MDM Bank

Interim Consolidated Financial Statements
For the Six-Month Period Ended 30 June 2008

Reviewed by Ernst & Young in accordance with the
International Standard on Review Engagements 2410. See separate report.

Contents

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REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of MDM Bank

Introduction

We have reviewed the accompanying interim consolidated balance sheet of MDM Bank and its subsidiaries (together the "Group") as at 30 June 2008, and the related interim consolidated income statements for the six-month and the three-month periods then ended, interim consolidated cash flow statement and interim consolidated statement of changes in equity for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2008, its financial performance for the six-month and the three-month periods then ended and its cash flows for the six-month period then ended in accordance with IAS 34.

Ernst & Young Vneshaudit

25 August 2008

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Interest income	20	15 004	12 991
Interest expense	20	(7 488)	(6 455)
Net interest income		**7 516**	**6 536**
Loan impairment losses	11	(1 380)	(1 119)
Net interest income after loan impairment losses		**6 136**	**5 417**
Gains less losses arising from trading in securities		173	507
Gains less losses arising from trading in precious metals		(30)	7
Gains less losses from foreign exchange	21	752	572
Losses net of gains from interest-based derivative financial instruments		(261)	(156)
Fee and commission income	22	1 421	1 407
Fee and commission expense	22	(337)	(307)
Losses net of gains from other financial assets at fair value through profit or loss	9	(2)	-
Charge to provision for losses on credit related commitments	27	(5)	(73)
Other assets impairment losses	12	(261)	(4)
Other operating income		165	113
Operating income		**7 751**	**7 483**
Operating expenses	23	(4 817)	(3 969)
Profit before taxation		**2 934**	**3 514**
Income tax expense	24	(782)	(832)
Profit for the period		**2 152**	**2 682**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	Three-Month Period Ended 30 June 2008 Unaudited	Three-Month Period Ended 30 June 2007 Unaudited
Interest income	20	7 708	6 863
Interest expense	20	(3 621)	(3 413)
Net interest income		**4 087**	**3 450**
Loan impairment losses	11	(689)	(519)
Net interest income after loan impairment losses		**3 398**	**2 931**
Gains less losses arising from trading in securities		470	36
Gains less losses arising from trading in precious metals		3	8
Gains less losses from foreign exchange	21	210	290
Losses net of gains from interest-based derivative financial instruments		(56)	(58)
Fee and commission income	22	774	863
Fee and commission expense	22	(153)	(189)
Charge to provision for losses on credit related commitments	27	(8)	(51)
Other assets impairment losses	12	(263)	(4)
Other operating income		109	32
Operating income		**4 484**	**3 858**
Operating expenses	23	(2 543)	(2 122)
Profit before taxation		**1 941**	**1 736**
Income tax expense	24	(464)	(464)
Profit for the period		**1 477**	**1 272**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Cash flows from operating activities			
Interest received		14 984	13 389
Interest paid		(7 239)	(5 864)
(Losses)/gains from trading in securities		(890)	516
Losses net of gains from interest-based derivative financial instruments		(240)	(125)
(Losses)/gains from trading in precious metals		(74)	4
Gains/(losses) from trading in foreign currencies		311	(215)
Dividends received		1	5
Commissions received		1 397	1 454
Commissions paid		(355)	(307)
Other operating income received		142	113
Operating expenses paid		(5 154)	(3 739)
Income tax paid		(960)	(685)
Cash flows from operating activities before changes in operating assets and liabilities		**1 923**	**4 546**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(3 333)	(1 315)
Net decrease/(increase) in due from other banks		6 208	(5 517)
Net increase in trading securities		(4 544)	(3 732)
Net decrease in other financial assets at fair value through profit or loss	9	221	1 282
Net increase in loans and advances to customers		(23 515)	(33 613)
Net (decrease)/increase in due to other banks		(14 116)	39 600
Net increase in other customer accounts		52 946	6 034
Net (decrease)increase in promissory notes issued and deposit certificates		(2 830)	5 735
Net decrease/(increase) in other assets less other liabilities		1 837	(193)
Net cash from operating activities		**14 797**	**12 827**
Cash flows from investing activities			
Purchase of premises and equipment	13	(685)	(198)
Proceeds from sale of premises and equipment		28	14
Net cash used in investing activities		**(657)**	**(184)**
Cash flows from financing activities			
Loan participation notes and bonds issued		2 002	20 486
Loan participation notes repaid		(5 148)	(17 163)
Net cash (used in)/from financing activities		**(3 146)**	**3 323**
Effect of exchange rate changes on cash and cash equivalents		(2 545)	(574)
Net increase in cash and cash equivalents		**8 449**	**15 392**
Cash and cash equivalents at the beginning of the period	5	83 434	32 642
Cash and cash equivalents at the end of the period	5	**91 883**	**48 034**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for available-for-sale financial assets	Cumulative translation reserve	Retained earnings	Total equity
Balance as at 1 January 2007	**1 736**	**9 588**	**1 942**	**-**	**(21)**	**14 079**	**27 324**
Currency translation differences (Unaudited)	-	-	-	-	7	-	7
Total income and expense recognised directly in equity for the six-month period ended 30 June 2007 (Unaudited)	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Profit for the six-month period ended 30 June 2007 (Unaudited)	-	-	-	-	-	2 682	2 682
Total recognised income for the six-month period ended 30 June 2007 (Unaudited)	**-**	**-**	**-**	**-**	**7**	**2 682**	**2 689**
Disposal of premises (Unaudited)	-	-	(15)	-	-	15	-
Balance as at 30 June 2007 (Unaudited)	**1 736**	**9 588**	**1 927**	**-**	**(14)**	**16 776**	**30 013**
Balance as at 1 January 2008	**1 794**	**14 198**	**2 986**	**21**	**24**	**19 875**	**38 898**
Currency translation differences (Unaudited)	-	-	-	-	63	-	63
Revaluation of available-for-sale financial assets, net of deferred tax (Unaudited) (Note 10)	-	-	-	9	-	-	9
Total income and expense recognised directly in equity for the six-month period ended 30 June 2008 (Unaudited)	**-**	**-**	**-**	**9**	**63**	**-**	**72**
Profit for the six-month period ended 30 June 2008 (Unaudited)	-	-	-	-	-	2 152	2 152
Total recognised income for the six-month period ended 30 June 2008 (Unaudited)	**-**	**-**	**-**	**9**	**63**	**2 152**	**2 224**
Balance as at 30 June 2008 (Unaudited)	**1 794**	**14 198**	**2 986**	**30**	**87**	**22 027**	**41 122**

(expressed in millions of Russian Roubles – refer to Note 3)

1 Organisation of the Group and its Principal Activities

These interim consolidated financial statements include the financial statements of MDM Bank (Open Joint Stock Company) ("the Bank") and its subsidiaries. MDM Bank and its subsidiaries are hereinafter collectively referred to as the "Group".

As at 30 June 2008, the Group operated two banks, one in the Russian Federation and one in Latvia, securities trading and asset management companies and a leasing company.

MDM Bank, the parent company and the lead operating entity of the Group, is registered in the Russian Federation to carry out banking and foreign exchange activities since 1993. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation. The Bank also has broker and dealer licenses issued by the Russian Federal Financial Markets Service. MDM Bank is a member of the state deposit insurance scheme in the Russian Federation.

The Group operates in two major business areas: Corporate and investment banking and Retail banking. The Group also has a Central treasury, which undertakes the Group's funding and centralised risk management activities. Refer to Note 25.

The activities of the Group are conducted principally in Russia, although the Group also conducts operations on international markets.

The table below summarises information about the banking branch network of the Group and the number of employees.

		30 June 2008 Unaudited		31 December 2007	
Name of the bank	Registered office	Number of branches	Number of employees	Number of branches	Number of employees
MDM Bank	Kotelnicheskaya nab., 33, Moscow, Russia	35	6 291	35	5 713
Latvian Trade Bank	Grecinieku iela, 4, Riga, LV-1048, Latvia	-	63	-	62
Total		**35**	**6 354**	**35**	**5 775**

All branches are located within the Russian Federation. The Group also operates a network of sub-branches, additional offices, cash exchange offices and other points of sale in the Russian Federation. As at 30 June 2008, the total number of points of sale of MDM Bank's network was 181 (31 December 2007: 164).

As at 30 June 2008 and 31 December 2007, the Bank's immediate parent company was ZAO Banking Holding MDM (Russia). ZAO Banking Holding MDM is a 100% subsidiary of MDM Holding SE, a European company based in Austria.

As at 30 June 2008 and 31 December 2007, Mr. Sergey Popov was the majority beneficial shareholder of the Group with approximately 77% beneficial interest, Olivant Limited had a 9.5% beneficial interest, Mr. Martin Andersson had an 8.5% beneficial interest and the International Financial Corporation (the "IFC") had a 5.0% direct interest. In addition, Olivant Limited had an option to purchase a further 4.75% interest.

Refer to Note 29 for information on related party transactions.

For the purposes of these interim consolidated financial statements, key management personnel of the Group, collectively, is referred to as "Management".

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

3 Basis of Preparation

(a) Statement of compliance

The interim consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" and contain a complete set of financial statements as described in International Accounting Standard IAS 1"Presentation of Financial Statements".

(b) Basis of measurement

These interim consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, other financial assets held at fair value through profit or loss and available-for-sale financial instruments are stated at fair value, and premises are stated at revalued amounts.

(c) Presentation currency

These interim consolidated financial statements are presented in Russian Roubles ("RUB"), which is the functional currency of the Bank and the majority of the Group's subsidiaries. Except as indicated, financial information presented has been rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Basis of Preparation (Continued)

Information about significant areas of estimation uncertainty and critical judgments made by Management in the application of IFRSs that have a significant effect on the amounts recognised in these interim consolidated financial statements are described in the following notes:

- Note 4 (l) "Significant accounting policies" and Note 11 (a) "Loans and advances to customers" in respect of loan impairment allowance.
- Note 8 "Derivative financial instruments" in respect of valuation of complex derivative products.
- Note 13 "Premises, equipment and intangible assets" in respect of valuation of premises.
- Note 27 (b) "Contingent liabilities and commitments" in respect of tax contingencies.

4 Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of these financial statements. The accounting policies have been consistently applied and they are consistent with those used in the consolidated financial statements for the year ended 31 December 2007. Changes in accounting policies as a result of revised accounting standards are described below in this Note.

(a) Subsidiaries

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

Special purpose entities ("SPEs") are entities which are created to accomplish a narrow and well-defined objective, such as the securitisation of particular assets, or the execution of a specific borrowing transaction. The financial statements of SPEs are included in the consolidated financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group, even if the Group does not have any direct or indirect shareholdings in the entity.

Intra-group transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Functional currency

Functional currency for each Group company has been determined as the currency of the primary economic environment in which the company operates. The Russian Rouble ("RUB") has been selected as the functional currency for the Bank, Group companies domiciled in the Russian Federation and Group companies domiciled outside of the Russian Federation, where it reflects the economic substance of the underlying events and circumstances. For other Group companies the currencies of the respective countries in which these companies are domiciled have been selected as their functional currencies.

The results and financial position of each foreign entity of the Group (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity as cumulative translation reserve.

4 Significant Accounting Policies (Continued)

When a foreign subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

(c) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the relevant Group entity at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rates at the respective balance sheet date. The foreign currency gain or loss on monetary assets and liabilities is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items that are measured at 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. Foreign exchange differences arising on translation are recognised in the consolidated income statement, except for differences arising on translation on available-for-sale equity instruments, which are recognised directly in equity.

As at 30 June 2008 the principal rates of exchange used for translating foreign currency balances were RUB 23.4573 to USD 1 and RUB 36.9077 to EUR 1 for US Dollar and Euro, respectively (31 December 2007: RUB 24.5462 to USD 1 and RUB 35.9332 to 1 EUR for US Dollar and Euro, respectively).

(d) Accounting for the effects of hyperinflation

In periods prior to 1 January 2003 the Russian Federation experienced relatively high levels of inflation and was considered to be a hyperinflationary economy as defined by International Financial Reporting Standard IAS 29 “Financial Reporting in Hyperinflationary Economies”.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to non-monetary assets acquired or revalued and non-monetary liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency.

(e) Financial assets and liabilities

(i) Classification of financial instruments

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and financial instruments designated at fair value through profit or loss at initial recognition.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- a group of financial assets, liabilities or both is managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- the designation eliminates or significantly reduces a measurement or recognition inconsistency (“an accounting mismatch”) which would otherwise arise; or
- the financial instrument represents a hybrid (combined) contract that contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

4 Significant Accounting Policies (Continued)

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition. Financial instruments at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, derivative financial instruments and trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which are classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and receivables include cash and cash equivalents, due from other banks, including central banks, loans and advances to customers, and other receivables.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

Financial liabilities, which are not financial liabilities at fair value through profit or loss or financial guarantee contracts, include debt securities in issue, due to other banks, customer accounts, subordinated debt and other payables. Debt securities in issue include promissory notes, certificates of deposit, loan participation notes and bonds issued by the Group.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

The Group does not present a separate disclosure of the carrying values of financial instruments by categories as financial instruments are presented by categories on the face of the balance sheet.

(ii) Amortised cost measurement principles

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

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

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

4 Significant Accounting Policies (Continued)

(iii) Fair value measurement principles

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

Where an active market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market-based rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-based measures at the balance sheet date.

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be redeemed by the counterparty.

(iv) Initial recognition

Trading securities, derivatives and other financial assets and liabilities at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the financial asset or liability.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

(v) Subsequent measurement

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables and held to maturity investments, which are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

Financial liabilities at fair value through profit or loss are measured at their fair value. Financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost subsequent to initial recognition.

4 Significant Accounting Policies (Continued)

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future cash flows discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated income statement as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded as interest income/expense within the consolidated income statement as part of the effective interest rate.

(vi) Gains and losses on subsequent measurement

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

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

(vii) Derecognition

Financial assets

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

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

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

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

The Group also derecognises certain financial assets determined to be uncollectible when they are written off against provision for impairment. Refer to impairment of financial assets policy below.

4 Significant Accounting Policies (Continued)

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purpose entities that issue debt securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained by the Group and are primarily classified as loans to customers. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

Financial liabilities

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

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

(viii) Offsetting

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

Income and expenses are presented on a net basis only where either the Group has set off the related assets and liabilities as described above, or for gains and losses arising from a group of similar transactions such as the Group's trading activity.

(ix) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

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

4 Significant Accounting Policies (Continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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. Each asset individually assessed for impairment is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Department.

The accuracy of the allowances depends on how accurately future cash flows are estimated for specific counterparty allowances and how accurately the model assumptions and parameters used in determining collective allowances predict future cash flows from loans collectively assessed for impairment.

In some cases the observable data required to estimate the amount of impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate. The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio. In general, the periods used vary between three months and 12 months.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated income statement.

Held-to-maturity financial investments. For held-to-maturity investments the Group 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 consolidated 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 consolidated income statement.

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

4 Significant Accounting Policies (Continued)

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 cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated 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 consolidated 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 consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(x) Cash and cash equivalents

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

(xi) Mandatory balances with central banks

Mandatory balances with central banks represent mandatory reserve deposits that are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement.

(xii) Sale and repurchase agreements

Where the Group sells/purchases financial asset and simultaneously enters into an agreement to repurchase/resell the asset at a fixed price on a future date, the arrangement is accounted for as a secured financing transaction.

Assets sold subject to sale and repurchase (“repo”) agreements are continued to be recognised in the financial statements. They are reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks or to customers, as appropriate.

Assets purchased under agreements to resell (“reverse repo”) are not recognised in the Group’s financial statements, and corresponding amounts are recorded as due from banks or loans and advances to customers as appropriate.

The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo/reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(xiii) Securities lending and borrowings

Securities lent to counterparties are retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

4 Significant Accounting Policies (Continued)

(xiv) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the consolidated income statement within gains less losses from trading in securities, gains less losses from precious metals and gains less losses from foreign exchange, depending on the type of the underlying assets. Changes in fair value of other derivative financial instruments, such as cross-currency interest rate swaps and forward rate agreements, are recognised within gains less losses/losses net of gains from interest-based derivative financial instruments in the consolidated statements of income.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the consolidated income statement. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group enters into in derivative instruments for risk hedging purposes, the Group does not have a formal hedging strategy that would qualify for hedge accounting.

(f) Precious metals

Precious metals are stated at lower of net realizable value and cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

Precious metals lent to counterparties are retained in the consolidated financial statements.

Precious metals borrowed are recognised in the consolidated financial statements. If the borrowed precious metals are held by the Group, the obligation to return them is recorded in the balance sheet at the carrying value of the precious metals borrowed and related accrued interest. If the borrowed precious metals are sold to third parties, the obligation to return the borrowed precious metals is recorded in the balance sheet at its fair value.

(g) Premises and equipment

Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Where an item of premises and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Subsequent expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated income statement as an expense as incurred.

4 Significant Accounting Policies (Continued)

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. A revaluation increase for an item of premises is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease for an item of premises is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. The revaluation reserve for premises included in equity is transferred directly to retained earnings on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment losses. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by comparing proceeds with carrying amount and are recorded in the consolidated income statement.

(h) Intangible assets

All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software. They are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are capitalised and an internally generated intangible asset is recognised only if it is probable that it will generate economic benefits exceeding costs beyond one year and the development costs can be measured reliably. An internally generated intangible asset is recognised only if the Group has the technical feasibility, resources and intention to complete the development and to use the product. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Expenditure on research activities is recognised as an expense in the period in which it is incurred. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

(i) Depreciation and amortisation

Depreciation/amortisation commences when the asset is available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation/amortisation is applied on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

	years
Premises	40
Fixtures and fittings	6 - 10
Office, computer and other equipment	4 - 6
Intangible assets	3 - 5

Land is not depreciated.

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

(j) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

4 Significant Accounting Policies (Continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the consolidated income statement unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

(i) Recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Provisions

Provisions are recognised if, as a result of past events, the Group has a present legal or constructive obligation, that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

4 Significant Accounting Policies (Continued)

(m) Income taxes

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Taxation has been provided for in the consolidated financial statements in accordance with applicable legislation currently in force in the respective countries in which the Group operates. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxes, other than on income, are recorded within operating expenses.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries where the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are netted only within the individual entities of the Group.

(n) Income and expense recognition

(i) Interest income and expense

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

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

(ii) Fee and commission income and expense

Other fees, commissions and other income and expense items are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down (and are not expected to be sold shortly after recognition), are deferred (together with related incremental costs) and recorded as an adjustment to the effective interest rate on the loan. Where a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees for provision of credit related commitments and other forms of financial insurance are recognised over the term of the related contract.

4 Significant Accounting Policies (Continued)

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

(iii) Other income and expenses

Dividend income is recognised within other operating income in the consolidated income statement on the date that the dividend is declared.

Non-interest expenses are recognised at the time the products are received or the services are provided, unless the expenses result from a constructive obligation, against which a liability and related expense are recognised in the consolidated financial statements.

(o) Pension costs

Companies within the Group which operate in the Russian Federation contribute to the Russian Federation state pension schemes, social insurance and employment funds in respect of their employees. The contributions to these funds are expensed as incurred and included within staff costs in the consolidated income statement. The Group has no further payment obligation once the contribution has been paid.

(p) Leases

(i) Finance leases where the Group is a lessor

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. At the inception of the lease the amounts to be recognised at the commencement of the lease term are determined. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognised over the term of the lease using the effective interest method, which reflects a constant periodic rate of return. Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease. Finance income from leases is recognised as part of interest income on loans and advances to customers.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the net investment in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

4 Significant Accounting Policies (Continued)

(ii) Operating leases

Where the Group is the lessee in a lease agreement and the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the Group's consolidated balance sheet, and lease expenses are recognised in the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is the lessor in a lease agreement and does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is recognised in the Group's consolidated balance sheet, and depreciation and lease income are recognised in the consolidated income statement on a straight-line basis over the period of the lease.

(q) Fiduciary assets

The Group provides custody, trustee, asset management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the Group. Commissions received from such business are shown as fees and commissions received in the consolidated income statement.

(r) Segment reporting

The Group's format for reporting segment information is by operating segments. A segment is a distinguishable component of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Refer to section (t) below.

(s) Changes in accounting policies

As at 1 January 2008, the Group has early adopted IFRS 8 "Operating Segments" which is effective for annual periods beginning on or after 1 January 2009 (earlier application is permitted), and related amendments to IAS 34 "Interim Financial Reporting". IFRS 8 specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 "Operating Segments" replaces IAS 14 "Segment Reporting".

As a result, the Group has presented information in Note 25 "Analysis by Segment" in these interim consolidated financial statements based on the measures of segment profit and loss, segment assets and other segment items reported to the chief operating decision maker of the Group (represented by Management Board of MDM Bank and Chairman of Management Board). The Group has also presented a reconciliation of the total of above measure of reportable segments' profit and loss to the Group's profit and loss before tax as reported in the consolidated financial statements, and the total of the above measure of reportable segment assets to the total assets of the Group as reported in the consolidated financial statements.

4 Significant Accounting Policies (Continued)

(t) Comparative information

Certain comparative information has been reclassified to conform to changes in presentation in the current year, as follows.

In prior periods the Group presented information for Corporate Banking, Retail Banking, Small Business Banking, Investment Banking and Financial Markets, Private Banking and Asset Management and Central Treasury segments as reportable business segments. Starting from 1 January 2008, following a change in internal management reporting and the way how information is presented internally to the chief operating decision maker of the Group, i) Retail Banking segment now includes the Small Business Banking segment; and ii) Corporate Banking, Investment Banking and Financial Markets, Private Banking and Asset Management together are included in the Corporate and Investment Banking segment. The Group has accordingly changed comparative information presented in Note 25 "Analysis by Segment".

(u) New Standards and Interpretations not yet adopted

IAS 1 Presentation of Financial Statements (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements. This standard has not been applied in preparing of these consolidated financial statements. The Group plans to adopt this standard when it becomes effective. The Group has not yet fully analysed the likely impact of the standard on its consolidated financial statements.

IAS 23 "Borrowing Costs". A revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed, and Management does not expect the revised IAS 23 to affect the Group's financial statements.

Eligible Hedged Items – Amendment to IAS 39 "Financial Instruments" (issued in July 2008; effective for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or a portion of cash flows is eligible for designation should be applied in particular situations, namely designation of one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion. To be eligible for hedge accounting, the designated risks and portions must be separately identifiable components of the financial instrument, and changes in the cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. Management does not expect the amendment to IAS 39 to affect the Group's financial statements.

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

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008). The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended 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.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

5 Cash and Cash Equivalents

	30 June 2008 Unaudited	31 December 2007
Cash on hand	6 560	5 326
Correspondent accounts with central banks	12 387	11 289
Correspondent accounts and overnight deposits with other banks	72 936	66 819
Total cash and cash equivalents	**91 883**	**83 434**

Correspondent accounts and overnight deposits with other banks comprise:

	30 June 2008 Unaudited	31 December 2007
Investment grade international banks	56 258	59 043
Russian subsidiaries of investment grade international banks	6 568	2 581
Large Russian banks	4 288	1 621
Other Russian banks	5 343	2 896
Other foreign banks	479	678
Total correspondent accounts and overnight deposits	**72 936**	**66 819**

Investment grade international banks in the table above are the multinational or OECD-based banks with investment grade ratings as at 30 June 2008 and 31 December 2007, respectively. Large Russian banks in the table above are the banks included in the top thirty Russian banks by total assets as at 30 June 2008 and 31 December 2007, respectively.

As at 30 June 2008, the Group had six counterparties with aggregated balances on correspondent accounts and overnight deposits greater than 10% of consolidated equity at that date (31 December 2007: two counterparties). The total aggregate amount of these balances was RUB 52 695 million or 57% of total cash and cash equivalents, as at 30 June 2008 (31 December 2007: RUB 56 816 million or 68% of total cash and cash equivalents).

As at 30 June 2008 and 31 December 2007 the Group had obligations under its loan participation notes, secured by the Group's diversified payment rights ("DPR"), i.e. its rights to funds being transferred to the Group's USD and EUR correspondent accounts. As at 30 June 2008, the carrying amount of these notes was RUB 11 899 million (31 December 2007: RUB 14 133 million). Refer to Note 16.

Geographical and currency analysis of cash and cash equivalents is disclosed in Note 26.

6 Due from Other Banks

	30 June 2008 Unaudited	31 December 2007
Current interbank loans		
Investment grade international banks	2 366	4 824
Russian subsidiaries of investment grade international banks	1 425	5 510
Large Russian banks	1 410	1 467
Other foreign banks	342	120
Other Russian banks	7 107	6 773
Total current interbank loans	**12 650**	**18 694**
Reverse sale and repurchase agreements		
Investment grade international banks	5 316	7 046
Large Russian banks	2 215	1 549
Other Russian banks	798	545
Total reverse sale and repurchase agreements	**8 329**	**9 140**
Due from other banks	**20 979**	**27 834**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

6 Due from Other Banks (Continued)

Investment grade international banks in the table above are the multinational or OECD-based banks with investment grade ratings as at 30 June 2008 and 31 December 2007, respectively. Large Russian banks in the table above are the banks included in the top thirty Russian banks by total assets as at 30 June 2008 and 31 December 2007, respectively.

As at 30 June 2008, the Group had one counterparty with aggregated balances greater than 10% of consolidated equity at that date (31 December 2007: one counterparty). The total aggregate amount of these balances was RUB 5 316 million or 25% of due from other banks balances, as at 30 June 2008 (31 December 2007: RUB 7 046 million or 25% of due from other banks balances). As at 30 June 2008, these balances included receivables from a large international bank due under a reverse sale and repurchase agreement of RUR 5 316 million, which were pledged as collateral for term deposits of RUB 5 370 million (31 December 2007: RUB 7 042 million) received by one of the Group's subsidiaries from the same bank. Refer to Note 14.

Included in due from other banks as at 30 June 2008 were loans to an international bank of RUB 1 009 million pledged as collateral for interest and principal repayments in respect of loan participation notes secured by diversified payment rights (31 December 2007: RUB 1 093 million). Refer to Note 16.

Securities received as collateral under reverse sale and repurchase agreements are marketable corporate bonds and equity securities. The following table presents information about the fair value of these securities:

	30 June 2008 Unaudited	31 December 2007
Held by the Group	8 214	9 735
Pledged under sale and repurchase agreements (Notes 11, 14 and 15)	755	129
Securities received as collateral under reverse sale and repurchase agreements	**8 969**	**9 864**

Geographical and currency analysis, effective interest rates and maturity structure of due from other banks are disclosed in Note 26.

7 Trading Securities

	30 June 2008 Unaudited	31 December 2007
- Owned by the Group		
Government bonds		
Municipal bonds issued by Russian municipalities	41	2
Russian Federal loan bonds (OFZ)	-	1
Corporate debt and equity securities		
Corporate bonds	7 674	3 855
Corporate Eurobonds	5 459	5 212
Promissory notes	2 068	317
Corporate shares	1 458	1 488
Total trading securities owned by the Group	**16 700**	**10 875**
- Pledged under sale and repurchase agreements		
Government bonds		
Russian Federal loan bonds (OFZ)	-	249
Municipal bonds issued by Russian municipalities	-	80
Corporate debt and equity securities		
Corporate bonds	645	1 226
Corporate Eurobonds	1 953	897
Corporate shares	119	535
Total trading securities pledged under sale and repurchase agreements	**2 717**	**2 987**
Total trading securities	**19 417**	**13 862**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

7 Trading Securities (Continued)

Municipal bonds are securities issued by Russian municipalities denominated in Russian Roubles.

Russian Federal loan bonds (OFZ) are securities issued by the Government of the Russian Federation denominated in Russian Roubles.

Corporate bonds are interest-bearing securities, issued by Russian companies. The majority of corporate bonds are freely tradable in the Russian securities markets.

Corporate Eurobonds are interest-bearing securities, issued by Russian or foreign companies.The majority of corporate Eurobonds are freely tradable in foreign securities markets.

Promissory notes are debt securities of Russian companies denominated in Russian Roubles issued at a discount to nominal value.

The majority of corporate shares are shares of Russian companies traded in the Moscow Interbank Currency Exchange (MICEX) or the Russian Trading System (RTS).

The following table provides details of the Group's debt trading securities as at 30 June 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Municipal bonds issued by Russian municipalities	April 2014	April 2014	8.0%	8.0%	8.9%	8.9%
Corporate bonds	July 2008	November 2018	7.3%	18.0%	8.0%	23.0%
Corporate eurobonds	April 2009	April 2018	7.7%	13.5%	7.7%	13.5%
Promissory notes	July 2008	November 2009	-	-	6.7%	16.0%

The following table provides details of the Group's debt trading securities as at 31 December 2007:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Municipal bonds issued by Russian municipalities	October 2011	October 2011	9.2%	9.2%	8.5%	8.5%
Russian Federal loan bonds (OFZ)	November 2021	November 2021	9.0%	9.0%	6.5%	6.5%
Corporate bonds	April 2008	November 2018	6.3%	14.1%	6.8%	21.0%
Corporate eurobonds	April 2009	December 2015	7.5%	11.0%	7.9%	14.9%
Promissory notes	March 2008	July 2008	-	-	9.8%	13.5%

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

7 Trading Securities (Continued)

The following table provides information on the credit quality of the Group's corporate debt securities as at 30 June 2008 and 31 December 2007:

	30 June 2008 Unaudited	31 December 2007
Corporate bonds owned by the Group		
Credit rating A- and above	215	-
Credit rating between BB+ and BBB++	457	1 961
Credit rating BB and below	5 710	1 823
Not rated	6 751	5 283
Total corporate bonds owned by the Group	**13 133**	**9 067**
Promissory notes owned by the Group		
Credit rating between BB+ and BBB++	1 326	-
Credit rating BB and below	45	109
Not rated	697	208
Total promissory notes owned by the Group	**2 068**	**317**
Corporate bonds pledged under sale and repurchase agreements		
Credit rating A- and above	1 952	-
Credit rating between BB+ and BBB++	-	504
Credit rating BB and below	347	1 288
Not rated	298	331
Total corporate bonds pledged under sale and repurchase agreements	**2 597**	**2 123**

Geographical and currency analysis, effective interest rates and maturity structure of trading securities are disclosed in Note 26. Information on related party transactions is disclosed in Note 29.

8 Derivative Financial Instruments

The fair values of derivative instruments held are set out in the following table:

	30 June 2008 Unaudited			31 December 2007		
	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Contract/ notional amount	Fair values Assets	Fair values Liabilities
Foreign exchange derivative contracts						
- currency spot transactions	134 990	208	(192)	19 832	24	(5)
- currency forwards	29 236	167	(186)	47 914	221	(416)
- currency futures	2 175	-	-	7 478	-	-
Precious metals derivative contracts						
- precious metals forwards	2 436	117	(65)	1 175	15	(6)
Securities derivative contracts						
- securities forwards	4 917	6	(6)	754	-	(25)
- written securities put options	-	-	-	245	-	-
Other derivative contracts						
- cross currency interest rate swaps	1 869	-	(71)	2 002	-	(70)
- balance guaranteed cross currency interest rate swaps	3 256	-	(374)	5 008	-	(352)
- commodity swaps	5 416	3	-	270	-	-
Total recognised derivative assets/(liabilities)		**501**	**(894)**		**260**	**(874)**

8 Derivative Financial Instruments (Continued)

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions or exchange traded. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (positive fair value) or unfavourable (negative fair value) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

Currency spot transactions are regular way foreign exchange contracts, which are settled within two working days after the trade date.

Currency, precious metal and securities forwards are over-the-counter contracts which establish terms and conditions of a deal which is settled at a future date.

Currency futures are exchange traded contracts which establish terms and conditions of a deal which is settled at a future date.

Written securities put options as at 31 December 2007 are put options expiring in March 2008 written by the Group to a major international bank in respect of bonds issued by a Russian entity with a total nominal amount of USD 10 million, or RUB 245 million. As at 31 December 2007, the market price of the underlying bonds was significantly above the exercise price. Further, the Group has the right to terminate the options before maturity under certain conditions related to the price of the underlying bonds. Based on these facts, Management of the Group estimates that, as at 31 December 2007, the fair value of the related liability was nil.

Cross currency interest rate swaps are over-the-counter contracts whereby one party swaps principal and interest payments in one currency determined using a fixed or floating interest rate for principal and interest payments in other currency determined using a floating or fixed interest rate.

Balance guaranteed cross currency interest rate swaps are swap agreements with major international banks, in which the Group entered as a part of its car loans securitisation transaction. Under the terms of the swap agreements all RUB or USD denominated fixed rate amounts received by the Group from car loans pledged as collateral under its loan participation notes are swapped for USD floating rate amounts which are then used for repayment of the loan participation notes. Refer to Note 16.

Derivatives which are embedded in financial instruments measured at fair value through profit or loss are not included in the above table. As at 31 December 2007, these derivatives comprised derivatives embedded into credit-linked leveraged notes of RUB 226 million included within other financial assets through profit or loss (Refer to Note 9). The maximum losses of the Group in respect of these embedded derivatives were limited to the carrying value of the related financial instruments.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

8 Derivative Financial Instruments (Continued)

Remaining maturity, fair value and weighted average exchange rate breakdowns for forward and future currency contracts as at 30 June 2008 are set out in the following table:

Unaudited	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Forwards				
Buy USD sell RUB				
Less than three months	7 442	23.75	1	(64)
Between three months and one year	1 784	24.30	2	(41)
Buy RUB sell USD				
Less than three months	5 893	23.76	50	-
Between three months and one year	1 954	24.42	52	(2)
Buy USD sell EUR				
Between three months and one year	155	1.42	-	(16)
Buy EUR sell RUB				
Less than three months	554	36.68	4	-
Between three months and one year	743	36.68	9	-
Buy CHF sell USD				
Less than three months	4 582	1.03	29	-
Buy JPY sell USD				
Less than three months	2 899	107.46	17	-
Buy EUR sell LVL				
Less than three months	2 436	1.39	2	(63)
Other				
Less than three months	794	-	1	-
Futures				
Buy USD sell RUB				
Between three months and one year	704	24.72	-	-
Buy RUB sell USD				
Between three months and one year	734	24.47	-	-
Buy RUB sell EUR				
Between three months and one year	737	36.85	-	-
Total	31 411		167	(186)

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

8 Derivative Financial Instruments (Continued)

Remaining maturity, fair value and weighted average exchange rate breakdowns for forward and future currency contracts as at 31 December 2007 are set out in the following table:

	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Forwards				
Buy USD sell RUB				
Less than three months	10 956	24.85	13	(127)
Between three months and one year	1 242	25.09	4	(16)
Buy RUB sell USD				
Less than three months	11 477	24.74	85	(21)
Between three months and one year	1 122	24.93	5	(5)
Buy USD sell EUR				
Less than three months	4 546	1.44	5	(24)
Buy EUR sell USD				
Less than three months	754	1.44	1	-
Buy EUR sell RUB				
Less than three months	1 407	35.5	-	(13)
Buy USD sell CHF				
Less than three months	1 366	1.15	-	(35)
Buy CHF sell USD				
Less than three months	1 380	1.15	27	-
Buy USD sell JPY				
Less than three months	6 110	114.2	-	(95)
Buy JPY sell USD				
Less than three months	6 170	113.9	79	-
Buy EUR sell LVL				
Less than three months	823	1.32	-	(78)
Other				
Less than three months	398	-	2	-
Between three months and one year	163	-	-	(2)
Futures				
Buy USD sell RUB				
Less than three months	2 946	25.41	-	-
Between three months and one year	982	25.55	-	-
Buy RUB sell USD				
Less than three months	3 044	25.37	-	-
Between three months and one year	506	25.30	-	-
Total	**55 392**		**221**	**(416)**

Geographical, currency analysis and maturity structure of derivative financial instruments are disclosed in Note 26. Information on related party transactions is disclosed in Note 29.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Other Financial Assets at Fair Value through Profit or Loss

	30 June 2008 Unaudited	31 December 2007
Credit-linked leveraged notes	-	226
Total other financial assets at fair value through profit or loss	**-**	**226**

Credit-linked leveraged notes, as at 31 December 2007, were notes issued by a major international bank, the repayment amount of which was linked to the market price of a certain bond issued by a Russian entity. Credit-linked leveraged notes, as at 31 December 2007, comprised notes with a nominal amount of USD 9 million or RUB 221 million, a coupon rate of 17.24% and a maturity date of 20 February 2008.

The movements in other financial assets at fair value through profit or loss for the six-month periods ended 30 June 2008 and 30 June 2007 were as follows:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Other financial assets at fair value through profit or loss as at 1 January	**226**	**1 404**
Interest income accrued (Note 20)	5	17
Interest income received	(9)	(150)
Disposal of assets	(221)	(1 282)
Gains less losses from changes in fair value	(1)	-
Effect of foreign currency translation	-	11
Other financial assets at fair value through profit or loss as at 30 June	**-**	**-**

Geographical and currency analysis, effective interest rates and maturity structure of other financial assets at fair value through profit or loss are disclosed in Note 26.

10 Available-for-Sale Financial Assets

	30 June 2008 Unaudited	31 December 2007
Investment in mutual fund	303	290
Total available-for-sale financial assets	**303**	**290**

As at 30 June 2008 and 31 December 2007, investment in mutual fund comprise the Group's share in a closed mutual investment fund aimed at investment projects in the South of Russia.

The movement in available-for-sale financial assets for the six-month periods ended 30 June 2008 and 30 June 2007 was as follows:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Available-for-sale financial assets as at 1 January	**290**	**-**
Acquisition of assets	-	-
Revaluation of available-for-sale financial assets	13	-
Available-for-sale financial assets as at 30 June	**303**	**-**

Geographical and currency analysis and maturity structure of available-for-sale financial assets are disclosed in Note 26.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers

	30 June 2008 Unaudited	31 December 2007
Commercial loans	141 056	121 585
Loans to individuals	38 895	36 849
Investment banking loans	13 148	16 130
Small business loans	10 795	8 214
Net investment in finance leases	3 534	3 727
Gross loans and advances to customers	**207 428**	**186 505**
Less: loan impairment	(7 300)	(6 194)
Net loans and advances to customers	**200 128**	**180 311**

(a) Loan impairment

Movements in loan impairment by classes of loans to customers for the six-month period ended 30 June 2008 are as follows:

	Commercial loans	Loans to individuals	Investment banking loans	Small business loans	Net investment in finance leases	Total
Loan impairment as at 1 January 2008	**3 135**	**2 460**	**23**	**453**	**123**	**6 194**
Loan impairment losses during the period	183	397	35	281	484	1 380
Loans sold during the period	(203)	(3)	-	-	-	(206)
Effect of foreign currency translation	(30)	(24)	(1)	(8)	(5)	(68)
Loan impairment as at 30 June 2008	**3 085**	**2 830**	**57**	**726**	**602**	**7 300**

Movements in loan impairment by classes of loans to customers for the six-month period ended 30 June 2007 are as follows:

	Commercial loans	Loans to individuals	Investment banking loans	Small business loans	Net investment in finance leases	Total
Loan impairment as at 1 January 2007	**2 896**	**1 453**	**18**	**96**	**36**	**4 499**
Loan impairment losses during the period	237	749	-	134	(1)	1 119
Loans written off during the period as uncollectible	(13)	(2)	-	-	-	(15)
Effect of foreign currency translation	(15)	(10)	-	(1)	-	(26)
Loan impairment as at 30 June 2007	**3 105**	**2 190**	**18**	**229**	**35**	**5 577**

Loans sold during the six-month period ended 30 June 2008 comprised commercial loans with a gross book value of RUB 265 million against which an impairment allowance of RUB 203 million was recognised, which were sold for RUB 28 million, and loans to individuals with a gross book value of RUB 3 million against which an impairment allowance of RUB 3 million was recognised, which were sold for RUB 1 million.

Included in loans and advances to customers, as at 30 June 2008, was interest accrued on loans individually assessed for impairment of RUB 80 million (31 December 2007: RUB 22 million).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The Group has reviewed its loan portfolio as at 30 June 2008 and recognised loan impairment as follows:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Commercial loans				
Collectively assessed for impairment				
Standard loans not past due	98 456	(1 441)	97 015	1.5
Watch list loans not past due	39 910	(576)	39 334	1.4
Total collectively assessed for impairment	*138 366*	*(2 017)*	*136 349*	*1.5*
Individually assessed for impairment				
Watch list loans not past due	240	(31)	209	12.9
Overdue loans	1 602	(189)	1 413	11.8
Non-recoverable loans	848	(848)	-	100.0
Total individually assessed for impairment	*2 690*	*(1 068)*	*1 622*	*39.7*
Total commercial loans	141 056	(3 085)	137 971	2.2
Loans to individuals				
Loans to individuals collectively assessed for impairment				
Standard loans to finance purchase of cars	19 167	(1 201)	17 966	6.3
Express loans to finance purchase of cars	4 656	(1 026)	3 630	22.0
Mortgage loans	11 400	(288)	11 112	2.5
Credit card overdrafts	1 380	(207)	1 173	15.0
Other loans to individuals	2 292	(108)	2 184	4.7
Total loans to individuals	38 895	(2 830)	36 065	7.3
Investment banking loans				
Collectively assessed for impairment				
Margin loans fully secured by traded securities	2 905	-	2 905	-
Reverse sale and repurchase agreements	6 424	-	6 424	-
Other standard loans	3 796	(34)	3 762	0.9
Total collectively assessed for impairment	*13 125*	*(34)*	*13 091*	*0.0*
Individually assessed for impairment				
Non-recoverable loans	23	(23)	-	100.0
Total individually assessed for impairment	*23*	*(23)*	-	*100.0*
Total investment banking loans	13 148	(57)	13 091	0.4
Small business loans				
Collectively assessed for impairment				
Standard loans to legal entities not past due	8 213	(314)	7 899	3.8
Watch list loans to legal entities not past due	649	(21)	628	3.2
Loans to individual entrepreneurs	1 377	(13)	1 364	0.9
Total collectively assessed for impairment	*10 239*	*(348)*	*9 891*	*3.4*
Individually assessed for impairment				
Watch list loans not past due	10	(1)	9	10.0
Overdue loans	252	(83)	169	32.9
Non-recoverable loans	294	(294)	-	100.0
Total individually assessed for impairment	*556*	*(378)*	*178*	*68.0*
Total small business loans	10 795	(726)	10 069	6.7
Net investment in finance leases				
Collectively assessed for impairment	1 643	(25)	1 618	1.5
Individually assessed for impairment	1 891	(577)	1 314	30.5
Total net investment in finance leases	3 534	(602)	2 932	17.0
Total loans and advances to customers	207 428	(7 300)	200 128	3.5

Should actual repayments be less than Group's Management estimates, the Group would be required to record additional loan impairment losses.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

Management of the Group believes that receivables under reverse repurchase agreements and margin loans, which are fully collateralised by pledge of liquid traded securities, are not impaired.

As at 30 June 2008 renegotiated commercial loans to corporate entities that would otherwise be past due or impaired of RUB 129 million are included in Group's loan portfolio (31 December 2007: RUB 572 million). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Express loans to finance purchase of cars are loans for which simplified credit approval procedures are used.

The following table shows gross loans and advances to customers and related loan impairment, as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Commercial loans				
Collectively assessed for impairment				
Standard loans not past due	85 182	(1 345)	83 837	1.6
Watch list loans not past due	34 012	(527)	33 485	1.5
Total collectively assessed for impairment	*119 194*	*(1 872)*	*117 322*	*1.6*
Individually assessed for impairment				
Watch list loans not past due	1 362	(248)	1 114	18.2
Overdue loans	15	(1)	14	6.7
Non-recoverable loans	1 014	(1 014)	-	100.0
Total individually assessed for impairment	*2 391*	*(1 263)*	*1 128*	*52.8*
Total commercial loans	**121 585**	**(3 135)**	**118 450**	**2.6**
Loans to individuals				
Loans to individuals collectively assessed for impairment				
Standard loans to finance purchase of cars	19 422	(1 081)	18 341	5.6
Express loans to finance purchase of cars	6 432	(973)	5 459	15.1
Mortgage loans	8 220	(193)	8 027	2.3
Credit card overdrafts	1 363	(145)	1 218	10.6
Other loans to individuals	1 412	(68)	1 344	4.8
Total loans to individuals	**36 849**	**(2 460)**	**34 389**	**6.7**
Investment banking loans				
Collectively assessed for impairment				
Margin loans fully secured by traded securities	2 098	-	2 098	-
Reverse sale and repurchase agreements	12 090	-	12 090	-
Other standard loans	1 942	(23)	1 919	1.2
Total investment banking loans	**16 130**	**(23)**	**16 107**	**0.1**
Small business loans				
Collectively assessed for impairment				
Standard loans to legal entities not past due	6 220	(205)	6 015	3.3
Watch list loans to legal entities not past due	510	(15)	495	2.9
Loans to individual entrepreneurs	1 187	(11)	1 176	0.9
Total collectively assessed for impairment	*7 917*	*(231)*	*7 686*	*2.9*
Individually assessed for impairment				
Overdue loans	137	(62)	75	45.3
Non-recoverable loans	160	(160)	-	100.0
Total individually assessed for impairment	*297*	*(222)*	*75*	*74.7*
Total small business loans	**8 214**	**(453)**	**7 761**	**5.5**
Net investment in finance leases				
Collectively assessed for impairment	2 315	(32)	2 283	1.4
Individually assessed for impairment	1 412	(91)	1 321	6.4
Total net investment in finance leases	**3 727**	**(123)**	**3 604**	**3.3**
Total loans and advances to customers	186 505	(6 194)	180 311	3.3

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The following table shows the ageing analysis of loans to individuals as at 30 June 2008:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Standard loans to finance purchase of cars				
- Not past due	17 340	(48)	17 292	0.3
- Overdue less than 30 days	525	(40)	485	7.6
- Overdue 30-89 days	229	(85)	144	37.1
- Overdue 90-179 days	142	(109)	33	76.8
- Overdue 180-360 days	208	(196)	12	94.2
- Overdue more than 360 days	723	(723)	-	100.0
Total loans to finance purchase of cars	**19 167**	**(1 201)**	**17 966**	**6.3**
Express loans to finance purchase of cars				
- Not past due	3 338	(20)	3 318	0.6
- Overdue less than 30 days	211	(18)	193	8.5
- Overdue 30-89 days	123	(44)	79	35.8
- Overdue 90-179 days	80	(57)	23	71.3
- Overdue 180-360 days	201	(184)	17	91.5
- Overdue more than 360 days	703	(703)	-	100.0
Total express loans to finance purchase of cars	**4 656**	**(1 026)**	**3 630**	**22.0**
Mortgage loans				
- Not past due	10 832	(34)	10 798	0.3
- Overdue less than 30 days	264	(31)	233	11.7
- Overdue 30-89 days	89	(36)	53	40.4
- Overdue 90-179 days	61	(44)	17	72.1
- Overdue 180-360 days	94	(83)	11	88.3
- Overdue more than 360 days	60	(60)	-	100.0
Total mortgage loans	**11 400**	**(288)**	**11 112**	**2.5**
Credit card overdrafts				
- Not past due	1 071	(10)	1 061	0.9
- Overdue less than 30 days	87	(12)	75	13.8
- Overdue 30-89 days	40	(18)	22	45.0
- Overdue 90-179 days	33	(24)	9	72.7
- Overdue 180-360 days	55	(49)	6	89.1
- Overdue more than 360 days	94	(94)	-	100.0
Total credit card overdrafts	**1 380**	**(207)**	**1 173**	**15.0**
Other loans to individuals				
- Not past due	2 153	(27)	2 126	1.3
- Overdue less than 30 days	44	(7)	37	15.9
- Overdue 30-89 days	28	(13)	15	46.4
- Overdue 90-179 days	15	(11)	4	73.3
- Overdue 180-360 days	9	(8)	1	88.9
- Overdue more than 360 days	43	(42)	1	97.7
Total other loans to individuals	**2 292**	**(108)**	**2 184**	**4.7**
Total loans to individuals	**38 895**	**(2 830)**	**36 065**	**7.3**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The following table shows the ageing analysis of loans to individuals as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Standard loans to finance purchase of cars				
- Not past due	17 762	(70)	17 692	0.4
- Overdue less than 30 days	519	(44)	475	8.5
- Overdue 30-89 days	207	(87)	120	42.0
- Overdue 90-179 days	156	(120)	36	76.9
- Overdue 180-360 days	276	(258)	18	93.5
- Overdue more than 360 days	502	(502)	-	100.0
Total loans to finance purchase of cars	**19 422**	**(1 081)**	**18 341**	**5.6**
Express loans to finance purchase of cars				
- Not past due	5 048	(39)	5 009	0.8
- Overdue less than 30 days	301	(29)	272	9.6
- Overdue 30-89 days	167	(70)	97	41.9
- Overdue 90-179 days	147	(104)	43	70.7
- Overdue 180-360 days	301	(263)	38	87.4
- Overdue more than 360 days	468	(468)	-	100.0
Total express loans to finance purchase of cars	**6 432**	**(973)**	**5 459**	**15.1**
Mortgage loans				
- Not past due	7 847	(31)	7 816	0.4
- Overdue less than 30 days	161	(19)	142	11.8
- Overdue 30-89 days	67	(29)	38	43.3
- Overdue 90-179 days	82	(57)	25	69.5
- Overdue 180-360 days	53	(47)	6	88.7
- Overdue more than 360 days	10	(10)	-	100
Total mortgage loans	**8 220**	**(193)**	**8 027**	**2.3**
Credit card overdrafts				
- Not past due	1 138	(6)	1 132	0.5
- Overdue less than 30 days	52	(6)	46	11.5
- Overdue 30-89 days	42	(14)	28	33.3
- Overdue 90-179 days	23	(15)	8	65.2
- Overdue 180-360 days	34	(30)	4	88.2
- Overdue more than 360 days	74	(74)	-	100.0
Total credit card overdrafts	**1 363**	**(145)**	**1 218**	**10.6**
Other loans to individuals				
- Not past due	1 313	(9)	1 304	0.7
- Overdue less than 30 days	26	(2)	24	7.7
- Overdue 30-89 days	13	(3)	10	23.1
- Overdue 90-179 days	8	(4)	4	50.0
- Overdue 180-360 days	12	(10)	2	83.3
- Overdue more than 360 days	40	(40)	-	100.0
Total other loans to individuals	**1 412**	**(68)**	**1 344**	**4.8**
Total loans to individuals	**36 849**	**(2 460)**	**34 389**	**6.7**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The table below shows the ageing analysis of commercial loans which were individually assessed for impairment, as at 30 June 2008:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Watch list loans not past due	**240**	**(31)**	**209**	**12.9**
Overdue loans				
- Overdue less than 30 days	104	(2)	102	1.9
- Overdue from 30 to 90 days	789	(95)	694	12.0
- Overdue from 90 to 180 days	709	(92)	617	13.0
Total overdue loans	**1 602**	**(189)**	**1 413**	**11.8**
Non-recoverable loans				
- Overdue less than 360 days	168	(168)	-	100.0
- Overdue more than 360 days	680	(680)	-	100.0
Total non-recoverable loans	**848**	**(848)**	**-**	**100.0**
Total commercial loans individually assessed for iimpairment	**2 690**	**(1 068)**	**1 622**	**39.7**

The table below shows the ageing analysis of commercial loans which were individually assessed for impairment, as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Watch list loans not past due	**1 362**	**(248)**	**1 114**	**18.2**
Overdue loans				
- Overdue less than 30 days	15	(1)	14	6.7
Total overdue loans	**15**	**(1)**	**14**	**6.7**
Non-recoverable loans				
- Overdue less than 360 days	113	(113)	-	100.0
- Overdue more than 360 days	901	(901)	-	100.0
Total non-recoverable loans	**1 014**	**(1 014)**	**-**	**100.0**
Total commercial loans individually assessed for impairment	**2 391**	**(1 263)**	**1 128**	**52.8**

The table below shows the ageing analysis of small business loans which were individually assessed for impairment, as at 30 June 2008:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Watch list loans not past due	**10**	**(1)**	**9**	**10.0**
Overdue loans				
- Overdue less than 30 days	98	(7)	91	7.1
- Overdue 30-90 days	68	(23)	45	33.8
- Overdue 90-180 days	45	(19)	26	42.2
- Overdue 180-360 days	36	(33)	3	91.7
- Overdue more than 360 days	5	(1)	4	20.0
Total overdue loans	**252**	**(83)**	**169**	**32.9**
Non-recoverable loans				
- Overdue less than 360 days	201	(201)	-	100.0
- Overdue more than 360 days	93	(93)	-	100.0
Total non-recoverable loans	**294**	**(294)**	**-**	**100.0**
Total small business loans individually assessed for impairment	**556**	**(378)**	**178**	**68.0**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The table below shows the ageing analysis of small business loans which were individually assessed for impairment, as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Overdue loans				
- Overdue less than 30 days	54	(4)	50	7.4
- Overdue 30-90 days	16	(9)	7	56.3
- Overdue 90-180 days	35	(21)	14	60.0
- Overdue 180-360 days	32	(28)	4	87.5
Total overdue loans	**137**	**(62)**	**75**	**45.3**
Non-recoverable loans				
- Overdue less than 360 days	128	(128)	-	100.0
- Overdue more than 360 days	32	(32)	-	100.0
Total non-recoverable loans	**160**	**(160)**	**-**	**100.0**
Total small business loans individually assessed for impairment	**297**	**(222)**	**75**	**74.7**

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days and other loans classified as non-performing by Management. A loan is classified as non-performing by Management if it is not probable that it will be recovered through means other than repossession and subsequent realization of collateral.

The amounts of non-performing loans as at 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008 Unaudited	31 December 2007
Commercial loans	1 557	1 014
Loans to individuals	2 519	2 186
Investment banking loans	23	-
Small business loans	387	227
Net investment in finance leases	1 056	357
Total non-performing loans	5 542	3 784

The loan portfolio, as at 30 June 2008, included overdue loans totalling RUB 9 054 million (31 December 2007: RUB 5 306 million).

(b) Collateral

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as at 30 June 2008:

	Securities	Real estate	Motor vehicles	Other realisable collateral	Other collateral	No collateral	Total
Commercial loans	8 424	18 889	169	28 248	69 921	12 320	137 971
Loans to individuals	-	11 112	21 596	-	-	3 357	36 065
Investment banking loans	9 914	-	-	-	3 177	-	13 091
Small business loans	5	4 009	1 093	2 425	1 830	707	10 069
Net investment in finance leases	-	-	1 801	1 131	-	-	2 932
Total	**18 343**	**34 010**	**24 659**	**31 804**	**74 928**	**16 384**	**200 128**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2007:

	Securities	Real estate	Motor vehicles	Other realisable collateral	Other collateral	No collateral	Total
Commercial loans	7 721	22 926	89	27 753	53 888	6 073	118 450
Loans to individuals	-	8 027	23 800	-	1	2 561	34 389
Investment banking loans	14 188	-	-	1 919	-	-	16 107
Small business loans	-	292	44	94	6 776	555	7 761
Net investment in finance leases	-	-	813	2 791	-	-	3 604
Total	**21 909**	**31 245**	**24 746**	**32 557**	**60 665**	**9 189**	**180 311**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Other realisable collateral is collateral, which, in the opinion of the Group's management, the Group will be able to sell to reduce losses in case of a loan default.

Other collateral is collateral which the Group may not be able to sell easily in the market in order to recover the loan. Such collateral may include goods in turnover, corporate or personal guarantees and it is used by the Group as a tool in the process of negotiations with the borrower in case of loan default.

Loans issued to finance purchase of cars are secured by underlying cars. The majority of credit card overdrafts are not secured. Mortgage loans are secured by underlying real estate.

Commercial loans individually assessed for impairment with a gross value of RUB 43 million were secured by collateral with a fair value of RUB 17 million, as at 30 June 2008 (31 December 2007: loans individually assessed for impairment with gross value of RUB 71 million were secured by collateral with a fair value of RUB 99 million). There was no collateral or it is impracticable to determine fair value of collateral for other overdue or impaired loans.

During the six-month period ended 30 June 2008 the Group obtained assets by taking control of collateral accepted as security with a fair value of RUB 167 million (30 June 2007: assets with fair value of RUB 22 million), of which assets totalling RUB 76 million were sold by the Group in the same period (30 June 2007: assets with fair value of RUB 10 million).

Securities received as collateral under reverse sale and repurchase agreements are marketable corporate bonds and equity securities. The following table presents information about the fair value of these securities:

	30 June 2008 Unaudited	31 December 2007
Held by the Group	5 845	7 273
Pledged under sale and repurchase agreements (Notes 6, 14 and 15)	2 581	8 370
Securities received as collateral under reverse sale and repurchase agreements	**8 426**	**15 643**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

(c) Finance leases

Loans and advances to customers include finance lease receivables, which are analysed as follows:

	30 June 2008 Unaudited	31 December 2007
Gross investment in finance leases, receivable:		
- Not later than 1 year	2 607	2 189
- Later than 1 year and not later than 5 years	1 801	2 390
- Later than 5 years	9	37
Less: Unearned finance income	(883)	(889)
Net investment in finance leases	**3 534**	**3 727**

Net investment in finance leases are analysed as follows:

	30 June 2008 Unaudited	31 December 2007
Net investment in finance leases, receivable:		
- Not later than 1 year	2 374	1 767
- Later than 1 year and not later than 5 years	1 156	1 930
- Later than 5 years	4	30
Net investment in finance leases	**3 534**	**3 727**

(d) Pledged loans and asset securitisation

The Group has transferred a pool of loans to individuals to finance the purchase of cars to Taganka Car Loan Finance plc, an entity which is, in substance, controlled by the Group. Accordingly, the financial statements of Taganka Car Loan Finance plc are consolidated into these interim consolidated financial statements and the loans are included in the consolidated balance sheet. These loans are pledged by the Group as collateral under secured loan participation notes issued by the Group. As at 30 June 2008, the amount of loans pledged was RUB 3 098 million (31 December 2007: RUB 4 745 million). As at 30 June 2008, the carrying amount of the notes was RUB 2 085 million (31 December 2007: RUB 4 153 million). Refer to Note 16.

(e) Concentration analysis

As at 30 June 2008, credit exposure to the ten largest borrowers (or groups of borrowers), excluding claims under reverse repurchase agreements fully secured by traded securities, totalled RUB 25 705 million or 12% of the gross loan portfolio of the Group (31 December 2007: RUB 20 778 million or 11% of the gross loan portfolio).

As at 30 June 2008, the Group had no borrowers with aggregated loan amounts, excluding claims under reverse repurchase agreements fully secured by traded securities, greater than 10% of equity (31 December 2007: nil).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Loans and Advances to Customers (Continued)

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

	30 June 2008 Unaudited		31 December 2007	
	Amount	%	Amount	%
Trade	55 175	27	40 035	22
Individuals	38 895	19	36 849	20
Manufacturing	25 425	12	17 239	9
Real estate	23 892	12	24 971	13
Finance	16 586	8	18 706	10
Construction	13 072	6	22 247	12
Ore	5 579	3	3 661	2
Transport	5 145	3	3 983	2
Metallurgy	4 899	2	3 553	2
Chemicals	3 807	2	2 744	1
Oil and gas	3 583	1	2 836	1
Communication	2 493	1	1 750	1
Energy and atomic power	2 356	1	1 036	1
Food and agriculture	2 222	1	1 289	1
Other	4 299	2	5 606	3
Gross loans and advances to customers	**207 428**	**100**	**186 505**	**100**

Geographical and currency analysis, effective interest rates and maturity structure of loans and advances to customers are disclosed in Note 26. Information on related party transactions is disclosed in Note 29.

12 Other Assets

	30 June 2008 Unaudited	31 December 2007
Amounts in course of settlement	711	708
Trade debtors and prepayments	585	554
Settlements on securities transactions	541	280
Precious metals	522	856
Prepaid taxes	397	592
Advances to suppliers of equipment for finance leases	391	517
Claims and repossessed collateral on terminated finance lease agreements	116	-
Other	369	221
Gross other assets	**3 632**	**3 728**
Less: other assets impairment	(266)	(5)
Net other assets	**3 366**	**3 723**

Movements in other assets impairment are as follows:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Other assets impairment as at 1 January	**5**	**2**
Net charge to other assets impairment during the period	261	4
Other assets impairment as at 30 June	**266**	**6**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

12 Other Assets (Continued)

Claims and repossessed collateral on terminated finance leases represent equipment repossessed from non-performing debtors on finance lease arrangements and claims to insurance companies on agreements where the lease equipment has been destroyed or significantly damaged to the extent qualifying for termination of the leased agreement.

Specific provisions are recorded against other assets if impairment indicators are identified. The recoverable amount of other financial assets is calculated based on discounted expected future cash flows, recoverable amount of other non-financial assets represents the higher of fair value less costs to sell and value in use.

Geographical and currency analysis and maturity structure of other assets are disclosed in Note 26.

13 Premises, Equipment and Intangible Assets

The reconciliation of the carrying amount of premises, equipment and intangible assets as at 30 June 2008 and as at 31 December 2007 is presented below:

Unaudited	Premises	Office, computer and other equipment	Fixtures and fittings	Total premises and equipment	Intangible assets	Total premises, equipment and intangible assets
Net book amount as at 1 January 2008	**4 928**	**800**	**224**	**5 952**	**4**	**5 956**
Cost or valuation						
Opening balance	4 928	1 499	299	**6 726**	14	**6 740**
Additions (Note 25)	-	472	121	**593**	92	**685**
Disposals	-	(21)	(28)	**(49)**	-	**(49)**
Effect of foreign currency translation	-	1	-	**1**	-	**1**
Closing balance	**4 928**	**1 951**	**392**	**7 271**	**106**	**7 377**
Accumulated depreciation, amortisation and impairment						
Opening balance	-	699	75	**774**	10	**784**
Depreciation and amortisation charge (Note 25)	72	171	9	**252**	28	**280**
Disposals	-	(15)	(4)	**(19)**	-	**(19)**
Closing balance	**72**	**855**	**80**	**1 007**	**38**	**1 045**
Net book amount as at 30 June 2008	**4 856**	**1 096**	**312**	**6 264**	**68**	**6 332**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

13 Premises, Equipment and Intangible Assets (Continued)

The reconciliation of the carrying amount of premises, equipment and intangible assets as at 30 June 2007 and as at 31 December 2006 is presented below:

Unaudited	Premises	Office, computer and other equipment	Fixtures and fittings	Total premises and equipment	Intangible assets	Total premises, equipment and intangible assets
Net book amount as at 1 January 2007	**3 855**	**525**	**60**	**4 440**	**3**	**4 443**
Cost or valuation						
Opening balance	3 879	1 046	97	**5 022**	11	**5 033**
Additions (Note 25)	32	142	23	**197**	1	**198**
Disposals	(21)	(12)	(9)	**(42)**	-	**(42)**
Closing balance	**3 890**	**1 176**	**111**	**5 177**	**12**	**5 189**
Accumulated depreciation, amortisation and impairment						
Opening balance	24	521	37	**582**	8	**590**
Depreciation and amortisation charge (Note 25)	48	91	8	**147**	1	**148**
Disposals	-	(11)	-	**-**	-	**(11)**
Closing balance	**72**	**601**	**45**	**718**	**9**	**727**
Net book amount as at 30 June 2007	**3 818**	**575**	**66**	**4 459**	**3**	**4 462**

As at 31 December 2007 premises of the Group were revalued by Management based on the results of independent appraisals performed by an independent firm of appraisers, which resulted in a revaluation increase of RUB 1 742 million.

The primary basis used for the appraisal was the income capitalisation approach. The income capitalization approach considers income and expense data relating to the property being valued and estimates fair value through a capitalization process. The market approach was used to assess the reasonableness of the results of the income capitalization approach. The market approach was based upon an analysis of the results of comparable sales of similar premises.

The following key assumptions were used in applying the income capitalization approach:

- annual cash flows were projected based on estimated rental income net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses;
- vacancy and collection losses were estimated as 3% to 10% from potential gross rent income;
- discount rates of 9.5% to 10% and 12% to 20% were applied to capitalise annual cash flows for Moscow premises and premises located in other regions, respectively.

Included in the net book value of premises as at 30 June 2008 was RUB 3 929 million (31 December 2007: RUB 3 929 million) representing the revaluation surplus.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

13 Premises, Equipment and Intangible Assets (Continued)

The net book value of premises that would have been recognised under the historical cost method was RUB 1 161 million, as at 30 June 2008 (31 December 2007: RUB 1 186 million).

The gross book value of fully depreciated premises and equipment that was still in use was RUB 282 million, as at 30 June 2008 (31 December 2007: RUB 229 million). As at 30 June 2008 and 31 December 2007, the Group did not have internally developed intangible assets.

14 Due to Other Banks

	30 June 2008 Unaudited	31 December 2007
Correspondent accounts and overnight deposits of other banks	10 018	6 039
Bilateral structured financing	5 303	7 042
Syndicated loans	12 261	24 839
Trade finance facilities	31 459	29 116
Loans from international financial institutions	11 852	11 515
Term deposits from other banks	10 352	15 648
Sale and repurchase agreements	3 954	8 163
Total due to other banks	**85 199**	**102 362**

As at 30 June 2008, the Group had two counterparties with aggregate balances greater than 10% of equity (31 December 2007: six counterparties). The total aggregate amount of these balances was RUB 17 339 million or 20% of due to other banks balances (31 December 2007: RUB 38 928 million or 38% of due to other banks balances).

Included in due to other banks balances, as at 30 June 2008, were term deposits received from a large international bank of RUB 5 370 million (31 December 2007: RUB 7 042 million), in respect of which the Group pledged its receivable under a reverse sale and repurchase agreement from the same bank of RUB 5 316 million (31 December 2007: RUB 7 046 million) as collateral. Refer to Note 6.

The following table presents information about assets sold under sale and repurchase agreements with other banks:

	30 June 2008 Unaudited	31 December 2007
Securities received as collateral under reverse sale and repurchase agreements, fair value (Notes 6, 11 and 15)	2 352	7 425
Trading securities, carrying value (Note 7 and 15)	2 717	2 674
Total assets sold under sale and repurchase agreements with other banks	**5 069**	**10 099**

Geographical and currency analysis, effective interest rates and maturity structure of due to other banks are disclosed in Note 26.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

15 Customer Accounts

	30 June 2008 Unaudited	31 December 2007
State organisations		
- Current/settlement accounts	893	1
- Term deposits	1 720	4 016
Other legal entities		
- Current/settlement accounts	68 270	30 867
- Term deposits	79 064	68 426
- Sale and repurchase agreements	807	1 316
Retail customers		
- Current/demand accounts	6 363	5 412
- Term deposits	18 413	14 094
Total customer accounts	**175 530**	**124 132**

The following table presents information about assets sold under sale and repurchase agreements with customers:

	30 June 2008 Unaudited	31 December 2007
Securities received as collateral under reverse sale and repurchase agreements, fair value (Notes 6, 11 and 14)	984	1 074
Trading securities, carrying value (Note 7 and 14)	-	313
Total assets sold under sale and repurchase agreements with customers	**984**	**1 387**

Economic sector concentrations within customer accounts are as follows:

	30 June 2008 Unaudited		31 December 2007	
	Amount	%	Amount	%
Finance	77 118	44	32 706	26
Trade	41 029	23	41 194	33
Individuals	24 776	14	19 506	16
Manufacturing	15 897	9	11 655	9
Mining and oil	12 449	7	13 143	11
State	2 613	2	4 017	3
Intergovernmental organisations	1 023	1	1 142	1
Other	625	-	769	1
Total customer accounts	**175 530**	**100**	**124 132**	**100**

As at 30 June 2008, aggregate balances of the ten largest customers (or groups of customers) totalled RUB 68 801 million or 39% of total customer accounts (31 December 2007: RUB 53 852 million or 43% of total customer accounts).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

15 Customer Accounts (Continued)

As at 30 June 2008, the Group had eight customers with aggregated accounts greater than 10% of equity (31 December 2007: four customers). The total aggregate amount of these accounts was RUB 61 381 million or 35% of the total customer accounts (31 December 2007: RUB 39 216 million or 32% of the total customer accounts).

Included in customer accounts, as at 30 June 2008, was RUB 12 715 million held as collateral for irrevocable commitments under import letters of credit (31 December 2007: RUB 17 561 million).

Geographical and currency analysis, effective interest rates and maturity structure of customer accounts are disclosed in Note 26. Information on related party transactions is disclosed in Note 29.

16 Debt Securities in Issue

	30 June 2008 Unaudited	31 December 2007
Loan participation notes secured by diversified payment rights ("DPR")	11 899	14 133
Unsecured loan participation notes	11 548	11 043
Promissory notes	6 693	9 771
Bonds	6 023	6 007
Loan participation notes secured by a pool of car loans	2 085	4 153
Deposit certificates	1 632	1 524
Total debt securities in issue	**39 880**	**46 631**

Loan participation notes, bonds issued, promissory notes and deposit certificates are unconditional debt instruments issued by the Group.

As at 30 June 2008 loan participation notes and bonds comprised the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate
Russian bonds denominated in RUB	6 023	9 October 2007	1 October 2009	8.5%
Loan participation notes secured by a pool of car loans:				
- tranche B (sub-senior)	816	23 October 2006	14 November 2013	Libor + 1.6%
- tranche C (junior)	1 269	23 October 2006	14 November 2013	Libor + 3.3%
Loan participation notes secured by diversified payment rights denominated in EUR	5 373	21 November 2006	15 December 2011	Euribor + 2%
Loan participation notes secured by diversified payment rights denominated in USD	6 526	21 May 2007	15 June 2012	Libor + 2%
Unsecured loan participation notes denominated in USD	9 864	25 January 2007	25 January 2010	7.8%
Unsecured loan participation notes denominated in USD	504	23 October 2007	21 October 2008	11.0%
Unsecured loan participation notes denominated in USD	1 180	6 March 2008	2 March 2009	8.0%

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

16 Debt Securities in Issue (Continued)

As at 31 December 2007 loan participation notes and bonds comprise the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate
Russian bonds denominated in RUB	6 007	9 October 2007	1 October 2009	8.5%
Loan participation notes secured by a pool of car loans:				
- tranche A (senior)	957	23 October 2006	14 November 2013	Libor + 1%
- tranche B (sub-senior)	1 879	23 October 2006	14 November 2013	Libor + 1.6%
- tranche C (junior)	1 317	23 October 2006	14 November 2013	Libor + 3.3%
Loan participation notes secured by diversified payment rights denominated in EUR	6 440	21 November 2006	15 December 2011	Euribor + 2%
Loan participation notes secured by diversified payment rights denominated in USD	7 693	21 May 2007	15 June 2012	Libor + 2%
Unsecured loan participation notes denominated in USD	10 547	25 January 2007	25 January 2010	7.8%
Unsecured loan participation notes denominated in USD	496	23 October 2007	21 October 2008	11.0%

Maturity dates in the tables above represent latest contractual dates when the last payment under the notes are due. Loan participation notes secured by diversified payment rights and loan participation notes secured by a pool of car loans have quarterly and monthly repayments, respectively. Loan participation notes secured by a pool of car loans may be repaid before contractual repayment dates in case of earlier repayment of underlying car loans. As at 30 June 2008, the expected repayment dates of loan participation notes secured by a pool of car loans were 15 November 2008 and 15 August 2009 for tranches B and C, respectively (31 December 2007: 15 March 2008, 15 November 2008 and 15 August 2009 for tranches A, B and C, respectively).

In October 2007, the Group repurchased its own fixed rate RUB denominated bonds with an aggregate nominal amount of RUB 6 000 million issued in October 2006 from investors at par value under the early redemption option. The bonds were reissued by the Group in October 2007 with a discount of 2.4% to par value, and a coupon rate of 8.5%. The bonds have a maturity date in October 2009. The next early repayment option is in October 2008.

In October 2006, the Group issued three tranches of loan participation notes totaling USD 403.1 million secured by a pool of car loans with a carrying value of RUB 3 098 million, as at 30 June 2008 (31 December 2007: RUB 4 745 million). Total amounts of tranche A, tranche B and tranche C notes on the issue date were USD 270.9 million, USD 77.4 million, and USD 54.8 million, respectively. The issue proceeds net of transaction costs amounted to USD 395 million. The notes have monthly repayments. Under the conditions of the notes, more senior tranches are repaid first. During six-month period ended 30 June 2008, the Group fully repaid Tranche A of the notes. As a part of this transaction, the Group entered into balance guaranteed cross currency interest rate swap agreements with major international banks. Under conditions of the swap agreements, all RUB or USD denominated fixed rate amounts received by the Group from car loans pledged as collateral under its loan participation notes are swapped for USD floating rate amounts which are then used for repayment of the loan participation notes. Refer to Notes 8 and 11.

In November 2006, the Group issued floating rate loan participation notes of USD 200 million and EUR 225 million secured by the Group's diversified payment rights, i.e. its rights to funds being transferred to the Group's USD and EUR correspondent accounts. The issue proceeds net of transaction costs amounted to USD 198 million and EUR 223 million. The principal of the notes is repaid quarterly by equal installments with a final maturity on 15 December 2011. In May 2007, the Group issued additional loan participation notes of USD 350 million secured by the Group's diversified payment rights while loan participation notes of USD 200 million issued in November 2006 were repaid. The issue proceeds net of transaction costs amounted to USD 345 million. The principal of the notes is repaid quarterly by equal installments with a final maturity on 15 June 2012. Included in due from other banks balances, as at 30 June 2008 are loans to a large international bank of RUB 1 009 million (31 December 2007: RUB 1 093 million) pledged as collateral for interest and principal repayments in respect of these notes. Refer to Note 6.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

16 Debt Securities in Issue (Continued)

In January 2007, the Group issued fixed rate loan participation notes with an aggregate nominal amount of USD 425 million. The issue proceeds net of transaction costs amounted to USD 423 million.

In October 2007, the Group issued fixed rate loan participation notes with an aggregate nominal amount of RUB 498 million. The issue proceeds net of transaction costs amounted to RUB 482 million.

In March 2008, the Group issued fixed rate loan participation notes with an aggregate nominal amount of RUB 1 243 million. The issue proceeds net of transaction costs amounted to RUB 1 151 million.

Geographical and currency analysis, effective interest rates and maturity structure of debt securities in issue are disclosed in Note 26.

17 Subordinated Debt

	30 June 2008 Unaudited	31 December 2007
Subordinated loan participation notes	4 853	5 066
Total subordinated debt	**4 853**	**5 066**

In July 2006, the Group issued USD 200 million fixed rate subordinated unsecured notes maturing in July 2011 with a coupon rate of 9.75% per annum. The issue proceeds net of transaction costs were USD 199 million.

In case of bankruptcy, the repayment of the subordinated loan participation notes shall be made after repayment in full of all other liabilities of the Bank.

Geographical and currency analysis, effective interest rates and maturity structure of subordinated debt are disclosed in Note 26.

18 Other Liabilities

	30 June 2008 Unaudited	31 December 2007
Trade creditors	1 808	940
Accrued compensation expenses	1 039	710
Settlements on conversion operations	421	801
Liabilities from credit related commitments	121	101
Taxes other than income tax payable	168	46
Other	177	39
Total other liabilities	**3 734**	**2 637**

Included in liabilities from credit related commitments as at 30 June 2008 was a provision for losses in respect of credit related commitments of RUB 48 million (31 December 2007: RUB 44 million). Refer to Note 27.

Geographical and currency analysis, maturity structure of other liabilities are disclosed in Note 26.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

19 Share Capital

The share capital of the Bank has been contributed by shareholders in Russian Roubles. Shareholders are entitled to dividends and any capital distribution in Russian Roubles.

As at 30 June 2008 and 31 December 2007, share capital of the Bank consisted of 2 265 738 authorized, issued and fully paid ordinary shares with a fixed nominal value of 500 Russian Roubles and 50 050 authorized, issued and fully paid preference shares with a fixed nominal value of 500 Russian Roubles.

Ordinary shares carry the right to vote at annual general and extraordinary meetings, right to receive dividends and a residual interest in the assets of the Bank after deducting all its liabilities on liquidation. All ordinary shares provide equal rights to their owners.

Preference shares have no right of conversion or redemption. Preference shares carry the right to vote at annual general and extraordinary meetings in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation. Preference shares are entitled to receive the same dividends as dividends attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote at annual general and extraordinary meetings until dividends are paid. Dividends are not cumulative. In the event of liquidation preference shareholders are entitled to receive declared unpaid dividends and the par value of the preference shares ("liquidation value").

Dividends payable to Bank's shareholders are restricted to the maximum retained earnings of the Bank, which are determined in accordance with legislation in the Russian Federation. As at 30 June 2008, the Bank's reserves available for distribution amounted to RUB 24 387 million (31 December 2007: RUB 21 428 million). No dividends on ordinary or preference shares have been declared during the six-month periods ended 30 June 2008 and 30 June 2007.

The share capital of the Bank, as at 30 June 2008 and 31 December 2007, comprised the following:

	Nominal value	Inflation adjustment	Total share capital
Ordinary shares	1 133	534	1 667
Preference shares	25	102	127
Total share capital	**1 158**	**636**	**1 794**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

20 Interest Income and Expense

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Interest income		
Loans and advances to customers	12 664	10 951
Overnight deposits and due from other banks	1 650	1 383
Total interest income on financial assets not at fair value through profit or loss	**14 314**	**12 334**
Trading securities	685	640
Other financial assets at fair value through profit or loss	5	17
Total interest income	**15 004**	**12 991**
Interest expense		
Due to other banks	(2 448)	(2 026)
Customer accounts	(3 006)	(2 051)
Debt securities in issue	(1 802)	(2 147)
Subordinated debt	(232)	(231)
Total interest expense	**(7 488)**	**(6 455)**
Net interest income	**7 516**	**6 536**

Included in interest income on loans to customers the six-month period ended 30 June 2008 was RUB 389 million in respect of interest income from finance leases (30 June 2007: RUB 263 million).

Information on related party transactions is disclosed in Note 29.

21 Gains less Losses from Foreign Exchange

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Gains less losses from trading in foreign currencies	485	14
Foreign exchange translation gains less losses	267	558
Total gains less losses from foreign exchange	**752**	**572**

Information on related party transactions is disclosed in Note 29.

(expressed in millions of Russian Roubles – refer to Note 3)

22 Fee and Commission Income and Expense

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Commission on settlement and trade finance transactions	873	613
Commission on cash transactions	148	158
Commission on foreign currency transactions	176	155
Commission for business referral	109	164
Commission for brokerage and other services of an investment banking nature	82	299
Commission for trust and fiduciary services	30	11
Other	3	7
Total fee and commission income	**1 421**	**1 407**
Commission on settlement transactions	(178)	(152)
Commission on foreign currency transactions	(72)	(56)
Commission on cash transactions	(46)	(53)
Other	(41)	(46)
Total fee and commission expense	**(337)**	**(307)**
Net fee and commission income	**1 084**	**1 100**

Information on related party transactions is disclosed in Note 29.

23 Operating Expenses

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Staff costs	3 280	2 816
Depreciation, amortisation, rent and other expenses related to premises, equipment and intangible assets	876	479
Professional services	233	178
Taxes other than on income	118	180
Security	91	75
Advertising and marketing	84	120
Telecommunications	66	41
Software	49	52
Other	20	28
Total operating expenses	**4 817**	**3 969**

Included in professional services expenses for the six-month period ended 30 June 2007 were fees of RUB 1 million paid to professional firms for services rendered to the Board of Directors of MDM Bank.

Information on related party transactions is disclosed in Note 29.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

24 Income Taxes

Income tax expense comprises the following:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Current tax charge	551	1 261
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	231	(429)
Income tax expense	**782**	**832**

As at 30 June 2008, the income tax rate applicable to the majority of the Russian entities of the Group's income was 24% (31 December 2007: 24%). As at 30 June 2008, the income tax rate applicable to income of non-Russian entities of the Group ranged from 0% to 15% (31 December 2007: from 0% to 15%).

The reconciliation between the expected and the actual income tax expense is provided below:

	Six-Month Period Ended 30 June 2008 Unaudited	%	Six-Month Period Ended 30 June 2007 Unaudited	%
Profit before taxation	**2 934**	**100.0**	**3 514**	**100.0**
Theoretical income tax expense at the applicable statutory rate	704	24.0	843	24.0
Tax effect of items taxed at different tax rates	4	0.1	(87)	(2.5)
Tax effect of items which are not deductible or assessable for taxation purposes, and other items of a non-temporary nature	114	3.9	97	2.8
Previous year overpayment	(53)	(1.8)	-	-
Provision for tax contingencies (Note 27)	15	0.5	-	-
Unrecognised net deferred tax asset movement	(2)	0.0	(21)	(0.6)
Income tax expense	**782**	**26.7**	**832**	**23.7**

Movements in temporary differences for the six-month period ended 30 June 2008:

Unaudited	1 January 2008	Movements charged/ (credited) to profit or loss	Movements recorded directly in equity	30 June 2008
Tax effect of deductible/(taxable) temporary differences				
Impairment allowances and provisions	(128)	164	-	36
Accruals	563	(351)	-	212
Premises and equipment	(1 019)	(50)	-	(1 069)
Securities	(2)	(20)	(3)	(25)
Other	(182)	24	-	(158)
Gross deferred tax liability	**(768)**	**(233)**	**(3)**	**(1 004)**
Less unrecognised deferred tax asset	(2)	2	-	-
Net deferred tax liability	**(770)**	**(231)**	**(3)**	**(1 004)**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

24 Income Taxes (Continued)

Movements in temporary differences for the six-month period ended 30 June 2007:

Unaudited	1 January 2007	Movements charged/ (credited) to profit or loss	30 June 2007
Tax effect of deductible/(taxable) temporary differences			
Impairment allowances and provisions	(396)	388	(8)
Accruals	393	100	493
Premises and equipment	(699)	18	(681)
Securities	53	(69)	(16)
Other	20	(29)	(9)
Gross deferred tax liability	**(629)**	**408**	**(221)**
Less unrecognised deferred tax asset	(23)	21	(2)
Net deferred tax liability	**(652)**	**429**	**(223)**

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rates applicable to entities of the Group.

As at 30 June 2008 and 31 December 2007, the Group did not recognise a deferred tax liability in respect of its investments in subsidiaries as the Group was able to control the timing of the reversal of the temporary differences and it was not probable that the temporary differences will reverse in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

As at 31 December 2007, a net deferred tax asset in respect of net deductible temporary differences of RUB 2 million has not been recorded as it was not probable that the relevant entity of the Group will have sufficient taxable profit that will allow the Group to benefit from the deferred tax asset.

25 Analysis by Segment

The Group is organised into three main reportable operating segments:

- Corporate and investment banking – includes deposit taking and lending to corporate clients, leasing, factoring, settlements, cash management, cash collection, trade finance, syndications, *a forfait* financing, export credit agency financing, corporate finance, debt and equity capital markets, money markets, trading and brokerage in securities, foreign exchange and precious metals, repo transactions, banknote trading, and trading in derivatives.
- Retail banking – includes deposit taking and lending to individuals, small and medium enterprises and individual entrepreneurs, money transfer and foreign exchange services, a range of banking card products provided to individual customers, also settlements, cash management, and cash collection for small and medium enterprises.
- Central treasury – includes treasury, which undertakes the Group's funding and centralized risk management activities through borrowings, issue of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Analysis by Segment (Continued)

The Group evaluates performance of its operating segments on the basis of profit and loss before tax not including non-recurring gains and losses, such as results on disposal of premises and equipment or results from business combinations. The accounting policies of the operating segments of the Group are the same as those described in the summary of significant accounting policies (refer to Note 4), except for the following:

- the Group records risk charges on operating segments representing cost of credit risk associated with new operations of the segment originated in the reporting period;
- at the same time the Group does not include impairment losses and provisions in accordance with IFRS in determination of the segment profit and loss;
- the Group records an allowance for capital benefits representing internal notional interest income earned on risk-weighted capital allocated to operating segments to finance the activities of the segment.

The Group has in place a procedure for allocating depreciation and amortisation expense between operating segments of the Group to determine segment profit or loss. However, the Group does not allocate net book value of certain premises and equipment between operating segments to determine segment assets. Such premises and equipment are included in "Unallocated" category in reconciliation of the total of segment assets to total assets of the Group.

All assets and liabilities of operating segments are subject to mandatory placement/funding through the Central treasury, which results in internal funding charges related to such placement/funding. Such charges are calculated using internal rates, which are based on current market borrowing rates. Internal funding charges result for Central treasury also includes notional expense incurred by Central treasury for use of nominal amount of monetary capital of the Group for further funding of other operating segments.

The capital is further allocated to each operating segment to cover risks associated with its assets. Such risk-weighted capital is subject to placement in Central treasury by other segments. The result of this adjustment is presented as an allowance for capital benefit for each operating segment.

The Group also has a central administrative function that manages its premises and certain corporate costs. Cost sharing agreements are used to allocate central costs to operating segments on a reasonable basis.

The majority of operations, credit related commitments, capital expenditure, and revenues of the Group relate to residents of the Russian Federation.

Segment breakdown of assets and liabilities of the Group is set out below:

	30 June 2008 Unaudited	31 December 2007
Assets		
Corporate and investment banking	261 368	204 833
Retail banking	46 594	42 825
Central treasury	36 586	66 985
Unallocated assets	7 836	6 839
Total assets	**352 384**	**321 482**
Liabilities		
Corporate and investment banking	219 457	174 125
Retail banking	17 013	15 791
Central treasury	65 190	83 896
Unallocated liabilities	9 602	8 772
Total liabilities	**311 262**	**282 584**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Analysis by Segment (Continued)

Segment information for the operating segments of the Group for the six-month period ended 30 June 2008 is set out below:

Unaudited	Corporate and investment banking	Retail banking	Central treasury	Unallocated	Consolidated Group
External interest income	11 013	3 533	458	-	15 004
External interest expense	(4 188)	(286)	(2 785)	(229)	(7 488)
Internal funding charge[1]	(2 078)	(1 670)	1 887	1 861	-
Allowance for capital benefit[2]	991	223	26	(1 240)	-
Net interest income	**5 738**	**1 800**	**(414)**	**392**	**7 516**
Fee and commission income	800	621	-	-	1 421
Fee and commission expense	(187)	(150)	-	-	(337)
Trading, other financial assets at fair value through profit or loss and foreign exchange results	701	39	(107)	(1)	632
Other operating income	63	3	2	97	165
Total operating income before impairment losses and provisions	**7 115**	**2 313**	**(519)**	**488**	**9 397**
Direct operating expenses[3]	(1 079)	(823)	(48)	-	(1 950)
Impairment losses and provisions	(968)	(678)	-	-	(1 646)
Reversal of accounting impairment losses and provisions[4]	968	678	-	(1 646)	-
Risk charges[5]	(385)	(232)	-	617	-
Segment result before central overhead	**5 651**	**1 258**	**(567)**	**(541)**	**5 801**
Allocation of central overheads[6]	(718)	(951)	-	(948)	(2 617)
Investment spending[7]	-	-	-	(250)	(250)
Profit before taxation	**4 933**	**307**	**(567)**	**(1 739)**	**2 934**
Income tax					(782)
Profit for the period					**2 152**

[1] Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of monetary capital to central treasury.

[2] Refer to description of allowance of capital benefit above. The amount included in "Unallocated" category represents a reconciling item to the total consolidated profit of the Group.

[3] Direct operating expenses represent part of total operating expenses of the Group directly attributable to operating segments.

[4] Refer to description of segment accounting policies used above. Impairment losses and provisions in accordance with IFRS are not included in determination of segment profit and loss.

[5] Refer to description of risk charges above. The amount included in "Unallocated" category represents a reconciling item to the total consolidated profit of the Group.

[6] Allocation of central overheads represents part of total operating expenses of the Group incurred by the central cost centers of the Group, allocated to operating segments based on internal allocation rules.

[7] Part of operating expenses of the Group representing ongoing costs of development of the distribution network, long-term venture projects and other similar costs. These costs are not internally allocated to operating segments.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Analysis by Segment (Continued)

Segment information for the operating segments of the Group for the six-month period ended 30 June 2007 is set out below:

Unaudited	Corporate and investment banking	Retail banking	Central treasury	Unallocated	Consolidated Group
External interest income	10 183	2 596	212	-	12 991
External interest expense	(3 217)	(144)	(2 775)	(319)	(6 455)
Internal funding charge[8]	(3 057)	(1 156)	2 893	1 320	-
Allowance for capital benefit[9]	913	145	11	(1 069)	-
Net interest income	**4 822**	**1 441**	**341**	**(68)**	**6 536**
Fee and commission income	845	558	4	-	1 407
Fee and commission expense	(198)	(103)	(6)	-	(307)
Trading, other financial assets at fair value through profit or loss and foreign exchange results	935	27	(32)	-	930
Other operating income	66	11	-	36	113
Total operating income before impairment losses and provisions	**6 470**	**1 934**	**307**	**(32)**	**8 679**
Direct operating expenses[10]	(1 263)	(616)	(30)	-	(1 909)
Impairment losses and provisions	(308)	(888)	-	-	(1 196)
Reversal of accounting impairment losses and provisions[11]	308	888	-	(1 196)	-
Risk charges[12]	(386)	(169)	-	555	-
Segment result before central overhead	**4 821**	**1 149**	**277**	**(673)**	**5 574**
Allocation of central overheads[13]	(423)	(701)	(1)	(878)	(2 003)
Investment spending[14]	-	-	-	(57)	(57)
Profit before taxation	**4 398**	**448**	**276**	**(1 608)**	**3 514**
Income tax					(832)
Profit for the period					**2 682**

[8] Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of monetary capital to central treasury.

[9] Refer to description of allowance of capital benefit above. The amount included in "Unallocated" category represents a reconciling item to the total consolidated profit of the Group.

[10] Direct operating expenses represent part of total operating expenses of the Group directly attributable to operating segments.

[11] Refer to description of segment accounting policies used above. Impairment losses and provisions in accordance with IFRS are not included in determination of segment profit and loss.

[12] Refer to description of risk charges above. The amount included in "Unallocated" category represents a reconciling item to the total consolidated profit of the Group.

[13] Allocation of central overheads represents part of total operating expenses of the Group incurred by the central cost centers of the Group, allocated to operating segments based on internal allocation rules

[14] Part of operating expenses of the Group representing ongoing costs of development of the distribution network, long-term venture projects and other similar costs. These costs are not internally allocated to operating segments

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Analysis by Segment (Continued)

Capital expenditures and depreciation and amortisation charge for the operating segments of the Group for the six-month period ended 30 June 2008 is set out below:

Unaudited	Corporate and investment banking	Retail banking	Central treasury	Unallocated	Consolidated Group
Capital expenditures	151	302	2	230	**685**
Depreciation and amortisation charge	18	36	-	226	**280**

Capital expenditures and depreciation charge for the operating segments of the Group for the six-month period ended 30 June 2007 is set out below:

Unaudited	Corporate and investment banking	Retail banking	Central treasury	Unallocated	Consolidated Group
Capital expenditures	50	87	1	60	**198**
Depreciation and amortisation charge	3	9	-	136	**148**

Outstanding credit related commitments for the operating segments of the Group as at 30 June 2008 and 31 December 2007 are set out below:

	30 June 2008 Unaudited	31 December 2007
Corporate and investment banking	47 152	51 854
Retail banking	2 731	10 181
Total credit related commitments (Note 27)	**49 883**	**62 035**

The Group does not have significant reliance on any major customer. Refer to concentration analyses in Notes 5, 6, 11, 14 and 15.

The majority of Group's revenues from external customers are attributed to customers domiciled in Russian Federation (including subsidiaries and affiliates of these customers registered outside Russian Federation). Revenues from external customers domiciled in foreign countries are not significant.

26 Risk Management

Taking risk is core to the financial business. The Group's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effect of risk on the Group's financial performance. Major risks to which the Group is exposed include credit, market, liquidity, operational risks and other risks.

(a) Risk management framework

The Group's risk management policies aim to identify, analyze and manage the risks to which the Group is exposed.

Risk management function within the Group is based on the following main principles:

- Limitation of potential losses – the Group's transactions associated with risks are performed within a system of limits/restrictions on certain types of risk.
- Timeliness of risk assessment – all new products and transactions of the Group are analyzed for associated risks. Based on the results of the risk analysis, a system of limits/restrictions and appropriate controls are implemented for this product/transaction.
- Risk management activities – based on the assessment of changes in the external and internal risk factors, appropriate steps are taken to either accept, avoid, mitigate or pass on the risks, in order to achieve optimal risk-reward balance for the Group. Clear segregation of duties between corporate management structures and business-units ensures effective risk management and should eliminate conflicts of interests.

Risk management functions are allocated in the Group in the following way.

The Board of Directors of MDM Bank has overall responsibility for the oversight of risk management, the management of key risks and approving major risk management principles, policies and procedures.

The Audit and Risk Committee of the Board of Directors of MDM Bank is responsible for overseeing the internal control framework and assessing the adequacy of risk management and compliance policies and procedures. It meets regularly and provides recommendations to the Board of Directors of MDM Bank on development of the framework, as well as its views on the quality of risk management and compliance.

The Management Board of MDM Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that both the Group and the Bank operate within the established risk parameters.

Credit, market and liquidity risks at both the portfolio and major transaction levels are managed and controlled by the Senior Credit Committee, Senior Committee on Counterparties and Financial Instruments and Asset and Liability Management Committee (ALCO).

The Risk Department of MDM Bank is responsible for overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Risk Department develops the methodology for risk measurement and performs independent risk analysis of products and programs submitted for approval and limits on specific clients/operations, performs portfolio analysis on current products and programs, and develops a number of aggregated risk limits (i.e. industry/sector limits, limits on insurance of pledges by insurance companies etc.). Additionally, the Risk Department prepares monthly reports on risk management covering all the main risks, including credit, market, liquidity and operational risks, which are reported to the Board of Directors and the Management Board of MDM Bank.

The business units of the Group manage risks within their functional duties.

The Internal Audit Department of MDM Bank audits the Group's business units to check their compliance with the internal policies of the Group, reports its findings to the Board of Directors and Management of the Group and proposes remedial actions for the findings.

26 Risk Management (Continued)

The main risk management policies and procedures currently used by the Group and details of major measures aimed at increasing the effectiveness and quality of risk management which are planned for implementation in the current financial year, are described below.

(b) Credit risk

Credit risk is the risk of losses as a result of the non-performance, late or partial performance by a debtor of its contractual financial obligations to the Group. Credit risk arises principally from credit transactions, transactions with counterparties on the financial markets, purchase of debt securities and other on and off balance sheet credit exposures.

For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual debtor default risk, country and industry risk.

For risk management purposes, credit risk arising from positions in trading securities and other financial instruments at fair value through profit or loss is managed and reported as a market risk exposure.

(i) Credit risk management

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), groups of related customers, as well as exposure by industry/sector etc.

To limit potential losses arising from credit risk, all transactions involving credit risk (including sale and repurchase agreements and other transactions with collateral) are performed within established limits.

The process of developing and setting limits is aimed at minimizing conflicts of interest.

The application to establish a limit is originated by the relevant client managers.

Credit risk analyses are performed either by the Credit Department or the Risk Department (in respect of limits for financial institutions: banks, funds and investment companies, etc.).

The credit risk limits are then approved by the Senior Credit Committee, by the Senior Committee on Counterparties and Financial Instruments (in respect of limits for financial institutions) or by an authorized underwriter.

In order to facilitate efficient decision-making, the Group has established a hierarchy of authority for approval of credit risk limits depending on the type and amount of the exposure to risk.

The authority to approve corporate and retail exposures subject to credit risk is allocated as follows.

The Senior Credit Committee approves credit risk management policies and procedures, new standard products and programs for corporate, small business and retail customers of the Group, and approves all credit risk limits above RUB 250 million. The Senior Credit Committee includes the Chairman of the Management Board of MDM Bank (with the veto right), as well as the heads of client, investment, credit, collections and retail units of the Group. The chairman of the Senior Credit Committee is the Head of the Risk Department.

Applications for limit setting or new standard product/program approval are subject to independent assessment by the Risk Department prior to being passed on to the Senior Credit Committee. The Risk Department assesses risks and provides recommendations to the members of the Senior Credit Committee on mitigating risks identified.

26 Risk Management (Continued)

In order to facilitate efficient decision-making for limits approval procedure, authority to approve limits for lower amounts is delegated as follows.

- Authority to approve small limits within the retail lending programs approved by the Senior Credit Committee is delegated to Junior credit committees for retail lending in branches (for customers of regional branches). Such authority varies depending on standard credit products: auto loan, mortgage loan, consumer loan and credit card, etc.

- Authority to approve small limits (up to RUB 10 million) within the small business lending programs approved by the Senior Credit Committee is delegated to Junior credit committees for standard lending products in branches and to Small Business Lending Division (for customers of the Head Office).

- Authority to approve limits to corporate and small business customers within the small business lending programs approved by the Senior Credit Committee, which requires control of basic covenants, rather than detailed financial analysis is delegated to underwriters of the Credit Department. The authority is limited to RUB 30 million per customer. The underwriters are authorized by the Head of the Risk Department.

- Authority to approve all other credit limits to corporate, small business and retail customers within RUR 250 million is delegated to underwriters of the Risk Department.

The authority to approve deals with financial institutions subject to credit risk is allocated as follows.

The Senior Committee on Counterparties and Financial Instruments approves credit risk management policies and procedures, for the Group's operations on financial markets, and approves all credit risk limits above USD 25 million. The Senior Committee on Counterparties and Financial Instruments includes the Chief Financial Officer of MDM Bank and the head of investment unit of the Group. The chairman of the Senior Committee on Counterparties and Financial Instruments is the Head of the Risk Department. All limits over USD 75 million must be approved by the Chairman of the Management Board of MDM Bank (who has a veto right).

Applications for limit setting are subject to independent assessment by the Risk Department prior to being passed on to the Senior Committee on Counterparties and Financial Instruments. The Risk Department assesses risks and provides recommendations to the members of the Senior Committee on Counterparties and Financial Instruments on mitigating risks identified.

Authority to approve credit limits to financial institutions within USD 25 million is delegated to underwriters of the Risk Department.

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a counterparty to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits which form part of the credit risk limits.

(ii) Policies for credit risk analysis and setting credit risk limits

Credit analysis is performed using approved methodologies. These methodologies include a methodology for analyzing the financial standing of debtors and a methodology for the assessment of collateral.

26 Risk Management (Continued)

Analysis of debtor financial standing is performed using all the information on the debtor available to the Group in accordance with methodology applied. This analysis includes assessment of current and expected debtor financial position and the current business of the debtor. Generally, the group of companies of the debtor is evaluated as a whole, provided that all members of the group accept responsibility for the loan.

Analysis of the expected creditworthiness of individuals within retail lending is performed based on the current income and profile of the customer using scoring models which are based on statistical analysis of defaults by individual lending program.

The Group internally assesses collateral using methodologies developed for each type of collateral. Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as the external data used for such assessment.

The Group normally accepts the following types of property as collateral:

- in the commercial and industrial sector, charges over business assets such as premises, equipment, stock and debtors;
- in the commercial real estate sector, mortgages and/or charges over the properties being financed;
- in the financial sector, charges over financial instruments such as debt securities and equities;
- in the retail sector, mortgages over residential properties, and charges over motor vehicles or other valuables.

Collateral is not generally held over loans and advances to banks, except where securities are held as collateral in reverse repurchase agreements and secured lending lines. Collateral is not held against exposures to securities.

The Group usually requires collateral, equipment and products to be insured for any loss or damage by approved insurance companies.

The Group also analyzes other risks arising from the business of the debtor or transactions being financed. Other risks include the following:

- Ecological/social risks are the reputation risks of the Group and credit risks arising from the debtor's non-compliance with environmental, health, safety, non-discrimination and other legal requirements regulating ecological, labour and social activities, as well as from environmental damage by third parties to the debtor's activities and property. The assessment of this risk is based on the standards of International Finance Corporation and European Bank for Reconstruction and Development and is performed for all credit risk limits for corporate and small business clients.
- Compliance risk is the risk that the debtor will face difficulties in servicing the loan due to claims against the debtor by the regulatory authorities.
- Reputation risk is the risk from the possible association of the Group with the illegal activities of its customer. Generally, in order to mitigate reputation risk all the Group's customers are subject to a check by the Security Department.
- Legal risk is the risk of potential losses due to weaknesses in the legal framework or insufficient analysis of legal issues during preparation of credit documentation.

The main principles for setting limits include:

- the financial position of the debtor (current and expected) should allow the debtor to repay outstanding loans on a timely basis, without the Group having to realize collateral (which is an important but secondary factor in limit setting);
- the intended use of lending products within a limit should be consistent with the business of the debtor;
- sources of repayment of lending products should be identifiable and their existence should be validated;
- other risks identified should be acceptable.

26 Risk Management (Continued)

Risk-Adjusted Return on Capital (RAROC) is the a key measure for evaluation of risk-reward of the considered limit.

(iii) Credit risk measurement

The quantitative assessment of credit risk is based on the "expected loss model", as recommended by the Basel Committee on Banking Regulations and Supervisory Practices (the "Basel Committee"). The "expected loss model" can be contrasted with impairment allowances required under International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), which are based on losses that have been incurred as at the balance sheet date (the "incurred loss model") rather than expected losses. The "expected loss model" calculates expected losses for various credit exposures based on the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of debtor, industry/sector and different standard credit products/programs. They have been developed internally and combine statistical analysis with credit and risk department officer judgment and are validated, where appropriate, by comparison with externally available data.

The exposure at default is the expected amount of the exposure at the time of default.

Loss given default is estimated based on the historical recovery rate and typically varies by type of counterparty, type and availability of collateral or other credit risk mitigation tools.

Information on the credit quality of the Group's loan portfolio and impairment allowances recorded under IAS 39 is presented in Note 11.

(iv) Policies for providing credit products within established limits

When providing credit products within established limits the Group implements a set of procedures to mitigate the risk of conflict of interests and operating risks:

- A client relationship unit initiates the issue of a credit product within the established limit.
- The supporting unit (middle-office) prepares credit documentation and monitors compliance with the terms of the limit.
- The Operations Department executes the transaction and records it in the Group's accounting systems.

(v) Principles for credit risk monitoring

Credit risk monitoring comprises two components:

- Monitoring of established limits

The Group regularly monitors the payment discipline of debtors, availability and value of collateral, financial standing of debtors, their ecological/social risks and compliance with other covenants established under the limits.

Corporate clients and small business clients are usually monitored by supporting units (middle-office) of the Group. Financial institutions are monitored by the Risk Department.

Based on the monitoring results, the Credit Department performs regular assessment of the credit exposures for any indications of individual impairment. If necessary, the Group implements steps to mitigate credit risk. These may include revision of limit terms, request for additional collateral etc. In certain cases recovery of the loan is delegated to the special department responsible for collection of bad debts.

- Portfolio-based monitoring

26 Risk Management (Continued)

Apart from monitoring individual risk limits, the Risk Department also periodically assesses credit risk for the loan portfolio as a whole and for individual standard programs and products.

Such analysis includes analysis of the default rates for portfolios, adequacy of impairment losses recognized, level of industry and geographical concentration, and portfolio diversification.

If negative trends are identified, the Risk Department analyzes the trends and initiates required changes to the credit policies and methodology of the Group.

(vi) Allowance for loan losses

The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its loan portfolio.

The Group writes off a loan balance against related allowances for loan losses when the Group's Senior Credit Committee determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. For smaller balance standardized loans, write off decisions are generally based on a product specific past due status. Generally, overdue loans are written off when overdue more than one year or if the debtor is declared bankrupt.

(vii) Maximum exposure to credit risk

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same procedures and methodologies, as defined by the Group's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). The Group's maximum exposure to off balance sheet credit risk is reflected in Note 27 "Contingent liabilities and commitments".

For analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 11 "Loans and advances to customers".

(viii) Changes in the credit risk management process

The Group constantly takes steps to improve its risk management systems in line with international best practices. During the six-month period ended 30 June 2008 the Group:

- Improved the limits approval procedure, by implementation of the underwriting system as described in section *(i)* of this Note.
- Implemented system of capital at risk allocation integrated with the credit risk management system. Expected and actual RAROC (Risk-Adjusted Return on Capital) is now considered as one of the key risk-reward measures.
- Established the procedure for ecological/social risks evaluation as part of credit approval process based on standards of International Finance Corporation and European Bank for Reconstruction and Development.

(c) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will have an adverse affect on the Group's income or the value of its financial instruments. Market risk comprises interest rate risk, currency risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are subject to general and specific market movements and changes in the level of volatility of market prices.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

(i) Market risk management

The objective of market risk management is to manage and keep market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Market risk management is based on proper allocation of risk management functions with the objective to limit potential losses.

Market risk is managed through the system of limits, which includes position limits, loss limits, and limits on certain deal parameters. The system of limits sets the acceptable risk level at any point of time, including intra-day positions. Compliance with limits is controlled on a daily basis.

The Asset and Liability Committee (ALCO) is responsible for managing the Group's market risk. The committee approves market risk limits based on recommendations of the market risk unit of Risk Department.

The limit structure corresponds to the volume and structure of the Group's operations in the financial markets.

Use of new types of financial instruments is permitted only after approval by ALCO which includes the following procedures:

- The front-office unit initiates the procedure of setting the required limits, including market risk limits.
- The Risk Department performs a detailed analysis of a proposed transaction, develops market risk assessment procedures, establishes appropriate risk limits and develops required control procedures.
- The Risk Department submits recommendations to ALCO on acceptability of the proposed transaction, risk limits and control procedures.

(ii) Quantitative assessment of market risk

To obtain an accurate assessment of market risk, the Group revalues its positions to current market prices on a daily basis and calculates volatilities of the risk factors. Results of such calculations are incorporated into the quantitative assessment of market risks for its trading positions using the Value-at-Risk ("VaR") methodology. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The Group applies a linear VaR model. Potential movements in market prices are determined with reference to market data for at least the last 12 months. Back-testing of the model is performed at least once every six months.

A summary of the VaR estimates in respect of foreign currency risk and securities price risk for the Group's portfolio of trading financial instruments as at 30 June 2008 and 31 December 2007 is as follows:

	30 June 2008 Unaudited	31 December 2007
Foreign exchange risk	7	36
Fixed income securities price risk	358	326
Equity securities price risk	260	411

26 Risk Management (Continued)

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, which include the majority of the debt and equity instruments traded in Russia:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios.
- A 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR.
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

Due to the above limitations of the VaR methodology the Group additionally performs stress-testing of the risk positions using scenarios of unfavourable changes of the major risk factors. Further, the limitations of the VaR methodology are recognized by supplementing VaR limits with limits of open positions for financial instruments and risk exposures and limits of sensitivity to risk factors.

In addition, the Group performs scenario stress-testing for trading positions on a monthly basis to model the possible financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall position.

(iii) Price risk

Price risk is the risk that movements in market prices resulting from factors associated with issuers of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will have an adverse affect on the Group's income or the value of its financial instruments.

Price risk for financial instruments held within the Group's trading portfolios is managed by setting limits on investments in financial instruments taking into account their liquidity, setting stop-loss limits for trading portfolios, and maintaining a diversified structure of portfolios.

Positions in securities are monitored centrally across the Group.

(iv) Currency risk

Currency risk is the risk that movements in foreign exchange rates will have an adverse affect on the Group's income or the value of its portfolios of financial instruments.

Currency risk mainly results from open foreign currency positions. All transactions with currency risk exposure are performed within limits on open foreign currency positions. Such limits are established taking into consideration expected future movements in foreign exchange rates which are based on historical volatilities, scenario modeling and expert estimates.

Traders manage currency risk in respect of the Group's trading foreign currency positions which are opened within the limits established by the ALCO.

The Treasury Department manages currency risk in respect of the currency mismatch between non-trading assets and liabilities (structural foreign currency position). The Group's target is to maintain a risk neutral structural foreign currency position.

Transactions are generally performed in three major currencies: the Russian rouble, US dollar and Euro.

For the purposes of currency risk management the Group applies a system of controls over overall open foreign currency positions, and trading positions which are monitored on real-time basis.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

As at 30 June 2008, the Group has the following positions in different currencies:

	RUB	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	25 872	63 824	1 891	296	91 883
Mandatory cash balances with central banks	5 468	-	-	3 474	8 942
Due from other banks	7 633	10 453	2 731	162	20 979
Trading securities					
- owned by the Group	12 048	4 573	59	20	16 700
- pledged under sale and repurchase agreements	2 717	-	-	-	2 717
Derivative financial instruments	102	267	16	116	501
Available-for-sale financial assets	303	-	-	-	303
Loans and advances to customers	111 220	73 975	14 929	4	200 128
Current income tax prepayments	377	-	-	-	377
Other assets	2 307	420	98	541	3 366
Deferred tax asset	156	-	-	-	156
Premises, equipment and intangible assets	6 319	-	-	13	6 332
Total assets	**174 522**	**153 512**	**19 724**	**4 626**	**352 384**
Liabilities					
Due to other banks	12 771	59 676	11 353	1 399	85 199
Derivative financial instruments	24	603	127	140	894
Customer accounts	94 744	76 190	3 925	671	175 530
Debt securities in issue	12 089	22 021	5 770	-	39 880
Subordinated debt	-	4 853	-	-	4 853
Current income tax payable	-	6	-	6	12
Other liabilities	2 539	1 048	86	61	3 734
Deferred tax liability	1 148	12	-	-	1 160
Total liabilities	**123 315**	**164 409**	**21 261**	**2 277**	**311 262**
Net balance sheet position	**51 207**	**(10 897)**	**(1 537)**	**2 349**	**41 122**
Off balance sheet net notional position	**(9 845)**	**11 401**	**1 314**	**(2 870)**	**-**
Net position	**41 362**	**504**	**(223)**	**(521)**	**41 122**
Credit related commitments	**19 982**	**22 451**	**7 386**	**64**	**49 883**

Currency classification of monetary assets and liabilities is based on the currency in which they are denominated. Investments in equities have been attributed to the currency of the country where the issuer of the equity instrument is resident (predominantly, the Russian Rouble and the Russian Federation, respectively). Currency classification of tangible assets (precious metals, premises and equipment) and prepayments has been based on the functional currency used to record them.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against the Russian Rouble may adversely affect the borrower's repayment ability and therefore increase the likelihood of future loan losses.

As at 31 December 2007, the Group had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	21 759	58 298	3 150	227	83 434
Mandatory cash balances with central banks	3 883	-	-	1 655	5 538
Due from other banks	9 478	14 751	3 605	-	27 834
Trading securities					
- owned by the Group	7 504	3 370	1	-	10 875
- pledged under sale and repurchase agreements	2 090	897	-	-	2 987
Derivative financial instruments	104	44	-	112	260
Other financial assets at fair value through profit or loss	-	226	-	-	226
Available-for-sale financial assets	290	-	-	-	290
Loans and advances to customers	98 926	68 036	13 341	8	180 311
Current income tax prepayments	48	-	-	-	48
Other assets	2 287	477	88	871	3 723
Premises, equipment and intangible assets	5 942	-	-	14	5 956
Total assets	**152 311**	**146 099**	**20 185**	**2 887**	**321 482**
Liabilities					
Due to other banks	16 696	76 949	8 714	3	102 362
Derivative financial instruments	29	754	91	-	874
Customer accounts	71 228	49 969	2 799	136	124 132
Debt securities in issue	13 182	26 205	7 244	-	46 631
Subordinated debt	-	5 066	-	-	5 066
Current income tax payable	94	7	-	11	112
Other liabilities	2 352	179	14	92	2 637
Deferred tax liability	752	18	-	-	770
Total liabilities	**104 333**	**159 147**	**18 862**	**242**	**282 584**
Net balance sheet position	**47 978**	**(13 048)**	**1 323**	**2 645**	**38 898**
Off balance sheet net notional position	**(9 228)**	**11 947**	**(1 721)**	**(998)**	**-**
Net position	**38 750**	**(1 101)**	**(398)**	**1 647**	**38 898**
Credit related commitments	**28 024**	**26 793**	**7 140**	**78**	**62 035**

26 Risk Management (Continued)

(v) Interest rate risk

Interest rate risk is the risk that movements in interest rates will have an adverse affect on the Group's revenue or the value of its portfolios of financial instruments.

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

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by repricing dates (gap-analysis).

Dynamic modeling of balance sheet structure is performed for different scenarios of movement in interest rates. Apart from gap-analysis the Group assesses the duration of its assets and liabilities. The interest rate risk is measured for the Group as a whole on a consolidated basis.

The impact of changes in interest rates on the Group's profit before tax is assessed as a key measure of interest rate risk.

All new products and transactions of the Group are evaluated from the interest rate risk perspective prior to starting these transactions.

ALCO is responsible for the Group's asset and liability management. ALCO delegates day-to-day management of the interest rate mismatch to the Treasury Department. The Risk Department independently monitors compliance with limits established to control interest rate risk.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The table below summarises the effective average interest rate, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using period-end effective interest rates.

	30 June 2008 Unaudited %			31 December 2007 %		
	RUB	USD	EUR and other currencies	RUB	USD	EUR and other currencies
Assets						
Due from other banks:						
- Current interbank loans	7.1	4.3	6.5	6.4	5.2	3.8
- Reverse sale and repurchase agreements	9.2	5.5	-	10.0	6.7	-
Trading securities:						
- Municipal bonds issued by Russian municipalities	8.9	-	-	8.5	-	-
- Russian Federal loan bonds (OFZ)	-	-	-	6.5	-	-
- Corporate bonds	12.3	-	-	11.3	-	-
- Corporate Eurobonds	9.4	10.8	16.9	8.4	10.3	-
- Promissory notes	9.4	-	-	12.0	-	-
Other financial assets at fair value through profit or loss	-	-	-	-	12.8	-
Loans and advances to customers:						
- Corporate loans	14.2	11.7	10.6	13.9	12.0	10.7
- Loans to individuals	12.4	9.6	9.1	13.5	11.4	9.4
- Investment banking loans	5.5	11.0	10.4	9.5	9.7	-
- Small business loans	15.9	13.4	13.4	15.5	13.2	13.0
- Net investment in finance lease	34.4	22.3	33.9	31.4	22.4	31.2
Liabilities						
Due to other banks:						
- Bilateral structured financing	-	5.0	-	-	6.5	-
- Syndicated loans	-	4.2	6.5	-	5.5	6.4
- Trade finance facilities	8.5	5.0	6.0	6.4	6.3	5.8
- Loans from international financial institutions	-	4.9	-	-	6.7	-
- Term deposits from other banks	6.0	2.6	5.1	4.4	4.7	4.5
- Sale and repurchase agreements	6.0	4.6	5.1	6.3	7.1	-
Customer accounts:						
- Term deposits	9.4	3.8	6.3	7.8	5.4	5.4
- Sale and repurchase agreements	4.8	3.4	-	6.3	5.1	-
Debt securities in issue:						
- Unsecured loan participation notes	14.5	9.8	-	-	8.2	-
- Loan participation notes secured by diversified payments rights	-	5.3	7.5	-	7.6	7.5
- Loan participation notes secured by a pool of car loans	-	6.3	-	-	9.4	-
- Promissory notes	8.9	5.9	5.7	6.4	6.5	5.6
- Bonds	11.5	-	-	11.5	-	-
- Deposit certificates	11.7	-	-	11.7	-	-
Subordinated debt	-	10.0	-	-	10.0	-

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 30 June 2008. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	91 883	-	-	-	-	-	91 883
Mandatory cash balances with central banks	-	-	-	-	-	8 942	8 942
Due from other banks	12 785	6 722	1 330	142	-	-	20 979
Trading securities							
- owned by the Group	264	1 348	1 410	7 635	4 585	1 458	16 700
- pledged under sale and repurchase agreements	-	-	-	126	2 472	119	2 717
Derivative financial instruments	-	-	-	-	-	501	501
Available-for-sale financial assets	-	-	-	-	-	303	303
Loans and advances to customers	33 506	64 807	28 478	36 707	36 630	-	200 128
Current income tax prepayments	-	-	-	-	-	377	377
Other assets	-	-	-	-	-	3 366	3 366
Deferred tax asset	-	-	-	-	-	156	156
Premises, equipment and intangible assets	-	-	-	-	-	6 332	6 332
Total assets	**138 438**	**72 877**	**31 218**	**44 610**	**43 687**	**21 554**	**352 384**
Liabilities							
Due to other banks	27 068	30 591	15 616	7 889	4 035	-	85 199
Derivative financial instruments	-	-	-	-	-	894	894
Customer accounts	117 022	29 860	20 977	7 645	26	-	175 530
Debt securities in issue	897	12 639	16 297	9 964	83	-	39 880
Subordinated debt	202	-	-	-	4 651	-	4 853
Current income tax payable	-	-	-	-	-	12	12
Other liabilities	-	-	-	-	-	3 734	3 734
Deferred tax liability	-	-	-	-	-	1 160	1 160
Total liabilities	**145 189**	**73 090**	**52 890**	**25 498**	**8 795**	**5 800**	**311 262**
Interest rate sensitivity gap	**(6 751)**	**(213)**	**(21 672)**	**19 112**	**34 892**	**15 754**	**41 122**
Off balance sheet net notional position	**4 612**	**231**	**(389)**	**(4 124)**	**(330)**	**-**	**-**
Interest rate sensitivity gap, including interest-based derivative financial instruments	**(2 139)**	**18**	**(22 061)**	**14 988**	**34 562**	**15 754**	**41 122**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The Group's exposure to interest rate risks as at 31 December 2007 is set out below:

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	83 434	-	-	-	-	-	83 434
Mandatory cash balances with central banks	-	-	-	-	-	5 538	5 538
Due from other banks	18 773	8 486	303	-	272	-	27 834
Trading securities							
- owned by the Group	-	274	159	4 171	4 783	1 488	10 875
- pledged under sale and repurchase agreements	-	-	-	513	1 939	535	2 987
Derivative financial instruments	-	-	-	-	-	260	260
Other financial instruments at fair value through profit or loss	-	226	-	-	-	-	226
Available-for-sale financial assets	-	-	-	-	-	290	290
Loans and advances to customers	23 742	55 843	30 481	39 215	31 030	-	180 311
Current income tax prepayments	-	-	-	-	-	48	48
Other assets	-	-	-	-	-	3 723	3 723
Premises, equipment and intangible assets	-	-	-	-	-	5 956	5 956
Total assets	**125 949**	**64 829**	**30 943**	**43 899**	**38 024**	**17 838**	**321 482**
Liabilities							
Due to other banks	43 428	24 228	17 415	11 455	5 836	-	102 362
Derivative financial instruments	-	-	-	-	-	874	874
Customer accounts	69 618	29 747	17 975	6 758	34	-	124 132
Debt securities in issue	6 738	18 007	11 188	10 666	32	-	46 631
Subordinated debt	211	-	-	-	4 855	-	5 066
Current income tax payable	-	-	-	-	-	112	112
Other liabilities	-	-	-	-	-	2 637	2 637
Deferred tax liability	-	-	-	-	-	770	770
Total liabilities	**119 995**	**71 982**	**46 578**	**28 879**	**10 757**	**4 393**	**282 584**
Interest rate sensitivity gap	**5 954**	**(7 153)**	**(15 635)**	**15 020**	**27 267**	**13 445**	**38 898**
Off balance sheet net notional position	**6 400**	**(816)**	**(380)**	**(4 668)**	**(536)**	**-**	**-**
Interest rate sensitivity gap, including interest-based derivative financial instruments	**12 354**	**(7 969)**	**(16 015)**	**10 352**	**26 731**	**13 445**	**38 898**

(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

Loan participation notes secured by a pool of car loans have been presented in the above tables based on the maturity of car loans pledged under the notes.

The management of interest rate risk by monitoring the interest rate gap is supplemented by monitoring the sensitivity of the Group's profit before tax to various interest rate scenarios.

An analysis of sensitivity of the Group's profit before tax for the period to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	30 June 2008 Unaudited			31 December 2007		
	RUB	Other currencies	Total	RUB	Other currencies	Total
100 bp parallel increase	122	73	**195**	101	71	**172**
100 bp parallel decrease	(122)	(73)	**(195)**	(101)	(71)	**(172)**

(vi) Changes in the market risk management process

During 2008 the Group plans to introduce a system of allocation of capital at risk which is integrated with the market risk management system.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including MDM Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

(i) Liquidity risk management

The Group's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Group's reputation.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by holding diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

26 Risk Management (Continued)

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of funding;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flows;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the ALCO and implemented by the Treasury Department.

(ii) Liquidity risk measurement

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

The tables below show the carrying amounts of assets and liabilities of the Group by their remaining contractual maturity, with the exception of loan participation notes secured by a pool of car loans, which have been presented based on their expected repayment dates (refer to Note 16), and trading securities owned by the Group, which are shown in the category "Demand and less than 1 month" based on the fact that Management believes that all of these trading securities could be liquidated within one month in the normal course of business.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The position as at 30 June 2008 is set out below:

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	91 883	-	-	-	-	-	91 883
Mandatory cash balances with central banks	5 934	1 407	780	695	126	-	8 942
Due from other banks	12 785	6 722	1 330	142	-	-	20 979
Trading securities							
- owned by the Group	16 700	-	-	-	-	-	16 700
- pledged under sale and repurchase agreements	765	1952	-	-	-	-	2 717
Derivative financial instruments	382	119	-	-	-	-	501
Available-for-sale financial assets	-	-	-	-	-	303	303
Loans and advances to customers	33 204	62 147	29 284	38 604	36 889	-	200 128
Current income tax prepayments	377	-	-	-	-	-	377
Other assets	3 366	-	-	-	-	-	3 366
Deferred tax asset	-	-	-	-	-	156	156
Premises, equipment and intangible assets	-	-	-	-	-	6 332	6 332
Total assets	**165 396**	**72 347**	**31 394**	**39 441**	**37 015**	**6 791**	**352 384**
Liabilities							
Due to other banks	20 161	24 725	15 702	19 688	4 923	-	85 199
Derivative financial instruments	654	189	11	15	25	-	894
Customer accounts	117 022	29 860	20 977	7 645	26	-	175 530
Debt securities in issue	897	12 639	5 318	18 554	2 472	-	39 880
Subordinated debt	202	-	-	-	4 651	-	4 853
Current income tax payable	12	-	-	-	-	-	12
Other liabilities	3 694	20	15	5	-	-	3 734
Deferred tax liability	-	-	-	-	-	1 160	1 160
Total liabilities	**142 642**	**67 433**	**42 023**	**45 907**	**12 097**	**1 160**	**311 262**
Net liquidity gap	**22 754**	**4 914**	**(10 629)**	**(6 466)**	**24 918**	**5 631**	**41 122**
Cumulative liquidity gap	**22 754**	**27 668**	**17 039**	**10 573**	**35 491**	**41 122**	

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The position as at 31 December 2007 is set out below:

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	83 434	-	-	-	-	-	83 434
Mandatory cash balances with central banks	3 010	1 129	747	529	123	-	5 538
Due from other banks	18 773	8 486	303	-	272	-	27 834
Trading securities							
- owned by the Group	10 875	-	-	-	-	-	10 875
- pledged under sale and repurchase agreements	2 865	122	-	-	-	-	2 987
Derivative financial instruments	198	54	8	-	-	-	260
Other financial instruments at fair value through profit or loss	-	226	-	-	-	-	226
Available-for-sale financial assets	-	-	-	-	-	290	290
Loans and advances to customers	22 483	51 657	28 218	44 148	33 805	-	180 311
Current income tax prepayments	48	-	-	-	-	-	48
Other assets	3 723	-	-	-	-	-	3 723
Premises, equipment and intangible assets	-	-	-	-	-	5 956	5 956
Total assets	**145 409**	**61 674**	**29 276**	**44 677**	**34 200**	**6 246**	**321 482**
Liabilities							
Due to other banks	29 085	31 381	17 707	18 373	5 816	-	102 362
Derivative financial instruments	275	235	196	168	-	-	874
Customer accounts	69 618	29 747	17 975	6 758	34	-	124 132
Debt securities in issue	2 596	6 490	12 850	20 531	4 164	-	46 631
Subordinated debt	211	-	-	-	4 855	-	5 066
Current income tax payable	112	-	-	-	-	-	112
Other liabilities	2 578	17	4	38	-	-	2 637
Deferred tax liability	-	-	-	-	-	770	770
Total liabilities	**104 475**	**67 870**	**48 732**	**45 868**	**14 869**	**770**	**282 584**
Net liquidity gap	**40 934**	**(6 196)**	**(19 456)**	**(1 191)**	**19 331**	**5 476**	**38 898**
Cumulative liquidity gap	**40 934**	**34 738**	**15 282**	**14 091**	**33 422**	**38 898**	

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The following table shows the contractual maturities of trading securities of the Group:

	30 June 2008 Unaudited	31 December 2007
Demand and less than 1 month	264	-
From 1 to 6 months	1 348	274
From 6 to 12 months	1 410	159
From 1 to 3 years	7 761	4 684
More than 3 years	7 057	6 722
No stated maturity	1 577	2 023
Total trading securities	**19 417**	**13 862**

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

The following table shows the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Gross nominal (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. Loan participation notes secured by a pool of car loans have been presented based on their expected repayment dates (refer to Note 16). The Group's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

The position of the Group as at 30 June 2008 was as follows:

	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total gross nominal (inflow)/ Outflow	Carrying amount
Non-derivative liabilities							
Due to other banks	20 931	25 209	16 165	20 097	7 852	90 254	85 199
Customer accounts	118 337	30 388	21 991	8 416	26	179 158	175 530
Debt securities in issue	1 231	13 641	6 543	19 868	2 835	44 118	39 880
Subordinated debt	229	-	229	915	4 898	6 271	4 853
Other financial liabilities	3 349	20	15	5	-	3 389	3 389
Gross settled derivative financial instruments							
- Inflow	(166 461)	(22 406)	(652)	(1 182)	(105)	(190 601)	(501)
- Outflow	166 499	22 613	777	1 370	195	191 250	894
Total	**144 115**	**69 465**	**45 068**	**49 489**	**15 701**	**323 838**	**308 244**
Credit related commitments	**32 346**	**8 992**	**5 645**	**2 875**	**25**	**49 883**	**49 835**

(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The position of the Group as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total gross nominal (inflow)/ Outflow	Carrying amount
Non-derivative liabilities							
Due to other banks	29 203	32 038	18 480	20 833	9 266	109 820	102 362
Customer accounts	69 855	29 999	19 213	7 890	45	127 002	124 132
Debt securities in issue	2 984	7 352	14 220	22 878	4 653	52 087	46 631
Subordinated debt	239	-	239	957	5 388	6 823	5 066
Other financial liabilities	2 493	17	4	38	-	2 552	2 552
Gross settled derivative financial instruments							
- Inflow	(57 680)	(10 648)	(3 850)	(1 750)	(168)	(74 096)	(260)
- Outflow	57 799	10 743	3 996	1 885	178	74 601	874
Total	**104 893**	**69 501**	**52 302**	**52 731**	**19 362**	**298 789**	**281 357**
Credit related commitments	**42 937**	**7 063**	**7 164**	**4 715**	**156**	**62 035**	**61 991**

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

MDM Bank was in compliance with the above ratios during the six-month period ended 30 June 2008 and year ended 31 December 2007. The following table presents the mandatory liquidity ratios for MDM Bank calculated as at 30 June 2008 and 31 December 2007:

	Requirement	30 June 2008 Unaudited	31 December 2007
Instant liquidity ratio (N2)	Minimum 15%	52.1%	124.8%
Current liquidity ratio (N3)	Minimum 50%	86.7%	118.9%
Long-term liquidity ratio (N4).	Maximum 120%	69.8%	71.2%

26 Risk Management (Continued)

(iii) Changes in the liquidity risk management processes

To improve the liquidity risk management system, at the end of 2007 the Bank introduced a system of early warning indicators. The system of early warning indicators is aimed at identifying an increase in liquidity risk at the early stages. The system is based on day-to-day monitoring of a number of the Bank's balance sheet ratios, market indicators of financial market conditions as well as other external available data.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

(i) Operational risk management

The Group's objective is to manage operational risk so as to balance the risk of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures which restrict initiative and creativity.

The Group manages operational risk based on the recommendations of the Central Bank of Russia and the Basel Committee on transition to best practices of operational risk measurement and management.

The operational risk management includes identification, monitoring, mitigating and control over operational risks.

The Risk Department develops the methodology of operational risk management, coordinates risk management procedures within the Group's business units, suggests appropriate improvements and reports on the level of operational risks of the Group to the Board of Management.

The primary responsibility for control over operational risk is assigned to management within each business unit.

Overall standards within the Group for operational risk management cover the following areas:

- requirements of appropriate segregation of duties, including independent authorization and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- establishment of controls and procedures to mitigate operational risks;
- documentation of controls and procedures;
- requirements of periodic assessment of operational risks;
- immediate reporting of operational losses;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

26 Risk Management (Continued)

(ii) Operational risk measurement

The process of identification, analysis and monitoring of operational risks includes the following:

- collection of data on historical operational losses incurred by the Group;
- analysis of operational risks by products and processes;
- identification of operational risks for new products, processes and large exposures.

Based on the results of operational risk analysis, risk maps are developed. Quantitative assessment (by key risk measures) for specific activities and transactions of the Group are performed.

(iii) Changes in the operational risk management processes

During the year ended 31 December 2007, the Group completed preparation of operational risk maps for all key processes.

The quantitative and qualitative assessment of operational risks was performed. The results of this assessment will be used in the model of capital at risk allocation, which will be introduced in the Group during 2008. The purpose of the model is to provide incentive to business units to reduce operational risks associated with transactions they perform.

One of the strategic objectives of the Group is to increase its point of sales network coverage. The Group plans to implement a new operational model which will ensure proper segregation of duties at a process level and appropriate IT support. The model will maintain a system of detailed reports to control all stages of the process in detail.

(f) Other risks

The Group also manages legal, reputation, country and other risks.

(i) Legal risks

Legal risk is the risk of losses arising from internal and external legal risk factors.

Internal factors include:

- non-compliance with applicable legal requirements;
- non-compliance of internal documentation with applicable regulations, as well as the Group's failure to bring its activities and documents into compliance with changes in laws;
- insufficient analysis of legal risks associated with new products, transactions and technologies.

External factors include:

- weaknesses of the legal system;
- failure by customers and counterparties to perform their contractual obligations;
- location of the Group's subsidiaries and/or its clients in different jurisdictions.

26 Risk Management (Continued)

Legal risk is managed to limit or eliminate potential losses, including the obligation to make cash payments based on court decisions.

Monitoring of legal risks is performed by the Legal Department. Monitoring of tax risks is performed by the Tax Department.

Legal risk management is based on the following key principles:

- standard contracts are pre-approved by all relevant business units of the Group including the units responsible for control over risks resulting from the transaction;
- standard contracts are used for the majority of transactions;
- in exceptional cases transactions are performed using non-standard contracts, which are approved by the Legal Department;
- contracts are signed after the authorities of the parties signing the contract on behalf of the counterparty have been checked;
- when assessing collateral, significant consideration is given to assessment of the legal risk in respect of collateral pledged. The debtor is required to provide a full set of documents to confirm its ownership in respect of the property pledged.

(ii) Reputation risk

Reputation risk is the risk of losses arising from deterioration of the public image of the Group.

Reputation risk management is based on the following principles:

- timely fulfillment by the Group of all its obligations to customers and counterparties, full compliance with applicable legislation, ethics and business standards;
- obligatory check of counterparties and customers according to Anti Money Laundering regulatory requirements;
- maintaining a set of controls to prevent price manipulation on the securities market;
- maintaining a system of early warning indicators and a developed action plan based on constant monitoring of external information on the Group by the PR Department of MDM Bank.

(iii) Country risks

Country risk is the risk of losses as a result of foreign counterparties failing to meet their obligations due to economical, political and social changes in the respective country.

The majority of the operations of the Group are located in Russia. The Group accepts other country risk only after performing a separate analysis.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

The majority of the operations of the Group are located in Russia. The geographical analysis of the Group's assets and liabilities as at 30 June 2008 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	35 077	56 285	521	91 883
Mandatory cash balances with central banks	5 468	-	3 474	8 942
Due from other banks	12 488	7 564	927	20 979
Trading securities				
- owned by the Group	16 700	-	-	16 700
- pledged under sale and repurchase agreements	2 717	-	-	2 717
Derivative financial instruments	307	8	186	501
Available-for-sale financial assets	303	-	-	303
Loans and advances to customers	180 417	1 435	18 276	200 128
Current income tax prepayments	377	-	-	377
Other assets	3 213	3	150	3 366
Deferred tax asset	156	-	-	156
Premises, equipment and intangible assets	6 313	-	19	6 332
Total assets	**263 536**	**65 295**	**23 553**	**352 384**
Liabilities				
Due to other banks	16 834	64 237	4 128	85 199
Derivative financial instruments	288	218	388	894
Customer accounts	99 358	17 657	58 515	175 530
Debt securities in issue	11 585	28 254	41	39 880
Subordinated debt	-	4 853	-	4 853
Current income tax payable	-	-	12	12
Other liabilities	2 609	16	1 109	3 734
Deferred tax liability	1 148	12	-	1 160
Total liabilities	**131 822**	**115 247**	**64 193**	**311 262**

(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

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

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	23 420	58 673	1 341	83 434
Mandatory cash balances with central banks	3 883	-	1 655	5 538
Due from other banks	15 524	11 870	440	27 834
Trading securities				
- owned by the Group	10 875	-	-	10 875
- pledged under sale and repurchase agreements	2 987	-	-	2 987
Derivative financial instruments	114	50	96	260
Other financial instruments at fair value through profit or loss	-	226	-	226
Available-for-sale financial assets	290	-	-	290
Loans and advances to customers	178 181	1 087	1 043	180 311
Current income tax prepayments	48	-	-	48
Other assets	3 507	14	202	3 723
Premises, equipment and intangible assets	5 932	-	24	5 956
Total assets	**244 761**	**71 920**	**4 801**	**321 482**
Liabilities				
Due to other banks	18 691	77 706	5 965	102 362
Derivative financial instruments	539	322	13	874
Customer accounts	74 982	20 699	28 451	124 132
Debt securities in issue	12 804	33 799	28	46 631
Subordinated debt	-	5 066	-	5 066
Current income tax payable	34	-	78	112
Other liabilities	2 501	4	132	2 637
Deferred tax liability	752	18	-	770
Total liabilities	**110 303**	**137 614**	**34 667**	**282 584**

The majority of credit related commitments, as at 30 June 2008 and 31 December 2007, are related to residents of the Russian Federation.

The geographical classification of financial assets, liabilities and credit related commitments has been based on the country in which the counterparty is located. The classification of tangible assets (precious metals, premises and equipment) has been based on the country in which they are physically held.

As at 30 June 2008, loans and advances to customers of RUB 3 434 million (31 December 2007: RUB 17 958 million), included in the above tables as being with Russian counterparties, have been granted to subsidiaries and affiliates of these Russian counterparties located outside of the Russian Federation.

(g) Capital management

(i) Capital management policy

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Central Bank of Russia sets and monitors regulatory capital requirements for MDM Bank, the lead operating entity of the Group. The Central Bank of Latvia sets and monitors capital requirements for Latvian Trade Bank.

(expressed in millions of Russian Roubles – refer to Note 3)

26 Risk Management (Continued)

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital adequacy ratio") above the prescribed minimum level. As at 30 June 2008, this minimum level is 10% (31 December 2007: 10%).

MDM Bank was in compliance with the statutory capital adequacy ratio during the six-month periods ended 30 June 2008 and 30 June 2007. As at 30 June 2008, the statutory capital of MDM Bank on a standalone basis was RUR 35 834 million (31 December 2007: RUR 35 850 million). The statutory adequacy capital ratio of MDM Bank as at 30 June 2008 was 12.7% (31 December 2007: 14.4%).

The Group and the Bank also are subject to minimum capital requirements established by covenants under liabilities incurred by the Bank or the Group, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 30 June 2008 and 31 December 2007, such minimum capital requirements for total capital ratio was 12%.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basle Accord, as at 30 June 2008 and 31 December 2007:

	30 June 2008 Unaudited	31 December 2007
Tier 1 capital		
Share capital	1 794	1 794
Share premium	14 198	14 198
Cumulative translation reserve	87	24
Retained earnings	22 027	19 875
Total tier 1 capital	**38 106**	**35 891**
Tier 2 capital		
Asset revaluation reserve	3 016	3 007
Subordinated debt (unamortised portion)	2 874	3 487
Total tier 2 capital	**5 890**	**6 494**
Total capital	**43 996**	**42 385**
Risk-weighted assets		
Banking book	237 347	225 322
Trading book	27 750	21 477
Total risk weighted assets	**265 097**	**246 799**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**16.6**	**17.2**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**14.4**	**14.5**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group and the Bank have complied with all externally imposed capital requirements as at 30 June 2008 and 31 December 2007.

26 Risk Management (Continued)

The Management of the Group believes that a 10% tier I capital ratio and a 12% total capital ratio, calculated in accordance with the requirements of the Basle Accord, are the appropriate minimum capitalization levels for the Group and MDM Bank.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. Although maximization of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are regularly reviewed by the Board of Directors of MDM Bank through approval and review of annual budgets, including those for various business segments of the Group.

(ii) Changes in the capital management policy

In the end of 2007 the Group established a policy of allocation of capital by individual transactions and activities. This policy includes:

- the methodology of calculation of capital at risk allocated to individual transactions and activities;
- the methodology of calculation of capital used for each segment of the Group's business;
- the methodology of calculation of RAROC and shareholder value added (SVA).

Target returns on allocated capital and of the SVA amounts were set for the Group and individual business units within the Group in 2008 budgets.

27 Contingent Liabilities and Commitments

(a) Legal proceedings

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

(b) Tax legislation

The Group operates in a number of tax jurisdictions. In the normal course of business, Management must interpret and apply existing legislation to transactions with third parties and its own activities. Current Russian tax legislation is principally based on the form in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The interpretation of Russian tax legislation by the tax authorities and court practice, which are constantly changing, in the future may focus less on the form and more on the substance of a transaction. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Tax years remain open to normal audit by the Russian tax authorities for three years; during such time any change in interpretation or practice, even if there is no change in Russian tax legislation, could be applied retroactively. The interpretation and practice in other jurisdictions in which the Group operates are also changing, sometimes with retroactive effect.

In Management's opinion, the Group is in substantial compliance with the tax and other laws governing its operations in Russia and in other tax jurisdictions. However, a risk remains that the relevant authorities could take different positions with regard to interpretative issues or that court practice could develop adversely to positions taken by the Group and the effect on the financial position of the Group, should the authorities succeed in asserting their positions, could be significant.

(expressed in millions of Russian Roubles – refer to Note 3)

27 Contingent Liabilities and Commitments (Continued)

In July 2008, MDM Bank has received preliminary results of the tax audit for 2005 – 2006. In accordance with the preliminary act, the tax authorities have assessed additional taxes for MDM Bank in the amount of approximately RUB 240 million and fines and penalties in maximum total amount of RUB 100 million. MDM Bank intends to fiercely defend its position using pre-court and court procedures, however the ultimate outcome of the issue can only be determined after the final act of the tax audit is received and the court procedures (if necessary) are completed. Based on internal assessment and on the opinion of its external legal advisors, the Group believes that its tax position may be sustained and that the payment in total amount of approximately RUB 340 million is not probable. For the part of the above tax positions that are unlikely to be sustained, the Group has recorded provisions for in the amount of RUB 15 million in these interim consolidated financial statements.

(c) Capital commitments

As at 30 June 2008, the Group had capital commitments mainly in respect of the development of its branch network and system enhancements, totalling approximately RUB 1 320 million (31 December 2007: RUB 315 million).

(d) Operating lease commitments

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

	30 June 2008 Unaudited	31 December 2007
Not later than 1 year	218	547
Later than 1 year and not later than 5 years	764	1 483
Later than 5 years	325	552
Total operating lease commitments	**1 307**	**2 582**

During the six-month period ended 30 June 2008 RUB 377 million was recognised as an expense in the interim consolidated income statement in respect of operating leases (30 June 2007: RUB 176 million).

(e) Credit related commitments

Credit related commitments comprise letters of credit, guarantees and undrawn loan commitments. The contractual amount of these commitments represents the value at risk should amounts under the contract be fully drawn upon.

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. The primary purpose of undrawn loan commitments is to ensure that funds are available to a customer as required. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of such potential loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Outstanding credit related commitments are as follows:

	30 June 2008 Unaudited	31 December 2007
Letters of credit	24 362	28 125
Guarantees issued	7 848	15 628
Undrawn loan commitments	17 673	18 282
Total credit related commitments	**49 883**	**62 035**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

27 Contingent Liabilities and Commitments (Continued)

The Group creates provisions for losses on a collective basis for its credit related commitments.

Movements in provision for losses on credit related commitments are as follows:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Provision for losses on credit related commitments as at 1 January	**44**	**50**
Effect of foreign currency translation	(1)	-
Provision during the period	5	73
Provision for losses on credit related commitments as at 30 June (Note 18)	**48**	**123**

The total outstanding contractual amount of guarantees, letters of credit and undrawn loan commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Currency analysis of credit related commitments is disclosed in Note 26. Information on related party transactions is disclosed in Note 29.

(f) Fiduciary assets

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated balance sheet.

The Group also provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds or invests funds received at the discretion of the customer. The Group provides asset management services to its customers, whereby it manages assets or invests funds received in various financial instruments. The Group receives fee income for providing these services. Trust assets and assets for which the Group provides asset management services to its customers are not assets of the Group and are not recognised in the interim consolidated balance sheet. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 30 June 2008, total assets for which the Group provides asset management services to its customers were RUB 4 865 million including mutual funds of RUB 365 million and discretionally managed portfolios of RUB 4 500 million (31 December 2007: RUB 4 809 million including mutual funds of RUB 304 million and discretionally managed portfolios of RUB 4 505 million).

28 Fair Value of Financial Instruments

The Group has performed an assessment of its financial instruments, as required by IFRS 7 "Financial Instruments: Disclosures".

The estimated fair value of cash and cash equivalents, which is comprised of cash, correspondent accounts with central banks, correspondent accounts, overnight deposits with other banks and other floating rate placements is their carrying value.

The estimated fair value of mandatory cash balances with central banks represents the amount proportionate to the discounted amount of estimated future cash flows on due to other banks, customer accounts and debt securities in issue to which these mandatory cash balances relate.

The estimated fair value of fixed rate balances due from other banks, including central banks, is calculated based on discounted expected future principal and interest cash flows.

28 Fair Value of Financial Instruments (Continued)

The estimated fair value of quoted trading securities, derivative financial instruments and other financial assets at fair value through profit or loss and available-for-sale financial assets is based on quoted market prices at the balance sheet date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

The estimated fair value of due to other banks and customer accounts balances, which are payable on demand, is their carrying value. The estimated fair value of due to other banks and customer accounts balances, which are not payable on demand, and other borrowed funds, which are not quoted in an active market, is calculated based on discounted expected future principal and interest cash flows.

The estimated fair value of debt securities in issue and subordinated debt is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received or paid.

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market-based rate for a similar instrument at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

28 Fair Value of Financial Instruments (Continued)

The following table summarises the fair values of major financial assets and liabilities:

	30 June 2008 Unaudited		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	91 883	91 883	83 434	83 434
Mandatory cash balances with central banks	8 942	8 540	5 538	5 274
Due from other banks	20 979	20 989	27 834	27 853
Trading securities:				
- owned by the Group	16 700	16 700	10 875	10 875
- pledged under sale and repurchase agreements	2 717	2 717	2 987	2 987
Derivative financial instruments	501	501	260	260
Loans and advances to customers:				
- Commercial loans	137 971	137 683	117 326	117 054
- Loans to individuals	36 065	36 065	35 513	35 513
- Investment banking loans	13 091	13 087	16 107	16 114
- Small business loans	10 069	8 580	7 761	7 676
- Net investment in finance lease	2 932	2 917	3 604	3 591
Due to other banks				
- Correspondent accounts and overnight deposits of other banks	(10 018)	(10 018)	(6 039)	(6 039)
- Bilateral structured financing	(5 303)	(5 303)	(7 042)	(7 042)
- Syndicated loans	(12 261)	(12 349)	(24 839)	(24 906)
- Trade finance facilities	(31 459)	(31 597)	(29 116)	(29 008)
- Loans from international financial institutions	(11 852)	(11 929)	(11 515)	(11 273)
- Term deposits from other banks	(10 352)	(10 383)	(15 648)	(15 680)
- Sale and repurchase agreements	(3 954)	(3 954)	(8 163)	(8 241)
Derivative financial instruments	(894)	(894)	(874)	(874)
Customer accounts:				
- State organisations				
Current/settlement accounts	(893)	(893)	(1)	(1)
Term deposits	(1 720)	(1 727)	(4 016)	(4 021)
- Other legal entities				
Current/settlement accounts	(68 270)	(68 270)	(30 867)	(30 867)
Term deposits	(79 064)	(79 108)	(68 426)	(68 416)
Sale and repurchase agreements	(807)	(808)	(1 316)	(1 316)
- Retail customers				
Current/demand accounts	(6 363)	(6 363)	(5 412)	(5 412)
Term deposits	(18 413)	(18 421)	(14 094)	(14 069)
Debt securities in issue:				
- Unsecured loan participation notes	(11 548)	(11 521)	(11 043)	(10 825)
- Loan participation notes secured by diversified payment rights ("DPR")	(11 899)	(11 985)	(14 133)	(14 239)
- Promissory notes	(6 693)	(6 661)	(9 771)	(9 708)
- Loan participation notes secured by a pool of car loans	(2 085)	(2 090)	(4 153)	(4 161)
- Bonds	(6 023)	(6 071)	(6 007)	(6 122)
- Deposit certificates	(1 632)	(1 542)	(1 524)	(1 527)
Subordinated debt	(4 853)	(4 951)	(5 066)	(5 099)

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

28 Fair Value of Financial Instruments (Continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs as at 30 June 2008:

Unaudited	Quoted market price	Valuation techniques based on market observable inputs	Valuation techniques based on non-market observable inputs	Total
Financial assets				
Trading securities				
- owned by the Group	12 549	4 151	-	**16 700**
- pledged under sale and repurchase agreements	765	1 952	-	**2 717**
Derivative financial instruments	-	501	-	**501**
Available-for-sale financial assets	-	-	303	**303**
Financial liabilities				
Derivative financial instruments	-	894	-	**894**

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs as at 31 December 2007:

	Quoted market price	Valuation techniques based on market observable inputs	Valuation techniques based on non-market observable inputs	Total
Financial assets				
Trading securities				
- owned by the Group	5 907	4 968	-	**10 875**
- pledged under sale and repurchase agreements	2 938	49	-	**2 987**
Derivative financial instruments	-	260	-	**260**
Other financial assets at fair value through profit or loss	-	226	-	**226**
Available-for-sale financial assets	-	-	290	**290**
Financial liabilities				
Derivative financial instruments	-	874	-	**874**

29 Related Party Transactions

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

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

Related parties comprise immediate and indirect parent companies and ultimate beneficiaries of the Group, directors and key management personnel, and other related parties. Other related parties are entities, which are under common control with the Group, and entities, which are significantly influenced by the Group's beneficiaries, directors and key management personnel. As at 30 June 2008, these primarily consisted of Joint Stock Company Siberian Coal Energy Company (SUEK) (coal and energy), holding companies for SUEK, and other fellow subsidiaries. Joint Stock Company Mineral and Chemical Company EuroChem (mineral fertilizers) was a related party until May 2007.

Banking transactions are entered into in the normal course of business with the related parties. These include settlements, loans, deposit taking, trade finance, securities and foreign currency transactions.

The following table shows credit exposure of the Group to related parties as at 30 June 2008 and 31 December 2007:

	30 June 2008 Unaudited		31 December 2007	
	Amount	% of Total assets	Amount	% of Total Assets
Total credit balance sheet exposure (net of impairment)	-	0.0	205	0.1
Total credit on and off balance sheet exposure (net of impairment)	-	0.0	205	0.1

The outstanding balances as at 30 June 2008 with related parties are as follows:

Unaudited	(a) Beneficiaries	(b) Directors and key management	(c) Immediate and indirect parent companies of the Bank	(d) Other related parties SUEK	Other	Total	Total
Total assets	-	-	-	-	-	-	-
Liabilities							
Customer accounts							
- Current accounts	37	22	92	362	16	**378**	**529**
- Term deposits	1 476	309	-	2 014	-	**2 014**	**3 799**
Total liabilities	**1 513**	**331**	**92**	**2 376**	**16**	**2 392**	**4 328**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

The results of transactions with related parties for the six-month period ended 30 June 2008 are as follows:

Unaudited	(a) Beneficiaries	(b) Directors and key management	(c) Immediate and indirect parent companies of the Bank	(d) Other related parties			Total
				SUEK	Other	Total	
Interest income on loans and advances to Customers	-	-	-	3	-	3	3
Loan impairment reversal	-	-	-	2	-	2	2
Interest expense on customer accounts	(72)	(13)	-	(94)	(2)	(96)	(181)
Net trading gain from trading in securities issued by related parties	-	-	-	1	-	1	1
Results from trading in foreign currencies	-	-	-	214	26	240	240
Operating expenses	-	(414)	-	(30)	-	(30)	(444)

The outstanding balances as at 31 December 2007 with related parties are as follows:

	(a) Beneficiaries	(b) Directors and key management	(c) Immediate and indirect parent companies of the Bank	(d) Other related parties			Total
				SUEK	Other	Total	
Assets							
Trading securities							
- Corporate shares	-	-	-	7	-	7	7
Loans and advances to customers (gross)	-	-	-	200	-	200	200
Loan impairment	-	-	-	(2)	-	(2)	(2)
Total assets	-	-	-	205	-	205	205
Liabilities							
Customer accounts							
- Current accounts	13	19	13	702	-	702	747
- Term deposits	951	199	-	2 462	124	2 586	3 736
Total liabilities	964	218	13	3 164	124	3 288	4 483

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

The results of transactions with related parties for the six-month period ended 30 June 2007 are as follows:

Unaudited	(a) Beneficiaries	(b) Directors and key management	(c) Immediate and indirect parent companies of the Bank	(d) Other related parties SUEK	(d) Other related parties Other	(d) Other related parties Total	Total
Interest income on loans and advances to customers	-	1	-	34	-	**34**	**35**
Interest income received from securities issued by related parties	-	-	-	10	-	**10**	**10**
Interest expense on customer accounts	(6)	(3)	(47)	-	(244)	**(244)**	**(300)**
Net trading gain from trading in securities issued by related parties	-	-	-	14	-	**14**	**14**
Results from trading in foreign currencies	-	-	(3)	2	1	**3**	**-**
Net fee and commission income	-	-	-	4	-	**4**	**4**
Operating expenses	-	(423)	-	(40)	-	**(40)**	**(463)**

(a) Transactions with beneficiaries of the Group

As at 30 June 2008 and 31 December 2007 term deposits from beneficiaries had remaining maturities less than one year. The table below summarises information about average effective interest rates and outstanding balances of term deposits from beneficiaries:

	30 June 2008 Unaudited				31 December 2007			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Outstanding balances	1 318	85	73	**1 476**	797	86	68	**951**
Average effective interest rate, %	10.8	9.2	6.9	**10.5**	11.0	7.2	6.8	**10.3**

The table below summarises information about average balances of term deposits of beneficiaries of the Group:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
RUB	1 216	1
USD	84	137
EUR	70	62

(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

(b) Transactions with the members of the board of directors and key management personnel

The total remuneration of the members of the Board of Directors of MDM Bank, including discretionary compensation, amounted to RUB 72 million for the six-month period ended 30 June 2008 (30 June 2007: RUB 58 million). MDM Bank's Board of Directors was composed of seven members, as at 30 June 2008 (31 December 2007: seven members), all of them non-executive. The Board has elected three Board Committees: audit, strategy, and nomination and remuneration. Boards stand for re-election every year under Russian law.

Key management personnel comprise members of the Management Board of MDM Bank, heads of core business units and the Chief accountant of MDM Bank. As at 30 June 2008, key management personnel comprised of 11 persons (31 December 2007: 11 persons).

The total remuneration of key management personnel, including discretionary compensation, is as follows:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Salary and bonuses	340	364
Contributions to the Russian Federation State pension fund	1	1
Termination benefits	1	-
Total remuneration of key management personnel	**342**	**365**

The Group does not provide post-employment, share-based or other long-term benefits to the directors and key management personnel.

The table below summarises information about average effective interest rates and outstanding balances of term deposits from the directors and key management personnel:

	30 June 2008 Unaudited				31 December 2007			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Outstanding balances	257	15	37	**309**	163	15	21	**199**
Average effective interest rate, %	10.5	8.5	7.3	**10.0**	9.5	8.6	5.8	**9.0**

The table below summarises information about the remaining maturity of deposits from the directors and key management personnel:

	30 June 2008 Unaudited	31 December 2007
Term deposits due to customers		
Up to one year remaining maturity	233	172
From 1 to 5 years remaining maturity	76	27

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

(c) Transactions with immediate and indirect parent companies of the Bank

The table below summarises information about average balances with immediate and indirect parent companies of the Bank and entities controlled by these companies:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Term deposits due to customers		
RUR	-	1 245
USD	-	2
EUR	-	1

(d) Transactions with other related parties

The table below summarises information about average effective interest rates and outstanding balances with other related parties:

	30 June 2008 Unaudited				31 December 2007			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Corporate shares								
Outstanding balance	-	-	-	**-**	7	-	-	**7**
Loans and advances to customers								
Outstanding balance	-	-	-	**-**	200	-	-	**200**
Average yield to maturity, %	-	-	-	**-**	10.8	-	-	**10.8**
Term deposits due to customers								
Outstanding balance	2 014	-	-	**2 014**	2 462	124	-	**2 586**
Average effective interest rate, %	9.8	-	-	**9.8**	8.4	6.0	-	**8.3**

Balances on current accounts of other related parties are on terms similar to those for third parties.

The table below summarises information about average balances with other related parties:

	Six-Month Period Ended 30 June 2008 Unaudited	Six-Month Period Ended 30 June 2007 Unaudited
Corporate bonds		
RUR	-	1
USD	-	238
Corporate shares		
RUR	3	456
Loans and advances to customers		
RUR	99	447
Term deposits due to customers		
RUR	3 909	-
USD	116	6 274
Credit related commitments		
RUR	-	2

(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

The table below summarises information about the remaining maturity of balances with other related parties:

	30 June 2008 Unaudited	31 December 2007
Loans and advances to customers		
Up to one year remaining maturity	-	200
Term deposits		
Up to one year remaining maturity	2 014	2 586

30 Principal Subsidiaries

Included in the table below is the list of the principal subsidiaries of the Group, as at 30 June 2008 and 31 December 2007.

Name	Jurisdiction	Voting rights/ Equity owned, % 30 June 2008 Unaudited	Voting rights/ Equity owned, % 31 December 2007
Banking			
Latvian Trade Bank	Latvia	100.0	100.0
Securities trading			
MDM Investments Limited	Cyprus	100.0	100.0
MCM Russian Investments Limited	Cyprus	100.0	100.0
Asset management			
MDM Asset Management	Russia	100.0	100.0
Leasing			
LeasingPromHold	Russia	100.0	100.0
MDM Leasing	Russia	100.0	100.0
Special purpose entities for financing transactions			
MDM International Funding plc	Ireland	100.0	100.0
Taganka Car Loan Finance plc	Ireland	100.0	100.0
MDM DPR Finance Company S.A.	Luxemburg	100.0	100.0
MDM ECP Limited	Ireland	100.0	100.0

Latvian Trade Bank is a commercial bank licensed by the Central Bank of Latvia to perform banking operations.

MDM Investments Limited is a company licensed by the Cyprus Securities and Exchange Commission specializing in securities brokerage, trading on its own account and asset management.

MCM Russian Investments Limited is a company that specializes in trading in securities on its own account and providing margin loans to customers of MDM Investments Limited.

MDM Asset Management is a company licensed by the Russian Federal Financial Markets Service to manage third-party assets and collective investment schemes.

LeasingPromHold is a company specializing in provision of leasing services to corporate customers of the Group.

MDM International Funding plc, Taganka Car Loan Finance plc, MDM DPR Finance Company S.A. and MDM ECP Limited are special purpose entities used for financing transactions in international capital markets such as loan participation note issues, asset securitisations, future flows (DPR) securitisations etc. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks and rewards related to the SPEs.