued)

Reconciliation of RAL equity and IFRS net assets attributable to participant and profit (loss) for the year

Equity / net assets attributable to participant and profit/(loss) for the year are reconciled between RAL and IFRS as follows:

	2008		2007	
	Equity / net assets attributable to participant	*Profit (loss) for the year*	*Equity / net assets attributable to participant*	*Profit (loss) for the year*
Russian Accounting Legislation (combined)	**13,599,482**	**1,036,353**	**6,501,869**	**186,924**
Inflation impact on fixed assets	523	–	627	–
Initial recognition of financial instruments	(95,650)	167,875	(263,524)	315,431
Effect of accrued interest	264,574	(36,659)	341,996	169,131
Effect of revaluation of fixed assets	(7,379)	–	4,786	–
Provisions for losses	889,168	599,532	289,636	358,376
Accelerated depreciation	41,222	29,200	(4,951)	14,052
Fair value re-measurement of securities	78,176	71,502	6,674	15,202
Current tax	–	–	(2,809)	(2,809)
Deferred tax	89,426	(51,137)	140,562	66,488
Accrual of operating expenses	(636,362)	(232,154)	(375,309)	(341,880)
Deduction of expenses of materials	(33,830)	21,774	(55,604)	(41,043)
Deferral of commission income and expenses on cooperation contracts	(160,080)	(103,794)	(96,570)	(14,438)
Recognition of intangible assets	103,567	(36,755)	140,321	138,675
Others	–	(14,072)	47,198	8,054
International Financial Reporting Standards	**14,132,837**	**1,451,665**	**6,674,902**	**872,163**

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The application of these standards had no impact on the financial position or performance of the Bank. The principal effects of these changes are as follows:

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"
IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Bank.

IFRIC 12 "Service Concession Arrangements"
IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation has no impact on the Bank.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Bank.

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

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 Bank 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 Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

"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 Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the 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 income statement when the inputs become observable, or when the instrument is derecognised.

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 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 Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

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 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.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

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

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 of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as gains less losses from derivatives or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value on the trading portfolio with changes in fair value recognised in the income statement.

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.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 and Government, 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 income statement when the borrowings are derecognised as well as through the amortisation process.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Leases

i. Operating - Bank as lessee

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

ii. Operating - Bank as lessor

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank 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 and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank 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 Bank 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 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 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 Bank. 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 income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank'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.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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 Bank 's continuing involvement is the amount of the transferred asset that the Bank 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 Bank '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 income statement.

Financial guarantees

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

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

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.

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

Property and equipment

Equipment is 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 equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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:

- Buildings – 50 years
- Furniture – 10 years
- Office Equipment – 6 years
- Computer Equipment – 5 years
- Motor vehicles – 4 years

Improvements of rented property are amortized during the leasing period or assets' useful life depending on which one of them is shorter.

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.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic lives of 3 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred.

Provisions

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

Retirement and other employee benefit obligations

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

Contingencies

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank 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 Bank 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.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. Commissions received under cooperation agreements with insurance companies, connected with car, life and health insurance of the borrower, are recognized after completion of obligations as insurance broker. See Note 4.

Foreign currency translation

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

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 were 29.3804 RUB for 1 USD and 41.4411 RUB for 1 EUR (2007: 24.5462 RUB for 1 USD and 35.9332 RUB for 1 EUR).

Segment Reporting

According to IAS 14 "Segment reporting", the Bank is required to disclose its industry and geographical segments. The Bank's operations are highly integrated and constitute a single industry segment, retail banking. Assets and liabilities of the Bank are primarily concentrated in the Russian Federation and the largest proportion of its revenues and net income is received from the operations within the territory of the Russian Federation.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

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

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank. The amendments will result in participants' interests being classified as equity and not liabilities, and will be applied retrospectively.

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

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

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations
Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. Bank did not conclude deals for payments based on shares with conditions on empowerment and consequently, this amendment will have no impact on the financial position or performance of the Bank.

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"
Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments will have no impact on the financial position or performance of the Group but will result in more detailed disclosures regarding measurement of the fair value of financial instruments.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

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 recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

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

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

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

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

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 recognized when the dividend is appropriately authorized 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 recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that interpretation will have no impact on the Bank's financial statements, as the Bank does not distribute non-cash assets to its owners.

IFRIC 18 "Transfers of Assets from Customers "

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Bank, as the Bank does not receive assets from customers.

(Thousands of Russian Rubles)

4. Significant accounting judgments and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Due to changes in customer acceptance policy of the Bank, management is of the view that commissions received for insurance brokerage activities occurring at loan origination from 1 March 2007 and related to car life and health insurance of the borrower, is not an integral part of the loan. Such commissions have therefore been recognized as income in the period when the Bank's obligation as insurance broker is completed. For loans originated prior to 1 March 2007, commissions received for car insurance were directly related to the origination of the car loan and therefore were included as an integral part of the effective interest rate of the loan. Commissions received for life and health insurance of the borrower are not an integral part of the loan, and therefore have always been recorded when the Bank's obligation as insurance broker was completed.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for loan impairment

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	*2007*
Cash on hand	100,675	140,418
Current accounts with the Central Bank	3,362,849	669,464
Current accounts with other credit institutions	151,409	209,019
Time deposits with credit institutions up to 90 days	2,569,401	760,245
Cash and cash equivalents	**6,184,334**	**1,779,146**

As of 31 December 2008 cash and cash equivalents include accrued interests on current accounts and time deposits in the amount of RUB 21,076 (31 December 2007: RUB 249).

Time deposits with credit institutions up to 90 days include amounts of RUB 1,977,199 (31 December 2007: RUB 433,143) placed with other banks in Russia that are members of Société Générale Group, as disclosed in Note 25.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2008	*2007*
Obligatory reserve with the Central Bank	**96,893**	**550,306**

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 Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of 31 December 2008 and 31 December 2007 there was no time deposit for more than 90 days.

(Thousands of Russian Rubles)

7. Derivative financial instruments

The Bank enters into derivative financial instruments for currency and interest rate risk mitigation purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are indicative of neither the market risk nor the credit risk.

	2008			*2007*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Swaps – Foreign counterparties	1,260,000	78,176	–	2,100,000	6,674	–
Total derivative assets/liabilities	**1,260,000**	**78,176**	**–**	**2,100,000**	**6,674**	**–**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2008 the Bank has only swap positions:

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Interest rate swaps at 31 December 2008 and 31 December 2007 comprise four contracts with two OECD-based banks (including two contracts with one related party bank for notional amount RUB 1,100,000) with terms commencing in August, September and December 2006 and expiring in September 2009. The swaps were entered into for the purpose of hedging the Bank's floating rate obligations on borrowings from the EBRD (see Note 15).

The derivative financial asset arising upon measurement of interest rate swaps at year-end fair value is included in the balance sheet caption Other Assets. Derivatives held at year-end were not designated as hedging instruments for hedge accounting purposes as they did not meet the specific criteria.

8. Loans to customers

Loans to customers comprise:

	2008	*2007*
Loans to customers	83,540,956	46,274,065
Fair value adjustment on assigned loans and loans to employees	(627,889)	(616,955)
Amortization at effective interest rate of assigned loans and loans to employees	532,239	353,431
Total loans	**83,445,306**	**46,010,541**
Less – allowance for impairment of loans to customers	(4,844,095)	(2,112,648)
Total loans, net of allowance for impairment	**78,601,211**	**43,897,893**
Other receivables due from a related party	400,669	844,769
Total loans and receivables	**79,001,880**	**44,742,662**

The loan portfolio of the Bank has the following structure:

	2008	*2007*
Loans to individuals:		
Car loans	68,760,873	35,425,909
Credit cards	1,291,241	342,020
Consumer lending	10,146,985	10,211,482
Direct sales	2,071,862	–
Total loans to individuals	**82,270,961**	**45,979,411**
Loans to legal entities	1,174,345	31,130
Gross loans to customers	**83,445,306**	**46,010,541**
Less – allowance for impairment of loans to customers	(4,844,095)	(2,112,648)
Total loans, net of allowance for impairment	**78,601,211**	**43,897,893**

(Thousands of Russian Rubles)

8. Loans to customers (continued)

In 2008 RUB 97,691 of loans (31 December 2007: RUB 127,611) were granted to Bank's employees at below-market interest rate. The balance value of loans to employees as of end of 2008 is RUB 142,059 (as of end of 2007: RUB 112,288). Fair value of those loans has been adjusted by RUB 19,334 at their initial recognition with taking into account the amortization of loss during 2008 (during 2007: RUB 19,423). Fair value for the loans granted at below market interest rate was calculated as the present value of estimated future cash flows, discounted at the effective interest rates for similar loans at the date of credit granting.

Assignment of car loans originated by SKT Bank

Car loans include RUB 597,408 at 31 December 2008 (31 December 2007: RUB 1,803,516) representing the closing balance of a portfolio of car loans transferred to the Bank in 2006 from OJSC Stolichnoe Kreditnoe Tovarischestvo (SKT Bank, a related party) and URSA Bank (formerly Sibakadembank, an unrelated Russian bank).

On 6 December 2006, the Bank entered into a cession arrangement with LLC Stolichny Express ("SE", an entity under common control of Rusfinance SAS) in which the Bank has the right to assign to SE any overdue loan instalments that arise in the portfolio assigned by SKT Bank and URSA Bank. The obligation on SE to accept overdue loan instalments from the Bank became legally binding under an "Assignment of Claims" agreement dated 11 May 2007.

The assigned loans as described above were recognized as part of the Bank's own loan portfolio at their fair value as of the transfer date: for the six contracts with SKT Bank, on 6 December 2006; and, for the two contracts with URSA Bank, on 26 and 27 December 2006. Fair value was calculated as the present value of estimated future cash flows discounted at the appropriate market interest rates for similar loans at the transfer date. As SKT Bank retains 7.2% in annual commissions on the assigned loans, the effective interest rate received by the Bank is at below-market rates and an initial recognition loss of RUB 591,519 was incurred. This loss has been recognised by the Bank as an adjustment to net assets attributable to the participant as it represents a restructuring transaction between two entities under the common control of Rusfinance SAS, and the transaction was effectively performed on behalf of the controlling shareholder of both entities.

SKT Bank continues to administer, collect loan instalments from customers and provide other processing services on the assigned loan portfolio. In 2008, SKT Bank deducted RUB 78 as settlement in respect of such services from the collections paid to the Bank (in 2007 – RUB 119).

Under the terms of the cession arrangement that existed at year-end, the Bank has the right to assign to SE its claims on overdue loan instalments, comprising loan principal, accrued interest and penalties. SE is required to settle payment within five days of receiving written notification from the Bank. In 2008 the Bank had assigned overdue amounts to SE of total RUB 961,054 (31 December 2007 – RUB 1,143,550). During 2008 the Bank did not sell own overdue loans to the third parties (during 2007 the Bank sold four pools of its own overdue loans to SE for the total amount of RUB 525,677 and incurred a loss of RUB 4,084 and a pool of loans without overdue with nominal value of RUB 189,891 and a profit of RUB 56,967).

Other receivables from a related party (RUB 400,669 at 31 December 2008, RUB 844,769 at 31 December 2007) comprise the estimated amount to be recovered from SE according to the cession arrangement described above and is in addition to the current receivable for assigned claims. Management considers this amount to be recoverable from SE in order to reimburse the Bank for estimated impairment losses existing at year-end in respect of assigned loans. This receivable has been estimated on the outstanding balance of assigned loans at year-end with indicators of impairment.

Allowance for impairment of loans to customers

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

	Car loans	*Credit cards*	*Consumer lending*	*Direct sales*	*Loans to legal entities*	*Total*
At 1 January 2008	**1,249,348**	**101,114**	**762,186**	**–**	**–**	**2,112,648**
Charge for allowance for impairment of loans to customers during the year	2,105,914	50,022	641,875	2,991	10,744	2,811,546
Loans to customers written off during the year as uncollectible	(52,164)	(27,617)	(318)	–	–	(80,099)
At 31 December 2008	**3,303,098**	**123,519**	**1,403,743**	**2,991**	**10,744**	**4,844,095**
Individual impairment	–	–	–	–	10,744	10,744
Collective impairment	3,303,098	123,519	1,403,743	2,991	–	4,833,351
	3,303,098	**123,519**	**1,403,743**	**2,991**	**10,744**	**4,844,095**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	–	–	23,882	23,882

(Thousands of Russian Rubles)

8. Loans to customers (continued)

	Car loans	*Credit cards*	*Consumer lending*	*Direct sales*	*Loans to legal entities*	*Total*
At 1 January 2007	**427,273**	**95,563**	**188,128**	**–**	**–**	**710,964**
Charge for allowance for impairment of loans to customers during the year	827,681	6,106	583,564	–	–	1,417,351
Loans to customers written off during the year as uncollectible	(5,606)	(555)	(9,506)	–	–	(15,667)
At 31 December 2007	**1,249,348**	**101,114**	**762,186**	**–**	**–**	**2,112,648**
Individual impairment	–	–	–	–		–
Collective impairment	1,249,348	101,114	762,186	–	–	2,112,648
	1,249,348	**101,114**	**762,186**	**–**	**–**	**2,112,648**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	–	–	–	–

Allowances for impairment of assets are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the Court.

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:

- For commercial lending - pledge of turnover goods, bank guarantees; shareholders' guarantee,
- For retail lending - pledge of purchased car, physical entities' guarantee.

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

In respect of the loan portfolio as of 31 December 2008, the Bank had obtained collateral with an estimated market value (at the date of loan origination) of RUB 107,715,790 (31 December 2007: RUB 55,425,679) and guarantees of physical persons of RUB 10,327,352 (31 December 2007: RUB 4,403,105).

9. Property and equipment

The movements in property and equipment for 2008 were as follows:

	Buildings	**Computers and office equipment**	**Furniture and fixtures**	**Motor vehicles**	**Assets under construction**	**Total**
Cost or revalued amount						
Balance at 1 January 2008	**80,076**	**201,012**	**6,842**	**3,041**	**119,703**	**410,674**
Additions	–	97,286	10,446	1,582	91,454	200,768
Transfers	–	18,235	2,851	–	(21,086)	–
Disposals	–	(9,252)	(153)	–	(1,049)	(10,454)
Effect of revaluation	2,940	–	–	–	–	2,940
Balance at 31 December 2008	**83,016**	**307,281**	**19,986**	**4,623**	**189,022**	**603,928**
Accumulated depreciation						
Balance at 1 January 2008	–	**(44,513)**	**(2,196)**	**(2,141)**	–	**(48,850)**
Depreciation charge	(1,603)	(53,155)	(356)	(961)	–	(56,075)
Disposals	–	4,865	53	–	–	4,918
Effect of revaluation	1,603	–	–	–	–	1,603
Balance at 31 December 2008	**–**	**(92,803)**	**(2,499)**	**(3,102)**	**–**	**(98,404)**
Net book value:						
31 December 2008	**83,016**	**214,478**	**17,487**	**1,521**	**189,022**	**505,524**

(Thousands of Russian Rubles)

9. Property and equipment (continued)

The movements in property and equipment for 2007 were as follows:

	Buildings	Computers and office equipment	Furniture and fixtures	Motor vehicles	Assets under construction	Total
Cost or revalued amount						
Balance at 1 January 2007	**65,272**	**96,264**	**4,952**	**3,041**	**7,580**	**177,109**
Additions	–	97,497	1,901	–	119,587	218,985
Transfers	–	7,464	–	–	(7,464)	–
Disposals	–	(213)	(11)	–	–	(224)
Revaluation	14,804	–	–	–	–	14,804
Balance at 31 December 2007	**80,076**	**201,012**	**6,842**	**3,041**	**119,703**	**410,674**
Accumulated depreciation						
Balance at 1 January 2007	**–**	**(19,280)**	**(1,457)**	**(1,714)**	**–**	**(22,451)**
Depreciation charge	(2,611)	(25,359)	(741)	(427)	–	(29,138)
Disposals	–	126	2	–	–	128
Effect of revaluation	2,611	–	–	–	–	2,611
Balance at 31 December 2007	**–**	**(44,513)**	**(2,196)**	**(2,141)**	**–**	**(48,850)**
Net book value:						
31 December 2007	**80,076**	**156,499**	**4,646**	**900**	**119,703**	**361,824**

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2008. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2008	*2007*
Cost	**21,556**	**21,556**
Accumulated depreciation	(6,046)	(5,615)
Net carrying amount	**15,510**	**15,941**

Assets under construction primarily include equipment which has not been put into use. Upon being put into use, these assets are transferred to the corresponding category of property and equipment. Capital investments consist of an office-building under construction in Moscow in the amount of RUB 139,284 and property and equipment which was not put into use at 31 December 2008 (31 December 2007: RUB 67,021).

10. Intangible assets

The movements in computer software were as follows:

	2008	*2007*
Cost:		
Balance at 1 January 2008	**330,111**	**9,850**
Additions	146,975	320,261
Balance at 31 December 2008	**477,086**	**330,111**
Accumulated amortization:		
Balance at 1 January 2008	**(117,105)**	**(3,600)**
Charge	(129,255)	(113,505)
Balance at 31 December 2008	**(246,360)**	**(117,105)**
Net book value:		
31 December 2008	**230,726**	**213,006**

(Thousands of Russian Rubles)

11. Taxation

The corporate income tax expense comprises:

	2008	*2007*
Current tax charge	445,224	281,273
Deferred tax charge/(credit) – origination and reversal of temporary differences	51,136	(66,488)
Income tax expense	**496,360**	**214,785**

At 31 December 2008 the Bank had a current tax asset of RUB 26 and a current tax liability of RUB 23,159 (at 31 December 2007, RUB 519 and RUB 77,506 respectively).

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 interest income on state securities was 15% for Federal taxes.

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:

	2008	*2007*
Profit before tax	**1,948,025**	**1,086,948**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	**467,526**	**260,867**
Tax rate change effect	17,885	–
Non-taxable income	–	–
Effective interest rate adjustment on assigned loans	(40,290)	(72,817)
Non-deductible expenditures, comprising:		
Administration and business trip expenses	40,568	13,029
Other non-deductible expenditures	6,123	3,293
Other differences	4,548	10,413
Income tax expense	**496,360**	**214,785**

For the year ended 31 December 2008 the Bank's effective tax rate was 25% (year ended 31 December 2007: 20%). The effective tax rate in 2008 was more than the statutory tax rate of 24% in part due to the recognition in the income statement of non-deductible operating expenses.

In November 2008, the income tax rate was legally reduced from 24% to 20%, effective from 1 January 2009. The effect of the change in balance of the deferred tax asset as of the end of the reporting period is recorded in the financial statements for the year ended 31 December 2008.

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

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2008	***In the income statement***	***Directly in equity***	**2007**	***In the income statement***	***Directly in equity***	**2006**
Tax effect of deductible temporary differences							
Including:							
Loans and receivables	248,646	182,632	–	66,014	38,756	–	27,258
Accrued employee benefits	71,798	23,795	–	48,003	32,822	–	15,181
Other	6,766	2,251	–	4,515	3,484	–	1,031
Gross deferred tax asset	**327,210**	**208,678**	**–**	**118,532**	**75,062**	**-**	**43,470**
Tax effect of taxable temporary differences							
Including:							
Allowances for loan impairment	(175,328)	(127,611)	–	(47,717)	(71,828)	–	24,111
Accrued expenses	(27,634)	(121,551)	–	93,917	79,736	–	14,181
Intangible assets	(12,761)	(2,639)	–	(10,122)	(10,122)	–	–
Property and equipment	(36,145)	(8,013)	1,728	(29,860)	(6,360)	(4,180)	(19,320)
Gross deferred tax liability	**(251,868)**	**(259,814)**	**1,728**	**6,218**	**(8,574)**	**(4,180)**	**18,972**
Total net deferred tax asset	**75,342**	**(51,136)**	**1,728**	**124,750**	**66,488**	**(4,180)**	**62,442**

(Thousands of Russian Rubles)

12. Other assets and liabilities

Other assets as of 31 December comprise:

	2008	*2007*
Receivables and advance payments	295,458	79,393
Payments for audit and legal consultations	20,342	14,777
Security deposit under the rent agreement	36,961	30,081
Fair value of derivative financial instruments (Note 7)	78,176	6,674
Other	14,260	1,859
Total other assets	**445,197**	**132,784**

Other liabilities as of 31 December comprise:

	2008	*2007*
Accrued salaries and benefits payable	358,988	200,012
Other taxes payable	53,713	17,592
Collection service payables	56,686	63,722
Other	31,278	65,429
Total other liabilities	**500,665**	**346,755**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2008	*2007*
Amounts due to the CBR	12,324,172	–
Correspondent accounts and overnight deposits of credit institutions	3,621	–
Loans and deposits due to credit institutions	43,077,202	20,529,160
Amounts due to credit institutions	**55,404,995**	**20,529,160**

Correspondent accounts and overnight deposits of credit institutions at 31 December 2008 include RUB 3,621 with OJSC SKT Bank (31 December 2007: nil).

Loans and deposits due to credit institutions include credit lines granted by Société Générale for RUB 38,150,162 in Russian Ruble, RUB 4,442,055 in US dollar and RUB 29,363 in Euro (2007: RUB 18,631,081 in Russian Ruble and RUB 1,798,054 in US dollar) and OJSC SKT Bank for RUB 455,622 in Russian Ruble (2007: RUB 100,025 in Russian Ruble).

The average interest rate on loans received from Société Générale for Russian Ruble funds was 9.44% (2007: 6.89%), for US loans - 4.75 % (2007: 5.09%) and for Euro funds - 5.17% (the Bank had no Euros funds in 2007). Interest is generally paid on a quarterly basis.

These loans have an average maturity of 982 days for Russian Ruble funds, 922 days for US dollar funds and 204 days for Euro funds (2007: 608 days for Russian Ruble funds and 591 days for US dollar funds).

14. Amounts due to customers

The amounts due to customers include the following:

	2008	*2007*
Legal entities		
Current accounts	52,933	398,128
Time deposits	1,071,199	489,227
Total legal entities	**1,124,132**	**887,355**
Individuals		
Current /on demand accounts	1,127,758	1,060,479
Time deposits	374,301	694,360
Total individuals	**1,502,059**	**1,754,839**
Total amounts due to customers	**2,626,191**	**2,642,194**

(Thousands of Russian Rubles)

14. Amounts due to customers (continued)

At 31 December 2008, amounts due to customers of RUB 1,127,758 (42.94%) represent current accounts and demand deposits of individuals (at 31 December 2007: RUB 1,060,479 i.e. 40.14%).

Deposits of individuals are included in time deposits in the amount of RUB 374,301 (at 31 December 2007: RUB 694,360). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

An analysis of customer accounts by economic sector follows:

	2008	*2007*
Individuals	1,502,059	1,754,839
Insurance	1,072,596	307,155
Trade	35,568	77,643
Retail banking	3,613	321,408
Non-profit organization	1,288	1,382
Other	11,067	179,767
Amounts due to customers	**2,626,191**	**2,642,194**

Amounts due to customers include accounts of related parties as set out in Note 25.

15. Other Borrowings

Other borrowings include:

	2008	*2007*
International Financial Corporation	4,361,072	4,346,243
European Bank for Reconstruction and Development	1,349,517	2,113,570
Total borrowings	**5,710,589**	**6,459,813**

At 31 December 2008, the Bank had fully drawn a USD 155 million loan from the International Finance Corporation ("IFC"), in accordance with agreements dated 2 September 2005 and 12 June 2006. The loan was granted in four tranches with maturities varying from 24 to 36 months. In accordance with the terms of the loan agreement, the Bank does not bear currency exposure as loan drawdowns are converted to Ruble and the loan balance is Ruble-denominated. The average interest rate at 31 December 2008 was 10.23% (at 31 December 2007: 8.01%). Loan repayments are converted to USD based on the Ruble equivalent determined five business days prior to repayment. Under the loan agreement with IFC, part of the loan is secured by a guarantee from Société Générale Group and the Bank is obliged to meet financial covenants. At 31 December 2008, the Bank was in compliance with these covenants. In 2008 tranches of USD 109 million have been prolonged with a maturity of 24 months each (in 2007: the first tranche of USD 20 million has been prolonged with a maturity of 24 months).

A loan from the European Bank for Reconstruction and Development ("EBRD") of amount RUB 2,100,000 was granted to the Bank in accordance with a loan agreement dated 5 July 2006, for a period of 3 years in four tranches at amounts of RUB 500,000 to RUB 600,000. Loan repayments take place in five equal quarterly installments commencing at the beginning of the third year of the loan. At 31 December 2008 residual debt was RUB 1,260,000. Floating interest rate is equal to MosPrime+1.5%.

The Bank concluded interest rate swap agreements for the entire line of funding; thus the interest rate of EBRD credit is equal to a fixed interest rate under the swap agreements (from 5.95% to 6.27%) + 1.5%. In 2008, the contractual interest rate MosPrime3M varied between 5.98% and 22.00% (2007: between 5.48% and 7.44%). The loan from the EBRD is secured by a guarantee from Société Générale Group and the Bank is obliged to meet financial covenants. At 31 December 2008, the Bank was in compliance with these covenants.

On 20 June 2008, subordinated loan of RUB 1,000,000 was granted to the Bank by Rusfinance SAS for 6 years at an interest rate of 6.5%. The amount of this loan was included in the Bank's capital for RAL obligatory ratio calculations. The subordinated loan was repaid early following the participation of Rusfinance SAS in the capital increase of RUR 6,000,000 of the Bank.

(Thousands of Russian Rubles)

16. Debt securities issued

Debt securities issued consisted of the following:

	2008	*2007*
Promissory notes	400	68,261
Bonds	8,141,086	11,106,406
Debt securities issued	**8,141,486**	**11,174,667**

As of 31 December 2008 and 31 December 2007, promissory notes of the Bank were issued to third parties at nominal value and bore a nominal interest rate of 10%, the terms vary from 14 to 18 months.

As of 31 December 2008, the Bonds are represented by 2 series of non-convertible interest bonds with nominal value of RUB 4,000,000 each, maturity of 2 and 3 years and fixed interest rates equal to 7.55% and 7.74% respectively issued on the domestic Russian market in February and May 2007.

In 2008, Rusfinance Bank repurchased two series of non-convertible interest bonds with nominal value of RUB 1,500,000 each, maturity of 2 years and fixed interest rates equal to 7.65% and 7.50%, originally issued in 2006.

17. Net Assets Attributable to the Participant

The Bank has the legal form of a limited liability company with a sole participant, Rusfinance SAS.

During 2008, the Bank's participant increased its contributed funds to the Bank by RUB 6,000,000 to RUB 12,016,960 (by RUB 702,000 in 2007). This contribution was received on 8 September 2008 and registered by CBR on 30 September 2008.

In accordance with the Russian legislation, participants in limited liability companies may unilaterally withdraw from the company. In such cases the company will be obliged to pay to the withdrawing participant the value of his share of net assets of the company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by an in-kind transfer of assets. The payment should be made not later than six months after the end of the year of the withdrawal.

In accordance with the Russian legislation on banks and banking activities, the Bank must allocate its profits to reserves (fund accounts) on the basis of statutory accounting reports. As of 31 December 2008, the Bank's reserves under the Russian Accounting Legislation (not adjusted for inflation) amount to RUB 482,450 (2007: RUB 301,403) and include reserve fund, fund of material reward and accumulation fund.

The reserves recorded in the Bank's statutory accounting reports include statutory general reserve which 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.

18. 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. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

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

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

(Thousands of Russian Rubles)

18. Commitments and contingencies (continued)

Legal

From time to time in the ordinary course of business, the Bank becomes subject to legal actions and complaints. Based on its own assessment and recommendations of internal and external professional advisors, the Bank management believes that the related legal proceedings will not result in material losses for the Bank, and, therefore, did not provide for such legal proceedings in its financial statements.

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 Bank 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 Bank's tax, currency and customs positions will be sustained.

Operating lease commitments

Minimum future lease payments under non-cancellable operating leases of premises where the Bank is a lessee are as follows:

	2008	*2007*
No later than 1 year	373,125	136,553
Later than 1 year but no later than 5 years	26,294	30,843
Total operating lease commitments	**399,419**	**167,396**

Credit related commitments

The Bank's credit related commitments were as follows:

	2008	*2007*
Undrawn loan commitments	1,944,425	486,874
Guarantees issued	–	12,449
Total credit related commitments	**1,944,425**	**499,323**

Loan commitments represent the unused portion of approved loans and guarantees. With respect to loan commitments, the Bank is potentially exposed to a loss in the amount equal to total unused loan commitments. However, the likely amount of loss is less than the total unused loan commitments since most loan commitments are contingent upon customers maintaining specific creditworthiness standards. The Bank monitors the remaining maturities under its loan commitments since longer-term commitments usually have a greater degree of credit risk than short-term commitments.

Guarantees, that are the Bank's irrevocable commitments to make payments should the client default on its obligations to third parties, bear the same credit risk as loans.

The total outstanding amount under guarantees and undrawn loan commitments does not necessarily represent future cash requirements since these commitments may expire or be cancelled without being funded.

(Thousands of Russian Rubles)

19. Net fee and commission income

Net fee and commission income comprises:

	2008	2007
Fee and commission income		
Commission on retail lending transactions	856,637	255,492
Commission on settlement transactions	2,788	9,237
Commission on cash transactions	2,237	6,082
Commission on guarantees issued	–	45
Other	375	168
Total fee and commission income	**862,037**	**271,024**
Fee and commission expense		
Fees for credit-card processing and other services	21,400	14,164
Collection fee	20,340	13,514
Cash operations fee	30,894	9,836
Commission on settlement transactions	30,134	8,026
Total commission expense	**102,768**	**45,540**
Net fee and commission income	**759,269**	**225,484**

Commissions received on the agreements with insurance companies before March 2007 were included into the calculation of the effective interest rate and amortised as interest income on loans to customers of the Bank. Starting from March 2007 Bank has changed the conditions on car loans to customers and these revenues have been included into the commission on retail lending transaction. In 2008, the total amount of commissions received from insurance companies was RUB 775,386 (for the period 1 March 2007 to 31 December 2007: RUB 249,395).

20. Other income

	2008	2007
Income from sale of loans and receivables to related party	–	56,967
Other	7,499	12,704
Total other income	**7,499**	**69,671**

21. Personnel and other operating expenses

Personnel expenses comprise:

	2008	2007
Salaries and bonuses	2,264,980	1,566,387
Social taxes	485,362	286,629
Personnel expenses	**2,750,342**	**1,853,016**

Other operating expenses comprise:

	2008	2007
Administrative expenses	984,715	595,275
Advertising and marketing	147,488	138,930
Taxes (other than income tax)	7,775	35,799
Professional services (security, communication, etc.)	108,962	96,363
Collection services	287,112	76,482
Other	110,388	16,551
Total other operating expenses	**1,646,440**	**959,400**

(Thousands of Russian Rubles)

22. Risk management

Introduction

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

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

Systems of risks assessment and communication of information about risks

The Bank's risks are measured by a method which reflects both expected losses which are likely to arise in normal circumstances, and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. These models utilize the probability values generated from the previous experience and adjusted to reflect the economic environment. The Bank also runs worst case scenarios, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and control of risks are chiefly based on the limits established by the Bank. Such limits reflect the strategy of performing activity and the market conditions, in which the Bank is operating, as well as the risk level the Bank is ready to accept in the context of activity types. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Mitigation of risk

Within the framework of risk management, the Bank uses derivatives and other instruments for managing positions occurring in consequence of changes in the interest rates, exchange rates, risk of shares price variances, credit risk, as well as positions as to forecasted deals.

The Bank actively uses provisions to recognize the credit risk present in its loan portfolio (see additional information below).

Excessive risk concentrations

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

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The credit risk management department executes the permanent supervision over all activities of the Bank which gives rise to credit risk. This supervision is undertaken in accordance with the accepted credit policy of the Bank, regulations on credit risks management and other normative documents.

The Credit Committee, Credit Risk Management Committee and Partner Committees of the various lending business lines are responsible for decision making in respect of credit risk management. This involves setting the obligations and limits for individual customers and groups of related borrowers, separate partners or group of related partners, for particular types of financial products and also for geographical, branch and market segments.

(Thousands of Russian Rubles)

22. Risk management (continued)

Credit risk (continued)

A complete list of bodies within the Bank that are responsible for credit risk management is listed below:
- Chair of the Board;
- Vice-Chair of the Board;
- Credit Risks Management Department;
- Heads of structural divisions of the Car Loans Department;
- Heads of structural divisions of the Department for Consumer Lending in the Points-of-Sale;
- Heads of structural divisions of the Project Management Department;
- Heads of structural divisions of the Transactional Department;
- Business Protection Department;
- Credit Committee;
- Credit Subcommittee;
- Bad Loans Committee;
- Directors of the Bank's regional divisions (subsidiary offices, representative offices, credit-cash offices);
- Specialists in credit products sale (incl. territorial divisions);
- Collection Work Office;
- Internal Audit Service – as related to supervision of compliance with the approved credit policy and resolutions passed by the Credit Committee.

The instruments used for credit risk management are as listed below:
- planning of credit portfolio parameters and development of norm (limits);
- in-bank and external manuals and regulations influencing the process of lending;
- control of execution of plans, compliance with regulations and manuals (control of the credit portfolio quality) and established norms (credit risks control);
- analysis of current activity and the available lending business experience;
- decisions of regulatory bodies when it is necessary to introduce the changes into the credit policy, plans of crediting work or change the credit process.

Risks related to credit commitments

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.

	Notes	*Gross maximum exposure 2008*	*Gross maximum exposure 2007*
Cash and cash equivalents (excluding cash on hand)	5	6,083,659	1,638,728
Amounts due from credit institutions	6	96,893	550,306
Loans to customers	8	79,001,880	44,742,662
Other assets	12	445,197	132,784
		85,627,629	47,064,480
Financial commitments and contingencies	18	1,944,425	499,323
Total credit risk exposure		**87,572,054**	**47,563,803**

For more detail on the maximum exposure to credit risk for each class of financial instrument, reference is made to the specific notes.

Credit quality per class of financial assets

All the loans provided by the Bank are classified as follows:
- credits extended to other credit institutions;
- credits extended to legal entities;
- credits extended to private individuals:
  - car loans;
  - consumer lending;
  - direct sales;
  - credit cards.

(Thousands of Russian Rubles)

22. Risk management (continued)

Credit risk (continued)

In order to estimate the loan portfolio quality, credits extended to private individuals are broken down into the following groups:

- homogeneous credits – being loans attributed to homogeneous portfolios that are insignificant in amount (both by individual loan amount and in aggregate for all loans granted to one borrower) and are less than RUB 8,000;
- non-homogeneous credits – individually assessed loans not attributed to the portfolio of homogeneous loans.

All credits extended to legal entities and credit institutions are classified by the Bank as non-homogeneous loans.

The maximum size of loans to be grouped into homogeneous loans portfolios shall be approved by the Credit Committee.

Attributes of homogeneous loans:

- duration of overdue loan payments;
- designated purpose of the credit;
- method of the borrower's creditworthiness assessment;
- type of the borrower.

According to IFRS purposes depending on the overdue payments duration, the Bank's credit portfolio is grouped into the following portfolios:

- portfolio of loans without overdue payments;
- portfolio of loans with overdue payments of 1-29 calendar days;
- portfolio of loans with overdue payments of 30-89 calendar days;
- portfolio of loans with overdue payments of 90-179 calendar days;
- portfolio of loans with overdue payments, the duration of which exceeding 180 calendar days.

As of 31 December 2008, the Bank's credit portfolio (excluding amounts due from CBR) is broken down into the following quality categories:

	Notes	*Non-overdue loans*	*1 to 29 days overdue*	*30 to 89 days overdue*	*90 to 179 days overdue*	*More than 180 days overdue*	*Total 2008*
Amounts due from credit institutions	6	–	–	–	–	–	–
Loans to customers	8						
Car loans		59,854,154	3,496,686	1,738,723	1,073,214	2,998,765	69,161,542
Consumer lending		7,959,733	454,830	197,815	169,050	1,365,557	10,146,985
Credit cards		1,058,670	68,438	26,890	16,363	120,880	1,291,241
Direct sales		1,961,260	81,850	28,752	–	–	2,071,862
Loans to legal entities		1,174,345	–	–	–	–	1,174,345
Total		**72,008,162**	**4,101,804**	**1,992,180**	**1,258,627**	**4,485,202**	**83,845,975**

As of 31 December 2007, the Bank's credit portfolio (excluding amounts due from CBR) was broken down into the following quality categories:

	Notes	*Non-overdue loans*	*1 to 29 days overdue*	*30 to 89 days overdue*	*90 to 179 days overdue*	*More than 180 days overdue*	*Total 2007*
Amounts due from credit institutions	6	–	–	–	–	–	–
Loans to customers	8						
Car loans		28,142,994	5,771,034	570,959	522,885	1,262,805	36,270,677
Consumer lending		8,900,800	277,769	203,097	171,878	657,938	10,211,482
Credit cards		163,949	32,795	10,197	10,919	124,160	342,020
Direct sales		–	–	–	–	–	–
Loans to legal entities		31,130	–	–	–	–	31,130
Total		**37,238,873**	**6,081,598**	**784,253**	**705,682**	**2,044,903**	**46,855,309**

A loan is regarded as impaired if the loan (or its part) is overdue by more than 30 days. As of 31 December 2008 the gross amount of impaired loans was RUB 7,736,009 (31 December 2007: RUB 3,534,838).

At 31 December 2008 and 31 December 2007, past due but not impaired loans are those disclosed above in the 1-29 days overdue category.

(Thousands of Russian Rubles)

22. Risk management (continued)

Credit risk (continued)

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

During 2008 and 2007 the Bank did not renegotiate the initial conditions of any loans to legal entities for the purpose of removing them from overdue loan categories.

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 Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Individually assessed allowances are determined on the continuing basis upon results of complex and objective analysis of borrower's activity taking into account financial condition; quality of loan's debt servicing; accepted guarantee and collateral; the capability to improve financial results at the onset of financial difficulties, possibility to attract the material aid; and also the terms of anticipated cash flows.

The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. Assessment of the credit risk for loans not grouped into homogeneous loan portfolios shall be made on the basis of expert opinion: (a) at the moment of taking decision about credit provision; (b) at least once every quarter; (c) in the event of changes in the material loan parameters.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant.

12 homogeneous portfolios are defined:
- Car loans,
- Car express loans,
- Cash consumer loans,
- Purpose consumer loans,
- Consumer express loans in the system of the software "Scoring",
- Consumer express loans in "Evolan" system,
- Consumer express loans in "Equation" system,
- Overdrafts on bank cards,
- Revolving loans in Card Suite,
- Loan portfolio received upon assignment agreement,
- Consumer loans to loyal clients issued with the usage of direct marketing technology,
- Consumer loans to external clients issued with the usage of direct marketing technology.

Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The Bank's method of calculation of loan loss allowance takes into account both the amount of overdue installments and the possible recovery of the remaining part of principal debt. As a whole the created loan loss allowance significantly covers the sum of overdue debt and the amount of anticipated final losses and is thus considered adequate based on the loan portfolio risk and sufficient for the coverage of losses when writing-off the uncollectible loans.

The Bank has improved its credit risk management system in 2008, continuing to introduce and improve the practices on the credit risks management in consumer crediting (including on the basis of SG Group Procedures).

The Bank continued to improve the risk reporting system, the speed and quality of report preparation and analysis. The evaluation principles of portfolio risk were changed, new risk indicators were added allowing to evaluate the risk of loan portfolio (in any splits necessary for analysis) both at the early stage after credit granting – for quick response on the change of risk – and on the late stage – for the evaluation of real losses and cost of risk. In particular the Bank improved the forecasting method of final losses of credit products on the early stage of credit life. The changes were done in the Bank's automated system of loan assessment with the usage of accumulated statistics (taking into account the significant sales volumes in 2007 and mainly in 2008) and with the usage of methods adapted to the current lending conditions.

(Thousands of Russian Rubles)

22. Risk management (continued)

Credit risk (continued)

Due to the decline of the macroeconomic situation in Russia in the second half of 2008, the underwriting requirements for loan applicants have been reconsidered and increased; additional special loan assessment rules have been quickly developed and introduced to take into account the developing negative tendencies. In combination, these new rules and requirements enabled the Bank to limit the forecast increase of credit risk on loan portfolio, and also to increase the provisioning level of issued loans.

Financial guarantees are assessed and provision made in a similar manner as for loans.

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

	2008				*2007*			
	Russia	*OECD*	*Other*	*Total*	*Russia*	*OECD*	*Other*	*Total*
Assets:								
Cash and cash equivalents	6,177,875	6,459	-	6,184,334	1,776,241	2,905	-	1,779,146
Obligatory reserves with Central Bank	96,893	-	-	96,893	550,306	-	-	550,306
Loans to customers	79,001,880	-	-	79,001,880	44,742,662	-	-	44,742,662
Other assets	445,016	181	-	445,197	124,481	8,303	-	132,784
	85,721,664	**6,640**	**-**	**85,728,304**	**47,193,689**	**11,208**	**-**	**47,204,897**
Liabilities:								
Due to credit institutions	12,783,415	42,621,580	-	55,404,995	100,025	20,429,135	-	20,529,160
Due to customers	2,626,180	2	9	2,626,191	2,642,185	-	9	2,642,194
Debt securities issued	8,141,486	-	-	8,141,486	11,174,667	-	-	11,174,667
Other borrowings	-	5,710,589	-	5,710,589	-	6,459,813	-	6,459,813
Other liabilities	500,437	228	-	500,665	346,688	-	-	346,688
	24,051,518	**48,332,399**	**9**	**72,383,926**	**14,263,565**	**26,888,948**	**9**	**41,152,522**
Net balance sheet position	**61,670,146**	**(48,325,759)**	**(9)**	**13,344,378**	**32,930,124**	**(26,877,740)**	**(9)**	**6,052,375**
Net off-balance sheet position	**1,944,425**	**-**	**-**	**1,944,425**	**499,323**	**-**	**-**	**499,323**

Liquidity risk and funding management

Liquidity risk is the risk of losses as a consequence of the Bank's failure to meet its payment obligations in full when they fall due. Liquidity risk arises due to an imbalance in the financial assets and financial commitments of the Bank, as well as due to an unforeseen necessity for immediate and one-time fulfillment of financial commitments.

A possible bank crisis or a large-scale withdrawal of capital from the financial market might significantly deteriorate the Bank's capacity of refinancing its resource base. Nevertheless, even in the event of force majeure circumstances, management believes the Bank enjoys major competitive advantages owing to the shareholder support.

The key objective of managing and maintaining control of the liquidity risk is development and improvement of the mechanism of managing the Bank's liquidity, which is designed to be able to solve the following fundamental tasks:

- achieving minimum level of excessive liquidity;
- prevention of liquidity deficit;
- maintaining of optimal liquidity and profitability ratio.

With the purpose of achieving efficient management and ensuring control of the liquidity loss risk in the Bank, transactions related to funds placement are carried out under consideration of specified timing and borrowed resources balances.

The Bank pays special attention to liquidity management. With a view to optimize the liquidity management procedures in the Bank, management of long-term and short-term liquidity is separated.

In order to manage the liquidity risk, the system of limits (restricting the size of assets and liabilities by maturity date) and the technique of calculating the required volume of current liquidity allowance are used.

The Bank's liquidity is maintained at a sufficient level, and in the event of unfavorable conditions resulting in a decrease in liquidity, the Bank has at its disposal the emergency measures plan, which in a relatively short period of time facilitates bringing the liquidity to a level which is secure for the Bank. With the purpose of maintaining quick liquidity, standby facilities are available from other banks in a size sufficient to make payments on commitments without delay.

(Thousands of Russian Rubles)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Monitoring of the current and forecast level of short-term liquidity is carried out daily on the basis of the payment schedule and forecast demand of resources in the short term. Monitoring of the level of the long-term liquidity is carried out by regular current and forecast reports on maturity mismatch between assets and liabilities.

Along with the payment schedule, for the purpose of timely tracking of liquidity risk, within the framework of making the Forecast, several ratios (liquidity indicators) are calculated, which characterize liquidity accumulated in the balance sheet, stability of the Bank's commitments and the Bank's demand for additional liquid funds.

Liquidity norms are calculated in compliance with the provisions of the Regulation issued by the CBR No. 110-I (as of 16.01.2004) "On Mandatory Norms of the Banks":

- N2 (quick liquidity) – minimum permitted value of the Bank's high liquidity assets to the Bank's call accounts commitments ratio, min = 15%;
- N3 (current liquidity) – minimum permitted value of the Bank's liquid assets to the Bank's call accounts and accounts with the term of up to 30 days commitments ratio, min = 50%;
- N4 (long-term liquidity) – maximum permitted value of all the debt (more than one year) payable to the Bank to the Bank's equity (capital) as well as the Bank's commitments on deposit accounts, credits received and other debt commitments with the term of more than one year, max = 120%.

As of 31 December, these ratios were as below:

	2008 (%)	*2007 (%)*
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	107.7	79.8
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	118.3	162.4
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	95.3	99.7

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2008	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Amounts due to Central Bank and Government	3,089,581	9,700,213	-	-	12,789,794
Amounts due to credit institutions	1,324,162	3,198,376	7,671,284	38,704,910	50,898,732
Amounts due to customers	1,304,654	704,066	625,862	53,283	2,687,865
Other borrowings	-	725,124	2,427,779	3,366,142	6,519,045
Debt securities issued	400	154,360	4,304,960	4,154,360	8,614,080
Tax liabilities	-	23,159	-	-	23,159
Other liabilities	229,585	41,809	228,860	-	500,254
Total undiscounted financial liabilities	**5,948,382**	**14,547,107**	**15,258,745**	**46,278,695**	**82,032,929**

Financial liabilities As at 31 December 2007	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Amounts due to Central Bank and Government	-	-	-	-	-
Amounts due to credit institutions	248,494	1,870,727	9,867,244	10,508,247	22,494,712
Amounts due to customers	1,629,394	607,829	316,850	128,085	2,682,158
Other borrowings	–	2,161,649	2,123,196	2,668,019	6,952,864
Debt securities issued	534	487,425	3,418,285	8,613,680	12,519,924
Tax liabilities	–	77,506	–	–	77,506
Other liabilities	215,278	131,411	–	–	346,689
Total undiscounted financial liabilities	**2,093,700**	**5,336,547**	**15,725,575**	**21,918,031**	**45,073,853**

(Thousands of Russian Rubles)

22. Risk management (continued)

Liquidity risk and funding management (continued)

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

	Less than 1 month	*1 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
2008	1,987,487	188,643	141,420	26,294	2,343,844
2007	506,238	93,452	36,186	30,843	666,719

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

The Bank has received significant funds from Société Générale which is a related party to the Bank. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (see Note 14).

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 exchange, and equity prices. The Bank manages and controls the risk on a non-trading portfolio (the Bank does not have a trading portfolio) using a sensitivity analysis. The Bank has no significant concentration of market risk.

Market risk – Non-trading

Interest risk

Interest rate risk occurs due to the possibility that interest rate changes may influence future cash flows or fair market value of financial instruments.

Changes of the interest risk level are measured quantitatively by using a sensitivity index and represent the reduced cost to the Bank when the interest curve is shifted by 100 bp with current time profiles of assets and liabilities in the balance sheet of the Bank. The sensitivity index calculation is based on the analysis of gaps in the Bank's maturity profile and is analyzed by currency and quarterly time periods.

The main steps/principles of calculation of the interest risk quantitative criterion according to the Bank's technique:

1. The balance cost of assets and liabilities that are sensitive to interest rate fluctuations is used in the calculation.
2. Assets and liabilities are classified by time slots depending on the period left for their repayment.
3. For instruments with a fixed interest rate, terms of repayment are determined by the residual maturity of the instrument, for instruments with floating interest rates – by the period left before the next review of the interest rate.
4. For an instrument with a non-fixed date of repayment, the expected term of repayment is based on the expert opinion of the Bank but shall not exceed five years. The expert opinion is based primarily on market conditions, and previous experience of the Bank.
5. In terms of each time slot per currency, cash flow position is calculated.
6. On the basis of interest curves in each currency, the sensitivity index is calculated for each period.

Sensitivity indexes:

$$sensitivity\_index(r_t, n_t) = \frac{1 - \frac{1}{(1 + r_t + 1\%)^{n_t}}}{r_t + 1\%} * 1\%, \text{ where}$$

r_t - market rate expressed in percent per annum (applicable for the period t);

n_t - time slot expressed in years (from the date of report to t).

(Thousands of Russian Rubles)

22. Risk management (continued)

Market risk (continued)

7. Sensitivity indexes when applicable to each time slot and in currency are used to calculate a sensitivity index for each time slot per currency (sensitivity index is multiplied by the relative position of the cash flow).
8. Total short-term, medium-term and long-term sensitivity indexes are calculated per currency and final sensitivity index that is a measure of net reduced cost of the Bank if the interest rate in each currency is changed by 100 bp.

The main principles of making reports on the interest risk evaluation:

1. The interest risk is evaluated on the basis of classifications by terms of allocation /attraction of funds and by currencies (RUB, USD, and Euro) of the Bank balance sheet. Time slots starting from the date of report, following: 1, 2, 3, 6, 12th months and then annually up to 15 years from the date of report.
2. Chartered capital of the Bank is considered to be a long-term liability that is amortized linearly within 4 years. This period of amortization was chosen as it is a long-term resource and because of the fact that the capital was used to finance the credit portfolio of the Bank with duration of about 14 months and the maximum placing term of 5 years.
3. The financial result of the current year is not amortized.
4. The credit portfolio of the Bank is subdivided into the portfolio without overdue and the portfolio with overdue not covered by loan loss allowance.
5. The portfolio without overdue is amortized with regard to a contract profile of amortization and the effect of car credits early repayment.
6. A part of the portfolio with overdue that is not covered by loan loss allowance is amortized on the basis of statistics in respect to the rate of amortization of this part of the portfolio. The period of amortization is 18 months, after – the overdue is written-off.
7. Other Assets/Liabilities are amortized on the basis of the remaining period of repayment.
8. The report on interest rates is prepared quarterly by the Assets and Liabilities Management Unit.

Maximum permissible level of interest risk:
The total sensitivity index limit is EUR 5 million. At the time it was set, this limit represented 0.5% of the total balance of the Bank. Total short-term, medium-term and long-term sensitivity indexes for all currencies and the final sensitivity index should not exceed the set maximum permissible level. In the event that the set limit of EUR 5 million is exceeded, the Bank is ready to take measures to minimize the level of interest rate risk.

The table below represents application of the sensitivity indexes as of 31 December 2008 and 2007 and shows the effect on the net present financial value of the Bank for a yield parallel shift of a 100 basis point:

	2008				*2007*			
	Short-term	*Medium-term*	*Long-term*	*Total*	*Short-term*	*Medium-term*	*Long-term*	*Total*
Sensitivity indexes	(26,935)	141,887	-	114,952	3,230	71,595	-	74,825

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 aim of management and control of the currency risk is:
- to minimize capital loss of the Bank when assets and liabilities are created with use of foreign currencies;
- to avoid non-observance of the requirements set forth by the Currency Exchange Law of the Russian Federation and currency exchange regulatory bodies when performing foreign currency transactions and functions of the currency exchange control agent.

The aim of currency risk management is evaluation of potential loss at early stages and taking measures to provide protection against currency risks. Currency risk management may be described as a strategic process aimed at prevention of exposure from unexpected currency rate fluctuations. Currency risk position management and restriction of influence of currency risk fluctuations on the activities of the Bank are the parameters of the actions at the level of strategic actions.

Key methods of currency risk management:
- forecasting of rates;
- restriction of the currency position;
- hedging.

(Thousands of Russian Rubles)

22. Risk management (continued)

Market risk (continued)

Financial position and cash flows of the Bank are subject to the influence of foreign currency exchange rate fluctuations. To minimize currency risk, the Bank performs daily controls over an open currency position in order to reduce the level of currency risk according to the requirements of the CBR. The Bank also manages currency risk by entering forward delivery contracts on a regular basis, and thus allowing for minimization of loss due to significant fluctuations of national and foreign currency exchange rates. The limits are determined both for each currency and for the total open currency position. As a major part of the balance and cash flows of the Bank is expressed in RUB the currency risk is evaluated as low.

The table below represents currencies in which the Bank has considerable positions as of 31 December 2008 and 31 December 2007 in non-trade monetary assets and liabilities and forecasted cash flows. The analysis carried out consists of a calculation of the influence of possible changes in currency rates against the Russian Ruble on the income statement (due to existence of non-trade monetary assets and liabilities the fair value of which is sensitive to changes of currency rates).

The impact on capital does not differ from impact on the income statement. All other parameters are constant values.

In the table below, negative amounts reflect potential net decrease in the income statement while the positive values reflect potential net increase.

Currency	*Change in currency rate in % 2008*	*Effect on profit before tax 2008*	*Change in currency rate in % 2007*	*Effect on profit before tax 2007*
USD	+ 26%	7,656	- 10%	(3,154)
EUR	+ 13%	(12,507)	+ 4%	150
Total	–	**(4,851)**	–	**(3,004)**

As of 31 December 2008, the amount of the Bank's open currency position for statutory reporting purposes was for USD: RUB 29,448 in Ruble equivalent (2007: RUB 31,538) and for EUR: RUB (96,211) (2007: RUB 3,747).

As of 31 December 2008, the Bank estimated the reasonable possible change in USD/RUB exchange rate to be 26% (31 December 2007: (10)%), and for EUR/RUB exchange rate a reasonable possible change of 13% (2007: 4%).

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses static regression models to forecast influence of different levels of early repayment on its net interest income. The model takes into account interest and commission earnings that were not received in full due to early repayment. The model is built with regard to reinvesting of early repaid amounts at the market rate. The model is tested by comparison against the actual results.

Effect of prepayment risk on income before tax:

	Prepayment %	*Effect on net interest margin*
2008	28%	340,414
2007	19%	(109,477)

Operational risk

Operational risk is the risk that loss might occur due to the fact that internal procedures in respect of the Bank's operations do not meet the requirements of the Russian Federation applicable law and/or do not comply with the type of the Bank's activity or are not observed by the employees of the Bank and/or other persons (due to incompetence, unpremeditated or intended actions or negligence), insufficiency (inadequacy) of functional characteristics of information and other systems used by the Bank or their failures (malfunction) and external events.

The sources of operational risk include internal processes, actions of the personnel, resignation of key specialists, difficulties with recruiting of qualified specialists due to growth of the Bank operations, failures of IT systems and software and other external factors. Operational risk may influence both financial result and reputation of the Bank.

(Thousands of Russian Rubles)

22. Risk management (continued)

Operational risk (continued)

Operational risk management of the Bank is based on effective legislation of the Russian Federation, recommendations of the CBR, Basel committee regulation, recommendations and experience of the Société Générale and general experience and traditions.

To reduce cases of operational risk, the Operational Risk Management Unit was formed and is responsible for:

- identification of operational risks relative to the bank activity,
- evaluation of operational risks relative to the current activity and to new projects,
- development of operational risk management activities,
- monitoring and control over the activity of the subdivisions in terms of operational risks management.

The Bank monitors operational risks and its exposure to loss per types of operational risk on a regular basis. To minimize operational risk, the Bank provides regular training for its staff, familiarizing with new legal acts and local normative acts. The existing system of motivation and training of employees increases their interest in respect to the results of their activity and provides continuity and succession of management.

The control over compliance of local normative acts with the requirements of the Legislation, the CBR normative acts, Financial Markets Federal Service and other regulative bodies is held on a regular basis. The Bank's technologies are constantly improving with regard to growth of volume of operations. Information, technological and operational systems used by the Bank minimize the possibility of failures and loss of data. The Bank pays much attention to computerization of operations and implementation of telecommunication technologies and supports their correspondence to the current situation and scope of the Bank activity – all this leads to efficiency of services provided to the customers and reduces operational risks.

23. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank'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.

	2008			*2007*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	6,184,334	6,184,334	-	1,779,146	1,779,146	-
Amounts due from credit institutions	96,893	96,893	-	550,306	550,306	-
Loans to customers	79,001,880	75,143,703	(3,858,177)	44,742,662	45,411,368	668,706
Other assets	445,197	445,197	-	132,784	132,784	-
Financial liabilities						
Amounts due to credit institutions	(55,404,995)	(49,713,288)	5,691,707	(20,529,160)	(20,578,991)	(49,831)
Amounts due to customers	(2,626,191)	(2,626,191)	-	(2,642,194)	(2,642,194)	-
Other borrowings	(5,710,589)	(5,710,589)	-	(6,459,813)	(6,459,813)	-
Debt securities issued	(8,141,486)	(7,209,086)	932,400	(11,174,667)	(11,018,367)	156,300
Other liabilities	(500,665)	(500,665)	-	(346,688)	(346,688)	-
Total unrecognised change in unrealised fair value			**2,765,930**			**775,175**

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 one year) 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.

(Thousands of Russian Rubles)

24. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled (see Note 22 "Risk management" for the Bank's contractual undiscounted repayment obligations).

	2008			2007		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	6,184,334	-	6,184,334	1,779,146	-	1,779,146
Amounts due from credit institutions	-	96,893	96,893	-	550,306	550,306
Loans to customers	24,059,595	54,942,285	79,001,880	17,173,962	27,568,700	44,742,662
Other assets	520,565	-	520,565	102,703	30,081	132,784
Total	**30,764,494**	**55,039,178**	**85,803,672**	**19,055,811**	**28,149,087**	**47,204,898**
Financial liabilities						
Amounts due to Central Bank and Government	12,324,172	-	12,324,172	-	-	-
Amounts due to credit institutions	9,904,778	33,176,045	43,080,823	11,717,591	8,811,569	20,529,160
Amounts due to customers	2,579,054	47,137	2 626 191	2,521,493	120,701	2,642,194
Other borrowings	2,697,445	3,013,144	5,710,589	3,093,265	3,366,548	6,459,813
Debt securities issued	4,149,703	3,991,783	8,141,486	239,276	10,935,391	11,174,667
Other liabilities	523,824	-	523,824	346,688	–	346,688
Total	**32,178,976**	**40,228,109**	**72,407,085**	**17,918,313**	**23,234,209**	**41,152,522**
Net	**(1,414,482)**	**14,811,069**	**13,396,587**	**1,137,498**	**4,914,878**	**6,052,376**

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

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

	2008			2007		
	Intermediate and ultimate Parent	Entities under common control	Key management personnel	Intermediate and ultimate Parent	Entities under common control	Key management personnel
Cash and cash equivalents	-	1,977,199	-	-	433,143	-
Loans to Customers	-	590,000	15	-	-	-
Less: Allowance for impairment	-	-	-	-	-	-
Loans to customers , net	-	590,000	15	-	-	-
Amounts due to credit institutions	42,621,580	459,244	-	20,429,135	100,025	-
Amounts due to customers	-	1,025,803	3,898	-	527,345	6,536
Interest income	-	81,400	3	-	848	1
Interest expense – loans and deposits	(2,472,687)	(62,087)	(40)	(590,372)	(21,137)	(103)
Commitments and guarantees issued	-	-	-	(12,449)	-	-
Other income	-	1,780	1	-	6,790	-
Fee and commission expense	(8,402)	(150)	-	(5,280)	(296)	-
Other operating expenses	-	(242,112)	-	-	(106,940)	-

Operations with related parties are operations that the Bank performs with intermediate and ultimate parent companies and companies under common control of Société Générale Group.

Intermediate and ultimate parent companies are direct shareholders of the Bank - Rusfinance SAS and Société Générale SA that owns 100% of the capital of Rusfinance SAS.

(Thousands of Russian Rubles)

25. Related party disclosures (continued)

During 2008 the Bank attracted RUB, USD and EUR credits from the actual parent company Société Générale (see Note 13 on amounts, average interest rates and maturity).

Commissions paid by the Bank to Société Générale SA for the guarantees received in respect to the funds attracted from International Financial Corporation (IFC) amounted to RUB 5,202 (2007: RUB 5,280). These commissions are included in the effective interest rate related to IFC credit.

In 2008 a subordinated loan of RUB 1,000,000 was granted by Rusfinance SAS and then was early reimbursed following the participation of Rusfinance SAS to Bank capital increase of RUB 6,000,000.

The companies under common control are:

SG Financial Services
SG Consumer Finance
Rusfinance LLC
Stolichnoe Creditnoye Tovarischestvo Bank ("SKT Bank")
Stolichny Express, LLC
Soyuznik, CJSC
Sogecap Life Insurance, LLC
Bank Societe Generale Vostok, CJSC
Commercial Bank Delta Credit, CJSC
RosBank, OJSC JSCB
SG Finance, CJSC
ALD Automotive Russie, LLC
Sopra Group SA

The Bank performs the following operations with the companies under common control:

- short term interbank transactions with CJSC Societe Generale Vostok Bank, CJSC Commercial Bank Delta Credit, SKT Bank;
- deposits accounts with Rusfinance LLC, SG Finance, CJSC Soyuznik CJSC and Sogecap Life Insurance LLC;
- purchase and sale of property of/for lending and cash outlets with SKT Bank, including service contracts in respect of placement of Rusfinance Bank signboards on the buildings rented by SKT Bank.;
- in 2008, Rusfinance Bank purchased from SKT Bank a non-exclusive property right on the use of working place of 5NT Banking system for RUB 1,365;
- sub-rent and rent of the premises with SKT Bank (RUB 938 in 2008 and RUB 310 in 2007) and SG Finance, CJSC;
- car leasing in Samara and in other cities where the Bank is represented with ALD Automotive Russie, LLC;
- services on collection of individuals' debts with Stolichny Express, LLC;
- agency agreement with Rusfinance LLC: according to this agreement Rusfinance LLC organizes advertising campaigns, marketing and promotions: the contracts related to the sub-rent and rent of the premises, rent of the property at the points of sale and the services on transfer of the information using special equipment were signed in 2008; total rental expense for the premises was RUB 2,146 for 2008 (2007: RUB 1,823) and is accounted in the other operating expenses;
- maintenance of Evolan by Sopra Group SA: license package was paid in 2008 for RUB 2,208 (2007: RUB 4,849) and accounted in the other operating expenses.

Besides the operations included in the summary above the Bank has performed the following operations with the related parties during 2008:

- other receivables of RUB 400,669 (2007: RUB 844,769) due from Stolichny Express and included in loans to customers: this is an estimation of the compensation to be received according to the conditions of the assignment agreement, enabling the Bank to be reimbursed for estimated impairment loss existing at the end of year in respect of the assigned loans (see details in Note 8).
- agreement on interest rate swap signed with Société Générale SA (see details in Note 7).

Compensation of key management personnel was comprised of the following:

	2008	*2007*
Salaries and other short-term benefits	17,081	11,622
Social security costs	793	507
Total key management compensation	**17,874**	**12,129**

(Thousands of Russian Rubles)

26. Capital

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

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

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

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

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:

	2008	*2007*
Capital	**13,339,112**	**6,474,267**
Risk weighted assets	**82,704,696**	**45,560,596**
Capital adequacy ratio	16.1%	14.2%

Regulatory capital consists of core capital, which comprises participant's contributions and retained earnings, including current year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank. The other component of regulatory capital is supplementary capital, which includes subordinated long-term debt, and revaluation reserves.

Ratio of Net Assets Attributable to the Participant to Risk Weighted Assets

The Bank calculates on a regular basis the ratio of net assets attributable to the participant ("Net Assets") to risk-weighted assets calculated according to the Basel Accord Guidelines issued in 1988. The core part of Net Assets (equivalent to Tier 1 capital under the Basel Accord Guidelines) is represented by the participant's contributions and retained earnings. The supplementary part of Net Assets (equivalent to Tier 2 capital) is represented by the revaluation reserve.

	2008	*2007*
Core part of Net Assets	14,076,496	6,624,831
Supplementary part of Net Assets	56,341	50,071
Total Net Assets	**14,132,837**	**6,674,902**
Risk weighted assets	**81,781,369**	**46,035,784**
Tier 1 capital ratio	17.21%	14.39%
Total capital ratio	17.28%	14.50%

27. Events after the balance sheet date

In the beginning of 2009 the Russian Ruble was devalued to major currencies. At the date these 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 31.2637 Rubles, which constitutes a 6.41% reduction in the value of the Russian Ruble to the US Dollar since 31 December 2008.